Corporate Responsibility Report 2016

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Letter from the Chairman

[102-1] and [102-14]

The prestige of an organisation is judged by its ability to make its investors, customers, employees and the public want to be associated with it, and not by what the company says about itself. To achieve this, large companies – ones that endeavour to create well-being, wealth and sustainability – need to strengthen their corporate responsibility year after year, not just out of obligation, but because it is a firm corporate commitment, like the personal efforts made by their leaders and the workforce they comprise.

This way of thinking has been an essential part of the Gas Natural Fenosa culture for decades. As its current Chairman, my wish is that we continue to drive the company further, to make it an integral part of our culture. We make up a company that helps to improve the quality of life and competitive spirit of citizens and businesses, which is why our efforts are not only directed towards profitability, but also to responsibly serve the communities in which we operate. We want to be a part of them, and we work hard to bring about their development through alliances that help to create better places in which to work and live.

The 2016 Corporate Responsibility Report that it is my pleasure to present to you explains our efforts in this field throughout the year. After the successful completion of the 2013-2015 strategic plan, the company presented its new Strategic Vision for the 2016-2020 period, which involves a resolute effort to invest in networks and renewable power generation, while continuing to advance in the gas and electricity markets of Spain and Latin America.

Another major milestone of 2016 was the 20% stake in the company acquired by the American investment fund managers Global Infrastructure Partners (GIP), which represents the start of a long-term strategic alliance with a partner that comes with in-depth knowledge of the sector and a strong global positioning. The arrival of GIP, on top of the traditional support from La Caixa and Repsol, is a driving force for Corporate Social Responsibility at Gas Natural Fenosa.

Consequently, the energy sector is now witness to an important and positive transformation, changes that also complement the initiatives to reduce the impact of climate change on our society. Gas Natural Fenosa sees this situation as an opportunity for short and long-term growth that enhances our commitment to sustainability in order to create value for the communities in which we operate, given that natural gas and renewable energies are going to lead the process of energy transition in which we are immersed.

This firm commitment is embodied by, among others, the addition of 3,500 MW of new global capacity generation, of which 2,500 MW will be renewable. Alongside these bases for growth, the group is considering a efficiencies plan which, coupled with the financial policy, will enable us to comply with our commitment to shareholders, providing a minimum dividend of one euro per share and a payout of 74.3%.

Through all of this, Gas Natural Fenosa has set itself a firm commitment to working rigorously around the world to achieve both improved social conditions and its stated economic targets: Ebitda of 5.4 billion euros, and net profits of 1.6 billion euros by 2018, and Ebitda of 6 billion euros and net profits of 1.8 billion euros by 2020.

In order to meet these targets, innovation will be a key lever. Which is why in 2016 the company designed an innovation plan that included eight areas of work, an observatory and a technology centre. Featured among its initiatives are several with a direct impact on our customers, such as energy efficiency, Smart Client and sustainable mobility.

The new customer service model and the approach taken by the Customer Experience programme for improving customer satisfaction and recommendations enabled significant progress to be made in 2016 in recommendation ratings, which place us at a great advantage over our competitors.

Within the framework of our social commitment, I would like to highlight the attention shown to our most deprived customers. In this regard, we have implemented our Vulnerability Plan in Spain, to strengthen our policy of action in relation to energy poverty.

This plan is associated with an investment of 4.5 million euros and comes with a specific taskforce comprising close to 60 people. Among other initiatives, it introduces mechanisms to improve the detection of possible cases of vulnerability and implements protection initiatives, through the systematic organisation of specific communication channels and other measures, and the strengthening of collaboration with government agencies and the third sector. In relation to these entities that are in contact with the most vulnerable social groups, the Gas Natural Fenosa Foundation has created a broad programme for collaboration through assistance, guidance and training in the fields of energy savings and efficiency.

The company assessed a total of 9,689 suppliers last year, applying environmental, social and work practice criteria, including aspects related to health and safety. It also widened its model for supplier and contractor classification to subsidiaries of the group. This model incorporates risk factors related to health and safety, quality, environment, society, governance, operations and legal matters, for compliance prior to participating in the processes of asset purchases and services.

At a personal level, special mention should be made of the consolidation of the cross-disciplinary employee care service and new Employee Experience project, which allows employees' views to be incorporated into all of the processes and decisions, encouraging a feeling of belonging and improving their commitment and productivity.

The company has a strong commitment to health and safety in the workplace, not only for our employees, but also for contractors, the customers we tend to and the society we serve. A reflection of this is the progress made in our health and safety culture in recent years. In 2016, compared to the previous year, the accident rate was reduced by 44% for employees and 36% for contractors and subcontractors.

In the field of environment, progress was made in the certification of new environmental management systems; direct carbon dioxide emissions were reduced; and actions for the preservation of biodiversity were continued. Moreover, a new method for the calculation of our ecological footprint and water use was implemented.

On the whole, we made considerable advances in 2016 in the fields of corporate responsibility that support out presence on the prestigious Dow Jones Sustainability Index World, STOXX ESG Leaders Indices, Euronext Vigeo, MSCI Global Climate Index and on the Carbon Disclosure Project A-List.

Our challenges continue, and for this reason we have implemented a new 2016-2020 Sustainability Master Plan led by the Appointments and Remuneration Committee, so that we can continue to be at the forefront of corporate responsibility.

We find ourselves at an historic moment, a turning point that has not been experienced for decades. I am certain that Gas Natural Fenosa faces a great challenge ahead, for which we are perfectly prepared. It is the time to demonstrate our ability to lead in the new digital age of economy and society, with a focus on innovation, on profitability, on responsibility for the environments in which we operate, on the creation of quality employment, and on collective growth for shareholders, employees, suppliers, customers and collaborators.

Before concluding, I would like to express my gratitude to everybody who has placed their trust in Gas Natural Fenosa and who contribute to upholding our company's leadership in the international energy scene.

I invite you to learn more about our actions through this corporate responsibility report, which is a broad reflection of our commitment to our stakeholders and society as a whole.

Isidre Fainé

Chairman of Gas Natural Fenosa

About this Report

Gas Natural Fenosa has produced its fifteenth corporate responsibility report in accordance with the new standards of the Global Reporting Initiative (GRI), known as GRI Standards. More specifically, Gas Natural Fenosa believes that the report has been prepared in accordance with the comprehensive option of the GRI Standards.

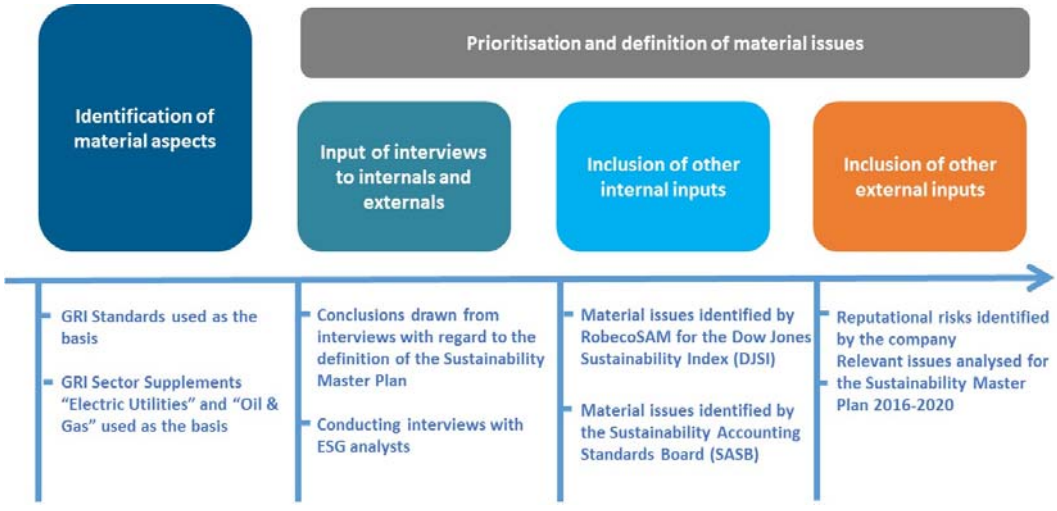
The structure of this report is based on the Corporate Responsibility Policy of Gas Natural Fenosa, updated in 2015, and noting the recommendations of the Code of Good Governance of the CNMV on corporate social responsibility, such as the definition of roles and responsibilities, the definition of targets and the monitoring of extra-financial risks that allows the company to ensure compliance. The issues identified in the materiality analysis, which is the baseline for compiling the report, set the specific content of the same.

For Gas Natural Fenosa, the materiality study represents an ongoing procedure that focuses on those items of a social, environmental and/or economic nature that are relevant to the company's business and which have an influence on its stakeholders' decisions.

During 2016, following the approval of the new Corporate Responsibility Policy and preparation of the Sustainability Master Plan 2016-2020, it has proceeded to also update the materiality analysis, to bring it into line with the commitments and strategy of the company in corporate responsibility.

It should be noted that this year for the first time the corporate responsibility report includes information on how Gas Natural Fenosa contributes to the achievement of the 17 Sustainable Development Goals.

Process of a materiality analysis



#	Material issues identified by order of priority
1	Customer care and satisfaction
2	Occupational health and safety
3	Training, education and remuneration
4	Social action and development of local communities

5	Access to energy
6	Emissions and climate change
7	Water management
8	Biodiversity
9	Technology and innovation
10	Energy efficiency and consumption
11	Management of leaks, effluent and waste
12	Assessment of the supply chain
13	Employability and work-life balance
14	Anticorruption

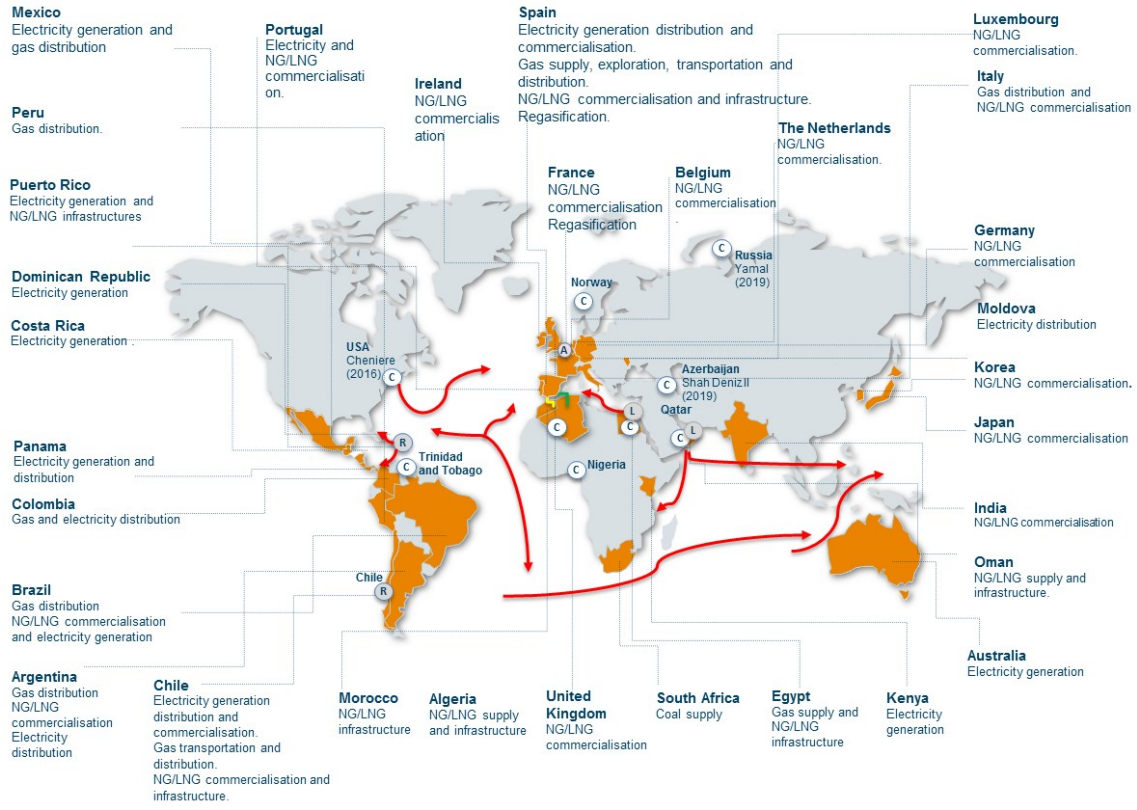
We are currently delving further into the external consultations, by identifying expectations and by checking with stakeholders (for further information, see the Process for Drafting this Report chapter).

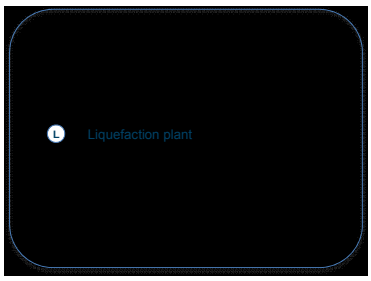
Business Model

A brief look at Gas Natural Fenosa

[102-4], [102-6] and [102-10]

Gas Natural Fenosa operates in over 30 countries with more than 23 million customers, and almost 50% of its employees work outside Spain. Its international presence puts it in an ideal position to be able to capitalise on the growth of new regions which are in the process of economic growth, making it one of the world's most important operators.





NB: besides these countries, Gas Natural Fenosa has professional services, portfolio or holding companies in Ireland, Madagascar and Uganda. Gas Natural Fenosa's activity in Australia, Brazil and Chile (generation) and Italy (regasification) refers to specific projects concerning the aforementioned activities, and not that the company has an operating infrastructure.

Presence in the world

Spain

Gas Natural Fenosa is the largest integrated gas and electricity company in Spain. It is a leader in gas distribution, where it distributes gas to over 1,000 municipalities in 9 autonomous regions and has over 5 million customers. In the electricity business, it is the third largest company in Spain, with 3.7 million customers and a major presence in different technologies: combined cycle, hydroelectric, coal-fired, co-generation, wind and nuclear power stations.

Rest of Europe

- **Germany, Belgium, France, Holland and Luxembourg**. The company has its headquarters in Paris and operates in these countries through its subsidiary Gas Natural Europe, which engages in energy sales in the European market. In France, the Montoir regasification plant is of particular note.
- **Italy**. Since 2002, the company has had a presence in the central and southern regions of the country. It distributes and commercialises gas to almost half a million customers in over 200 municipalities.
- **Moldova.** The company provides service to more than 0.8 million customers through its subsidiary Red Unión Fenosa, which engages in electricity distribution in the central and southern regions of the country, including its capital (Chisinau).
- **Portugal.** It operates in the gas and electricity markets, through its subsidiaries Gas Natural Comercializadora and Gas Natural Servicios SDG.
- **Ireland.** In 2016, Gas Natural Fenosa closed the acquisition of 100% of the Irish distributor of gas and electricity, Vayu Limited, with a market share of gas sales 15% of large industrial and commercial customers, while commercialisation of electricity is around 6%.

America

Gas Natural Fenosa is the leading gas distributor in Latin America, with almost 7.5 million customers, twice as many as its nearest rival. As regards the electricity business, it distributes electricity to 6 million customers. It operates in seven of the ten most important cities in Latin America.

- **Argentina.** The company distributes natural gas in 30 municipalities in the north and west of the province of Buenos Aires and to four provinces in the north-east, catering to 1.6 million customers.
- **Brazil.** The company has operated since 1997 through the companies Ceg, Ceg Río and Gas Natural SPS, which distribute gas to more than 0.9 million customers in the state of Rio de Janeiro and in the south of São Paulo. 2016 saw the acquisition of two solar generation projects for the construction of 60 MW.
- **Chile.** Gas Natural Fenosa has 96.5% of the country's largest electricity and gas distributor, CGE. It distributes gas in 18 provinces, catering to almost 0.6 million customers, and performs electricity distribution and transport in 13 provinces, where it has 2.7 million customers. In 2016, through the subsidiary Global Power Generation (GPG), Gas Natural Fenosa was awarded two power generation projects in Chile: the Cabo Leones II wind farm of 204 MW and a solar photovoltaic plant of 120 MW.
- **Colombia.** The company is present in the Colombian market through Gas Natural ESP and Electricaribe ESP. It has 2.7 million customers for its natural gas distribution and commercialisation service, inland (Bogotá and Soacha), and almost 2.5 million electricity customers along the Atlantic coast.
- **Costa Rica.** It boasts a presence in the electricity production market of Costa Rica, where it has two hydroelectric plants: La Joya and Torito, with installed power of 51 MW and 50 MW, respectively.

- **Mexico.** The company is the leading gas distribution operator in Mexico. It provides services to eight of the country's states, including Mexico City, accounting for a total of 1.5 million customers. It also takes part in the country's electricity production sector, with installed power of 2 GW in combined cycles and 234 MW in wind energy.
- **Panama.** It has a presence in the electricity distribution market in the areas of Panama central, west, inland and Chiriquí, with more than 0.5 million customers, as well as in the electricity production market, through hydroelectric and thermal power stations with installed power of 33 MW.
- **Puerto Rico.** It operates through the company Ecoeléctrica, which has a combined-cycle power plant with 263 MW of installed power (which cannot be consolidated in accordance with the new accounting methodology) and a regasification plant.
- **Peru.** It continues to make progress in the development of works with the aim of starting commercial operations in May 2017.
- **Dominican Republic.** The company is present in the production market through two thermal power plants with installed electricity power of 198 MW.

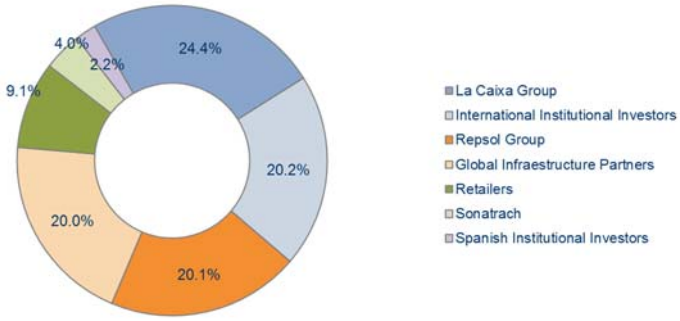
Africa

- **Algeria.** This is the group's main supplier of natural gas, and it also has a stake in the Medgaz pipeline.
- **Egypt.** The company participates in the energy sector through the Damietta liquefaction and regasification plant, where it has a 14% stake through its subsidiary Unión Fenosa Gas.
- **Kenya.** It participates in the electricity production market through a power plant that has 112 MW of installed capacity.
- **Morocco.** Business focuses on operation of the Moroccan section of the Maghreb-Europe pipeline.
- **South Africa.** In 2007, the company acquired a 70% stake in the company Kangra Coal, owner of the Savmore coalmine.

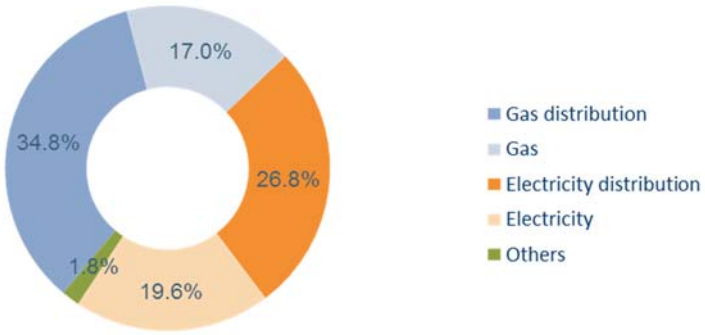
Asia and Oceania

- **Australia.** It operates through the company Unión Fenosa Wind Australia Pty, which has currently no commercial activity, although the company is developing different wind energy projects. In 2016, through the subsidiary Global Power Generation (GPG) Gas Natural Fenosa was awarded its first wind farm in Australia, with power of 91 MW.
- **Korea, India and Japan.** The company has a presence in these three countries through the sales of liquefied natural gas (LNG).
- **Oman.** Its subsidiary Unión Fenosa Gas has a 3.7% stake in the Qalhat liquefaction plant, in the Sultanate of Oman.

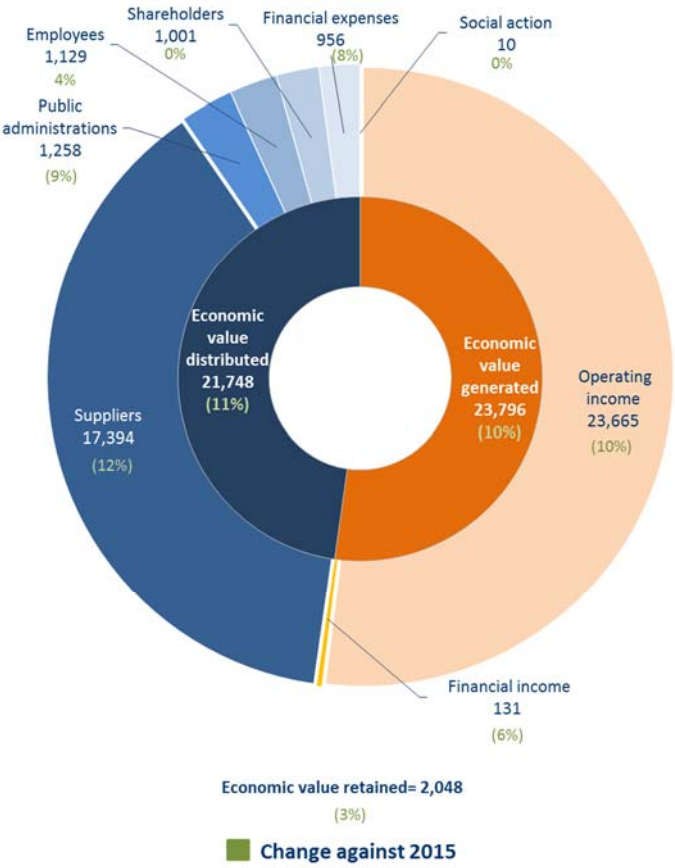
Shareholders and investors of Gas Natural Fenosa [102-5]



Contribution to Ebitda by activity



Contribution to society (in millions of euros)



Main figures of Gas Natural Fenosa [102-7]

Operations	2016	2015	2014
Gas distribution sales (GWh)	458,265	473,831	427,462
Gas transportation/EMPL (GWh)	11,720	112,861	120,558
Gas distribution supply points (in thousands)	13,546	13,172	12,816
Electricity distribution supply points (in thousands)	8,202	10,622	10,415
Gas distribution network (km)	142,187	138,219	133,741
Length of electricity distribution and transportation lines (km)	250,886	302,705	228,808
Electricity generated (GWh)	46,552	49,548	48,282
Personnel	**2016**	**2015**	**2014**
Number of employees [2]	17.229	19.939	21.961
Financial (millions of euros)	**2016** (1)	**2015** (1)	**2014**(1)
Net turnover	23,184	26,015	24,697
Gross operating profit (Ebitda)	4,970	5,264	4,845
Total investments	2,901	2,082	4,342
Net profit	1,347	1,502	1,462
Dividend	1,001	1,001	909
Classification evolution on the DJSI	91	89	86
Stock information (euros /share)	**2016**	**2015**	**2014**
Share prices as at 31 December	17.91	18.82	20.81
Profit	1.35	1.57	1.46

(1) The 2014 and 2015 income statements are restated through the discontinuance of the LPG business in Chile, without any effect on the net result.

(2) The figure in 2016 has been calculated excluding information regarding Electricaribe.

NB: from 1 January 2014, through mandatory application of the IFRS 11 “Joint arrangements”, there is a change to the consolidation method applicable basically to Unión Fenosa Gas, Ecoeléctrica (combined-cycle power plant located in Puerto Rico), Nueva Generadora del Sur (combined-cycle power plant in Spain) and several joint ventures that operate renewable and co-generation power plants, in Spain, and which are now consolidated using the equity method instead of the proportional consolidation method.

The application of this standard has required us to restate, for comparison purposes, the balance sheet at 1 January 2013 and 31 December 2013, and the profit and loss statement for 2013, an event that also affects certain financial ratios.

A competitive and integrated business model

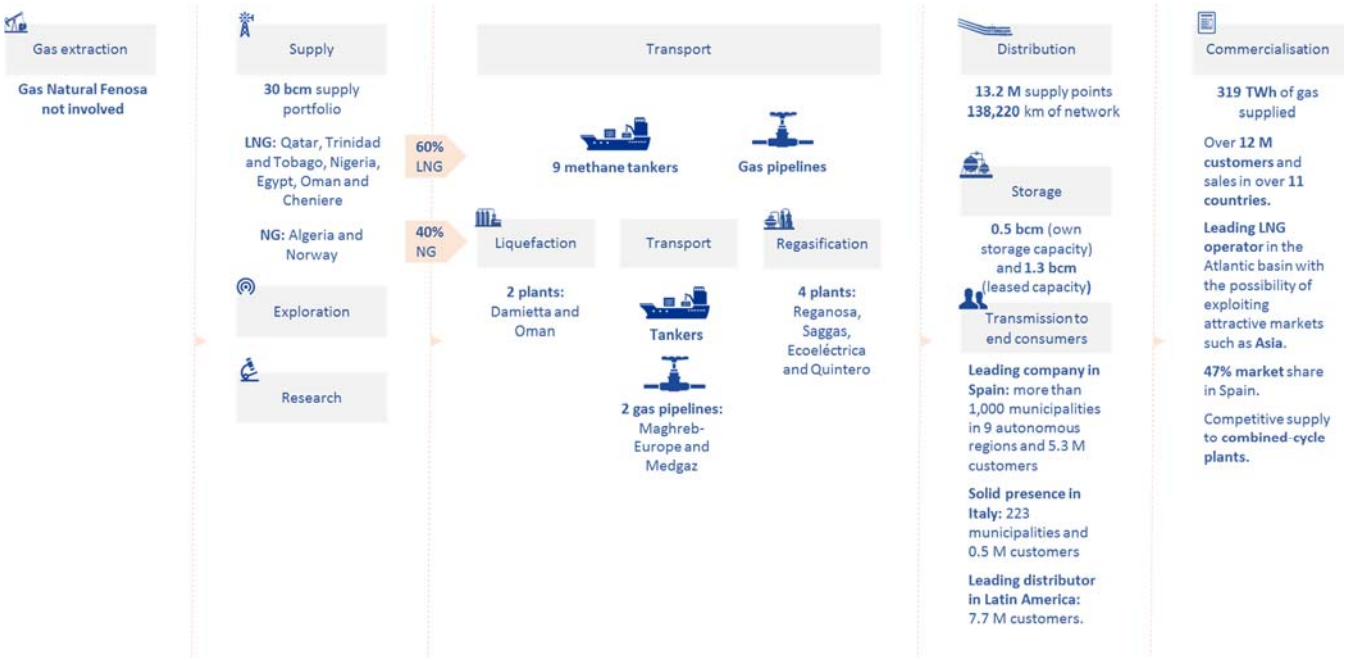
[102-2] and [102-6]

Gas Natural Fenosa is an integrated gas and electricity company whose business model is supported on four fundamental strengths:

1 >>>>Being a best in class operator in energy distribution and sales
2 >>>>Having efficient and diversified power generation that enables it to manage the natural resources at its disposal competitively.
3 >>>>Having a solid international position, where there is healthy outlook for development.
4 >>>>Possessing human resources that are committed and highly experienced in business.

The business model of Gas Natural Fenosa is based on two pillars: gas and electricity, which provides more than 97% to its Ebitda. On the one hand, Gas Natural Fenosa operates throughout the entire gas value chain, from exploration and supply to distribution and commercialisation. On the other, it operates in the generation, distribution and commercialisation of electricity.Then there are other business areas, such as trading on the gas and electricity markets, the O&M services rendered, the provision of engineering services and the construction of energy facilities, as well as operation of the Savmore coal mine and the salt marsh underground storage Marismas project.

Current situation of the gas business at Gas Natural Fenosa



Current situation of the electricity business at Gas Natural Fenosa

1. Gas supply and transportation

The company acquires natural gas, in its gaseous state as well as in the form of liquefied natural gas (LNG). In the former case, transport is by pipeline, and in the latter, by ship. It also has a range of regasification and liquefaction plants required to move the gas from one state to the other, and thus facilitate transportation and reintroduction into the gas system. The company also develops a range of worldwide projects that involve drilling, research, production and transport of hydrocarbons. All this enables it to guarantee coverage of the needs of different businesses in a flexible and diversified way.

The system's reliability is backed by storage facilities comprising underground tanks, either owned or leased, which guarantee a constant supply of natural gas unaffected by factors such as the seasonal nature or occasional demand peaks.

Gas Natural Fenosa has a flexible, diversified and competitive 30 bcm portfolio of supply. The company has unique and integrated gas infrastructure featuring the management of sections of pipelines and an own fleet of 9 methane tankers. It is one of the largest LNG operators worldwide and a benchmark in the Atlantic and Mediterranean basins. It has a privileged position to develop new markets, mainly in the Mediterranean area, Latin America and Asia.

Countries in which Gas Natural Fenosa performs this kind of activity

- NG/LNG supply: Algeria, Azerbaijan, Qatar, Egypt, Spain, United States, Nigeria, Norway, Oman, Russia and Trinidad and Tobago.
- Gas transport: Chile and Spain.

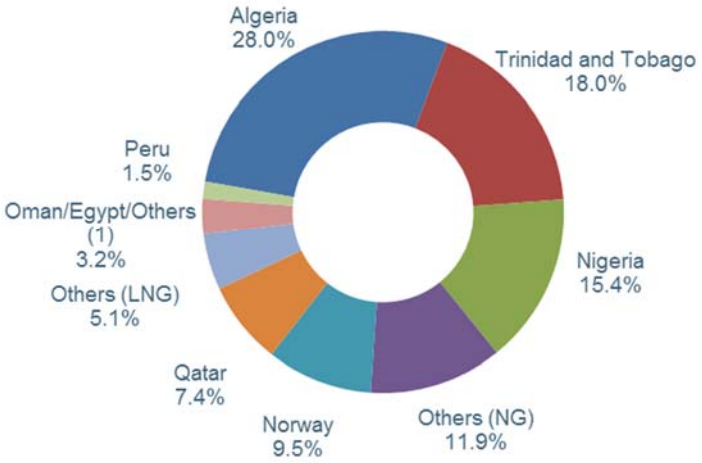
Supply guarantee

Guaranteeing a regular gas and electricity supply to Gas Natural Fenosa customers is essential in providing a quality service and fulfilling the company's social function.

Gas Natural Fenosa manages a balanced gas supply portfolio, with approximately 60% of supplies in the form of natural gas and another 40% of supplies in the form of liquefied natural gas. These supplies offer the company, respectively, a great deal of flexibility in terms of the volume and destination where the gas is to be positioned.

As regards the source of the gas, the company has supply contracts with many countries: Algeria, Qatar, Egypt, Oman, Nigeria, Norway and Trinidad and Tobago, among others. Furthermore, the company's relations with suppliers are built around stable, long-term contracts. This guarantees a regular supply, and means it only has to access the spot market (where the assets purchased are obtained immediately) on specific occasions and fundamentally to take advantage of market opportunities.

Diversification in the sources of supply



(1) Gas deriving from Unión Fenosa Gas.

Furthermore, in order to cope with short-term changes in demand or supply issues, it has contracts for the use of underground storage space in most of the countries where it operates. In Spain, it develops underground storage plants and operates the Marismas (Huelva) underground storage facility.

As far as electricity production is concerned, Gas Natural Fenosa has its own capacity within the different technologies used in the Spanish system, enabling it to keep a flexible production mix in order to cope with changes in raw materials prices - basically gas and coal - and the quantity of non-manageable energy sources (water and wind).

Because of the great flexibility provided by the gas and coal supply portfolio, the gas combined-cycle plants and, to a lesser degree, thermal coal-fired plants, can be used as back up for non-manageable renewable energies, thus providing security in the supply to the national grid.

Lastly, the extensive gas and electricity distribution network and its excellent operation and maintenance allows the company to achieve high reliability levels, having a direct impact on the service quality offered to customers.

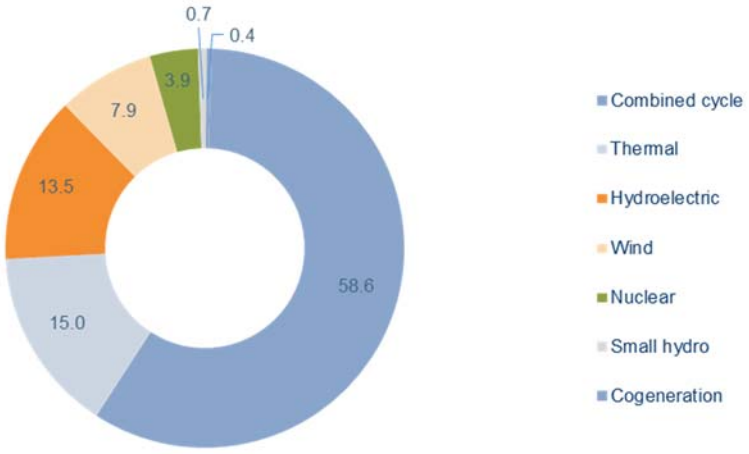
2. Generation of electricity

The electricity production capacity of Gas Natural Fenosa is 15.4 GW and is based on a balanced, competitive and environmentally-friendly generation mix, mainly comprising combined cycles of natural gas, which represent the cleanest fossil fuel power plants that exist. Moreover, the company has nuclear power plants, coal-fired and oil/gas-fired power plants, hydroelectric and windfarm plants

Countries in which Gas Natural Fenosa performs this kind of activity

- Generation of electricity: Australia, Brazil, Costa Rica, Chile, Spain, Kenya, Mexico, Panama, Puerto Rico and Dominican Republica.

Mix energético de Gas Natural Fenosa (%)



Installed capacity by source of energy and regulatory regime [EU1]

	Close 2016 (MW)	Close 2015 (MW)
Power installed in ordinary system. Spain	11,569	11,624
Hydraulic	1,954	1,954
Nuclear	604	604
Coal-fired	2,010	2,065
Combined cycle	7,001	7,001
Power installed in special system. Spain	1,147	1,145
Wind	979	977
Small hydro	110	110
Cogeneration	58	58
Total installed power. Spain	**12,769**	**12,769**
Power installed in ordinary system. International	2,702	2,702
Hydraulic	123	123
Fuel-oil	310	310
Combined cycle	2,035	2,035
Wind	234	234
Total power	**15,418**	**15,471**

Net energy production by energy source and regulation system [EU2] and [OG3]

	Close 2016 (GWh)	Close 2015 (GWh)	Close 2014 (GWh)
Production in ordinary system. Spain	26,046	29,468	28,465
Hydraulic	3,933	2,457	4,275
Nuclear	4,463	4,544	4,425
Coal-fired	5,687	7,973	5,622
Combined cycle	11,963	14,494	14,143
Production in special system. Spain	2,458	2,100	2,077
Wind	1,844	1,601	1,556
Small hydro	562	448	434
Cogeneration	52	51	87
Total production. Spain	28,504	31,568	30,542
Production in ordinary system. International	18,048	17,980	17,740
Hydraulic	496	481	233
Fuel-oil	1,111	1,130	1,356
Combined cycle	15,648	15,519	15,898
Wind	793	850	253
Total production	**46,552**	**49,548**	**48,282**

Electricity produced using renewable sources broken down by country (GWh)

	2016	2015	2014
Costa Rica	408	408	159
Spain	6,339	4,506	6,265
Mexico	793	850	253
Panama	98	73	74
TOTAL	**7,638**	**5,837**	**6,751**

Average efficiency by technology and regulation system

System	Technology	Efficiency (*) (%)
Ordinary. Spain	Coal thermal	52.8
	Combined cycle	33.9
International	Combined cycle	54.2
	Fuel-oil	40.3

(*) Efficiency over Net Calorific Value (NCV) calculated as the average weighted by the real production of each technology.

Average availability factor by technology and regulation system [EU30]

System	Technology	Availability 2016 (%)	Availability 2015 (%)	Availability 2014 (%)
Ordinary. Spain	Hydraulic	92.64	91.97	91.85
	Coal thermal	89.65	93.87	94.70
	Nuclear	90.60	91.94	89.18
	Combined cycle	86.41	91.61	94.90
Special. Spain	Wind	97.19	96.84	97.03
	Small hydro	98.66	99.14	98.90
	Cogeneration	89.00	97.56	97.30
International	Hydraulic	93.45	94.15	92.76
	Fuel	91.73	93.40	89.20
	Combined cycle	93.43	91.19	95.88

3. Gas and electricity distribution

Gas Natural Fenosa performs distribution activities in the natural gas and the electricity sectors.

Firstly, the company distributes natural gas in the commercial domestic market and the industrial market of major customers, both in Spain and abroad. It is leader in the Spanish and Latin American market, and has a sound presence in Italy.

In addition, it performs electricity distribution activities in Spain, Moldova and Latin America. This business line includes the distribution of electricity to small and to major users: residential consumers, SMEs and corporations. Electricity distribution in Spain includes both the regulated activity of electricity distribution as well as the network services actions with customers.

Countries in which Gas Natural Fenosa performs this kind of activity

- Gas distribution: Argentina, Brazil, Chile, Colombia, Spain, Italy, Mexico and Peru.
- Electricity distribution: Argentina, Chile, Colombia, Spain, Moldova and Panama.

General gas distribution indicators

	Argentina	Brazil	Chile	Colombia	Spain	Italy	Mexico	Total	Variation % 2015-2016
Gas activity sales (GWh)	71,526	72,015	47,154	28,177	184,619	3,578	51,196	458,265	(3.29)
Network renewal (km)	0	10	26	0	1	0,2	55	92	(19.07)
Distribution network (km)	25,663	7,446	6,966	21,839	51,956	7,265	21,052	142,187	2.87
Increase with regard to 31/12/2015 (km)	1,007	299	116	370	940	98	1.138	3,968	(11.39)
Regulatory inspections	0	0	351	550,603	418,942	0	104,779	1,074,675	(25.64)
Network overhauled (km)	14,561	3,704	2,896	5,839	25,049	2,671	15,006	69,726	3.14
Renewal of connections (units)	10,881	1,552	250	0	1,022	0	3,654	17,359	(12.56)

Gas Natural Fenosa's electrical distribution facilities by country [EU4]

Countries	Step-down transformers		Length of power lines (km)
	Number	Capacity (MVA)	
Chile	79,016	8,285	71,045
Colombia	0	0	0
Spain	40,563	14,297	105,090
Moldova	8,975	1,988	33,172
Panama	49,636	3,178	23,814
Total low- and medium-voltage	**178,190**	**27,748**	**233,121**
Chile	407	0	3,729
Colombia	0	0	0
Spain	837	25,983	8,392
Moldova	180	1,618	1,820
Panama	102	1,476	156
Total high-voltage	**1,526**	**29,077**	**14,097**
Total	**179,716**	**56,824**	**247,218**

Electrical energy losses in transport and distribution (%)

	2016	2015	2014
Ordinary regime. Spain	8.90	8.57	8.70
Argentina	9.40	11.40	-
Chile	8.90	8.10	-
Colombia	n/a	17.23	16.65
Moldova	8.3	8.16	9.43
Panama	12.10	11.63	10.16

4. Gas and electricity commercialisation

The commercialisation activity of Gas Natural Fenosa takes in the wholesale and retail gas and electricity segments in liberalised energy markets, both in Spain as well as the rest of the world. In Spain, it is the leading company in the energy commercialisation market: gas, electricity and other products in all segments, ranging from residential to industrial. Internationally, it has consolidated its presence through the commercialization of gas to new markets in the Mediterranean area, Latin America and Asia.

In this sphere, the company develops alternative, sustainable mobility energy options with vehicular natural gas and electricity, and offer energy efficiency solutions tailored to its customers' needs. This service is based on offering personalised energy advisory services and providing a diversified and safe supply.

Countries in which Gas Natural Fenosa performs this kind of activity

- Gas commercialisation: Germany, Argentina, Belgium, Brazil, Korea, Chile, Spain, France, Holland, India, Ireland, Italy, Japan, Luxembourg, Portugal and UK.
- Electricity commercialisation: Chile, Spain and Portugal.

5. Other lines of business

- **Trading:** Gas Natural Fenosa is particularly well-positioned in the upstream and downstream gas and electricity markets, enabling it to extract additional margins in the markets through an appropriate trading activity.In this market, it manages the price risks of the raw materials affecting the business and also create opportunities associated with the availability and flexibility of the group's gas, electricity and coal assets.
- **Operation and maintenance:** the company provides operation and maintenance services for electricity production facilities and industrial plants to third parties in Europe, America, Africa and Asia. To minimise the risks of projects it has developed operational tools and improvements such as Cesom, an innovative centre for operation monitoring and supervision based on big data.
- **Engineering and construction services:** the company performs services of engineering and the construction of energy facilities in the fields of generation, transport and distribution of gas and electricity. It has built over 1,000 projects in more than 48 countries, and integrates all development stages of a project of this kind: from their conception and design through to putting them into operation, and subsequently the development of operational enhancements or the decommissioning of the facilities.
- **Operation of the Savmore coalmine:** Gas Natural Fenosa has a 70% stake in the company Kangra Coal, owner of the Savmore coalmine in South Africa, where it is responsible for the operation of this mine, located in the Mpumalanga region, 315 kilometres to the south-east of Pretoria.
- **Marismas project:** this project has provided continuity to the activity, for the last 30 years, the company carries out in the Valle del Guadalquivir area, in Spain. This involves removing additional reserves of gas, and once the gas has been exhausted the site will recover its storage function. The stored gas is injected from the Enagas grid and will be managed according to the needs of the Spanish system.

6. Value creation and sustainable management

Gas Natural Fenosa focuses its efforts on satisfying society's energy requirements, providing its customers with quality environmentally-friendly services and products, offering its shareholders a growing and sustainable return, and its employees the chance to develop their professional skills.

Gas Natural Fenosa's main goal is to supply society with energy so it can increase its levels of development and well-being, building on cornerstones of energy efficiency, sustainability and innovation.

The defining characteristics of Gas Natural Fenosa

- Company with experience: for over 170 years, Gas Natural Fenosa has worked towards improving so as to be able to offer services to society through the use of the most advanced technologies available. The company's experience, coupled with its competitive positioning, makes it a company that is ready to successfully tackle the challenges of a globalised market.

- Efficient company: efficiency constitutes the company's watchword and defines the way in which it acts, enabling it to achieve the desired objectives through optimum use of human, financial, physical and technological resources available.

- Responsible company: for Gas Natural Fenosa, it is essential to contribute towards the development and well-being of all the communities with which it is in contact In this regard, it does so by offering an energy supply that is sustainable, safe and environmentally-friendly, and which respects human rights.

- Innovative company: innovation is one of the driving forces of Gas Natural Fenosa's development since its founding. In addition to R&D projects, it carries out technology watch activities, technological transfer and promotion of innovative culture activities.

Key Corporate Responsibility Indicators

Service excellence	**2016**	**2015**	**2014**
Satisfied customers (%)			
Spain [1]	7.11	6.92	7.01
Latin America	7.63	7.83	8.07
Chile CGE [2]	5.48	5.31	-
Italy [1]	7.86	7.88	7.81
Moldova	7.94	8.06	8.32
Portugal	7.06	7.22	6.53
Italy, Moldova and Portugal	7.89	7.99	-
Commitment to results	**2016**	**2015**	**2014**
Net turnover (millions of euros) [3 and 4]	23,184	26,015	24,697
Gross operating profit. Ebitda (millions of euros) [3 and 4]	4,970	5,264	4,845
Total investments (millions of euros) [3 and 4]	2,901	2,082	4,342
Net profit (millions of euros)[4]	1,347	1,502	1,462
Dividend (millions of euros)[4]	1,001	1,001	909
Evolution of classification on the DJSI	91	89	86

Responsible management of the environment	2016	2015	2014
Direct greenhouse gas emissions (GHG) ($MtCO_2e$)	19,5	22.4	19.8
Emission factor (tCO_2/GWh)	411	445	406
Methane emissions in transportation and distribution (tCO_2e/km grid)	9.3	9.3	9.9
Emissions of SO_2/electricity produced (g/kWh)	0.43	0.55	0.51
Emissions of NO_x/electricity produced (g/kWh)	0.73	0.83	0.71
Emissions of particles/electricity produced (g/kWh)	0,04	0.05	0.04
Generation of hazardous waste (kt)	9.4	8.1	7.1
Recycling and energy recovery of hazardous waste (%)	86	76	93
Interest in people	**2016**	**2015**	**2014**
Staff rate (number of employees) [5]	17,229	19,939	21,961
Men/Women (%)	71/29	73/27	73/27
Women in management posts (%)	25.7	25.1	24.0
Personnel costs (millions of euros)	1,013	973	828
Training hours per employee [6]	51.0	61.4	57.4
Annual investment in training (euros)	14,014,713	10,493,080	11,525,099
Employees covered by collective bargaining agreements (%)	79.5	79.6	72.5
Health and safety	**2016**	**2015**	**2014**
Accidents requiring medical leave	65	125	118
Days lost	2,424	3,674	3,035
Mortalities	0	1	1
Frequency rate	1.72	3.08	3.93
Severity rate	0.06	0.09	0.10
Incident rate	3.48	6.33	8.32
Absenteeism rate (%)	2.15	2.02	1.86
Responsible supply chain	**2016**	**2015**	**2014**
Suppliers with contracts currently in force	12,072	7,370	8,035
Total purchase volume awarded (millions of euros)	3,599	3,009	2,956
Purchasing budget targeted at local suppliers (%)	91.9	92.3	92.9
Suppliers assessed according to environmental, social, and working practice criteria (number)	9,689	6,997	-
Commitment to society	**2016**	**2015**	**2014**
Evolution of the contribution from Gas Natural Fenosa (millions of euros)	9.98	9.89	11.64
Breakdown by type of action (%)			
Social	27.00	33.34	40.44
Environmental	22.00	14.71	12.66
Cultural	51.00	51.95	46.90
Sponsorship and social action activities	403	437	444
Integrity and transparency	**2016**	**2015**	**2014**
Correspondence received by the Code of Ethics Committee	178	135	89
Correspondence received per 200 employees	1.92	1.37	1.20
Geographical origin of correspondence (%)			
Argentina	1	4	7
Australia	-	-	1
Brazil	3	4	-
Chile	16	14	-
Colombia	25	14	7
Costa Rica	1	-	-
Spain	34	43	60
France	-	1	-
Italy	1	3	-
Kenya	-	-	-
Morocco	-	-	1
Mexico	13	6	20
Moldova	1	1	3
Panama	1	1	-
Puerto Rico	-	-	1
South Africa	4	9	-
Average time for resolving correspondence (days)	63	47	38
Audit projects analysed on the basis of the risk of fraud	88	94	34
Communications received in the area of human rights	0	0	0
Number of persons trained on the Human Rights Policy [7]	10,180	13,883	12,568

(1) Figures for residential customers.
(2) Figures measured on a scale of 1 to 7.
(3) The 2014 and 2015 income statements are restated through the discontinuance of the LPG business in Chile, without any effect on the net result.
(4) Indicators from the group's audited Consolidated Annual Accounts.
(5) The figure in 2016 has been calculated excluding information regarding Electricaribe.
(6) There is a decline in average training hours per employee in 2016, through the consolidation of data in Chile, with a training volume that is less than the rest of the group.
(7) The decrease in the figure reported in 2016 is due to a change of criterion, as in previous reports this included those persons that had been trained, whether or not at the company, and the figure included in this report only considers the current active workforce.

Integrated Management System

In 2016, Gas Natural Fenosa incorporated into the integrated management system (IMS) the electricity distribution and commercialisation activities in Chile. The company has also expanded the scope of the certificate of engineering with the addition of activities in Brazil, Colombia, Mexico and Panama, and has completed certification of customer service health and safety in Spain. Progress has also been made in certification of the distribution and commercialisation of gas in Chile, and in the incorporation of generation activities of Global Power Generation (GPG), independently certified.

We also consolidated the processes focus of the multisite certification model, and all achievements associated to the processes map of Natural Gas Fenosa are certified.

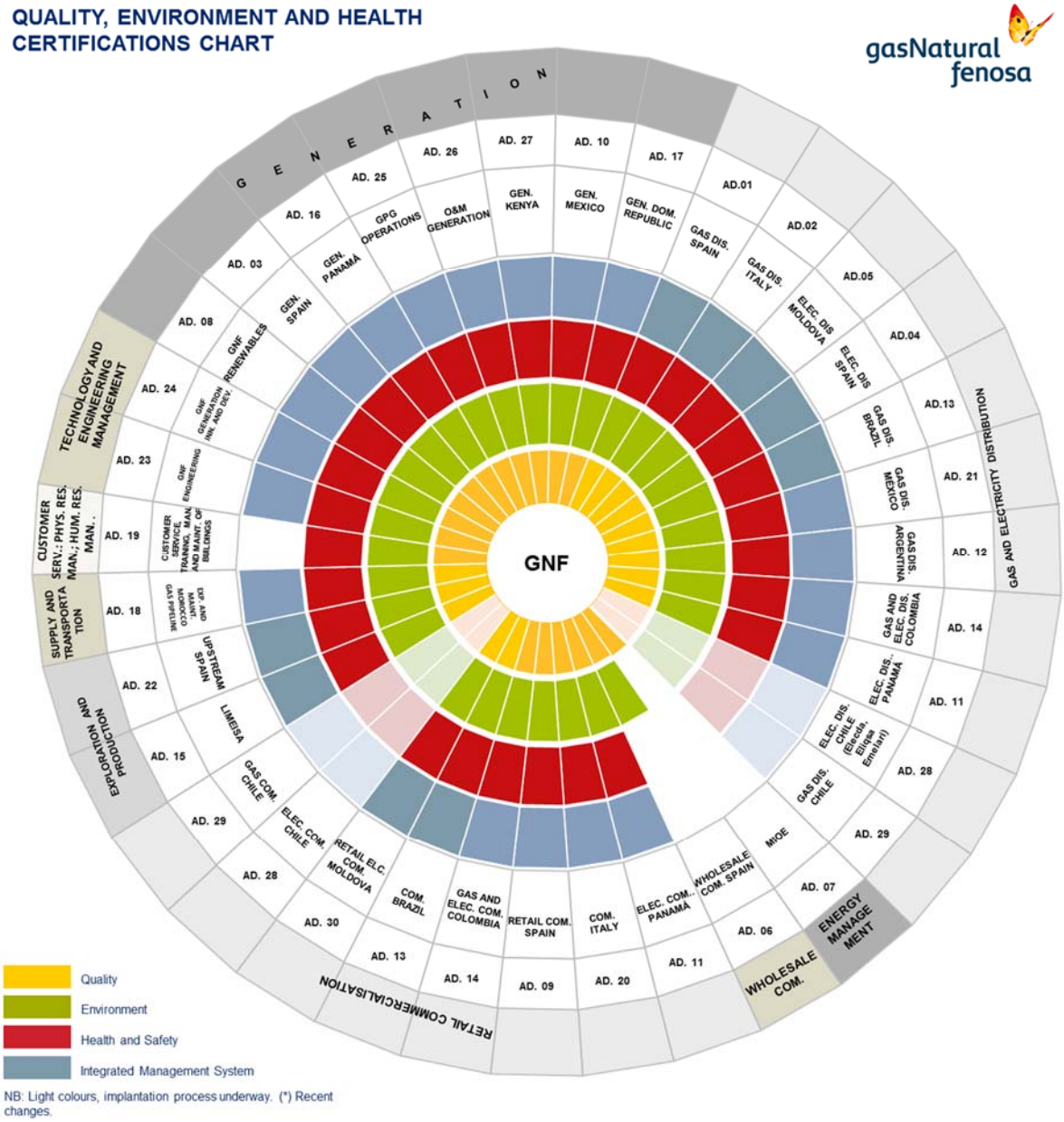
In 2016 we developed the review and improvement project of the IMS to adapt it to new approved versions of the ISO 9001 and ISO 14001 standards, where the general documentation and the IMS manual have been reviewed and updated, and which will culminate in 2017 with the introduction of the system regarding new requirements with an impact on the global certificate scope:

- Extraction and injection of natural gas
- Transport and operation of the Maghreb-Europe gas pipeline
- Electricity generation (thermal, hydraulic and renewable sources origin)
- Distribution of natural gas and electricity
- Wholesale and retail commercialisation of natural gas and electricity
- Development and execution of engineering projects
- Energy management in the organised Iberian electricity markets
- Corporate activities involving Customer Service, Billing and Collection and Training

In addition, during 2017 the IMS will be expanded with certification of the remaining electricity distribution and commercialisation companies in Chile and with the new certification of the gas distribution and commercialisation processes, and full incorporation of the GPG generation businesses into the IMS.

The implementation of findings from the Prosafety tool has allowed us to homogenize the process of managing non-conformities, corrective, preventive and improvement actions, which will be supplemented in 2017 with a new audit module, enabling us to plan management audits, record findings and issue the associated reports

Certified processes included in the Integrated Management System of Gas Natural Fenosa



Strategy

In 2016, Gas Natural Fenosa presented the company's new strategic vision for the 2016-2020 period, with a series of commitments to meeting targets for 2018 and aspirations for 2020. This review was conducted after meeting the targets of the company's 2013-2015 Strategic Plan in 2015.

The new vision aims to protect the successful current business model, which has proven its ability to capture growth in recent years, and lay the groundwork for continued growth thanks to the investments set out in the plan.

1. Investments

During the 2016-2020 period, Gas Natural Fenosa will invest 14 billion euros, mainly for investments in distribution networks, the construction of new generation capacity, mainly renewable, and business development of liquefied natural gas (LNG).

The investments will allow the company to increase the supply of gas and electricity points by 3.6 million, and increase the power generation facilities by 3.5 GW, of which 2.5 GW will be in renewable energy and 1 GW in international combined-cycle projects.

As for distribution networks, the objective is to continue capturing the huge potential that exists in both gas and electricity in Spain and Latin America, especially in gasification projects in Chile, Colombia and Mexico.

In the gas business, investments to increase the fleet will be made, and thus increase its flexibility and competitiveness, and in floating LNG regasification plants.

2. Financial targets

Gas Natural Fenosa expects a challenging scenario for 2016 and 2017, due to the current volatility of commodities and exchange rates. The management initiatives implemented and new investments will start to mitigate the impacts of this scenario in the second half of 2017. Thus, the target for 2018 is 5.4 billion euros of Ebitda and 1.6 billion of net profit.

With the foundations for growth established in the first three years of the plan, the company expects a solid increase in Ebitda and net profit for the 2019-2020 period. Specifically, at the end of this period, Ebitda would increase to 6 billion euros (+13% over 2015) and net profit would reach 1.8 billion euros (+20% over 2015).

Financial discipline and the commitment to shareholders continue to shape the company's strategy. The group expects to maintain its strict financial policy despite the difficult environment in the coming years, thanks to the company's strong ability to generate cash, allowing it to reduce leverage ratios, while increasing the dividend and investments.

3. Efficiency plans

The strategic vision includes a new efficiencies plan that will add annual savings of 220 million in 2018, and the study of additional efficiencies for the 2019-2020 period, which could be accelerated.

The initiatives included in the productivity plan focus mainly on reducing discretional costs, streamlining commercial and operational costs, optimising costs in corporate areas, and the digitalisation of information systems processes and management.

4. Business forecasts and regulatory impact

To define the new strategic plan, the company has taken into consideration three major trends in the energy sector, which it believes will define its future:

- Growth driven by emerging markets.
- The evolution of the generation mix towards renewables and natural gas.
- The emergence of new business models in the energy sector.

Renewable energies and natural gas will be the key vectors to cover increased demand, especially accentuated in emerging markets. Furthermore, innovation in the energy market will be another of the vectors that will redefine the sector globally, as new business models such as distributed generation and smart grids are already opportunities for growth, both in mature markets and in emerging markets in the mid-term.

In this period until 2020, Gas Natural Fenosa will perform active portfolio management of businesses in terms of return, risk and value creation for shareholders.

<table>
<tr><th colspan="4">Strategic priorities</th></tr>
<tr><th>Gas</th><th>Electricity generation</th><th>Networks</th><th>Services, retailers and innovation</th></tr>
<tr><td>Optimise the investments portfolio</td><td>Promote a regulation that adequately provides for the security of supply, diversification, economic efficiency and sustainability</td><td rowspan="2">Continue managing business regulatory aspects</td><td>Develop new products and services for end customers</td></tr>
<tr><td>Adapt and renegotiate contracts for the supply of gas</td><td rowspan="3">Adjust the capacity and investments to comply with new emission regulations</td><td>Create a platform for distributed generation and related services</td></tr>
<tr><td>Implement LNG positions in end markets</td><td rowspan="2">Capture the potential for organic growth in both Europe and Latin America</td><td>Continue with the digitalisation of services and processes</td></tr>
<tr><td>Increase flexibility of the fleet with the addition of new methane tankers</td><td rowspan="2">Expand the model of services and energy solutions to Latin America</td></tr>
<tr><td>Strengthen and make use of the competitive advantages in logistics</td><td colspan="2">Develop new opportunities in international generation and growth of the renewables platform in Spain</td><td>Automate the grid and integrate new technologies into the electricity network</td></tr>
<tr><td colspan="4">Implement the efficiency plan initiatives</td></tr>
</table>

Planned capacity to satisfy forecast future demand (MW) [EU10]

Technology	Planned capacity(MW)

Projects at an advanced stage	**128**
Cogeneration and others	128
Projects at a permitting stage	**2,552**
Wind	1,859
Small hydro	0
Hydraulic	0
Photovoltaic	693

Sustainable Innovation

Innovation

1. Innovation overview [103-1], [103-2], [103-3] (Technology and innovation) and [102-12]

A continuous process of innovation is undoubtedly one of the key levers of business.

The most innovative companies are generally those that best respond to the new challenges of the environment and do so by using technologies, processes and business models that give them an advantageous position in their markets. Moreover, innovations often arise, become cheaper and spread at a rate leading to significant disruptions that have a huge impact on these markets.

Therefore, the senior management of Gas Natural Fenosa has promoted the implementation of a model of innovation that ensures alignment with the priorities set out in the company's new 2016-2020 Strategic Plan, and is leveraged over the innovative community on the international stage.

This model comprises the innovation overview agreed with the businesses and responds to the technological changes that the sector is facing, a robust methodology for technological monitoring and management of the portfolio of innovation projects and a strong innovative culture at the company. It is also based on intrapreneurship programmes and tools to encourage innovation, ensuring the most appropriate response to the changing dynamics of the environment.

Aligning the Strategic Plan with the Innovation Plan has been secured through five workshops conducted in mid-2016, with managers from all business and corporate areas, covering all geographical areas. The result of these workshops has been the definition of the priority areas of innovation for Gas Natural Fenosa as well as a dedication of efforts to focus on priority areas.

Gas Natural Fenosa also recognises that the greatest potential for innovation lies in open collaboration with the key players in the environment, both public and private.

Therefore, it shares its challenges through partnerships and by taking part in the forums for technology mobilisation, guiding the technological chain and helping to secure common goals. It also works with public administrations in identifying the general needs of technological development in their business and in the definition of the relevant plans.

As a multinational company, it adjusts its performance to the needs of different environments in which it operates, although the general principles of action, such as combating climate change, the quest for efficiency and a more advanced use of energy, preside over its global strategy in all these areas.

Thus, it maintains an active presence in the major technological discussion forums, such as International Gas Union (IGU), Eurogas, Eurelectric, The European Gas Research Group (GERG), technology platforms such as Futured, Energy Efficiency, Smart Cities or CO2, and the Alliance for Energy Research and Innovation in Spain (ALINNE).

This activity is supplemented by actions to cultivate an ecosystem of powerful innovation through the creation of open innovation hubs such as Barcelona Tech City, and actions to drive intrapreneurship, such as the EmprendE programme.

Gas Natural Fenosa contribution's to SDG 7: Affordable and clean energy

The seventh Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "a well-established energy system supports all sectors: from businesses, medicine and education to agriculture, infrastructure, communications and high-technology". One in five people around the world live without electricity.

With regard to Sustainable Innovation, Gas Natural Fenosa shows its commitment to this goal by carrying out projects in several areas: LNG, renewable energy generation, emissions reduction, energy efficiency, mobility and smart grids, among others.

Gas Natural Fenosa contribution's to SDG 8: Decent work and economic growth

The eighth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "poverty eradication is only possible through stable and well-paid jobs. Nearly 2.2 billion people live below the US$2 poverty line".

With regard to Sustainable Innovation, Gas Natural Fenosa is committed to decent work and economic growth through innovation activity by applying technology and knowledge to create value. It also tries to minimise operational risks affecting the assets of the company and job security through innovation.

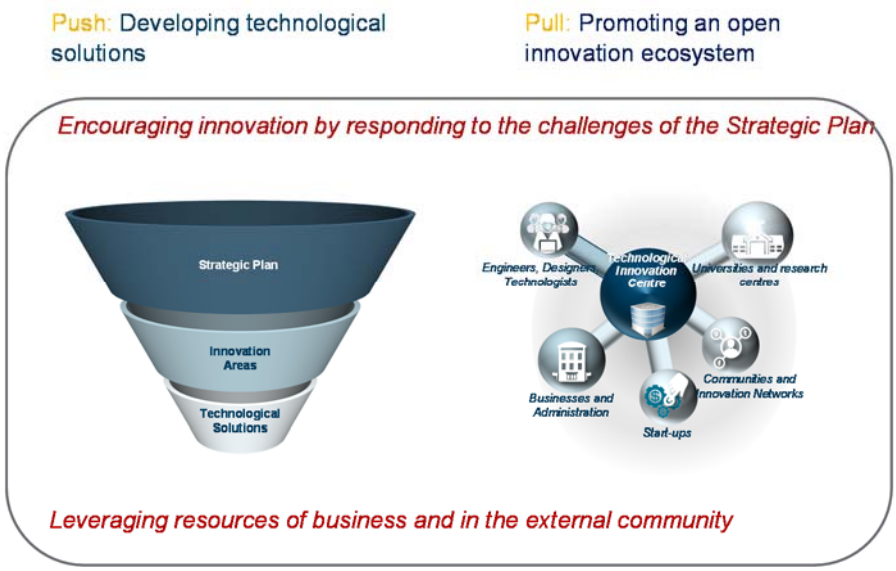
Gas Natural Fenosa contribution's to SDG 9: Industry, innovation and infrastructure

The ninth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "sustained growth must include industrialization that first of all, makes opportunities accessible to all people, and two, is supported by innovation and resilient infrastructure".

With regard to Sustainable Innovation, Gas Natural Fenosa is committed to the industry and its infrastructure, as can be seen in the creation of the Technology Observatory and Technology Centre, the creation of forums and newsletters, and participation in technological innovation associations, among others.

2. Innovation focus

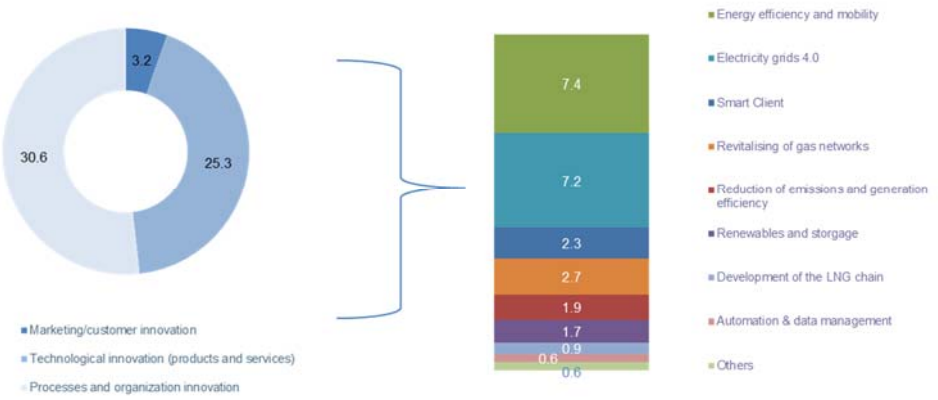
Gas Natural Fenosa uses two complementary approaches to ensure success in technological innovation. A "Push" approach for the development of technological solutions and a "Pull" approach to drive an open innovation ecosystem.



According to this model, the company conducts its innovation activity to obtain and apply technology, knowledge and the changes its different businesses require. Thus, it contributes to creating value and minimising operational risk in all phases of the life of the group's assets.

Investment in innovation (millions of euros) [OG2]

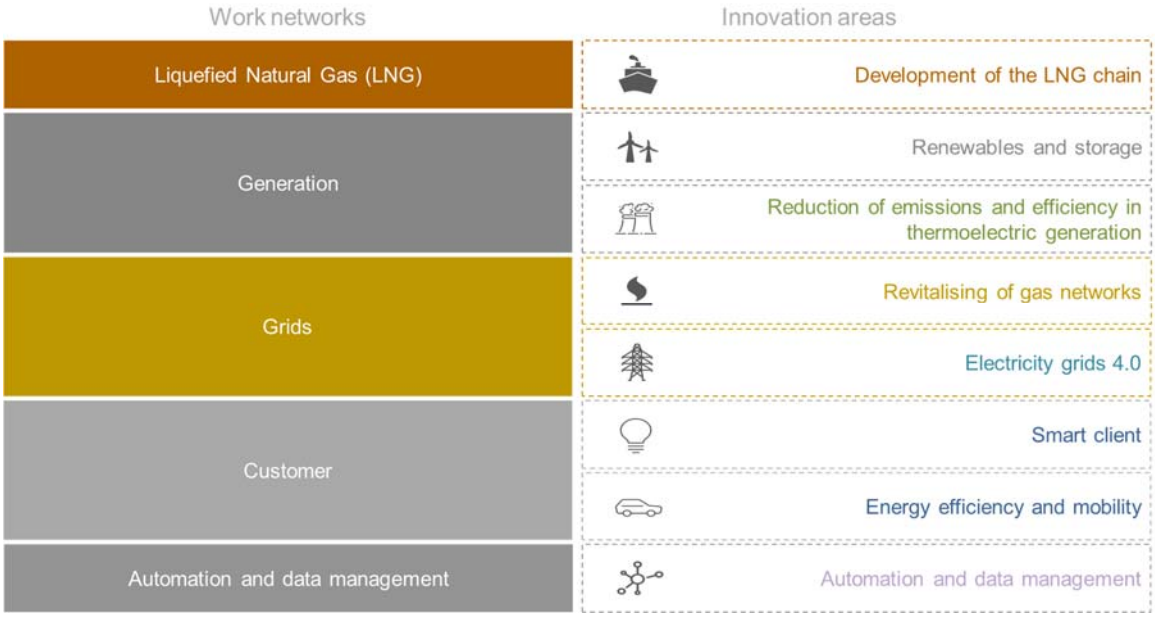
The overall figure in 2016 for investment in innovation totalled 59.2 million euros, divided as follows:



The increased effort regarding what had been reported in previous years is in line with business priorities that multiply their impact by focusing some resources on innovation to ensure business sustainability in the medium term. Accordingly, the innovation perimeter also includes technological innovation, innovation in processes and organisation, and innovation in marketing/customer).

3. Innovation Plan

The innovation plan is structured around priority lines of action to help achieve the goals set in the Strategic Plan. In this plan, innovation is supported by five multidisciplinary working networks and eight technological innovation areas.



3.1. Liquefied Natural Gas (LNG)

The overall objective of this line is to strengthen transport infrastructure, storage and distribution of LNG, at all levels, to promote its use as an alternative fuel to oil derivatives and as a solution in the propulsion of tankers that are more environmentally friendly.

LNG, compared to these fuels, has carbon dioxide (CO_2) emissions that are significantly lower and emits virtually no sulphur dioxide (SO_2), nitrogen oxides (NOx) or particulate pollutants.

The proliferation of LNG as a fuel for ships is demanding new refuelling solutions from sea and land (bunkering). In this context, Gas Natural Fenosa is aware of the need to develop LNG logistics to allow its implementation on a medium and small scale. Therefore, it participates in the development of new optimised solutions, both from the point of view of LNG transfer and refuelling as well as equipment and procedures to ensure the quantity and quality of the transferred fuel (metrology).

Liquefied Natural Gas (LNG) projects

The development of LNG logistics requires an appropriate metrology, both for product quantity and quality, since there are currently shortfalls concerning the accuracy of measurements, lack of specific LNG calibration benches and measurement procedures and standards accepted by the stakeholders. In this regard, Gas Natural Fenosa participates along with major metrological centres in the development of several initiatives.

Flowmeter projects	
EMPIR II. Metrology for LNG II (2015-2017)	Its aim is the design, construction and validation of a flowmeter calibration facility of up to 200 m^3/h (expandable up to 400 m^3/h) of LNG in the area near the Gate Regasification Terminal (Netherlands).
Quality measurement projects	
GERG. Espectroscopia Raman (2016-2017)	Measuring the quality of LNG is essential to discover its parameters and to determine the energy in the buying/selling of LNG transactions. This project aims to determine the accuracy of the technology by Raman spectroscopy to measure the composition and heating value of LNG in liquid phase directly from the discharge line at a regasification plant. It

	provides results that are comparable with traditional techniques through the chromatograph. During this year, tests have been conducted at the Zeebrugge Terminal (Belgium).
Gas to ships projects	
Multiple Truck to Ship (2015-2017)	Among the methods of providing natural gas to ships, the most common is the so-called Truck to Ship (TTS). This type of supply from truck involves the direct connection from a tanker or container parked on the dock, using the drive system of the truck itself. In order to maintain the advantages of this system and to solve its limitations, Gas Natural Fenosa is working on the Multiple Truck to Ship concept (MTTS), based on the discharge of several tankers simultaneously and flow rates that allow acceptable loading times for maritime operations.

3.2. Generation: renewables and storage

Renewable energy

The company has a balanced generation mix. It is also capable of giving an appropriate response to the demand for energy of the societies in which it operates, always committed to the most environmentally friendly technologies.

Its key objectives include:

- To develop new technologies that increase the percentage of renewable energy of its portfolio and to integrate this into the electricity grid.
- To optimise the use of renewable facilities already in service, for example, by extending their useful life or making better use of the wind resource.

Hydroelectric energy

Gas Natural Fenosa carries out its main innovation activities in the area of hydropower at the International Centre of Excellence in Hydraulics (CIEH).

The mission of this centre is to promote and channel R&D&I initiatives in the sphere of using conventional and marine hydraulic energy that can be transferred, either at the development or operational stages, to the company's facilities worldwide.

From the CIEH they also promote partnership agreements with universities, technology centres, research centres and internationally recognised businesses.

Storage

Innovation activities in the area of energy storage have focused primarily on electrical energy storage in batteries, both at large installations that facility better functioning of the power grid, as well as on a small scale with a view to distributed use.

Elsewhere, the company is also considering the production of synthetic natural gas from surplus electricity (Power to Gas) and from captured CO_2, which in the case of renewable sources allows us to combine an emissions capture mechanism with a clean energy source.

Generation projects: renewables and storage

Renewable generation projects: wind

Evolution of information systems (2016-2017)	The aim of the initiatives implemented is to improve management and safety of the plants through the introduction of information systems that allow us to concentrate data, optimise activities planning and help to anticipate market trends.
Improved performance, safety and monitoring of wind turbines (2016-2017)	Improvement measures are being adopted to increase the production and service life of wind farms. Tracking the status of major components allows us to anticipate, be able to plan maintenance actions at the optimum time, and to be aware of the remaining service life of these components. Furthermore, we are also implementing initiatives to protect the wind turbines from inclement weather, especially icing, from the point of view of safety and production.
Hydroelectric energy projects	
Analysis of the floodgates risk (2016)	This project involves analysing the safety of a dam using a methodology to analyse the risks of the floodgates. Investments are prioritised through the systematic and uniform assessment of the current status of the floodgates, the estimation of the reliability of the same and the proposed improvements with an assessment of costs. The result of the analysis ensures proper management of natural risks that are inherent to all water infrastructure, relying on tools that allow transparent and objective decisions to be taken.
Regional analysis of floodwaters (2014-2017)	The latest trends in hydrological and regional studies, applied to the basins of Gas Natural Fenosa in Galicia, allow us to review the design floodwaters and safeguards for the main reservoirs. This will help optimise water resource and production as well as increase the safety of installations, especially in case of floods.
Dam auscultation via satellite (2016-2017)	Auscultation of dams is essential to understand the behaviour and safety of dams. This is an initiative, especially useful for inaccessible places, which aims to control the movements of the dam using aerospace technology. New technologies are also being developed for data acquisition and transmission to the control centre via satellite.
Microturbines (2014-2018)	This project makes energy use of the ecological flow, increasing efficiency and thus performing optimal water management. Following the installation of microturbines in Castrejón, this will be deployed to other locations.

3.3. Generation: reduction of emissions and energy efficiency

Thermoelectric power generation

In its commitment to preserve the environment, Gas Natural Fenosa is working in this field of innovation along two main lines:

- Improved performance of power plants: optimising the management of the water used in the processes, with projects such as membrane distillation and direct osmosis.
- Reduction of emissions in power generation: taking part in projects withElectric Power Research Institute (EPRI) for the capture and storage of CO_2in post combustion, using Chilled Ammonia and amines to get experience in design, operation and maintenance, and actual costs.

Generation projects: reduction of emissions and energy efficiency

Projects to reduce emissions and efficiency in thermoelectric generation	
PTC Manager Parts Tracking (2014-2016)	Development of software for the control of certain parts of the gas turbine to be able to check the status they are in for each serial number (assembled, storage, workshop or discarded). This tool will also be able to control the number of hours and overhauls that the part accumulates.

Less H_2O (2014-2017)	The aim is to optimise consumption and water treatment of the combined-cycle power stations. The following activities have been introduced: • Application of a membrane distillation system for the purge stream of the recovery boiler and the sampling system in combined-cycle power plants, to achieve a technology that allows the recovery of a discharge stream of high quality and high temperature. • Minimisation of biological risks in cooling towers by developing an optical system for in situ monitoring, which provides analytical results of the concentration of aerobic microorganisms in the cooling water of combined-cycle power plants in the shortest possible time.

3.4. Grids: revitalising of gas networks

Gas networks

Here, the main challenge for the company is to achieve better optimisation in safety and durability of the network as well as increased automation and better customer interaction.

Gas networks action lines	
Automation of gas distribution networks	Gas Natural Fenosa is working on the development of materials with higher performance, new solutions for network deployment, the development of smart sensors that emit useful information for the operation and maintenance of the network, the development of transmission systems for such information, the performance of remote tasks and the improvement of meters at the point of supply.
Small-scale gas distribution	The exploitation of small-scale gas networks requires satellite plants with CNG and LNG storage on a small scale. With the help of these micro-networks it is possible to supply isolated population hubs or those that are some distance from the main network.

Furthermore, the company is also part of The European Gas Research Group initiative (GERG), whose purpose is to encourage, support and implement R&D projects, to keep the European gas industry at the forefront of energy innovation.

One of the most important aspects of this platform is the interaction within the technical programmes, where different committees made up of experts from the various member organisations meet regularly to exchange ideas, explore potential partnerships and establish GERG projects.

The priority lines in innovation of this organisation are, inter alia: ensure the supply of gas to Europe, improve the safety and integrity of gas networks, develop intelligent uses of gas and demand management, and improve the sustainability of the supply of natural gas in future energy schemes.

Renewable natural gas

The company is working on the principles of operation and on the advantages of the technologies available for the production of biomethane from biogas and solid biomass to encourage the use of renewable natural gas.

The use of renewable natural gas provides energy recovery from biomass, opening up the possibility of distributing and consuming gas produced domestically, reducing external energy dependence and contributing to the development of the local economy, and helping to meet the targets of the European Union by 2020.

Gas Natural Fenosa is currently involved in several projects at national and European level, aiming to provide renewable natural gas generated from renewable resources, and which through different processes can be fed into the distribution network of natural gas, with the right quality for subsequent application in sectors such as industry, mobility, domestic or electricity generation.

The initiatives implemented by the company in this field cover different lines of action, such as upgrading of biogas (from waste and/or crops), methanation of bio-syngas (biomass and/or crops) and methanation with hydrogen (power to gas).

Projects to revitalise gas networks

Projects to revitalise gas networks	
GERG Methane Emissions (Smart Greenhouse Gas Emissions) (2016-2017)	This is the second phase of the Greenhouse Gas Emissions project, which seeks to analyse the methods used in Europe to estimate methane emissions from the gas distribution network, and identify best practices in order to compile a common European focus with regard to this calculation. During this phase, besides analysing these emission estimation methods we are working on developing an optimised common calculation methodology for Europe based on emission categories.
Renewable natural gas projects	
Smart Green Gas (2014-2018)	Development of new technologies to produce biogas, biomethane and new systems that allow continuous measurement and remote control of the injection of this into the grid. During 2016 we began to integrate all the equipment to be able to test the system from the second quarter of 2017.
Renovagas (2014-2016)	This project aims to develop a synthetic natural gas (SNG) production plant using the electrolyte production from hydrogen through renewable energies and the methanation of this with the CO_2 from a biogas flow, so that the natural gas obtained is completely renewable. This technology, known as power to gas, can use the large storage capacity of the gas system to optimise and maximise the use of renewable energies, storing surplus electricity production from renewable energy in the form of natural gas that can be subsequently used to produce heat or to generate electricity. Although the main activity ended in 2016, the project will run until June 2017, with technical monitoring of the progress of the pilot plant, already built and transferred to a WWTP in Jerez.
Italic@ (2016-2018)	Italy has set a goal of having 50% of smart meters for gas, with regard to all gas meters, by December 2018, i.e., it aims to have installed over 220,000 smart meters. In 2016, 15% of the total had already been installed. Italic@ aims to build on the company's previous experience in projects like Itac@ in electricity and remote measuring pilot schemes in gas networks. In addition, Gas Natural Fenosa intends to use this project as a benchmark for all gas distribution companies, defining and validating the technology model, equipment and telecommunications.
Góngora (2014-2016)	This is a pilot project for cleaning biogas from the Góngora landfill site (Navarre) for production of biomethane with the quality required for injection into the natural gas network or for use as vehicle fuel. The project concluded in 2016 with one bus and two refuse trucks travelling around the city fuelled with the biomethane generated.

3.5. Grids: electricity grids 4.0

The company continues to make huge efforts on optimising the electricity distribution grid, with a particular focus on occupational safety, environmental aspects and improving the quality of supply. These efforts seek to transform the electricity grids into increasingly smart grids.

Action lines for electricity grids 4.0	
Integration of renewable generation into the electricity grid	This is one of the major challenges for the operation of the electrical system on which the company has been working, given the variability of renewable energy. Due to the growing incorporation of renewable energies, and to facilitate maximum use of sustainable energy resources, the traditional typology of the distribution network and its management are aspects that are evolving towards a new energy model that relies on the functionality that smart grids provide.
Automation of electricity grids	The developments seek to integrate, in an automated and efficient way, the behaviour of all players in the smart grid, to provide more and better information on the grid. This enables individualised management, achieving a better balance between supply and demand among producers and consumers, and thus optimise the production and distribution of electricity.

Electricity grids 4.0 projects

Smart grids are considered a key component in achieving the targets of reducing CO_2 emissions, improving energy efficiency and reducing exterior energy dependency.

The smart network -defined as the electricity grid that integrates the behaviour and actions of users connected to the same to efficiently guarantee a sustainable, economic and safe supply- comprises different technologies and new management models that will be gradually introduced into the grid.

We are currently making great efforts on research, innovation and demonstration to bring the different technologies and tools included in the smart grid closer to the market. R&D&I activities conducted in 2016 in the field of smart grids revolve around five defined technological strategic lines:

1. Remote reading of meters.
2. Automation of grids.
3. Integration of distributed energy resources.
4. Information and communication technologies.
5. Optimisation of the development and maintenance processes.

The common aim of all these is to evolve the distribution network towards a smarter grid, optimising the electricity distribution business processes.

During 2016 we continued the development of the smart grid in three areas of action: technological innovation projects, demonstration projects and actual implementation of the latest technologies.

The most representative technological innovation projects completed during 2016 were as follows:

Technological innovation projects finalised in 2016	
DISCERN "Distributed Intelligence for Cost-Effective and Reliable Distribution Network Operation" (2012-2016)	The result should help optimise the degree of observability needed to advance the automation of electricity grids of medium and low voltage by their operators. These Distribution System Operators (DSOs) will in the near future find themselves with energy flows that are far more dynamic than the current ones, motivated primarily by distributed generation. This will require solutions that in this project have been tested and validated in several countries and in a range of circumstances. The project was carried out in Denmark, Spain and Italy.
IGREENGrid "IntegratinG Renewables in the EuropEaN electricity Grid" (2012-2016)	This project pursues similar objectives and findings as the DISCERN project, although it focuses on the integration of renewable energies into the medium- and low-voltage grid. The scope of this project was Germany, Austria, Spain, France, Greece and Italy.

As regards technological innovation projects that are currently undergoing implementation, we can highlight:

Technological innovation projects undergoing implementation	
IDE4L: Ideal Grid for All (2013-2016)	In its final stage, this three-year demo project is for the purpose of defining and developing the concept of active management of the distribution grid, encompassing aspects such as grid automation, information systems and management applications of electricity grids. The methodology involves, firstly, defining the concept of the active distribution grid for large-scale penetration of renewable energies (over three time horizons: now, 2020 and 2050); secondly, developing advanced applications that enable planning, monitoring and control of the entire grid and of the distributed energy resources, to anticipate the future of distribution networks; and lastly, to test the applications developed in actual environments (Denmark, Italy and Spain).
OSIRIS "Optimisation of smart supervision of the distribution network" (2014-2017)	This project, which is scheduled to finish the first quarter of 2017, seeks to optimise the functionalities provided by smart grids, learn about incidents in communications of remote meter-reading equipment and improve the quality of the electricity supply in the event of malfunctions.
Red ACTIVA "Innovation in the automation of the isolated neutral distribution network" (2015-2018)	In this project we are seeking to strengthen the remote smart management assets by providing two-way capacity for the generation distributed. The main objectives linked to smart grids are: • To improve and deploy devices that solve the grid operation problems identified on the Medium-Voltage (MV) and Low-Voltage (LV) distribution grid. • To maximise use of the information obtained through the elements deployed on the distribution network to improve management of assets, achieve tighter predictive maintenance of the grid through a network that is capable of providing more information, being more efficient and complying with its intentions in the best way possible, producing a more active network.
LINTER "Grid Integration Laboratory"	Its main aim is to develop projects in which the technology is being built and to be able to validate in the field any introduction beforehand, providing support to all innovation projects and the roll-out of Smart Grids. This centre is focused on the interoperability of meters, automation of the

	medium- and low-voltage grids, and integration of renewable generation. This environment, together with the microgrid deployed in our offices, allows us to assess on a small scale the effect of new technologies, including their advantages and potential pitfalls.

All these projects make use of new technologies at indifferent levels of maturity. At Gas Natural Fenosa we are driving their development by taking part in fora, consortia and projects at national and international level, in most cases funded through the different schemes of the Spanish or European public administrations.

Compact substation project (2016-2017)
The new design of an ultracompact substation project addresses the challenges of building substations in a globalised environment of versatile demands with the highest quality standards available in the electricity market. The solution is based on dockable modular systems where each module is capable of transporting the required construction elements and electrical equipment to the destination where they are coupled together to form part of the finished building. The objectives of this initiative include optimisation of the building, adjusting it to the available space, ease of expansion given its modularity, minimisation of costs of civil engineering and associated risks, an improved quality of performance and a reduction in deadlines at work level, improving assembly and reducing mobility and personal experimentation. During 2016, this initiative has successfully materialised and has been presented to potential customers both internally and externally. It has also been disseminated within the Spanish Committee of the International Council on Large Electric Systems (CIGRE). The development of La Chorrera substation in Panama will be the first deployment of the ultra-compact substation by Gas Natural Fenosa.

Among the initiatives to improve remote management of meters and optimisation of the reading rate, we are working on different initiatives both to detect noise sources and the methodology to identify the type of noise. These include:

Remote reading of meters projects	
PLC-NOISE Management of meter communication (2015-2016)	The smart meters installed in households communicate with the transformation centre (and from there with the company's servers), through the power cable using Power Line Communication (PLC) technology, over a range of frequencies reserved for electrical uses. Because of the activity involved, different interferences or noises are produced on the equipment connected to the electricity network that affect the band used by the meters, causing communication with these meters to be lost. The project has allowed us to jump several levels in the local diagnostics of the field noise.
Noises case (2016)	The new remote management meters use the 40-95 KHz radio frequency band reserved for utilities. In the low-voltage grid there are disturbances that appear on the same band, caused by receivers connected in supplies. To diagnose disturbances in the low voltage network, you must connect a spectrum analyser at various points, usually in centralised metering. The case allows us to have a safe tool for the study and analysis of these anomalies, quickly and safely. The triple phase connection allows us to capture signals from the three phases without changing the connection, which is the most dangerous and time-consuming part of the operation.

Gas Natural Fenosa progress in the introduction of smart meters
During 2016 we have continued to carry out innovation activities related to the implementation and management of smart meters: • Development and piloting of a low-voltage advanced-supervision device. • Development and piloting of outside low-voltage automated cabinets that allow re-coupling in the event of temporary tripping in the low voltage grid. • Assessment of different online monitoring systems of power transformers to control the critical variables of the same, allowing cost optimisation of preventive and predictive maintenance, a decrease of faults (preventing malfunctions) and an extended service life. • Development of a specific low-cost system for online monitoring of partial discharges on isolated medium-voltage lines to detect incipient failures on these lines. The project is in partnership with DIAEL, a spin-off company associated to the Polytechnic University of Madrid. As regards the deployment of remote management, we have exceeded the figure of 2.7 million households smart meters installed and integrated in the remote management system. This figure represents 73% of all domestic equipment of the company, and exceeds, in all autonomous regions, the 70% milestone set out in prevailing legislation. Gas Natural Fenosa closed 2016 with more than 75%of all meters that are remotely managed.

3.6. Customers: Smart Client

In the Smart Client area of innovation, recently created, the company is focusing on providing products and services with high value-added for different types of end customers.

This area introduces initiatives based mainly on three axes:

- Distributed generation and generation for own consumption, for demonstrating use of batteries for self-consumption, household and small business.
- Storage in distributed generation and self-consumption.
- Integration of new solutions for end customers, in which several initiatives are implemented to demonstrate the technology.

Thus, and by processing data from the different initiatives, we seek to obtain relevant information in order to offer personalised and value-added services to the end customer.

These initiatives include the Smart Home and Smart Buildings concept, representing an excellent environment for technology development in the quest for energy efficiency and reducing the environmental footprint of the end user.

In parallel, consumption monitoring and control of smart equipment also represent an improvement in the overall efficiency of a residential or commercial building. At the same time, it allows data access to the end customer, promotes energy savings, features consumption management tools and generates energy recommendations to optimise resources.

In line with the target of achieving the objectives of the European Union for 2020 of 20% of final energy consumption from renewable sources, Gas Natural Fenosa is working on different initiatives. Through pilot projects, it is analysing the technical and economic feasibility of distributed generation, storage and the role of the so-called prosumers and the aggregator agents in the new energy paradigm.

In this regard, it is implementing an energy management system based on mathematical optimisation models. The main purpose of this software is to make it possible to obtain optimum operation of storage, renewable generation and demand, to minimise the economic cost and emissions, neutralising power peaks and adjusting the yield curve to a specific curve, among others strategies.

Smart Client projects

Smart Client projects	
GrowSmarter (2015 - 2019)	This European project aims to create and disseminate new ideas that allow cities more sustainable social, environmental and economic development through the implementation of smart city solutions. The cities chosen to lead this project are Barcelona, Cologne and Stockholm. The project aims to reduce energy consumption and transport emissions by 60% by 2020. It also has the potential to create 1,500 jobs in Europe. During 2016 we carried out specific actions, chief among which were the energy rehabilitation of residential and tertiary buildings, the installation of photovoltaic panels with battery storage in communal areas of residential buildings, the installation of Smart Home equipment in residential buildings and the development of our own information management platform. Gas Natural Fenosa is developing its own platform for the collection, management and analysis of information from all data collected from the project, by developing large-scale data analysis and processing modules. This development is based on the use of open communication protocols and standards in order to ensure the interoperability of different solutions. In early 2017 it will be possible to display the first monitoring data of actions already executed.
Smart Energy Tool (2014-2017)	The mission of this project is to offer wholesale customers of Gas Natural Fenosa a useful online service for management, analysis and control of costs and supplies, in order to detect economic improvements, as well as comfort. Currently, the market has monitoring platforms over which a control panel has been developed that addresses the specific needs of customers. This functional support and the licences will enable us to offer customers better service and support in the development of new functionalities to cover new service packs that most closely match their needs.
KIWI system (2012-2017)	This is a business management and generation of offers system, accounting for more than 15,000 deals a year. The aim of this system is to improve the commercial offer, and adapt products to changing environments, such as: market, regulatory and competition.

3.7. Customer: energy efficiency and mobility

Energy efficiency

Gas Natural Fenosa continues to increase its commitment to energy efficiency by adopting a more mature focus in different action areas:

- The development of projects to improve energy efficiency in the management of customers' energy.
- The contribution to a more efficient use of energy by consumers, providing them with solutions that help them improve their energy efficiency and to reduce the environmental impact of their energy consumption and habits.
- The introduction of energy control and monitoring systems for the residential and tertiary sectors.
- Catalogue of products that provide efficient solutions.
- Maintaining collaboration agreements with third parties to facilitate the renewal of equipment with more efficient equipment.

The company is also focused on improving procedures to increase energy efficiency in all links of the value chain, and is determined to provide customers with information and services to enable them to reduce their energy consumption.

The European Union defines heat recovery in urban environments as one of the strategic lines in the field of energy efficiency. Through different projects, Gas Natural Fenosa implements new solutions in urban and industrial environments, as well as innovative business models to encourage the development of such solutions.

Within the energy solutions to improve energy efficiency in buildings, for years the company has been working with solutions that combine the reduction of energy consumption with enhanced comfort.

Energy efficiency action lines	
Renewal and comfort solutions	Actions are taken on energy consumer elements to improve both their efficiency and consumption, and enhance user comfort. These solutions allow us to renovate energy facilities by implementing the most efficient technology in gas, electricity and renewable energy.
Efficient lighting solutions	The customer can replace all of the lighting with leading brand LED technology. This is a service that includes the supply of electricity and renewal of all lighting, including dismantling, removal and recycling of old equipment and a full guarantee for the equipment.
Special supplies solutions	This aims to find the best alternative supply for customers that are some distance from the gas distribution network.

The importance of raising public awareness for a more efficient energy model

One of Gas Natural Fenosa priorities is to promote and disseminate energy efficiency. For many years now, the company has been working together with social institutions to provide information about this awareness and in application of technologies related to energy services.

The company takes part in seminars and conferences to provide information on products and services that best adapt to customers' needs. The company also promotes cooperation agreements with major consumer and business associations to achieve a more efficient use of energy.

Besides, it continues to devote resources to raising awareness among customers of the need for efficient use of energy.

Residential customers are provided with advice on how to save energy in the home and the benefits this brings to the environment through campaigns and efficiency recommendations on the company website, www.gasnaturalfenosa.es.

For businesses and industries, the company has the portal www.empresaeficiente.com which includes all the information, news and e-books to provide advice to businesses and to be their reference page in resolving doubts and acquiring knowledge about the use of energy.

In 2016, the company compiled the tenth energy efficiency index in Spanish households, in which it notes that Spanish households still have major potential savings, equivalent to 27.4% of their energy bill. With small changes in uses and customs and improved equipment, Spanish families could save about 5,350 million euros per year.

Furthermore we are preparing the ninth study of energy efficiency at SMEs, to be presented in 2017.

Mobility

Gas Natural Fenosa continues to be a pioneer in driving growth in the use of natural gas within the sphere of land and sea transportation, thus becoming the leading Spanish company in gas mobility services.

The company believes that the use of natural gas and other renewable energies in transport are an alternative that is feasible in the short term as well as beneficial, both for the environment as well as the economy.

The Spanish Association of Natural Gas for Mobility (Gasnam), co-funded and chaired since its creation by Gas Natural Fenosa, has become the main point of liaison for Public Administrations in the vehicular natural gas sector, both for the launch of aid schemes as well as the development of new legislative corpuses. It currently comprises 102 members, of which 15% are linked to the administrations.

Gas Natural Fenosa is developing a natural gas loading infrastructure for public use at national level, for the purpose of bringing this technology to a wider public. The company is also taking part in a range of EU programmes for the purpose of providing Europe with transport corridors that make it possible for road transport using lorries that run on LNG.

We can also highlight the actions targeted at driving the use of natural gas as a fuel at different port areas of Spain.

In addition, Gas Natural Fenosa has public and private service stations located on the main highways, and these are designed to supply fuel, preferably, to heavy vehicles that carry out inter-urban journeys.

LNG and CNG fleets and service stations

	2016	2015	Growth
Vehicles of public stations	2,070	1,352	53%
Public charging stations	27	25	4%
Private charging stations	17	18	-6%

LNG and CNG sales at service stations (MWh)

2016	2015	2014
605	678	578

Energy efficiency and mobility projects

Energy efficiency projects	
Gas Compressor Unit (2014-2017)	A cold gas machine prototype. This is an industrial cold model, with heat recovery from engine cooling and partial recovery from condensation. The latest bench tests took place in 2016, and in 2017 there will be testing under actual operating conditions at an industrial facility.
New bill (2015-2017)	Update of the format (structure, design and content) of current customer bill of the Tertiary Market and Energy Solutions. This initiative arises from the search by the company to modernise the format and facilitate understanding of the bill. The new bill will be more visual, simple and understandable, incorporating information that is relevant for the customer. Throughout the process of improvement, the customer has been present at key points in the procedure: understanding the bill, co-creation, validation and design of the same.
Customers Area (2016-2017)	In the customers area, the company has incorporated all the information relating to customer contracts: customer data, contract details, download and consultation of invoices, bills and consumption history, and monitoring of repairs at the installation, among others. This area also allows online management of formalities to streamline processes.
Photovoltaic Option (2015-2017)	The project involves the development and conceptualisation of a service that allows SME customers to generate energy through photovoltaic technology. It starts with a study of the current regulatory framework, research into the potential market, the economic parameters that condition photovoltaic systems and their possible implementation in the catalogue of energy solutions. We have also created a system based on renting a photovoltaic system.
Gascomfort	This is a renewal and comfort solution that enables the customer's boiler room to be outsourced, adapting this to prevailing regulations, change the fuel for natural gas or simply obtain maximum efficiency through optimal management.
Distribution&Comfort	This is a renewal and comfort solution that has been developed in communities of neighbours that have a centralised boiler, so that each neighbour only pays for the heating and hot water they consume inside their home.
Refurbishments&Comfort	This is a refurbishment and comfort solution consisting of a personalised comprehensive service that combines thermal insulation of buildings and energy management of centralised heating systems.
Climatecomfort	This is a solution that provides refurbishment and comfort by providing the customer with a service that includes the refurbishment and maintenance of air conditioning equipment, saving up to 45% in air conditioning compared to other energy systems.
Terracomfort	This is a solution of refurbishment and comfort that provides an air conditioning service with renewable energy throughout the year, thanks to the geothermal heat pump technology. A valuable alternative to other air conditioning equipment that can reduce energy consumption up to 60%.
Ledplus	This is a service that includes the supply of electricity and the refurbishment of all lighting, including dismantling, removal and recycling of old equipment and a full guarantee for the equipment.

Special supplies	This is a solution that aims to find the best alternative supply for customers that are some distance from the gas distribution network.
Energy Saving Service (OSME) (2014-2017)	Electricity supply optimisation service that enables savings in the customer's bill. This service includes advice to customers based on an analysis of the power contracted and identification of the optimum contracted power at customers using the Optimisation SMEs tool (OSME). The service is presented in the form of customised reports. This service is supplemented with management of customers' requests for a change of power, adapting the facilities for this purpose and sending quotations to customers for the installation of a capacitor bank.
Mobility projects	
Mixed Unit for Sustainable Mobility (2014-2017)	This mixed unit, comprising Gas Natural Fenosa and the Technological Centre for Energetic Efficiency and Sustainability, EnergyLab, supported by the Xunta de Galicia Regional Government, aims to carry out R&D projects related to propulsion systems fuelled with natural gas or biomethane in marine and agricultural applications. The final aim of this unit is to launch a pilot test in an actual land or sea vehicle. The works conducted at the Mixed Unit for Sustainable Mobility in 2016 have focused primarily on the production and use of biogas for different mobility solutions. On the one hand, there has been progress in trials to improve biogas production, analysing a large amount of waste from various food processing industries. Progress has been made in the modelling of a digester and its behaviour to improve process performances. As regards biogas refining to produce biomethane, we continue to research purification through accelerated carbonation with different biomass ashes from industry. On the other hand, we have conducted an analysis of the existing agricultural fleet as well as an application-type study to identify sectors with potential to perform simulations of the behaviour of dual engines with biogas.
CEF-CleanPort and Abel Matutes (2014-2017)	In the maritime area, we continued with the development of the Abel Matutes project for the conditioning of the first regular-route Spanish ferry to run on natural gas. This involves the installation of a natural gas engine and LNG tank on this ferry. Currently, power generation of the ship is performed using marine fuel oil, so the LNG fuel replacement represents a considerable reduction of pollutants contained in the combustion gases. In 2016, progress has been made mainly in the construction of the system for supplying LNG to the ship, a project known as CleanPort, and its launch is scheduled for early 2017. This project has been presented to the European Commission programme, Connecting Europe Facility (CEF), which will contribute 50% of the budgeted 6.3 million euros.
Application of LNG to railway traction (2014-2017)	In order to meet environmental requirements in the railway sector, we have developed this project aimed at incorporating LNG locomotives to replace diesel, through the conversion, accreditation and a pilot locomotive. In terms of passenger transportation, in 2016 we conducted a pilot along a 20 km railway stretch in Asturias and this is expected to finalise during 2017. In line with this project, we are also exploring the possibility of applying LNG locomotives to freight transportation.
Boosting energy sustainable fuels	The main objective of this project is to promote and increase the use of LNG and compressed natural gas (CNG) as fuel, as an alternative in

for freight transport in European motorways (BESTWay) (2014-2018)	long-distance transport. To this end, we will build 9 stations along the Atlantic corridor, 5 in Spain and 4 in France, where the value-added services will be identified and introduced, guaranteeing full interoperability between stations. The project will also contribute to improving logistics, quality and safety of LNG and CNG operations by the end user through the commissioning of new systems and controls.
Core LNG Hive (2014-2019)	The European Commission has selected this project to promote the use of LNG as the standard fuel in shipping. Until 2020, the goal will be to develop an integrated, safe and efficient logistics chain in the Iberian Peninsula for the supply of LNG as fuel in the transport sector, especially marine transport. In 2016, there has been progress in the creation of different studies and pilot projects to adapt infrastructures and the logistical and commercial development that enables Iberian ports to provide small-scale LNG supply and bunkering services (supply as fuel for ships).
RePort (RIS3CAT) (2016-2018)	The aim of this initiative is to convert diesel engines to dual engine fuel (natural gas - fuel oil) and create a logistics network at Barcelona Port and close by to help reduce emissions of air and acoustic pollution in this area to improve the air quality. In 2016, we started the supply logistics for testing trucks converted to dual fuel. From the knowledge of the routes that the trucks that operate at Barcelona Port will follow, and in particular those transformed to use natural gas for vehicles (NGV), the refuelling needs throughout the route will be analysed. We will also determine which routes are currently covered by the existing infrastructure network and proposals will be made to cover those routes that do not have an adequate NGV infrastructure.
Pilot test of transforming a van to dual fuel	The first SEUR van in Madrid has been transformed into dual fuel vehicle (diesel-CNG). This is a public-private partnership between the Madrid City Council, Axala Green Solutions, Gas Natural Fenosa and GASNAM, aimed at reducing the environmental impact of urban distribution and the problem of air quality. The van is being used by the company SEUR in its regular service in Madrid for the purpose of obtaining measurements on the actual use of the transformation, a pioneer in Spain, for distribution of the last mile.

3.8. Automation and management of information

The area of automation and information management is a cross-sectional area that aims to bring together projects already being developed to gain synergies and enhance results.

Automation and management of information action lines	
Inspection of assets by drones	By combining the flight deck and specific sensors, a number of solutions are being developed for the inspection of various assets of the company, with the goal of reducing human involvement in potentially hazardous activities.
Sensor systems, IoT	This encompasses the development of distributed and telecommunicated sensors which, using the commoditisation of electronics and communications, enable the signals of the company's assets to be monitored with greater regularity and greater quantity. The aim of this is to improve knowledge of the condition of these assets, which in turn helps to have a better quality in the service offered and greater efficiency in the management of these.

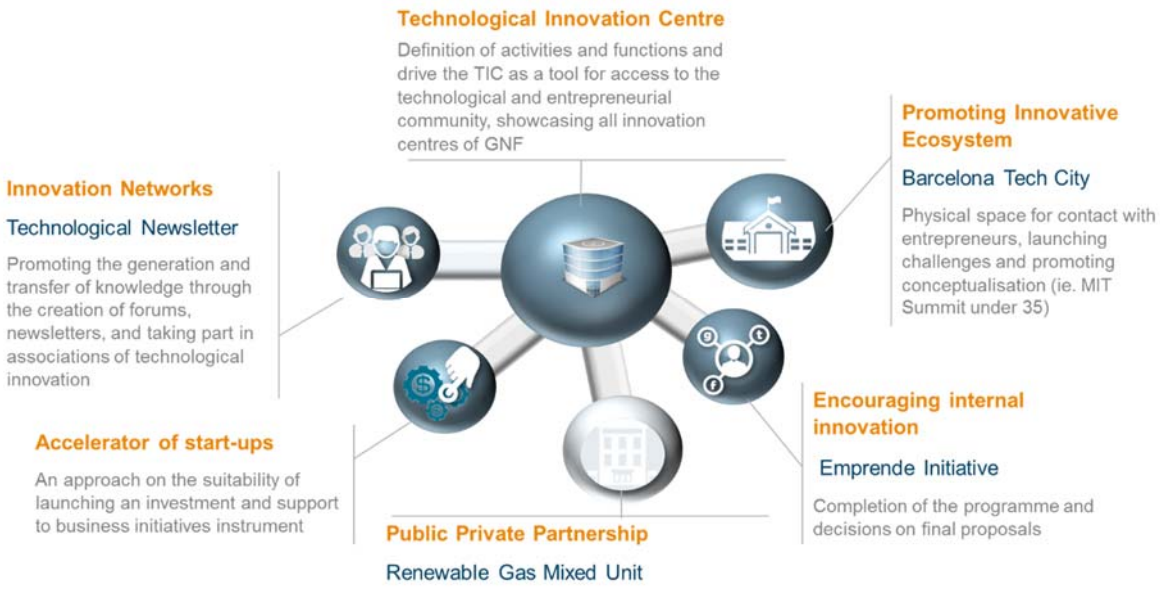
New information processing technologies	The BigData, Machine Learninga and Deep Learning technologies allow us to efficiently process the large amount of information from the digitisation process, also enabling us to extract useful information for management of the company in areas such as assessment of customer behaviour or estimating the service life of assets consumed, among others.

Automation and management of information projects

Smart management and supervision projects	
MAIGE (2016-2018)	This project focuses on the concept of smart asset management, with a direct impact on the level of inspection and maintenance of gas and electricity distribution facilities, enabling the brigades to be brought into action remotely. For companies that incorporate this solution, the project will represent savings in time, cost and safety. Gas Natural Fenosa participates in this initiative by focusing on the specification, design and implementation of a smart system that allows the monitoring of parameters of electricity and gas facilities, currently supervised manually and locally, to increase efficiencies and improve the quality and safety of service, through the centralisation of information from equipment and sensors.
Aerial inspection and diagnosis of HV Lines by Drone (2016-2018)	As part of the maintenance plan of electricity grids and high-voltage support towers, we are looking at the option of an aerial inspection by Drone to verify the condition of the structures along the High Voltage Line and identify defective components of the same. It consists of visual inspection by making photographic records of the condition of structures and high-voltage electrical components using the Drone.

4. Open innovation [102-12] and [102-13]

Initiatives to encourage Open Innovation



4.1. Technology Watch and Observatory

Technology watch represents a major component as a source of information for the company, to facilitate decision-making in the management of technologies identified as key and to form a basis of self-knowledge for the organisation.

The watch activities enable us to anticipate changes, appropriately assess the importance of new technologies and integrate them in a fluid way, optimising means and resources. At Gas Natural Fenosa, this is achieved through different watch groups composed of experts from various departments of the company.

These groups participate in forums and associations related to their themes, establish ongoing dialogue with benchmark technologists from their area, have an intelligent information search system and receive occasional expert advice.

During 2016 we created the Technology Observatory to coordinate and develop all these actions. We should also highlight the issue of a regular newsletter targeted at senior management. This newsletter summarises key trends and the way in which they evolve, as well as their impact on applicability to the company and the opinion of the company experts involved.

4.2. Technology support and transfer

One way of supporting innovation at group businesses is through the incorporation of new technologies that help optimise the exploitation of its assets.

From a deep understanding of the challenges and the needs of these, we identify those opportunities for optimisation the resolution which requires a different approach from the usual way.

In these cases, the Technology Support identifies those entities within the innovation ecosystem that can provide a solution to the challenge, and activates the appropriate means for application to the business.

Moreover, such knowledge also allows us to focus the active search and to discover the technological supply available and, through Technology Transfer mechanisms, to keep the assets up to date, improve them and prevent them from becoming obsolescent.

During 2016 the partnership agreements with external agents have been maintained and updated, including the following:

- Electric Power Research Institute (EPRI): specialised in the field of generation, transmission, distribution and use of electricity
- Gas Technology Institute (GTI): dedicated to the field of transport, distribution and use of gas
- American Gas Association (AGA): technical discussion forum and exchange of best practices in the natural gas environment

Collaboration with such entities is done by creating specific groups to obtain the desired results in each case and apply them to the group’s assets.

47 groups are currently active, and for illustrative purposes the following are mentioned:

- Plastics committee
- Programme for steam turbines and generators plus auxiliary systems
- Group for analysis of causes and definition of remedies

- Wind generation programme
- Programme development of the gas utilisation technology
- Evaluation of the communications protocol over power lines PRIME v1.4
- Cybersecurity and privacy programme
- Occupational health and safety committee

4.3. Encouraging innovation

The company maintains an open and innovative attitude to observe and identify opportunities and be aware of the status and progress, so we can find new ideas to meet the demands of the market and customers.

During 2016, Gas Natural Fenosa has promoted various initiatives that encourage entrepreneurship and the development of innovative projects. The momentum of open innovation has favoured collaboration with universities, research organisations, entrepreneurs and public administrations, for the purpose of speeding up the development of new products of interest to the company.

Initiatives to encourage innovation	
UP4-SOLUTIONS programme	The programme's objective is to seek advanced technological solutions to integrate the natural gas and electricity distribution systems, as well as develop a system for capturing energy to power gas network sensors. To this end, the company has collaborated with the four public polytechnic universities in Spain.
Barcelona Tech City technological centre	This is a cluster of international reference in the sector and which works with most powerful start-ups and established companies of the digital ecosystem. As part of this collaboration, the company sits on the Advisory Board of the entity, its top advisory body. In the "Innovahub", a space that the company itself has opened, innovation activities associated to new technologies will be carried out, including product demos, market launch, accelerating start-ups and themed chats, among other activities.
EmprendE initiative	Intrapreneurial corporate programme in which employees, through the creation of multidisciplinary teams and different methodologies, brainstorm ideas. The goal is to obtain prototypes that can lead to the identification of areas of opportunity and activation of new innovative businesses.
Our Energy Awards	These awards have been consolidated over five years as an initiative that recognises talent and the innovative and creative capacity of employees of this company.
Cycle of conferences	Experts on issues of open innovation and intrapreneurship have helped to provide greater knowledge and to disseminate the innovation activities that are being performed within the company.

4.4. Technology Centre

The Technology Centre of Fenosa Gas Natural is an initiative that was launched in 2016 to provide the company with resources for experimentation in controlled environments, allowing cross-cutting support to any lines of innovation.

The centre allows the development of technology-based products for the end customer and the development of technology solutions that are transferable to internal processes of Gas Natural Fenosa businesses.

Furthermore, the Technology Centre aims to develop the tools necessary so that these resources serve as environments for meeting with the technological ecosystem as well as demonstrating the company's technological innovation activities.

Self-consumption Laboratory

This is the first of the experimentation and demonstration assets of the corporate Technology Centre.

Its main objective is to provide the company with resources to discover the technologies that comprise self-consumption solutions in the home and to participate in the developments required so that the retail business can bring it to its customers through a differentiated product.

It also serves as a testbed for designing solutions for customers of wholesale trading, as well as the experimentation stage for projects within the scope of integration of generation and distributed energy resources in the electricity system.

Self-consumption allows a customer's facility to generate part of the energy that it consumes and represents a business opportunity for the supply of energy services.

To do this, the customer must have the following components:

- A generator: for domestic customers this is usually photovoltaic technology. This technology allows generation depending on the solar radiation that exists at any given time, so it is not manageable by itself.
- A battery: this is optional, and it allows you to accumulate surplus energy generated and not instantly self-consumed, and to defer the consumption of this energy to another time interval.
- One or more converters: electronic power devices that allow you to connect the alternating current from photovoltaic generation and the battery to the grid or to the customer's facility.

In 2016, the installation and commissioning of the laboratory was finalised. We also began piloting commercial residential solutions and the development of simulation tools to support the Smart Client innovation line.

Governance at Gas Natural Fenosa

Good Governance for Efficient and Transparent Management

[102-18]

Governance at Gas Natural Fenosa is based on the principles of efficacy and transparency established in accordance with the main existing recommendations and standards on the world stage. Good governance fosters these principles in decision-taking, contributing towards profitability and the sustainable growth of the company.

Through the Board of Directors, we perform a key good governance action, which is the yearly analysis and approval of the company's risk profile. This includes ethical, social and environmental issues in in the planning of the company's activities and which together with the search for profitability, guarantees responsible projects and operations with the capability to generate long-term value.

Internal control is another fundamental pillar in the good governance model of the company. To this end, the company frequently reviews its internal audit and compliance procedures and uses its internal code of conduct to set out those practices that should lead to greater knowledge of the company's way of working. Similarly, through the reports issued, the supreme governing body periodically assesses the quality and efficacy in procedures.

The success of the business culture of good governance, fulfilment and a focus on preventing risks is best reflected in the Gas Natural Fenosa's 170-year history of sustained growth.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Follow-up of new items in issues of corporate governance and analysis of the evolution of the company's adaptation to the new recommendations of the 2015 Good Governance Code of Listed Companies	●	Collaboration with Spanish Issuers for amendment of the Annual Corporate Governance Report and amendment of the Report on Remuneration of Members of the Board of Directors
Introduction of the risk control and management methodology at certain subsidiaries, to speed up the control of risks at local level	●	Updating the acceptance policies at certain subsidiaries and business segments in order to adapt them to new business lines and to the credit behaviour of the portfolio.

Level of fulfilment: finalised●, major progress ●, intermediate progress ●, little progress ●, not started ●

1. Good governance, in constant evolution [102-12] and [102-18]

The governing bodies of Gas Natural Fenosa determine their operation following the recommendations of good governance of listed companies, and new laws in this field.

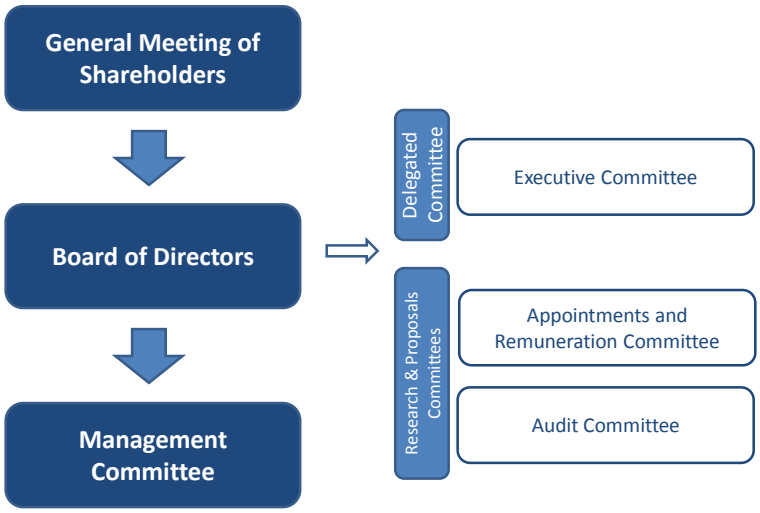
In 2015, we performed different actions to adapt to the changes introduced in the Corporate Enterprises Act and to the new items of the Good Governance Code of Listed Companies.

During 2016, as a result of a change to the shareholding body, Articles 5, 10, 30 and 32 of the Board Regulations were amended.

The company’s corporate governance practices are reported at the General Meeting of Shareholders and are described in detail in a variety of annual reports:

- Annual Corporate Governance Report.
- Report on performance of the Executive Committee.
- Report on performance of the Audit Committee.
- Report on performance of the Appointments and Remuneration Committee.
- Annual Report on Remuneration of Members of the Board of Directors.
- Integrated Annual Report.
- Corporate Responsibility Report.

Governing structure of Gas Natural Fenosa



2. Functions and composition of the Board of Directors [102-26] and [102-32]

Risk prevention management and consideration of aspects tied to corporate social responsibility rank very highly on the Board of Directors' activity, and the Board is responsible for approving the corporate governance and corporate responsibility policies. Every year, through the compilation of the respective reports, it reviews and approves the information on risks and opportunities in these areas.

Responsibilities of the Board of Directors	
Strategic orientation and financial objectives	Determining the company's strategic orientation and financial objectives and agreeing, at the proposal of top-tier management, the appropriate measures for their achievement, where the fulfilment of the said activities is subject to its control.
Strategy compliance, objectives and social respect	Supervising and verifying that the members of top-tier management comply with the strategy and meet the targets set, and observe the corporate purpose and interest, besides guaranteeing the interests of the minority shareholders. It therefore establishes as many supervision systems as required.
The company's viability and competitiveness	Ensuring the company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company's activity is expressly submitted to its control.
Approval of the Code of Conduct	Approving the company's codes of conduct as well as developing the faculties set out in the Organisation and Operation Regulations of the Board of Directors and of its Committees.

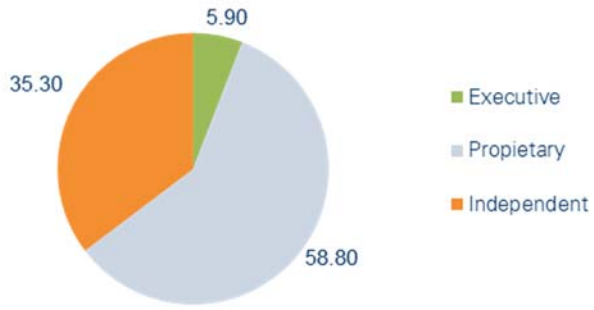
Efficiency of ESG risk management processes	Every year, to examine, debate and approve the documents that reflect the economic, environmental and social issues processes, such as: the Annual Corporate Governance Report, Annual Accounts and the Management Report (both individual and consolidated) and the Corporate Responsibility Report.
Aspects tied to corporate social responsibility	Approving the corporate governance and corporate responsibility policies, and lead the effective integration of corporate responsibility into both the company's strategy and its daily management, thus achieving a solid culture of corporate responsibility
Management, representation and control set out in the Articles of Association	Performing as many acts of management, representation and control as required or appropriate to achieve the corporate purpose set out in the Articles of Association. It shall respond for this obligation to the General Meeting of Shareholders.

Composition of the Board of Directors and of the different committees (at 31 December 2016) [102-22] and [102-23]

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee	Type of Director	Seniority on Board
Chairman	Mr Isidro Fainé Casas (1)	Chairman			Proprietary Director	14/05/2015
First Deputy Chairman	Mr Josu Jon Imaz San Miguel (2)	Board Member			Proprietary Director	21/09/2016
Second Deputy Chairman	Mr William Alan Woodburn (3)	Board Member		Board Member	Proprietary Director	30/09/2016
Chief Executive Officer	Mr Rafael Villaseca Marco	Board Member			Executive Director	28/01/2005
Board Member	Mr Ramón Adell Ramón	Board Member	Chairman		Independent Director	18/06/2010
Board Member	Mr Enrique Alcántara-García Irazoqui (4)		Board Member		Proprietary Director	27/06/1991
Board Member	Mr Xabier Añoveros Trías de Bes (5)		Board Member		Independent Director	20/04/2012
Board Member	Mr Marcelino Armenter Vidal (6)	Board Member			Proprietary Director	21/09/2016
Board Member	Mr Mario Armero Montes (7)				Proprietary Director	21/09/2016
Board Member	Mr Francisco Belil Creixell (8)	Board Member		Chairman	Independent Director	14/05/2015
Board Member	Mrs Benita María Ferrero-Waldner (9)	Board Member			Independent Director	14/05/2015
Board Member	Mr Alejandro García-Bragado Dalmau (10)			Board Member	Proprietary Director	21/09/2016
Board Member	Mrs Mrs Cristina Garmendia Mendizábal (11)		Board Member	Board Member	Independent Director	14/05/2015
Board Member	Mrs Mrs Helena Herrero Starkie (12)		Board Member		Independent Director	04/05/2016
Board Member	Mr Miguel Martínez San Martín (13)	Board Member		Board Member	Proprietary Director	14/05/2015
Board Member	Mr Rajaram Rao (14)	Board Member	Board Member		Proprietary Director	21/09/2016
Board Member	Mr Luis Suárez de Lezo Mantilla		Board Member		Proprietary Director	26/02/2010
Non-Director Secretary	Mr Manuel García Cobaleda	Non-Director Secretary	Non-Director Secretary	Non-Director Secretary	N/A	29/10/2010

(1) Mr Isidro Fainé Casas became a member of the Executive Committee on 21 September 2016.
(2) Mr Josu Jon Imaz San Miguel became a member of the Board of Directors and of the Executive Committee on 21 September 2016.
(3) Mr Willian Alan Woodburn became a member of the Board, of the Executive Committee and of the Appointments and Remuneration Committee on 30 September 2016.
(4) Mr Enrique Alcántara-García Irazoqui stepped down as a member of the Executive Committee and became a member of the Audit Committee on 21 September 2016.
(5) Mr Xabier Añoveros Trias de Bes became a member of the Audit Committee on 21 September 2016.
(6) Mr Marcelino Armenter Vidal became a member of the Board and of the Executive Committee on 21 September 2016.
(7) Mr Mario Armero Montes became a member of the Board on 21 September 2016.
(8) Mr Francisco Belil Creixell stepped down as a member of the Audit Committee and became a member of the Executive Committee and of the Appointments and Remuneration Committee on 21 September 2016.
(9) Mrs Benita Ferrero-Waldner became a member of the Executive Committee on 4 May 2016.
(10) Mr Alejandro García-Bragado Dalmau became a member of the Board and of the Appointments and Remuneration Committee on 21 September 2016.
(11) Mrs Cristina Garmendia Mendizábal became a member of the Audit Committee on 21 September 2016.
(12) Mrs Helena Herrero Starkie became a member of the Board of Directors on 4 May 2016 and of the Audit Committee on 21 September 2016.
(13) Mr Miguel Martínez San Martín became a member of the Appointments and Remuneration Committee on 21 September 2016.
(14) Mr Rajaram Rao became a member of the Board, of the Executive Committee and of the Audit Committee on 21 September 2016.

Breakdown of the Board of Directors in accordance with the nature of the position (%)



Quorum of attendance and meetings of the Board of Directors and committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
Attendance quorum (%)	95.69%	98.21%	96.55%	100%
Number of meetings	15	6	7	8

2.1. Assessment and capacitation of the Board of Directors [102-28]

Pursuant to the recommendations laid down in the Good Governance Code of Listed Companies and the Board's own regulations, the quality and efficiency of the Board and of its committees is assessed every year.

This assessment looks into issues such as the amendments introduced into corporate governance standards; the number of sessions of the different governing bodies; the agreements and reports issued; the type of members of the governing bodies; attendance at meetings; calls to meetings and the documentation to accompany these calls; the venue for the meeting and the agenda.

The Board of Directors and its committees operated as expected during 2016, fully exercising their powers without interference and in full observance of both current legislation and the standards for the organisation and performance of the Board's own regulations. Therefore, the assessment of the Board of Directors has not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities.

Through knowledge update programmes, and in those cases where such action is deemed appropriate, the company offers Board members the opportunity to have first-hand information about energy topics and other spheres, by inviting competent CEOs in each subject to their meetings.

All the corporate information of Gas Natural Fenosa can be read on the company website, www.gasnaturalfenosa.com

3. The governing body in economic, environmental and social affairs [102-19], [102-20], [102-26], [102-27], [102-29], [102-30], [102-31] and [102-33]

By virtue of the Board Regulations of Gas Natural Fenosa and of its committees, the Board is responsible for defining the corporate structure, as well as the structure of delegations and authorisations.

In light of these terms of reference, the Board delegates certain powers to the CEO who in turn grant specific faculties to different general managers in issues of an economic, environmental and social nature. Within their respective terms of reference, they have supreme responsibility and the economic, environmental and social issues are related to a greater or lesser extent in all departments.

Because of its specialised nature, the Economic-Financial Department has general responsibility over economic issues and the People and Resources Department has general responsibility over environmental and social issues.

The different general managers are regularly invited to Board meetings in order to present issues arising within the scope of their respective competences in regard to which the Board of Directors is required to reach an agreement or to be informed. Consequently, these economic, environmental and social issues that affect development of the company’s businesses are examined and debated on the Board.

We should point out that, because the company adheres to the Code of Good Tax Practices, the Board of Directors receives regular information on the tax policies applied by the company.

The Board of Directors is responsible for approving reports that analyse the different kinds of risks for the company. Through this submission, the Board analyses the effectiveness of the processes of managing economic, environmental and social risks. Furthermore, any operation or project submitted to the Board is also considered from the point of view of the accompanying risks.

By virtue of the culture of risk prevention in all the company’s operations, due diligence is performed for each country at the start of relevant operations. The Board of Directors is the body

that takes the decision to cease activities in a specific country, in consideration of a range of criteria, such as the government of laws.

4. Diversity in the process of appointments and renewal of Directors [102-24] and [102-25]

The Board of Directors comprises 17 members, two of which are women. Among Board Members there is a broad diversity of professional experience and academic knowledge (including engineers, lawyers, economists and university professors).

The company, in its Board Member selection policy, expressly specifies that the Appointments and Remuneration Committee shall ensure that the screening procedures do not involve any implicit bias that could involve any discrimination whatsoever.

Without prejudice to the right to proportional representation acknowledged in prevailing legislation, the process for selecting candidates to be Board Members shall begin with an initial assessment undertaken by the Appointments and Remuneration Committee on the needs of the company and the skills, expertise and experience required on the Board.

Any company Director may propose the candidates they deem appropriate, providing they satisfy the conditions set out in the Director selection policy. However, the Appointments and Remuneration Committee shall be responsible for formally submitting appointment proposals to the Board of Directors along with proposals for the re-election of Independent Directors and for informing the Board about proposals for Proprietary and Executive Directors.

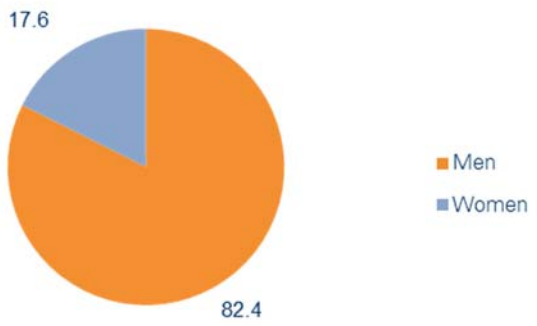
The company may employ external consultancy services, both for the performance of preliminary analyses of existing needs as well as for the validation or proposal of Director candidates.

Candidates must be upstanding professionals, whose professional conduct and career path is in line with the principles set out in the Code of Ethics of Gas Natural Fenosa, and who shares the company's vision and values.

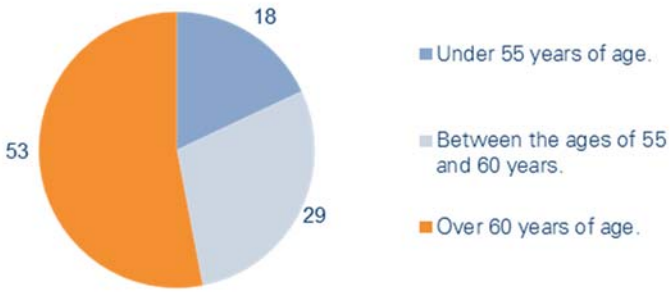
As regards incompatibilities, the following cannot be considered candidates:

- Those persons affected by any cases of legal, statutory or regulatory prohibition or incompatibility.
- Those companies, enterprises or persons affected by a permanent of conflict of interest with the company.

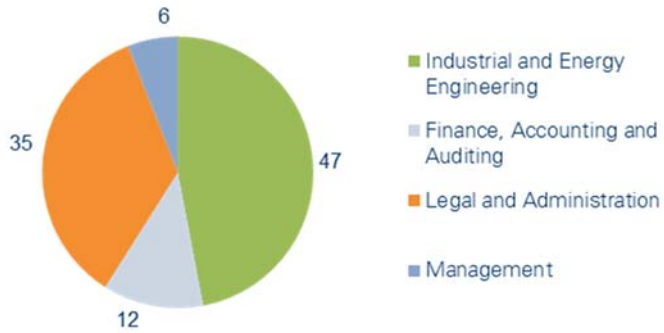
Diversity of the Board of Directors (%)



Breakdown of the Board of Directors by age (%)



Professional experience and academic knowledge of the Board of Directors (%)



5. Remunerative model of the Board of Directors [102-35] and [102-37]

5.1. Remuneration of the Board of Directors

Remuneration of Directors represents an issue of major importance in the company's good governance. Consequently, it constitutes a legitimate concern for shareholders.

In accordance with the current legal framework, Gas Natural Fenosa regularly reports on remuneration of members of the Board of Directors through its Integrated Annual Report, the Annual Accounts and the Annual Report on Remuneration of Directors, all publicly available.

The Annual Report on Remuneration of Directors for 2015, in compliance with the Corporate Enterprises Act, was subject to a ballot at the General Meeting of Shareholders in 2016. The company's remuneration policy is based on the principles of moderation, compensation for the time spent and in line with the profits.

Remuneration of Directors for sitting on the collegiate decision-taking bodies is considered as fixed remuneration. Only the Chief Executive Officer receives remuneration based on the executive functions he/she performs outside of sitting on the Board. The remunerations of Directors in 2016 as recompense for sitting on the Board were as follows:

- Chairman of the Board of Directors: 550,000 euros/year.
- Director: 126,500 euros/year.
- Chairman of the Executive Committee: 550,000 euros/year.

- Member of the Executive Committee: 126,500 euros/year.
- Member of the Appointments and Remuneration Committee: 25,000 euros/year.
- Member of the Audit Committee: 40,000 euros/year.

Remuneration of the Board of Directors (in euros) 2016

	Position	Board	Executive Committee	Audit Committee	Appointments and Remuneration Committee	Total
Mr Isidro Fainé Casas (1)	Chairman	280,500	200,000	-	-	480,500
Mr Salvador Gabarró Sierra (15)	Chairman	400,000	400,000	-	-	800,000
Mr Josu Jon Imaz San Miguel (2)	First Deputy Chairman	46,000	46,000	-	-	92,000
Mr Antonio Brufau Niubó (16)	Deputy Chairman	92,000	-	-	18,182	110,182
Mr William Alan Woodburn (3)	Second Deputy Chairman	46,000	46,000	-	9,091	101,091
Mr Rafael Villaseca Marco	Chief Executive Officer	126,500	126,500	-	-	253,000
Mr Ramón Adell Ramón	Board Member	126,500	126,500	40,000	-	293,000
Mr Enrique Alcántara-García Irazoqui (4)	Board Member	126,500	92,000	14,545	-	233,045
Mr Xabier Añoveros Trías de Bes (5)	Board Member	126,500	-	14,545	-	141,045
Mr Marcelino Armenter Vidal (6)	Board Member	46,000	46,000	-	-	92,000
Mr Mario Armero Montes (7)	Board Member	46,000	-	-	-	46,000
Mr Francisco Belil Creixell (8)	Board Member	126,500	46,000	29,091	9,091	210,682
Mr Demetrio Carceller Arce (17)	Board Member	92,000	92,000	-	-	184,000
Mrs Benita María Ferrero-Waldner (9)	Board Member	126,500	80,500	-	-	207,000
Mr Alejandro García-Bragado Dalmau (10)	Board Member	46,000	-	-	9,091	55,091
Mrs Cristina Garmendia Mendizábal (11)	Board Member	126,500	-	14,545	25,000	166,045
Mrs Helena Herrero Starkie (12)	Board Member	80,500	-	14,545	-	95,045
Mr Emiliano López Achurra (18)	Board Member	46,000	46,000	-	-	92,000
Mr Miguel Martínez San Martín (13)	Board Member	126,500	126,500	-	9,091	262,091
Mr Heribert Padrol Munté (19)	Board Member	92,000	-	-	-	92,000
Mr Rajaram Rao (14)	Board Member	46,000	46,000	14,545	-	106,545

	Position	Board	Executive Committee	Audit Committee	Appointments and Remuneration Committee	Total
Mr Juan Rosell Lastortras (20)	Board Member	92,000	92,000	-	-	184,000
Mr Luis Suárez de Lezo Mantilla	Board Member	126,500	-	40,000	-	166,500
Mr Miguel Valls Maseda (21)	Board Member	92,000	-	-	18,182	110,182
TOTAL		**2,681,500**	**1,612,000**	**181,816**	**97,728**	**4,573,044**

(1) Mr Isidro Fainé Casas became a member of the Executive Committee on 21 September 2016.

(2) Mr Josu Jon Imaz San Miguel became a member of the Board of Directors and of the Executive Committee on 21 September 2016.
(3) Mr Willian Alan Woodburn became a member of the Board, of the Executive Committee and of the Appointments and Remuneration Committee on 30 September 2016.
(4) Mr Enrique Alcántara-García Irazoqui stepped down as a member of the Executive Committee and became a member of the Audit Committee on 21 September 2016.
(5) Mr Xabier Añoveros Trias de Bes became a member of the Audit Committee on 21 September 2016.
(6) Mr Marcelino Armenter Vidal became a member of the Board and of the Executive Committee on 21 September 2016.
(7) Mr Mario Armero Montes became a member of the Board on 21 September 2016.
(8) Mr Francisco Belil Creixell stepped down as a member of the Audit Committee and became a member of the Executive Committee and of the Appointments and Remuneration Committee on 21 September 2016.
(9) Mrs Benita María Ferrero-Waldner became a member of the Executive Committee on 4 May 2016.
(10) Mr Alejandro García-Bragado Dalmau became a member of the Board and of the Appointments and Remuneration Committee on 21 September 2016.
(11) Mrs Cristina Garmendia Mendizábal became a member of the Audit Committee on 21 September 2016.
(12) Mrs Helena Herrero Starkie became a member of the Board of Directors on 4 May 2016 and of the Audit Committee on 21 September 2016.
(13) Mr Miguel Martínez San Martín became a member of the Appointments and Remuneration Committee on 21 September 2016.
(14) Mr Rajaram Rao became a member of the Board, of the Executive Committee and of the Audit Committee on 21 September 2016.
(15) Mr Salvador Gabarró Serra, (16) Mr Antonio Brufau Niubó, (17) Mr Demetrio Carceller Arce, (19) Mr Heribert Padrol Munté and (21) Mr Miguel Valls Maseda stepped down from the Board and from the other Committees on 21 September 2016.
(20) Mr Juan Rosell Lastortras stepped down from the Board and from the Executive Committee on 20 September 2016.
(18) Mr Emiliano López Achurra stepped down from his duties as Director and member of the Executive Committee on 4 May 2016.

5.2. Transparent and regulated process to determine remuneration [102-36] and [102-37]

The process for determining the remuneration of Directors is set out in the company's Articles of Association (Article 44 on "Remuneration") and in the Regulations of the Board of Directors (Article22 on "Remuneration of the Director" and Article 31 on "Appointments and Remuneration Committee").

The remuneration to be received by Directors in their status as such shall comprise a fixed allocation.

The Ordinary General Meeting of Shareholders held in 2015approved the Remuneration Policy for members of the Board of Directors for 2015, 2016 and 2017, setting out the principles that govern remuneration of Directors in their status as such, and remuneration for their executive

duties. This policy has to include the maximum amount of yearly remuneration payable to all Directors in their status as such.

The determination of each Director's remuneration corresponds to the Board of Directors, which shall take into consideration the duties and responsibilities attributed to each Directors, the Board committees on which they sit and other objective circumstances that are relevant.

The remuneration of Directors must under all circumstances be reasonably proportionate to the importance of the company, the existing economic situation and the market standards of comparable companies.

The system of remuneration established must be targeted at promoting profitability and long-term sustainability of the company and incorporate the precautions required to avoid the assumption of excessive risks and rewarding unfavourable results.

Without prejudice to the remuneration to Directors in their status as such, those that hold executive duties at the company shall be entitled to receive remuneration for said duties, which shall be determined by the Board of Directors pursuant to the provisions set out in the Remuneration Policy for Directors, and which shall include a contract between the Director and the company.

No outsourced consultants have been used to determine the remuneration of Directors.

Together with the Annual Corporate Governance Report, the Board of Directors must draw up an annual report on the remunerations of its Directors. This report must include full, clear and understandable information on the company's remuneration policy approved by the Board for the year in progress. It also includes an overall summary of how the remuneration policy was applied during the financial year, and a breakdown of the individual remunerations accrued by each Director. All of this is reported and put to a vote by the Ordinary General Meeting of Shareholders, not as part of the agenda.

In the Ordinary General Meeting of 2016, the Annual Report on Remuneration of Board Members was approved by a majority vote, as follows:

Number of shares that have cast valid votes	774,899,260
Total number of valid votes cast	774,899,260
Proportion of the share capital that the valid votes represented	77.4
Votes in favour	718,212,630
Votes against	56,628,294
Abstentions	58,336

Moreover, the 2015 Ordinary General Meeting of Shareholders gave a majority approval to the Remuneration Policy for 2015, 2016 and 2017 for members of the Board of Directors in accordance with the following breakdown:

Number of shares that have cast valid votes	805,909,107
Total number of valid votes cast	805,909,107
Proportion of the share capital that the valid votes represented	80.5

Votes in favour	724,841,912
Votes against	80,057,270
Blank votes	0
Abstentions	1,009,925

6. Issues dealt with at the General Meeting of Shareholders [102-21], [102-33] and [102-34]

At the 2016 General Meeting of Shareholders, information was requested from the Chairman's Office with regard to issues such as the company's plans in Chile, Cuba and Iran, the dividend policy and the request for some kind of benefit for shareholders (cheaper gas or electricity).

The quorum of attendance at the meeting represented 77.4% of all shares in Gas Natural Fenosa.

Issue	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and the Management Report of Gas Natural SDG, S.A.; the Consolidated Annual Accounts and the Management Report of the Consolidated Group for the financial year that closed on 31 December 2015	Economic	Approved by a majority
Approval of the allocation of profits for the year that closed on 31 December 2015	Economic	Approved by a majority
Approval of management performed by the Board of Directors in 2015	Economic/social	Approved by a majority
Re-election of the accounts auditors of the company and of its consolidated group	Economic	Approved by a majority
Re-election of the company's Directors	Economic/social	Approved by a majority
Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors	Economic	Approved by a majority

Risks and opportunities

1. Risk management at Gas Natural Fenosa [102-29] and [102-30]

Gas Natural Fenosa identifies and quantifies the impact of the main risk factors for the company, ensuring uniformity in the criteria used in measuring these risks and proposing control and corrective measures together with the businesses affected.

The aim is to anticipate potential deviations with regard to global targets and to ensure that the taking of decisions considers an appropriate and known balance between risk and profitability, both from the viewpoint of marginal contribution to the global portfolio as well as from an individual viewpoint of each one of the businesses.

Guaranteeing the predictability and sustainability in the operational and financial performance of the company is one of the key aspects of risk management at Gas Natural Fenosa, and to this end the company has different organisations with clearly identified areas of responsibility.

1.1. Audit Committee

This is the supreme body in charge of the efficacy of internal control and of the company's risk management systems. It checks that these systems identify the different kinds of risks and the measures introduced to mitigate said risks and to tackle them in the event that effective damages materialise.

1.2. Risk Committee

This is responsible for determining and reviewing the objective risk profile of the company. It guarantees alignment of this profile with the strategic position of the same and oversees the interests of its stakeholders. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and managing the most significant risks.

1.3. Risk Units

These are responsible for monitoring and reporting the risk assumed, ensuring that this is within the limits defined by the objective risk profile established by the Risk Committee.

They report to the Economic-Financial Department, which enables it to have a corporate overview required for the performance of its duties, without prejudice to having specific units for the management of Wholesale and Retail Businesses Risks, in close contact with the business units that bear the highest exposure to the risk because of their profile and turnover.

The work of the company's Risk Units focuses on objectifying exposure to uncertainties and internalising risk exposure levels in decision-taking processes of senior management, as an instrument to efficiently select returns. They are in charge of coordinating the different agents involved in risk management. Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial.

The Risk Units oversee maintenance of the global risk profile, as well as measurement and recurrent control of the risk. This profile sets out the group's risk appetite, with a sufficient safety margin with regard to the risk tolerance of Gas Natural Fenosa.

1.4. Businesses, the first line of defence

These are the parties responsible for risk management and spheres of action. They identify trends and positions that could entail risk and reports these to the Risk Units. They also apply the management criteria and guidelines given by these units.

One of the key concepts to risk management is the concept of risk profile, understood as the level of exposure to the uncertainty resulting from the joint effect of the various categories of risk classified by Gas Natural Fenosa.

1.5. Other corporate areas

These are responsible for monitoring and managing certain risks, due to their specific nature and the peculiarities of the management mechanisms. Of particular note here is the Quality Assurance and Environment Unit, responsible for the environmental risk and climate change, and the Reputation and Sustainability Unit, which is responsible for the reputational risk. These operate in coordination with the Risk Units.

Process for identifying, characterising and determining the risk profile

	Determining the global risk profile	Final proposal by business unit	Risk management and control	New position identification	Position and risk information	Position and risk development	Alternative proposal	Approval
Governing bodies	●							●
Persons in charge of overall risk profile		●						
Persons in charge of risk control and measurement			●			●	●	
Persons in charge of risk management and spheres of action			●	●	●	●	●	

2. A model that anticipates the developing situation

The risk management model of Gas Natural Fenosa seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders. This means establishing risk tolerance by setting limits for the most relevant risk categories, shown in the section “Risk Measurement System”, which lies ahead. By doing this, the company can anticipate the consequences of certain risks materialising, and is perceived in the market as a solid and stable company.

Gas Natural Fenosa has a framework that integrates the corporate vision of Governance, Risks and Compliance, enabling an integrated overview of the group’s processes, the existing controls over these and the associated risk.

3. An integrated management [102-11] and [102-31]

Gas Natural Fenosa analyses its global risk profile through its potential impact on the company’s financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management.

The tools that enable the continuous improvement of the process for identifying, characterising and determining Gas Natural Fenosa's risk profile are the following:

With regard to management of environmental risks, Gas Natural Fenosa has identified these risks at its facilities in accordance with the benchmark regulations (UNE 150008, in Spain). To prevent these risks, the company has introduced an integrated system of management that is certified and audited every year by Aenor as well as internally, which sets out the operational control and environmental management procedures. In addition, emergency plans have been introduced at facilities and storage premises at risk of an environmental accident, including an action plan, containment measures and regular drills.

3.1. General Risk Standard

The General Risk Standard lays down the general principles and guidelines for behaviour in order to identify, inform, assess and manage the company's exposure to risk. This sets out the bases for definition of policies, regulations, thresholds and specific measurements to determine the risk profile.

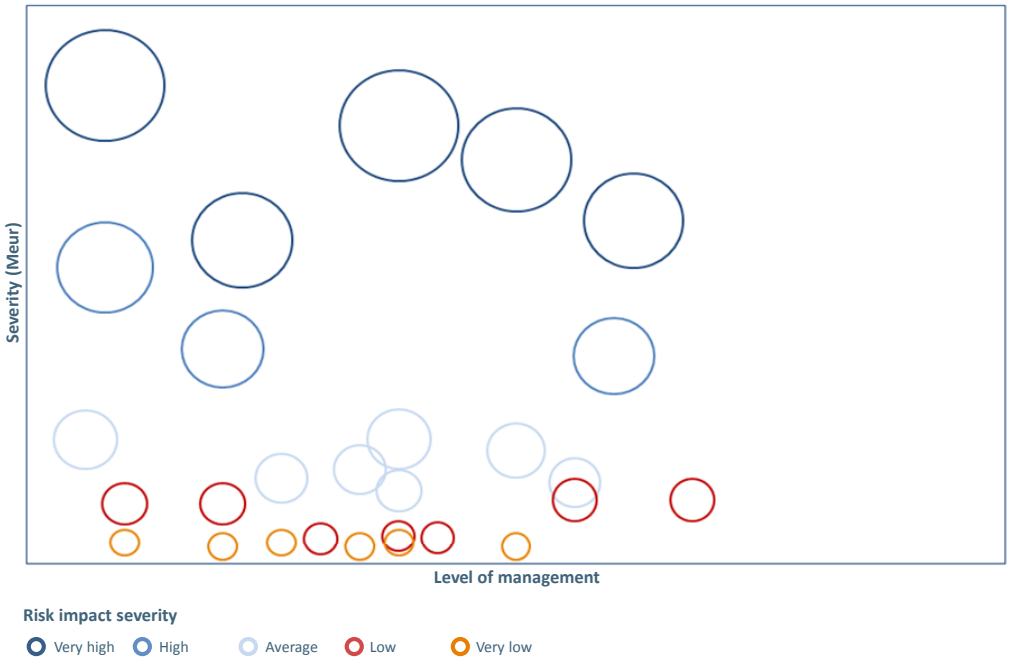
3.2. Corporate Risk Map

The process of identifying and assessing Gas Natural Fenosa's risks is governed by the Corporate Risk Map. This is the reflection spearheaded by the Risk Committee and which focuses on characterising and quantifying the most relevant risks, mirroring the company's risk profile.

The identification and characterisation of the risks take into account the characteristics of the position at risk, the impact variables, the potential quantitative and qualitative severity, the probability of occurrence and the degree of management and control.

The graphic illustration of these risks through the Risk Map and conclusions are submitted to the supreme control body of the company, the Audit Committee, and is updated every year.

Corporate Risk Map



3.3. Other Risk Maps

Gas Natural Fenosa has a map of reputational risks and a climate change risk map.

- **Map of reputational risks**: since 2013, Gas Natural Fenosa has been identifying its reputational risks based on the type of operations it performs in those countries in which it has a presence and of the stakeholders that are theoretically affected. Based on this system, the risks are classified by their severity and level of management. Based on this information, decisions are taken to prevent these kinds of risks. The impact that some of these risks would have on the financial parameters in the event of materialising is regularly analysed and assessed.
- **Climate change risk map:** since 2014, the impact on the company of the effects stemming from climate change has been identified, analysing both the direct consequences of this as well as the policies and regulations targeted at fighting these. The analysis is based on the criteria and methodologies of the risk management system.

The most relevant risks identified on both maps are incorporated into the corporate risk map, and reported to the relevant governance bodies.

3.4. Risk Measurement System

The Risk Measurement System is designed to provide the recurrent and probabilistic quantification of the risk position assumed on a global scale for the different risk categories.

Gas Natural Fenosa undertakes an analysis of corrective risks, a sensitivity analysis and stress tests for the main risks identified.

It has been designed as a support tool for the business units and guarantee that they have an optimum level of independence in decision making. It also ensures that the level of risk taken on by the company and per business unit is in keeping with the risk profile established by the governing bodies.

The Risk Measurement System means that each business unit has specific information on the main types of risks that could affect it. The system seeks to provide these units with a process for taking decisions, which in turn has a positive impact on the company, as it improves its profitability, behavioural predictability and efficiency.

4. Description of main risks [102-15]

The Risk Area seeks to guarantee the recurrence and sustainability of the performance indicators. One of its key tasks is the modelling of the financial statements, targeted at identifying their main sensitivities and anticipating possible incidents. The quantitative modelling is organised in accordance with the following areas:

- **Credit risk:** modelling of the credit quality of the customer portfolio, enabling us to design ex ante corrective and control measures. The existence of these controls enables us to significantly reduce payment defaults.
- **Market risk:** analysis of the financial statements with regard to the commodity indices that shape the price of gas, guaranteeing that exposure to these does not exceed the threshold defined by the target risk/reward profile.
- **Operational risk:** the nature of Gas Natural Fenosa's business involves the possibility of incidents of high severity. Modelling the operational exposure, settled on the performance of assets and contracts, enables us to design an efficient insurance programme, as well as assess the effect of the best industrial practices brought into use by the insurance market, as a result of the visits to the critical facilities carried out by industrial experts of the main insurance companies.

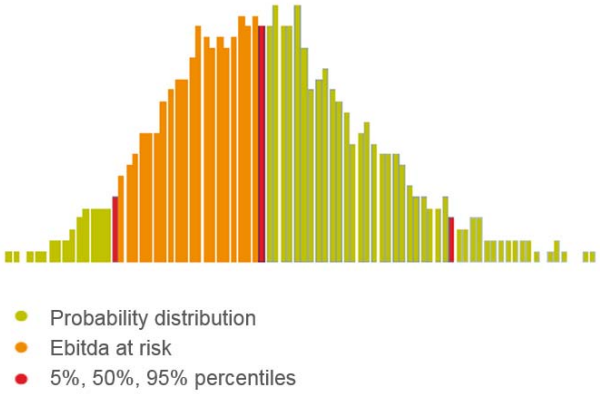
During 2016, the risks of commodities price adjustment materialised, in particular with regard to oil and its derivatives, and of pool in Spain, and Latin American currencies depreciated in the first quarter of the year.

The impact was in line with the forecast made at the beginning of the year and below the prevailing risk limits.

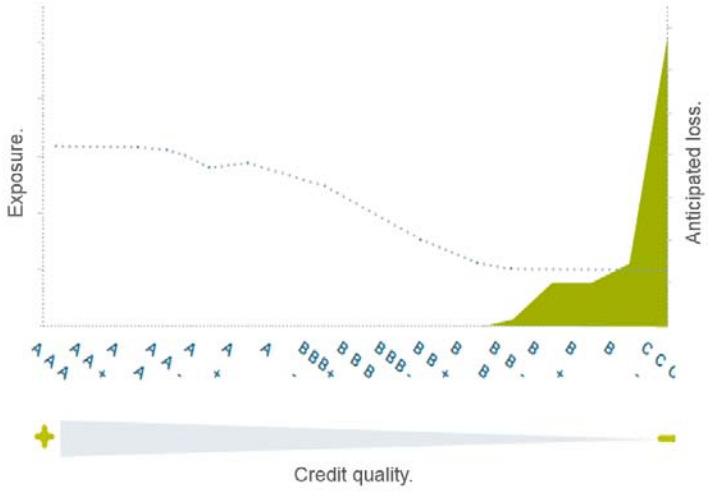
Type of risk	Description	Management
	Market risk	
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges.
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas offer and demand.	Optimisation of contracts and invoices. Trading
Electricity volume	Reduction in available thermal gap.	Optimisation of commercialisation/generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.

Exchange rates	Volatility in international currency markets.	Geographical and macroeconomic diversification through inflation rates. Hedges through financing in local currency and derivatives.
Interest rates and a credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Potential increase in default, dependent on recovery in Spain.	Customer solvency analysis to define specific contractual conditions. Collection process. Systematisation of calculation of economic capital.
Operational risk		
Operational: image and reputation	Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable	Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk.
Operational: environment	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Participation in Clean Development Mechanisms. Frequent communication with regulatory bodies.

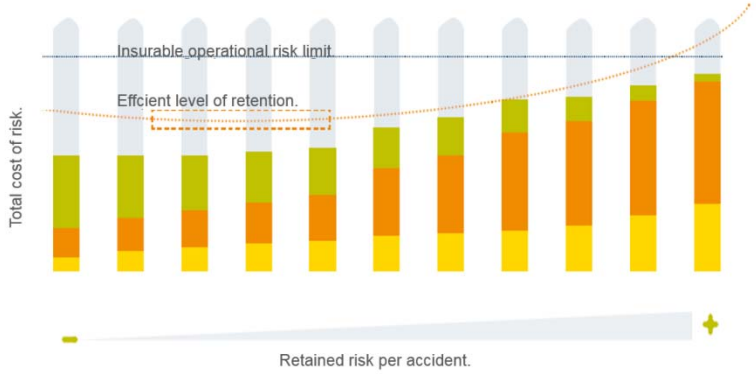
Market risk. Range of values that the annual Ebitda of Gas Natural Fenosa can reach due to the evolution of market factor: price of gas, price of electricity and exchange rates.



Credit risk. Logic of the risk profile and anticipated loss. Worse levels of credit quality mean the company's exposure has to be limited. It also shows the distribution of the anticipated loss, which increases with the deterioration of customer credit quality.



Insurable operational risk. Fundamental magnitudes with regard to management: efficient level of retention and breakdown of overall costs associated to the risk (premium, unexpected loss, expected loss). The insurable operational risk profile is characterised by the level of potential exposure whereby the materialisation of unforeseen events that can be mitigated through insurance policies has an impact on the equity of Gas Natural Fenosa. The quantification of such exposure is likely to be objectified by estimating the total cost of risk.



5. Description of main opportunities [102-15]

Opportunities for Gas Natural Fenosa	
Generation mix	The generation pool of Gas Natural Fenosa, dominated by combined-cycle plants, has the necessary flexibility to be able to adapt to different market situations. It therefore creates a valuable asset for taking advantage of opportunities related to volatility in gas and electricity markets.
Evolution of the CO_2 markets	The different mechanisms proposed by the European Commission geared towards increasing the cost of the emission rights have the object of discouraging the use of less environmentally-friendly technologies. In this situation, the pool of combined-cycle plants is more competitive vis-à-vis coal while opportunities might also arise in the emissions market.
Portfolio of use of natural gas and liquefied natural gas (LNG)	The management of gas pipelines, participation in plants and the fleet of methane tankers enables the group to cover the needs of its different business activities in a flexible and diversified way. Gas Natural Fenosa's fleet of methane ships makes it one of the largest LNG operators worldwide and a standard-bearer in the Atlantic and Mediterranean basins.
Balanced structural position in businesses and geographical areas	Many of them with stable flows, independently of commodity prices, allowing the group to capture expected growths in energy demand and to fully harness new business opportunities in new markets.
International generation	Increasing renewable generation capacity at international level, given the cost competitiveness of renewable energy and the presence of Gas Natural Fenosa in growth markets.

Internal Auditing, Compliance and Control

[205-1]

1. Responsibilities of the Internal Auditing, Compliance and Control Area

This area has the task of guaranteeing the continuous review and improvement of Gas Natural Fenosa internal control system, as well as safeguarding compliance with external and internal norms and the control models established in order to safeguard the efficacy and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, particularly operating, legal, corruption and fraud risks.

It is also held responsible for managing the Crime Prevention Model and the Code of Ethics Model of the company, as well as reporting on internal audit activity to the Audit Committee.

As support to the Audit Committee, the division provides assurance to the governing bodies of the organisation and senior management on the effectiveness of the internal control systems. As regards compliance with the principle of integrity and transparency of the Corporate Responsibility Policy, it takes charge of management of the Code of Ethics of Gas Natural Fenosa, through dissemination of the code and by overseeing compliance with the same and the anticorruption policy.

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Gas Natural Fenosa, in particular the operational, legal, corruption and fraud risks, using a set of three assurance functions (Internal Auditing, Compliance and Control).

The Internal Auditing, Compliance and Control Area provides a methodical and rigorous focus for monitoring and improving processes and for assessing operational risks and the associated controls.

The three assurance functions consider separate equipment and systems, with specific objectives, profiles and roles which involve, among others, cutting-edge mechanisms that guarantee the independence of the internal auditing function.

2. Assurance function of Internal Audit

In the performance of its activity, the Internal Auditing Unit methodically reviews the internal control system of the group’s processes in all areas, and also assesses the operational risks and controls associated to these processes, through definition and introduction of the Annual Internal Audit Plan, to improve efficacy and efficiency of these. It also provides support to the divisions in achieving their objectives.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk areas included in the Corporate Risk Map, the Internal Control System on Financial Reporting (SCIIF) scope matrix, the operational risk maps, the results of previous years’ audits and the proposals from the Audit Committee and from top-tier management.

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.

In 2016, 129 internal audit projects were carried out, 88of which corresponded to the review of processes associated with the main operational, corruption, fraud and legal risks of the corporate and business divisions of Gas Natural Fenosa. The analysis carried out extended to 100% of the departments and placed special emphasis on those with greater probabilities of these risks materialising. In the projects performed in 2016, no significant risks related to corruption were detected.

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.

3. Assurance function of Compliance

This is responsible for ongoing assurance of compliance with the external regulations and of the policies and procedures introduced at the group to mitigate the main legal, corruption and fraud risks. It is also held responsible for managing the Crime Prevention Model and the Code of Ethics Model of Gas Natural Fenosa. The Department of Legal Services is responsible for assessing the legal risks in the models to be developed, especially in the criminal and regulatory prevention model.

Given the importance of having a tool that ensures proper management control of the Crime Prevention Model, a SAP GRC Process Control is administered and used for comprehensive management of the documentation, assessment and supervision of the model.

4. Assurance function of Internal Control

This is in charge of promoting and participating in the design and introduction of control models, in all areas of the group, to mitigate the main risks and guarantee efficient operations. It also checks that the established control models comply with the group’s policies and standards as well as with external regulations, and that they are properly supported and documented in the group’s systems.

Corporate Responsibility and Gas Natural Fenosa

Gas Natural Fenosa understands corporate responsibility as the set of actions developed to establish relations of trust with its concurrent stakeholders that are stable, sound and of mutual benefit.

These groups are the people that make up the company, customers, suppliers and external partners, the social groups, shareholders, investors and financiers, analysts, regulatory authorities, insurance and reinsurance agencies, and other market agents.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Compilation of a Corporate Responsibility Master Plan to deal with the challenges and opportunities of the new Corporate Responsibility Policy		Implementation and monitoring of lines of action and performance of specific actions of the Sustainability Master Plan
		Internal communications plan in issues of corporate responsibility

Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

Corporate Responsibility Policy

The Corporate Responsibility Policy of Gas Natural Fenosa establishes the common framework of action targeted at the company's socially responsible conduct and determine the structure of a large part of this report.

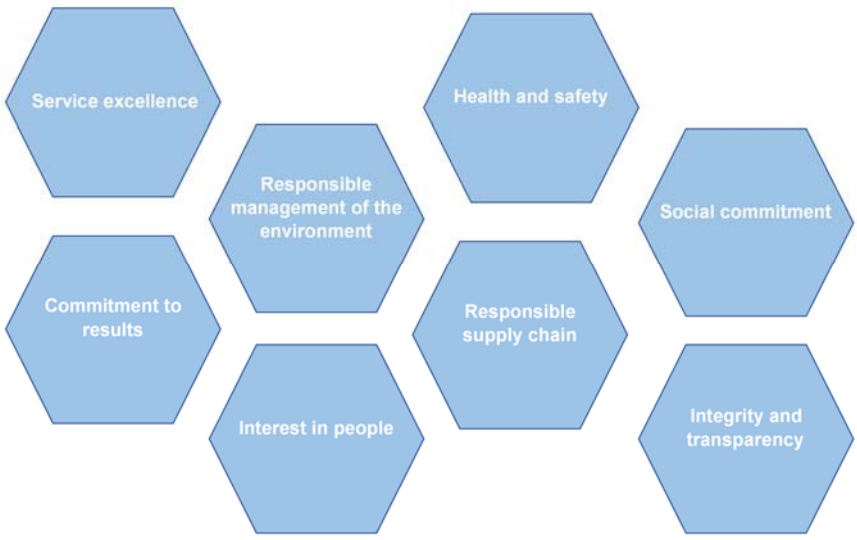
Following the 2013 policy review, in 2015 we once again proceeded to update it, and it was approved by the Board of Directors.

The main purpose of this policy is to introduce the operating principles and the company's commitments to its stakeholders, in harmony with the company's corporate strategy, as well as setting out the responsibilities and specific monitoring instruments to guarantee compliance with these.

The appropriate relationship with the environment constitutes a prime strategic aspect at Gas Natural Fenosa. For this reason, we have defined some action principles and specific commitments to stakeholders that focus on the generation of value, through the introduction and development of some sound operating principles that facilitate long-term sustainable growth.

The policy applies to all group companies of Gas Natural Fenosa. Those persons or companies that work with the company and who have an influence on the company's reputation are also encouraged to be familiar with the policy and to apply it.

Action principles of the Corporate Responsibility Policy



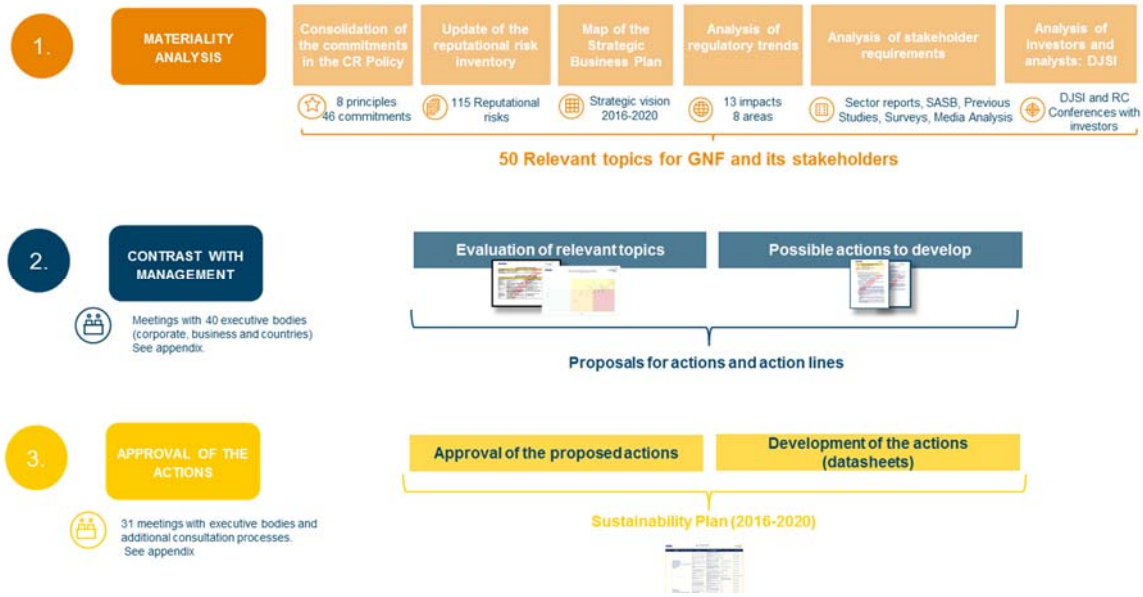
The commitments and action principles can be consulted in greater detail in the corresponding sections of this report. You can also check the full policy on the website www.gasnaturalfenosa.com.

Sustainability Master Plan (2016-2020)

Following the approval of the new Corporate Responsibility Policy and following the recommendations of the new CNMV code of good governance in issues of corporate responsibility, in 2016 we have begun to draw up a 2016-2020 Sustainability Master Plan, which is expected to be approved in 2017 by the Board of Directors.

The plan specifies the action programmes to introduce the eight guiding commitments and 45 specific undertakings of the Corporate Responsibility Policy.

We have used the following process in drawing up the plan:



As a result of this process we will obtain the action lines for each commitment and the specific actions to be developed within each action line, for the purpose of ensuring that each area involved helps to develop them. Thus, we will obtain a series of monitoring and tracking indicators that will enable us to track performance for each action, carried out by each area responsible, and ultimately by the Board of Directors.

Model of tracking the 2016-2020 Sustainability Plan

Management of Corporate Responsibility

1. Governing bodies

1.1 Board of Directors

The approval of Gas Natural Fenosa's Corporate Responsibility Policy falls to the Board of Directors, in accordance with the Board regulations. Moreover, the Board must receive information on the introduction and general monitoring of this policy at least every year.

Consequently, overall supervision for compliance with the policy falls to the Board of Directors, which has delegated this function to the Appointments and Remuneration Committee.

Furthermore, the Board of Directors is responsible for spearheading the effective integration of corporate responsibility into the company's strategy and for the daily management of this, thus establishing a sound culture of corporate responsibility.

1.2 Management Committee

Elsewhere, the Management Committee is responsible for overseeing proper implementation and monitoring of the commitments assumed in this policy, and for acting as the impetus for its dissemination, knowledge and compliance through the plans that this committee approves for this purpose.

1.3 Departments and business units

The departments and business units are responsible for designing the actions set out in the plans compiled by the Management Committee, and for promoting the quantitative and qualitative targets of each of these actions and the associated monitoring indicators.

1.4 Administrators, executives and remaining persons

The administrators, executives and remaining persons that make up the company are obliged to be aware of, understand and comply with the directives and undertakings set out in the Corporate Responsibility Policy.

Gas Natural Fenosa shall also encourage and motivate its suppliers and collaborating companies to adopt the conduct principles set out in the policy.

1.5 Code of Ethics Committee

Its purpose is to encourage the dissemination, knowledge and fulfilment of the Code of Ethics, as well as managing the notification and consultation procedure.

The committee, headed by the Internal Auditing, Compliance and Control Area, comprises representatives from some of the units that are most directly involved in the issues set out in the code.

This committee informs the Management Committee and the Audit and Control Committee of its activities.

Functions of the Code of Ethics Committee

• Promote the distribution and knowledge of the Code of Ethics
• Interpret the Code of Ethics and provide guidelines on what to do in the event of any doubt or conflict
• Facilitate and manage a channel of communication with all employees, suppliers and collaborating companies (the exclusive function of the Corporate Committee)

Members of the Code of Ethics Committee
• Internal Auditing, Compliance and Control (Chairman's Office and Secretary of the Committee)
• Finance and Capital Markets
• Risks, Studies and Projects
• Reputation and Sustainability
• Labour Relations
• Customer Service
• Legal Services

Gas Natural Fenosa has set up local committees in Argentina, Brazil, Chile, Colombia, Italy, Mexico, Moldova and Panama. To ensure that the Code of Ethics is circulated in the different areas where the company operates, the local committees use a functional composition that replicates the Code of Ethics Committee.

Composition of local committees (*)

Argentina, Brazil, Chile, Colombia, Italy, Mexico, Moldova and Panama	
Chairman	Human Resources
Board Member	Internal Audit
Board Member	Communication
Board Member and Secretary	Legal Services

(*) The queries and notifications from countries other than those mentioned are processed by the Code of Ethics Corporate Committee.

2. Management and measurement of corporate reputation

Proper management of reputation helps make Gas Natural Fenosa attractive to its stakeholders, and assists in achieving the strategic business objectives.

Measurement of the reputation of Gas Natural Fenosa is assessed systematically using the RepTrak model, developed by the Reputation Institute. This model measures the emotional attraction of the company, using RepTrak® Pulse. This methodology also develops a rational analysis of reputation, the RepTrack Index.

The company is currently using this tool in Argentina, Brazil, Colombia, Spain, Mexico and Panama.

In 2016, Gas Natural Fenosa maintained leadership in Spain with regard to its main rivals, with 56.8 points in the RepTrak® Pulse indicator, up 2.4 points on 2015.

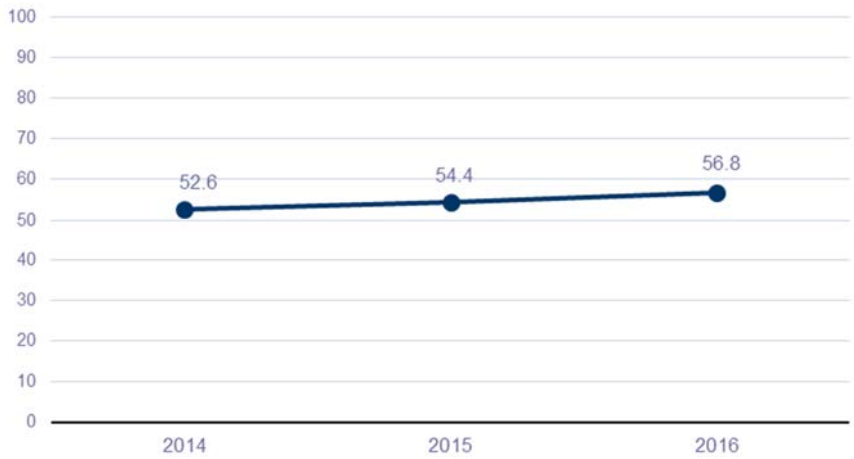
Likewise, it presents significant improvements in all rational measurement areas. The best scores are in the areas of Finance, Leadership, Employment and Innovation and it has competitive advantages over its competitors in all areas analysed except Finance.

Other independent references such as the Business Monitor of Corporate Reputation (Merco) also reflect the positive perception of the company for different stakeholders. The positive evolution experienced by Gas Natural Fenosa in the ranking is of particular relevance, and in the 2016 publication it continued to be the second most reputed company in the sector.

Furthermore, Gas Natural Fenosa has the third best reputation of its sector in the Merco Responsibility and Corporate Governance ranking.

RepTrak Methodology

RepTrak Pulse: perception of Gas Natural Fenosa in society (*)



RepTrak Index: the reputation of Gas Natural Fenosa by dimensions (*)

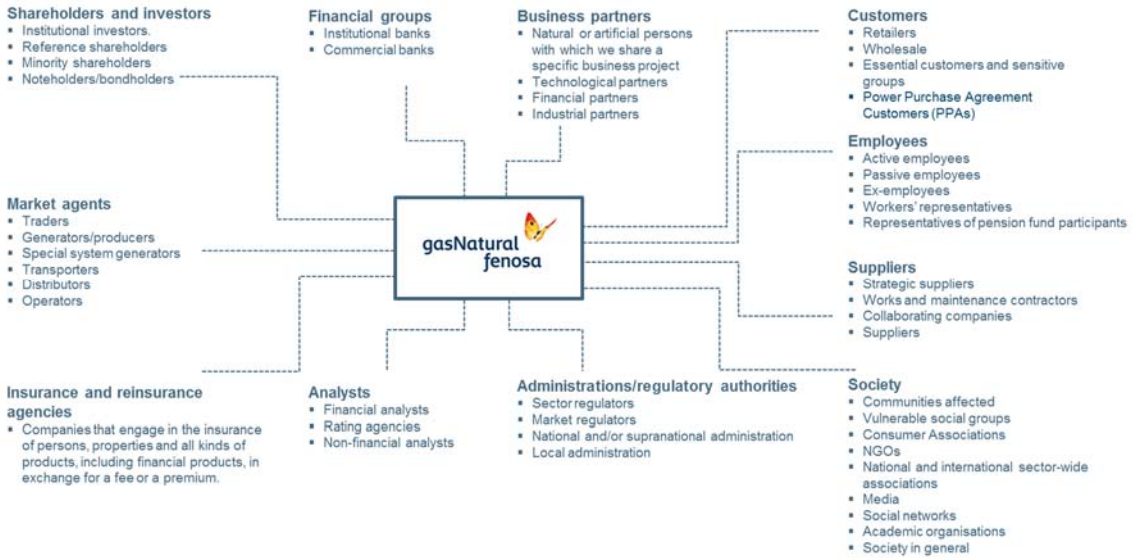
(*) Accumulated results 2016.

Stakeholders of Gas Natural Fenosa

[102-40] and [102-42]

For Gas Natural Fenosa, the trust and understanding of stakeholders is vital for the success of business plans. It is therefore vital to have an appropriate identification and definition of these stakeholders.

Stakeholders of Gas Natural Fenosa



Dialogue with stakeholders [102-43] and [102-44]

Gas Natural Fenosa believes that developing a climate of confidence with the stakeholders is a determining factor for the success of its business plans and for its social acceptance. Accordingly, the company carries out actions that enable it to discover the expectations and demands of its stakeholders in advance so that it can evaluate some of the main risks and opportunities associated with the business and establish long-lasting and stable relationships with the key agents in those markets in which it has a presence.

No key problems were detected in these stakeholder participation actions.

The Gas Natural Fenosa's actions as far as dialogue is concerned are divided into:

- Consultancy actions: two-way actions. The company and its stakeholders interact to exchange information quickly and fluently. The conclusions are considered in the improvement and adaptation of the company's processes and, in particular, in the selection of the content that is to be included in the corporate responsibility reports of Gas Natural Fenosa and its subsidiaries.
- Informative actions: one-way actions. The company transmits information to its stakeholders.

Main dialogue actions developed by Gas Natural Fenosa in 2016		
Customers		
	Actions	**Frequency**
C O	Implementation of a new operation in reopening supply: online payment and agreement on an immediate visit.	Constant

	Development of focus groups with customers to collect opinions and opportunities for improvement in services of meter reading, billing and collection.	Constant
	Improvement in the nonavailability message to facilitate meter readings and present alternatives in the customers' area.	Constant
	Implementation of change of ownership without subrogation in "My customer channel".	Constant
	Enabling a web-based formula to request termination of supply, duplicate amounts and maturities of a split payment.	Constant
	Activation of a protocol to manage urgent requests for re-enlistment of customers (Portugal).	Constant
	Development of a subscription fees calculator to provide better information to customers.	Constant
	Satisfaction and recommendation surveys in the process of downloading the gas contract by channel (Brazil).	Monthly
	Surveys of quality, resolution and satisfaction in contacts with the call centre (Brazil).	Constant
	Performance of a study into strategic positioning of face-to-face customer service in Rio de Janeiro and São Paolo (Brazil).	Annual
	Enabling voicemail service in Portugal for assistance in cases of service delays.	Constant
	Actions	**Frequency**
Informative actions	Explanatory press publications about the bill.	Occasional
	Incorporation of information on the bill concerning the National Commission of Markets and Competition (CNMC), the Spanish Institute for Energy Diversification and Saving (IDEA) and the competent body of each autonomous region, where consumers can obtain information on the energy efficiency measures available.	Occasional
	Regular meetings with officials and consumer protection agencies.	Monthly
	Performance of a campaign to reduce answering queries "10 reasons that can change the value of your account".	Monthly
	Disclosure through campaigns about the availability of debit information and copy invoices at the virtual agency (Brazil).	Monthly
	Publication of an explanatory video on the website of Natural Gas Fenosa Brazil on the step-by-step registration procedure in the Virtual Office.	Annual

Shareholders/Investors		
	Actions	**Frequency**
Consultancy actions	Contact with the main stock market analysis firms that follow the company's evolution and issue recommendation and assessment reports.	Constant
	One-on-one meetings with investors.	Constant
	Replies to the requests for information from analysts and institutional investors, and consultations with the Investor Relations Unit.	Constant
	Dealing with requests for information from small shareholders, online, by phone, by mail or in person.	Constant
	Actions	**Frequency**
Informative	Launch of roadshows, at the initiative of Gas Natural Fenosa, visiting fixed income and equity investors to provide them with information on the company's performance figures, current situation and plans.	Constant

	Performance of informational presentations targeted at small shareholders.	Constant

Employees		
	Actions	**Frequency**
Consultancy actions	Performance of the Employee Experience project, targeted at finding out workers' impressions throughout their life-cycle at the company. This featured participation of 3,069 workers and took place in Spain and on the international stage (Argentina, Brazil, Colombia, France, Italy, Morocco, Mexico, Moldova, Panama and the Dominican Republic).	Annual
	Participation in the multi-generational study conducted by the Generation & Talent Observatory for generational diversity, with input from a sample of 1,500 employees and conducting various focus groups.	Annual
	Actions	**Frequency**
Informative actions	Voluntary environmental days, informative assemblies, communication and disability campaigns, among others.	Constant
	Disclosure of Gas Natural Fenosa's work in the field of Dual Vocational Training through specific agreements with educational centres.	Occasional
	Second promotion of the Solidarity Day in Moldova, with the collaboration of the subsidiary ICS Red UF, which aims to pay the university fees of young Moldovans with excellent academic records and low income.	Constant
	Sending of a letter to all employees by Isidro Faine, after being appointed Chairman by the Board of Directors of Gas Natural Fenosa, replacing Salvador Gabarró.	Occasional
	Performance of 40 informative sessions in Spain as part of the Dialogue Programme, in its different formats, with more than 2,200 participants.	Occasional
	Campaigning in the field of holistic health and wellness focused on the community: organ and bone marrow donation, Solidarity Day, donating blood, etc.	Constant
	Application of the Aflora Plan, for guidance and support to employees with disabilities; and the Family Plan, providing advice to relatives of employees with disabilities.	Constant
	Health campaigns related to prevention and healthy habits (prevention of lung cancer, active aging, etc.).	Constant
	11 functional meetings with general managers, featuring participation by more than 2,100 employees.	Occasional

Suppliers		
	Actions	**Frequency**
Consultancy actions	Continuation of the Key Account Supplier programme (KAS): relations with the most strategic suppliers to assess the structure of the current relationship, as well as to assess future actions.	Constant
	Comprehensive Contract Management (CCM) to perform closer monitoring of the most relevant contracts from both a strategic as well as an economic impact viewpoint.	Constant
	Establishment of two-way communication in the process of classification of suppliers through a questionnaire which includes the Code of Ethics, environmental, social, governance, legal, prevention of risks and quality standards.	Constant
	Checking that the supplier is complying with the requirements set out by the company for performance of activities (approval process).	Occasional

	Tracking deliveries of materials with suppliers (Mexico).	Occasional
	Meetings with suppliers of the integral agreement of operations in Panama to review operational and contractual issues, problems and suggestions for improvement, etc.	Constant
	Actions	**Frequency**
Informative actions	Campaigning for the approval and acceptance of the Supplier Code of Ethics by all approved suppliers.	Occasional
	Incorporation of the Supplier Code of Ethics in the supplier qualification questionnaires, requesting approval of this by new suppliers that join the bidding and award process.	Constant
	Campaign to publicise the launch of the Suppliers' Portal of Gas Natural Fenosa, to invite bids, exchange documentation and check payments and invoices.	Occasional
	Workshops for handling the MLU logistics system, given to contractors and logistics operator (Mexico).	Occasional
	Health and safety leadership workshops, sowing the seeds to enable suppliers to adopt these concepts and build them into their daily management and activity.	Constant
	Workshops for knowledge and use of the Controlar system (Mexico).	Occasional
	Notification to suppliers about business courtesies, in line with the corporate responsibility policy of Gas Natural Fenosa (Dominican Republic).	Occasional
	Communication to suppliers on the means to transport materials, including poles, where freight vehicles are used (Panama).	Occasional
	Communication to suppliers on the Commitment to Health and Safety Project (Panama).	Occasional
	Communication to suppliers about the Code of Ethics, the Supplier Code of Ethics and the Anticorruption Policy of Gas Natural Fenosa (Panama).	Occasional
	Communication to suppliers in issues of road safety - corporate tips (Panama).	Occasional

Society		
	Actions	**Frequency**
Consultancy	Reception and analysis of 654 proposals for collaboration and services for organisations and institutions to learn more about their projects.	Constant
	Active participation at the Conference of the Parties (COP) of the UN Framework Convention on Climate Change (UNFCCC), known as COP22 and held in Marrakech.	Occasional
	Actions	**Frequency**
Informative actions	Publication of 60 press releases on patronage and sponsorship activities (Spain).	Constant
	Participation on the workgroup of the London Benchmarking Group.	Constant
	Biodiversity report in digital and interactive format.	Annual
	Carbon footprint report in digital and interactive format.	Annual
	Water footprint report in digital and interactive format.	Annual
	Environmental footprint report in digital and interactive format.	Annual
	Participation as speaker at the Climate Change Cluster of Forética and the Energy Club.	Occasional
	Participation as a speaker at the Natural Capital Summit held in Madrid.	Occasional

	Disclosure of actions in issues of climate change, biodiversity and water management at the 13th National Congress of the Environment (CONAMA).	Occasional
	Organisation of the 15th International Seminar on Energy and the Environment.	Constant

Corporate Responsibility Commitment

Service excellence

[103-1], [103-2] and [103-3] (Customer satisfaction and attention)

The customer is the focal point of operations at Gas Natural Fenosa. Through active dialogue, the company seeks to provide the customer with a swift and efficient response, providing an excellent service and customer experience which in addition to complying with the legal requirements is in accordance with the customer's needs and which complies with the undertakings voluntarily assumed by the group.

Commitments and principles of responsible action with customers
• Working towards ongoing improvement of **safety, reliability and competitiveness** of all products and services, offering the highest possible level of **quality** in accordance with the best available techniques. • Fostering **active and two-way communication** that allows us to understand the expectations and opinions of customers and to adapt the responses of Gas Natural Fenosa to their needs. • Facilitating the administrative needs of customers through **simple and efficient operations**. • Offering **innovative products and services** that encourage energy efficiency and which contribute towards the sustainability of society. • Diversifying and extending the commercial offer to include **products and services of high value-added** that respond to the evolving needs of customers. • Applying **technological innovation** and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

1. The customer as the focal point

The customer, centreof Gas Natural Fenosa's operations, is one of the values that guides the company's way of working.

Gas Natural Fenosa seeks to distinguish itself through the development of products and services adapted to its customers' needs, thereby being committed to innovation whilst complementing traditional products.

To provide an excellent service and offer an effective response, the company has introduced a proactive focus to improve the service quality and operational efficiency of its processes.

With the focus on the customer, in 2016 efforts have been made to digitalise the current services, and we have been working on the universalisation of the measurement of Net promoter Score (NPS) at all points of contact with the customer.

Value actions	
Proposed actions 2016	**Planned actions 2017**

Consolidating the Customer eXperience and Advocacy projects	●	Continuing to make progress in the Customer eXperience and Advocacy projects
Consolidating the Group Complaints project	●	Continuing with the consolidation of the Group Complaints project
Launching the Virtual Office for better two-way information and communication	●	Developing new interactive tools for procurement that respond to the needs of the new organised market
		Developing new value-added services that respond to environmental requirements driven by regulation and social awareness on energy saving and environment
		Implementing the joint project with Repsol for LNG stations in the main points of the Spanish transport network
		Customising management to high-value SME customers

Level of fulfilment: finalised ●, major progress ●, intermediate progress●, little progress ●, not started ●

1.1. Full, effective and efficient commercial supply

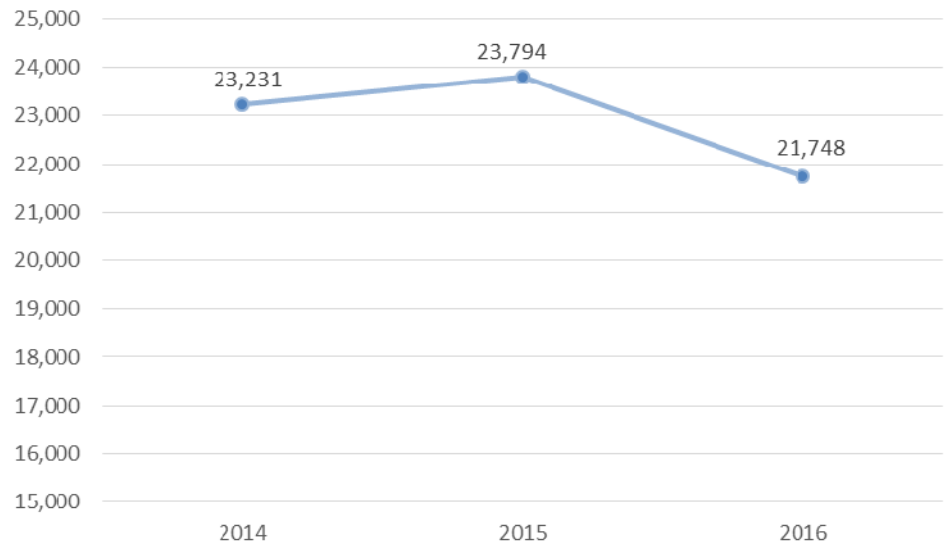
Gas Natural Fenosa's commercial offer is targeted at homes, businesses and major customers. The products offered are not restricted solely to the supply of gas and electricity, but encompass other aspects.

Products and services adapted to customers' needs		
Homes	**Businesses**	**Major customers**
Natural gas and electricity		Gas, electricity and LNG
Services		Efficiency and sustainability
Equipment		Services with value-added
Energy saving and efficiency		Customised management
	Energy solutions	

The development of new products is based on the needs detected through the mechanisms enabled by the company.The commercial supply seeks efficacy and efficiency above other factors. Efficacy, to satisfy customers' demand; and efficiency, to achieve the maximum competitiveness.

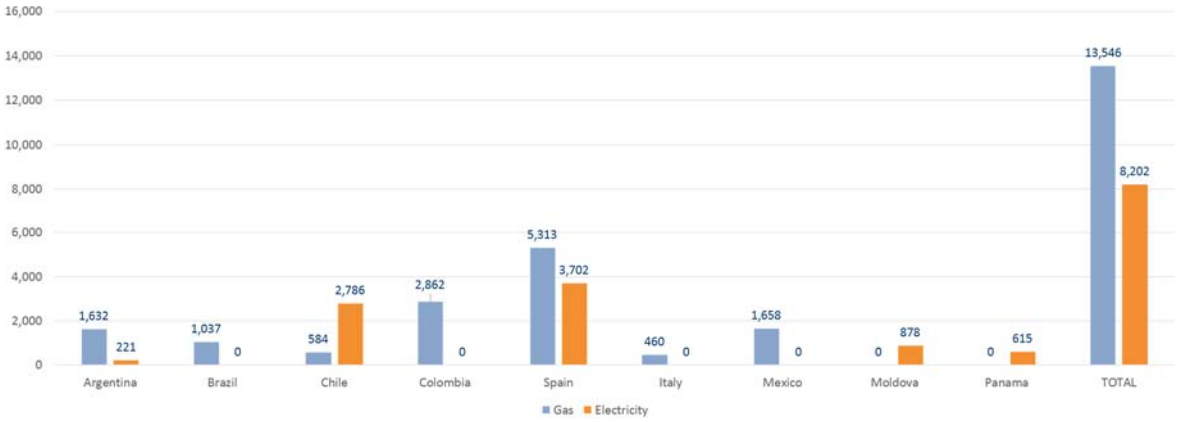
In 2016, we have completed the commercial catalogue with new tariffs that enable us to offer the customer more choices and to find the tariff that best suits their needs, and we have redesigned the promotions.

Gas and electricity supply points (thousands)



NB: the 2016 data does not include information concerning electricity supply points of Electricaribe.

Gas and electricity supply points by country (thousands)



NB: the data does not include information concerning electricity supply points of Electricaribe.

Gas and electricity customers (thousands) (*) [EU3]

	2016	2015	2014
Gas customers			
Last resort tariff	1,337	1,392	1,512
Deregulated market (consumption >50,000 kWh/year to 500 MWh/year in high pressure and up to 1,000 MWh/year in low pressure)	32	33	34
Deregulated market (rest consumption)	2,893	2,909	2,832
Total	**4,262**	**4,334**	**4,378**
Electricity customers			
Last resort tariff/PVPC	2,313	2,385	2,508
Deregulated market (power <10kW)	1,970	1,882	1,666
Deregulated market (power >10kW and sales to 0.75 GWh) (SMEs and others)	285	299	312
Total	**4,568**	**4,567**	**4,486**

(*) Figures from Spain and Portugal

2. Quality and reliability of service [103-1], [103-2] and [103-3] (Access to energy]

Maintenance of the gas and electricity facilities is an essential aspect within Gas Natural Fenosa's mission to achieve a level of quality and reliability of the service that satisfies customers and enables us to comply with the regulatory requirements of the countries where we operate and with the most demanding standards of the industry.

The aim of maintenance is to improve the safety and reliability of gas and electricity networks, and to maintain a high level of service quality.

Gas Natural Fenosa employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures.

The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

Asset Maintenance Plan

This plan covers the maintenance cycle of an asset in all phases, setting out five stages:

Moreover, it lays down the criteria for the definition of preventive maintenance of all assets. In this respect, the company determines:

- Assets subject to the Maintenance Plan.
- Classification based on risk criteria of the facilities.
- Types of maintenance to be performed with the same family of assets.
- Regularity of maintenance based on the classification of equipment.
- Operation to be performed for each kind of maintenance.
- Model to be followed to ensure quality of operations, by analysing the results of maintenance and reviewing the maintenance plan, where appropriate.

To monitor and control the maintenance plans, each business has a computer tool where the company logs all of its assets, programmes annual planning and, subsequently, monitors what has actually been carried out.

These plans also include activities to frequently assess the integrity of assets, using a risk assessment and management model. Potential threats identified are those associated to third-party rupture, corrosion, design factors and external actions.

The preventive and corrective maintenance procedures are frequently subject to reviews by the Technical Quality, Safety, and Internal Auditing, Compliance and Control divisions.

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, *inter alia,* response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, and the number of incidents per kilometre of grid.

To guarantee the demand-based supply, Gas Natural Fenosa also has demand peak management systems, including the Peak Shaving plant that the company operates in Buenos Aires (Argentina) and which enables winter demand peaks in this city to be modulated.

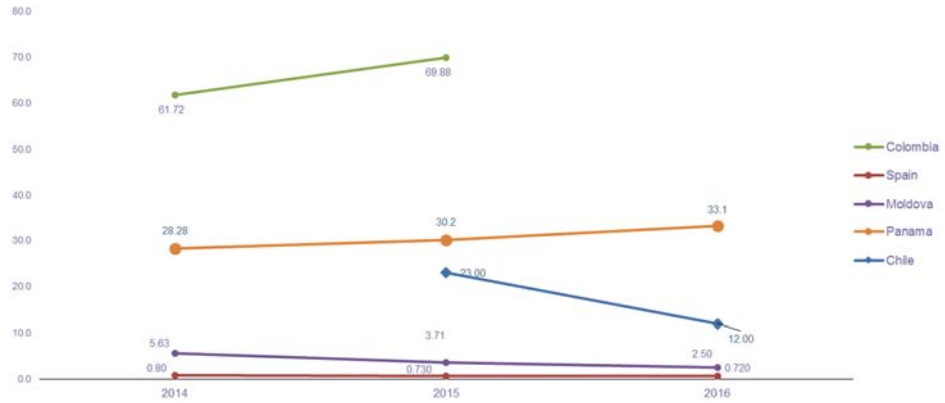
Furthermore, in electricity distribution, Gas Natural Fenosa partakes in several R&D&I projects for storage of energy in batteries, the development of smart grids, the application of drones to the maintenance of high voltage installations and the introduction of predictive maintenance techniques for the main grid equipment.

In 2016, the main investment projects undertaken in Latin America were the renewal of the gas network in Mexico (53.5 km, mainly in Monterrey) and in Brazil (41.6 km in Rio de Janeiro); the renewal of connections in Argentina (10,977 connections in Buenos Aires), Mexico (5,099 connections) and Brazil (1,791 connections).

In Panama, we continue to introduce the 2014-2018 plan agreed with the regulator to improve the quality of supply and increase grid capacity. In 2016 we managed to execute 50% of this, and we can highlight the completion of construction of the 220/115/13.8 kV Burunga substation.

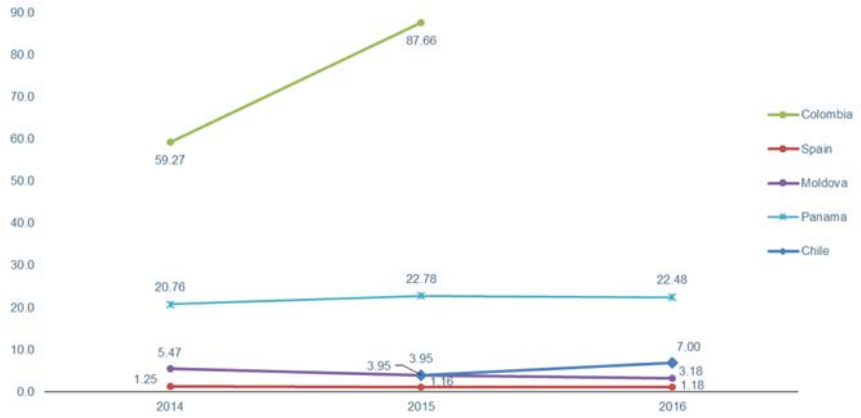
Furthermore, in 2016 we also launched a project in Chile focused specifically on improving the quality of electricity supply, whose main lines of action are the strengthening and increased automation of grids, the application of new methods for troubleshooting and diagnostics, and the modernisation of systems and grid operation.

Installed capacity equivalent interrupt time (ICEIT) (hours) (*) [EU29]



(*) Figures relative to the electricity business.

Frequency of electrical power cuts (No. of interruptions by customer) (*) [EU28]



(*) Defined as the average number of interruptions which a customer experiences or SAIFI (System Average Interruption Frequency Index): Total no. of interruptions to customers/Total no. of customer supplied. Customers have been assimilated to supply points.

3. Products and services adapted to customers' requirements and priorities

The Gas Natural Fenosa's commercial strategy pays special attention on satisfaction of current customers, as well as optimisation of the commercial supply.

The loyalty schemes are targeted at contributing towards the customer's welfare, while also enabling the company to generate security and trust in management. The expectations generated by the customer need to be answered through increased customer service, innovation and any necessity that can offer value-added to the catalogue in all of its energy and product variants.

Gas Natural Fenosa therefore employs specific tools and plans to find out the customer's needs and priorities, in order to adapt the products and services to their expectations.

During 2016 the company has continued to perform major research work to meet the needs of its customers.

3.1. Operational efficiency in customer relations

Efficiency of actions with the customer leads to mutual benefits. For the company, the commercial costs of capture are reduced, along with the costs of the different processes; while for the customer, the resolution times of any enquiries or complaints are reduced.

One example of efficient practices can be seen in the omnichannel project, which aims to have a 360-degree view of the customer across all service and marketing channels. This allows us to provide a coherent, consistent and continuous offer to the customer and improve their experience in the process of buying or customer service.

Furthermore, the use of mobile devices means we can deal with the service demands of customers in the shortest possible time, by being able to notify the field technician through the operations attention platform, thus considerably minimising waiting times. Moreover, the technician has online information of the spare parts required to repair the fault as quickly as possible or enable him/her to prepare a quotation on the overall value of the repair.

We should point out that in 2016 in Spain we have introduced a range of measures to improve the billing process, such as receiving the bill before the bank debit and, in terms of time, the possibility of 7/24 payments with regard to bills not paid by direct debit and a range of dual billing methods (bimonthly, monthly and alternate months). And in Portugal, we have launched the card payment option.

Zeus corporate platform
Zeus is intended to provide a global and unique reference model. It is based on the homogenisation of distribution processes affecting consumers and on unifying the systems platforms that support these. Zeus aims to improve the management of more than 20 million supplies, optimise 20 existing systems and facilitate the work of 6,000 employees and partner companies. It also integrates 36 distributors and improves the service of 20 million customers in Spain and 9 million in Latin America. All this thanks to a team of more than 300 people in 8 countries, which for months has been working to obtain a single model based on best practices. Zeus has been divided into two projects: • Zeus EPS: ensures the development, adaptation and growth of new supply points, working from the potential and pursuing the creation of opportunities before the service has been contracted through to activation as a supply point. In 2016, it became operational in the gas businesses in Brazil, Colombia, Spain and Mexico, and in the electricity business in Spain. • Zeus GPS: this starts from activation of the supply point, covering associated operations, seeking efficiency and optimising the time and effort that will result in a better customer experience. In 2016, it became operational in the gas businesses in Spain and in the development and introduction stage in the gas businesses of Colombia and Mexico and in the electricity business in Spain.

Mobility Management
New mobility platform, which in 2016 started to be introduced in Spain and Latin America, and which will replace the current mobility systems developed in each country and distributor. The project aim is to minimise the times of performing operations and allow greater flexibility. It allows users to arrange their service and operation demands more efficiently in terms of date and time, reducing errors arising from the use of paper-based systems and resolving online incidents quicker.

3.2. Innovative products and services

With the aim of increasing its commercial offering as much as possible and maintaining customer loyalty, Gas Natural Fenosa offers value added products and services on top of the gas and electricity supply. These services allow customers to manage their domestic and business needs in a comprehensive way, helping them to be efficient in their energy usage.

In 2016, we consolidated the products and services catalogue with a new tariff map, offering the customer solutions tailored to their needs.

Innovative products and services of Gas Natural Fenosa [102-2]	
Residential	
Energy saving service	We have improved the advisory service to optimize the contracted power of our customers, both portfolio and potential, expanding the types of customer communication based on customised installation

Indexed tariffs in electricity	The price is reviewed monthly as it is indexed to the price of the wholesale electricity market (OMIE). They offer customers greater flexibility for a more competitive price
Fixed gas tariffs	The price does not depend on market fluctuations and they allow customers to anticipate and control their gas bill.
24-month stable tariff (gas and electricity)	In 2016 we launched a 24-month stable tariff of electricity and gas for those customers who want to guarantee and ensure that the price per kWh will remain unchanged during this time.
New financing model	Introduction of a new online financing process that is far more flexible and which enables customers to access credit facilities for equipping their home.
Manitas electrical service	All of the Servielectric offers include an annual service that enables the customer to have a specialist for two hours free of charge to perform improvements related to household electrical matters.
Manitas household service	All of the Servihogar offers include an annual service that enables the customer to have a specialist for two hours free of charge to perform household improvements.
Change from Flat Rate	The customer is allowed to make as many changes as required with regard to the Flat Rate.
Wholesale	
LNG bunkering	Product targeting at large consumers of gas in maritime transport.

ECO electricity tariff
In 2016 we launched this electricity tariff, with a stable price per kWh for one year, aimed at customers with greater sensitivity to environmental issues and who seek solutions to ensure that their consumption uses energy generated by renewable sources. Thus, it guarantees the customer that their power consumption comes from a 100% renewable source.

4. Customer service

Gas Natural Fenosa has developed a more personal and customised model, helping customers to feel more satisfied with the customer service provided by the company.

Customer service model
Gas Natural Fenosa has developed a new customer service model in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal. This new model is divided into three parts: • Operational and training model: the aim is to anticipate customers' needs. • Technological model: this involves a major technological renewal in the implementation. • Economic model of procurement: we have opted for a partnership model with suppliers worldwide and an alignment of objectives.

The customer service channels made available by Gas Natural Fenosa are for the purpose of offering a customised service that provides a rapid response to their needs and guarantees optimum customer service.

Provision of customer service at Gas Natural Fenosa	
Customer service channels and personal managers	Trained to offer the customer a customised and efficient treatment, and equipped with the most modern technologies.

Guarantee Office	Responsible for dealing with those organisations that represent customers.
Website and Virtual Office	These quickly and easily facilitate customers' most frequent operations (checking bills, modifying details, meter reading and payment and the procurement of online services). In Argentina in 2016, following the regulatory change and tariff changes, there were developments in the Virtual Office to provide it with more functionalities and thus facilitate procedures with customers.
Sales and customer service centres	Until 2016, the sales centres were located in the main cities of those countries where Gas Natural Fenosa is operational. During 2016 we have opened centres in towns that are not provincial capitals, with a particular focus on the regions of Andalusia and the East. We have also consolidated service quality, with customer-perceived results that have remained stable throughout the year, confirming that our partners have internalised the same way of working.

In addition, wholesale customers have other alternative channels, such as the exclusive telephone helpdesk, the 24-hour telephone helpdesk to deal with incidents, and the email address satenciong@gasnaturalfenosa.com and the private online customer area www.grandesclientes.gasnaturalfenosa.es.

In order to improve and simplify the customer service process, Gas Natural Fenosa is developing different projects that seek to provide the customer with a customised approach that satisfies their needs.

At the end of the calls, there is a system to check the customer's satisfaction with the outcome. Using the Net Promoter Score (NPS) tool, the customer completes a questionnaire on service received and their satisfaction with it. This helps us to correct internal actions, measure the levels of customer service and extrapolate what we have learned. Those customers that believe their query has not been resolved are automatically redirected to the platform.

During 2016, we have improved the customers app so that the customer can carry out all processes online. The new app includes different functionalities that enable customers to manage their account in an easy and simple way from any mobile device. Among other items, it allows access to bills, meter reading, contracts and consumption, as well as to update details or request equipment.

Furthermore, for the sixth year running, the company has continued to provide the Energy Class service, a pioneer in the energy sector and which offers an exclusive service to the company's major customers. In 2016, over 92,000 gas and electricity customers enjoyed preferential treatment and advice on their energy supply and management of their contracts.

It should be noted that in 2016 we introduced several improvements in Spain in the field of customer service:

- The introduction of customer availability slots to adapt to their contact needs.
- The introduction of a new premium customer service that allows an integral and customised service.
- The introduction of a new method of receiving customer documentation by email or fax to expedite the process.
- The introduction of a new method of sending sms to the customer to provide information on the completion of their requests whenever it is not possible to make contact by phone.
- The introduction of a new payment by instalments method by email, in the process of collection management.

In 2016 we reinforced the electricity business in Chile with sales offices that feature self-help modules.

In Electricaribe, in the Colombia electricity business, we introduced a new customer service model in 2016 at sales offices, with improvements from the technological, operational and training standpoint. The introduction of this new face-to-face strategy has enabled us to make a significant improvement in satisfaction rates and in the waiting and customer-service time.

In Mexico, we have completely redesigned the strategy of customer service centres. From the location of the centres to the training and internal organisation of the centre itself have been subject to a makeover in order to be closer to the customer, serve them better, give them a response straight away and minimise the time they have to wait at the centre. Moreover, to ensure the success of the new model we have introduced a system of satisfaction surveys that is monitored daily and which marks the necessary adjustments to the model, based on the opinion and experience of the customer.

4.1 Customer service processes adapted to all customers

Gas Natural Fenosa also adapts its customer services to reduce language, cultural, low literacy and disability related barriers in accessing energy and using it safely, as well as customer support services.

In 2016, in Latin America, we continued to give priority to ensuring easy, convenient and free-of-charge access to the company's customer service channels. The target was achieved with the consolidation of the virtual offices, through which approximately one million registered customers performed 3,500,000 operations in 2016.

Reference in social inclusion in the Colombia gas business
Gas Natural Fenosa has implemented the technology of the Relay Centre, in partnership with the Ministry of Information and Communications Technologies (MINTIC). It has therefore been recognised as the first utility company in Colombia that offers this technology to people with hearing disabilities. The company has also undertaken specific actions in partnership with the National Institute for the Blind (INCI), such as presentation of the customer guide in braille, the bill in braille and the website accessible for people with visual disabilities. Furthermore, it has launched communication campaigns on social networks to improve accessibility for people with hearing and visual disabilities. In addition, the company involves different entities and local administrations in order to provide information about the initiatives launched and to introduce an action plan to reach more customers with disabilities.

In Chile (MetroGAS), the sales offices are easily accessible and offer priority access to customers that are disabled, elderly or pregnant women.

The company maintains a proactive attitude in communication with its customers, encouraging accessibility at face-to-face centres and on digital media. In addition, all company's employees can access the Manual for dealing with Disabled Customers on the company's intranet.

5. The customer's satisfaction and experience [102-43] and [102-44]

Gas Natural Fenosa has a model to measure customers' experience, through which it constantly monitors its satisfaction and recommendation level, and that of its competitors.

The measurement model rests on two complementary pillars:

- A general overview of all of the company's customers and of the competitors' customers, which represents the global satisfaction index.
- Contact point of view: where we analyse the experience of customers that have made recent use of the services and channels made available to them.

The model analyses the different segments of customers and the critical contact points with an impact on the customer in every country in which the company operates.

Once again this year, Gas Natural Fenosa continued to spearhead satisfaction in the retail segment in Spain, where the global satisfaction index (on a scale of 0-10) was 7.10 in the residential sphere (6.43 was the average of our rivals) and 6.85 at SMEs (6.21 was the average of our rivals).

In the wholesale segment, the global satisfaction index stood at 7.24, while the average for our rivals was 6.45. Wholesale customers ranked the commercial manager at 8.48, with this being the most valued attribute in customer relations.

Gas Natural Fenosa constantly measures customer satisfaction and recommendation throughout the year, using different channels of contact, such as telephone, interactive voice response (IVR), SMS and email. This allows us to interact with a large number of customers, so that their opinion and experience can be collected and analysed.

In 2016, the Customer Experience Management (CEM) tool was consolidated as a key component to measure the customer's experience. Following the customer's interaction with the company, this tool is used to send a short questionnaire to customers to find out their level of satisfaction and recommendation, and they are asked to grade their experience.

It also enables immediate corrective action through the management of alerts that activate whenever the minimum satisfaction and recommendation thresholds required to maintain the level of quality that the company imposes with its customer relations are not reached.

The measurement represents the basis on which the Customer Experience project is founded, as it enables us to monitor contact times with customers and develop action plans to improve their experience.

Gas Natural Fenosa has introduced a programme of ongoing improvement, based on the Lean Six Sigma methodology. This enables the company to prioritise, analyse and act on the reasons for dissatisfaction, to identify and correct the root causes, and to promote the ongoing improvement of processes. The best ideas from employees in this and other areas of the company are recognised each year through Our Energy Awards, which are already in their fifth year.

Customer Experience
The Customer Experience programme, based on cultural transformation, was launched for the purpose of making the company a benchmark at international level, customer satisfaction and customer recommendation in the energy sector, measured in terms of recommendation. With Customer Experience the company introduces a new methodology through which the customer is the starting point and the centre of activity, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience with the company.

To this end we introduced a working model based on five pillars:

- Unique company identity (brand and culture)
- Organizational drive (sponsorship and commitment)
- Employees as ambassadors programme
- Improving the customer's experiences in their contacts with us
- Continuous real-time measurement of the customer's voice

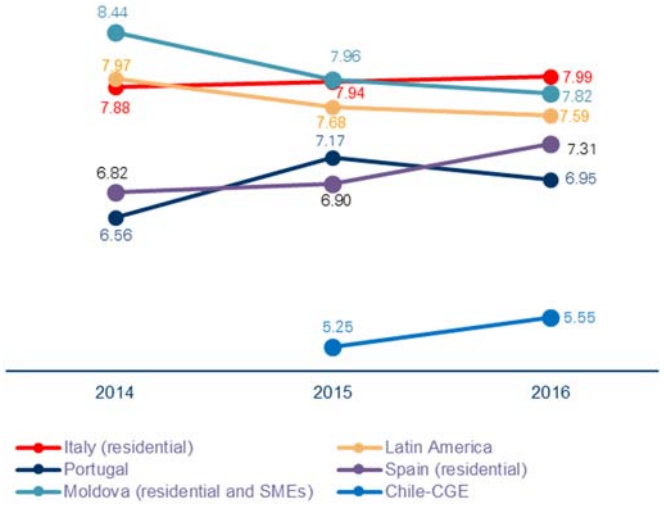
The following actions have been introduced to ensure that the customer has an excellent experience:

- Improving processes, making them more global and homogeneous
- Integration of systems, making them more agile, robust and flexible
- Optimisation of operations
- Renewal of organisational structures
- All this, with the best preparation and availability of the existing talent at the company.

Overall satisfaction with service quality

*Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.

Corporate image



*Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.

6. Communication and transparency with customers

6.1 New channels of communication

There is a growing demand from customers for a higher level of information and dialogue with the company. Gas Natural Fenosa has therefore adapted communication with customers through the use of new technologies, which encourages ongoing contact.

Use of new technologies	
Online channel	The channel has a new customer area, which makes viewing and browsing easier, lending the website greater functionality.
Website for procurement	This enables the customer to get information 24 hours a day, 365 days a year, and get details on tariffs and products that are appropriate for any home or business.
Social networks	The model of managing contacts through social networks, established in most countries where the company operates, enables us to set up two-way communication with stakeholders. This allows us to reinforce traditional customer service channels with new channels that are more flexible, accessible and modern.
Paying without a bill	In Argentina, we have the option of paying without a bill through the company Pago Fácil and Provincia Net. This enables customers to visit the foregoing company and pay their bill without the need for a physical invoice, just by giving their customer number.
Electronic confirmation of procurement	As an adaptation to the requirements of the new Distance Sales Act in Spain, confirmation of the contract is sent by SMS or email. The sale is not closed until the customer has accepted it.
Mobile private area	Development of a new app that allows the customer to perform queries and procedures in a simple and organised way, from any place and at any time. Customers with an online bill in the customers' area, as well as having it available online, receive an email with the bill attached.
Mi EnergiApp	Electricaribe has developed a mobile app that allows users to access the services of the company in a more flexible way. The application allows damages to be reported, the location of the payment points and customer

	service, check programmed maintenance, update contact details and receive tips on saving energy.
YoLeoGas	Gas Natural has launched in Spain a mobile app available to involve the customer in the gas reading process. The company has developed and introduced a new image recognition system to read customers' meters. This system automates the process of reading and storage of the meter reading. Among the options offered by the application is the notification settings, so that the user receives notification of the time when the meter needs to be read. In addition, the application displays previous readings so that the customer can take control of their consumption.
Smart meters	Gas Natural has undertaken several projects in countries such as Spain and Italy in which, in addition to meeting the regulatory needs of the sector, it seeks to go further and to build a business model based on the use of meters with added functionalities. With this new technology, the user can access accurate and detailed information in real time on their energy consumption, helping them identify ways to save energy and therefore lower their energy costs.

In 2016, the online sales of Gas Natural Fenosa in Spain experienced huge growth, with a total of 30,000 sales of services and supplies. In addition, we have continued to perform tests with the online contracting channel and have obtained appreciable results in the last quarter. Any tariff can be contracted from the postal address, avoiding more complex data for the customer such as the Universal Supply Point Code (CUPS). In 2016, more than 11 million customers visited the website and received online information about Gas Natural Fenosa's products and services.

As regards customer service, a total of 5.8 million customers used the company's online platform. A range of improvements were launched, prominent among which was the Gestion@ project, which allowed us to optimise the Customers Area, simplifying actions with customers to the maximum extent possible. The Net Promoter Score (NPS) increased 17 points in 2016, leading to a cumulative total of 13% (scale of -100% to 100%).

These advances led to an increase of online versus off-line use in servicing, up to 14.2%.

In 2016, the company reached 60,000 users on social networks, doubling the figure for the previous year. The community managers have quadrupled the interventions handled in 2015, up to 45,000 interventions. This also enabled us to improve the satisfaction levels of customers with regard to after-sale processes by 43% according to the NPS.

In Latin America the virtual channel was consolidated in 2016, with a million registered customers in virtual offices, who visited more than 2.5 million times and conducted more than 3.5 million transactions. Furthermore, in the electricity business in Chile we opened the sales service through Twitter, providing the customer with the information requested and/or rerouting them to the corporate website.

Gas Natural Fenosa on social networks. Spain		
Social network	**Profile or user name**	**URL**
Facebook	Gas Natural Fenosa	https://www.facebook.com/GasNaturalFenosa
	Gas Natural Fenosa Customers Spain	https://www.facebook.com/GasNaturalFenosa.Espana.Clientes
	At the cinema and at Home	https://www.facebook.com/EnElCineComoEnCasa/
	Gas Museum	https://www.facebook.com/museudelgas/

	MAC, Museum of Contemporary Art	https://www.facebook.com/gasnaturalfenosa.mac/
Twitter	@GNF_es	https://twitter.com/gnf_es
	@GNFclientes_es	https://twitter.com/GNFclientes_es
	@GNFcine	https://twitter.com/GNFcine
	@MuseodelGas	https://twitter.com/MuseodelGas
	@GNFprensa_es	https://twitter.com/GNFprensa_es
	@FundacionGNF	https://twitter.com/FundacionGNF
YouTube	Gas Natural Fenosa	https://www.youtube.com/user/gasnaturalfenosa/featured
	Gas Natural Distribución	https://www.youtube.com/channel/UCVH2PMTWMqs6draR_4cu1GQ/featured
Google+	Gas Natural Fenosa	https://plus.google.com/113333013659018992649/about
	Gas Natural Fenosa Customers Spain	https://plus.google.com/116302927617637104566/posts
Linkedin	Gas Natural Fenosa	https://www.linkedin.com/company/gas-natural-fenosa
	Gas Natural Fenosa Foundation	https://www.linkedin.com/company/fundación-gas-natural-fenosa?trk=top_nav_home
Instagram	Gas Natural Fenosa	http://instagram.com/gasnaturalfenosa
	GNFcine	http://instagram.com/gnfcine
	Gas Museum	https://www.instagram.com/museudelgas/
Flickr	GNF Foundation-Gas Museum	https://www.flickr.com/photos/museodelgas

Gas Natural Fenosa on social networks. Other countries		
Argentina	**Facebook**	https://www.facebook.com/GasNaturalFenosaArgentina/
	Twitter	@GNF_ar - https://twitter.com/GNF_ar
	YouTube	https://www.youtube.com/user/GasNaturalFenosaAr
	Google+	https://plus.google.com/+GasNaturalFenosaAr/about
Brazil	**Facebook**	https://www.facebook.com/gasnaturalfenosa.brasil/
	Twitter	@GNF_br - https://twitter.com/GNF_BR
	YouTube	https://www.youtube.com/user/GNF2013
	Instagram	http://instagram.com/gasnaturalfenosa_br
Chile	**Facebook**	• Metroambientalistas: https://www.facebook.com/Metroambientalistas/ • Brigada metroambientalistas: https://www.facebook.com/brigadametroambientalista/?fref=ts
	Youtube	• MetroGAS Chile channel: https://www.youtube.com/user/MetrogasChile
	Twitter	• MetroGAS Chile: https://twitter.com/MetrogasChile?lang=es • Metrogas Club: https://twitter.com/Club_Metrogas?lang=es • CGE: @cged_sos - https://twitter.com/search?q=%40cged_sos&src=typd&lang=es • CONAFE: @conafe_sos - https://twitter.com/search?q=%40conafe_sos&src=typd&lang=es • EMELARI: @emelari_sos - https://twitter.com/search?q=%40emelari_sos%20&src=typd&lang=es

		• ELIQSA: @eliqsa_sos - https://twitter.com/search?q=%40eliqsa_sos%20&src=typd&lang=es • ELECDA: @elecda_sos - https://twitter.com/search?q=%40elecda_sos&src=typd&lang=es • EMELAT: @emelat_sos - https://twitter.com/search?q=%40emelat_sos&src=typd&lang=es
Colombia	**Facebook**	https://www.facebook.com/gasnaturalfenosa.colombia/
	Twitter	• @GNF_co - https://twitter.com/GNF_co • @ElectricaribeSA - https://twitter.com/ElectricaribeSA
	YouTube	https://www.youtube.com/user/gasnaturalfenosaco
France	**YouTube**	https://www.youtube.com/channel/UCyBUV6QaT7ScECRZZFk_ltg
Mexico	**Facebook**	https://www.facebook.com/GasNaturalFenosaMx/
	Twitter	@GNF_mx - https://twitter.com/GNF_mx
	YouTube	https://www.youtube.com/user/gasnatmex
Moldova	**Facebook**	https://www.facebook.com/gasnaturalfenosamoldova/
Panama	**Facebook**	https://www.facebook.com/gasnaturalfenosa.panama/
	Twitter	@GNF_pa - https://twitter.com/gnf_pa
	YouTube	https://www.youtube.com/user/GasNaturalFenosaPa

6.2 The bill as a channel of communication

Together with the use of new technologies, Gas Natural Fenosa is aware that the bill continues to be the main channel of communication with its customers. That is why the bill includes information of interest to the customer, helping to explain the content of the bill and how regulatory changes affect this.

In Brazil, Colombia and Chile (MetroGAS), Gas Natural Fenosa offers its customers the possibility of receiving bills in braille, to make the information more accessible to those with visual impairment. The company is looking at how to introduce this in other countries.

Furthermore, in 2016, for the electricity business in Chile, together with the regulator we have designed a new invoice that is clearer and more simple for the customer. Elsewhere, at Electricaribe, in the Colombia electricity business in 2016, we introduced a new model of the bill that is clearer and more understandable.

Communication actions through the bill	
Argentina	• Information about the Camon App. • Focusing industrial customers on the use of interactive collection system.
Brazil	• Promoting the Virtual Office. • Promoting the online bill (FOL). • Promoting direct debit. • Communication campaign to notify customers about the new regular review model.
Chile (electricity business)	• Communication campaigns on the number of customers, virtual office and external payment channels, among others. • The company's Twitter address, to increase communication through social networks.

Chile (MetroGAS)	• Advertising campaigns. • Addresses of the different branches. • Payment methods. • The company‘s Facebook, Twitter and YouTube addresses, to increase communication through social networks. • Information on the Club MetroGAS.
Colombia (Electricaribe - electricity business)	• Addresses of payment points. • Useful tips on the efficient use of energy and electrical safety. • Information or regulatory notifications.
Colombia (gas business)	• The company‘s Facebook, Twitter and YouTube addresses, to increase communication through social networks. • The reconnection cost so that the customer can see why the bill increases in the event of the power being cut off and reconnected for non-payment. • Specific helpdesk for protection of customer’s data. • Communication campaign to notify customers about the new regular review model. • Promotion of the Virtual Office.
Mexico	• Opening times and addresses of customer service centres. • Promotion of the Virtual Office. • Customer service telephone helpdesk. • Emergency 24-hour telephone helpdesk. • Communication campaign such as “APPlícate” (Apply Yourselves) or “Estamos contigo cuando algo falla y cuando no, también” (We're with you when something goes wrong, as well as when it doesn’t).
Panama	• Updating the data of new agents. • Information on the Web Services project.

Gas Natural Fenosa is a member of Autocontrol, a non-profit association that manages the Spanish advertising self-regulation system.

By the same token, it is affiliated to the Advertising Self-Regulation Code for Environmental Arguments. The related-party companies which have subscribed to this code undertake to use advertising messages including environmental arguments responsibly and truthfully.

Gas Natural Fenosa website indicators (in thousands). Spain

	2016	2015	2014
Customers registered at the end of the year	1,134	1,088	1,288
Online transactions at the Virtual Office	12,192	8,094	6,171
Customers registered with the online billing service	165	169	676

6.3 Communication to raise the customer’s awareness

Gas Natural Fenosa’s responsibility does not end with its employees, or its suppliers and contractors. To this end, in 2007 we started the Natural Commitment programme, which seeks to protect the environment with the help of major customers.

As part of this programme, in 2016 the company undertook two actions to raise awareness of current and potential wholesale customers in issues of corporate responsibility.

The first of these was targeted at raising awareness in the area of sustainability and the environment, to mitigate climate change by promoting maritime transport that runs on LNG as a mechanism to reduce CO2 emissions.

The second action focused on raising awareness in the area of energy efficiency, for better and more rational consumption of energy, through training and the performance of energy audits.

7. Privacy and security of the customer's data

7.1 Cybersecurity and information security

As part of its commitment to the privacy and security of data of employees and customers, Gas Natural Fenosa has defined an information security policy that ensures proper processing of this data throughout their life cycle, from collection and processing through to removal or safeguarding this data once the relationship has terminated.

This policy is communicated to employees, suppliers and customers, and is implemented through a regulatory corpus in line with the legal requirements that govern the processing of information, the internationally accepted best practices and standards.

This regulatory corpus includes the technical standard, which is for the purpose of guaranteeing the protection of personal data at Gas Natural Fenosa, and applies to all organisational units and companies of the group that capture or process personal data, as well as partners and suppliers that collaborate in such processing.

Cibersecurity Plan (2015-2017)
Gas Natural Fenosa has a cybersecurity plan at international level, which is based on three key pillars: people, processes and technology. These three pillars are subdivided into 11 action lines which in turn are divided into a total of 36 projects. The following meetings concerning the plan were held in 2016: • Meetings every six months of the Management Committee of Gas Natural Fenosa. • Meetings every month of the Cybersecurity Plan Management Committee. • Meetings every fortnight of the Cybersecurity Plan Operational Committee. Also in 2016 we worked on 20 projects, two of which finalised that year: • Provision of the BRS Identification Platform. • Phase I of Standardisation of Online Corporate Access.

A total of 784 complaints concerning customer privacy were individually analysed, investigated and resolved in 2016, as part of the process defined by the company.

Security form an essential part of the design, development and exploitation of all processes and systems, in particular those that process information.

All of Gas Natural Fenosa's systems include procedures for authentication and administration of authorisations and access, and are designed to guarantee that the use of these does not affect the security of the data handled.

In addition, there are procedures for updating and correcting new vulnerabilities of systems, to propitiate better proactive conduct in the prevention of security incidents, and in the analysis and management of information security risks.

Furthermore, we have introduced systems to protect the network and communications against malware and/or unauthorised access, including active monitoring of the activity, to anticipate possible problems and allow them to be resolved quickly.

In 2016, there were various incidents at the company related to malware, phishing and ransomware campaigns, with a limited scope and without significant relevance. These incidents were solved by applying the incident management methodology, scaling them up from the technical technology positions to those of security, and implementing containment measures. We also worked on retrieving information and restoring operations, and subsequently carried out forensic and investigation analyses.

Cybersecurity collaborations in 2016	
Spanish National Cybersecurity Institute (INCIBE)	Collaboration in cybersecurity exercises to improve response capabilities.
Computer Emergency Response Team for Security and Industry (CERTSI)	Collaboration in improving response capabilities, strengthening coordination between institutions, raising awareness of risks at all levels, and enhancing the companies reputation image.
CERT-SI and the CERT-CCN	Information exchange protocols on threats and incidents.
National and international associations	Cybersecurity partnerships with associations such as the Spanish Association for the Promotion of Information Security (ISMS Forum) and the Thematic Network on Critical Energy Infrastructure Protection (TNCEIP).

Managing cyberthreats

To prevent cyberthreats, Gas Natural Fenosa is working on the three areas that make up the cybersecurity plan: people, processes and technologies.

- People: conducting face-to-face campaigns and advertising.
- Processes: preparation of a specific cybersecurity regulation.
- Technologies: development of projects to control access traceability in the company.

The cyber iIntelligence service analyses information on the Internet, social networks and forums, among others, that can reveal new threats, vulnerabilities or incidents affecting the business processes of Gas Natural Fenosa.

We are also launching a service to assess and certify security as part of the lifecycle of systems that enables us to establish a process for improvement based on the detection of vulnerabilities and the development of a prioritised remediation plan. This service covers five areas: systems infrastructure, applications, code analysis, industrial control systems and critical infrastructures.

Cybersecurity campaigns and training

Of particular importance within the Cibersecurity Plan is the action line targeted at ensuring the company's workers accept secure conduct as part of their day-to-day work, and at creating a culture of security with regard to the risks associated to their daily activities. We have therefore introduced a training actions plan related to privacy and security of information, and several campaigns have taken place.

In 2016 there were 24 sessions, with an attendance of 724 people, as well as functional days attended by 280 people.

The main topics discussed were:

- Use of the Internet
- Protection from external threats
- Use of mobile devices
- Personal data protection
- Use of IT equipment
- Classification and protection of the information

7.2 Protection of critical infrastructures

To ensure continuity in the provision of essential services and processes to enable society to operate properly, the international organisations and states have developed a range of security and cybersecurity strategies targeted at protecting critical infrastructures.

Gas Natural Fenosa is aware of its involvement as a critical operator and is committed to protecting critical infrastructures. To this end, we have created and introduced the InCrit projec

InCrit project

The purpose of this project is to spearhead and coordinate protection of critical infrastructures of Gas Natural Fenosa, both the subset of critical infrastructures, designated by the National Centre for Critical Infrastructure Protection (CNPIC), as well as the national or international infrastructures that are relevant to the company's business.

The aims of the project involves monitoring specific legislative requirements and determining the critical nature, seriousness and consequences of any disorder or destruction of a critical infrastructure in accordance with:

- The number of people affected
- The economic impact in accordance with the size of economic losses
- The impairment of products and services
- The environmental impact
- The public and social impact

As part of this project, we have set up the InCrit Committee, which coordinates, spearheads and reports to the company's businesses with regard to the strategy and security measures targeted at protecting critical infrastructures.

The following audits were conducted in 2016:

- Approval of the internal regulations to be applied with regard to the critical infrastructure protection model.
- Preparation of an operator's security plan and delivery of this to the CNPIC. This plan defines the general policy of the company to ensure the security of critical infrastructure in the sectors for which it has been designated as critical operated.
- Preparation of the specific protection plans required and delivery of these to the CNPIC, defining the specific measures to be put in place to ensure the comprehensive security of critical infrastructures.
- Introduction of the initiatives set out in specific protection plans.
- Holding of two meetings of the Incrit Committee to boost business leadership in the deployment of the strategy.
- Constitution of the Operations Committee for the Incrit project.

7.3 Security Intelligence

Gas Natural Fenosa needs to have capabilities that respond to the information needs, in order to provide a competitive advantage in the environment in which it performs its operations, in any territory, with regard to any problem, any risk and any timeline.

The company therefore has a Security Intelligence service which, among other purposes, is responsible for the ongoing capture and extraction of background information, using the monitoring tools required to cover the needs of Gas Natural Fenosa.

Among other items, the Security Intelligence service generically covers non-technical losses, threats to business lines, operations and assets of the company, and the security of travellers and expatriates.

It also provides Gas Natural Fenosa the analytical resources required to interpret current or future scenarios of threats or risks that could disrupt security or business continuity for the operations and assets of Gas Natural Fenosa.

In terms of scope, the analysis capabilities are deployed to cover the entire intelligence spectrum:

- Informative descriptive level
- Interpretive explanatory level
- Estimated prospective level

The results of the stages of obtaining, processing and analysing information is transformed into intelligence through analytical products that will be circulated to internal customers, using the formats, channels and security parameters determined by the intelligent protocols introduced by the Security Intelligence service of Gas Natural Fenosa.

In 2016, we prepared 869 Security Intelligence products:

- 562 early warnings of new risks for business operations
- 191 reports of specific risks for decision-making in business operations
- 101 processes of daily risk monitoring covering business operations in Spain and abroad
- 15 specific reports of risks in areas visited by travellers

Annex of indicators

			Argentina	Brazil	Chile	Colombia	Spain	Italy	Mexico	Moldova	Panamá	TOTAL
Customers disconnected due to non-payment classified by the total duration between disconnection for non-payment and payment of debt(1)[EU27]	Gas business	Fewer than 48 hours	13,073	29,665	33,815	243,137	1,294				-	
		Between 48 hours and a week	7,054	21,213	7,853	60,767	1,228				-	
		Between 1 week and 1 month	5,444	13,576	5,160	46,607	1,465				-	
		Between 1 month and 1 year	4,767	10,113	2,847	53,371	2,411				-	
		Over one year	469	-	4,104	0	0				-	
	Electricity business	Fewer than 48 hours	-	-	407,211	-	56,168		-		40,807	
		Between 48 hours and 1 week	-	-	89,581	-	8,002		-		33,028	
		Between 1 week and 1 month	-	-	101,588	-	11,745		-		1,344	
		Between 1 month and 1 year	-	-	100,077	-	6,160		-		30	
		Over 1 year	-	-	26	–	0		-		0	
Customers disconnected due to non-payment classified by the total duration between debt payment and reconnection[EU27]	Gas business	Fewer than 24 hours	5,493	8,852	48,102	422,624	820		98,423		-	
		Between 24 hours and 1 week	25,132	65,715	50	27,186	3,369		42,267		-	
		Over 1 week	182	-	1,523	1,726	2,209		1,687		-	
	Electricity business	Fewer than 24 hours	-	-	649,328		72,056		-		59,135	
		Between 24 hours and 1 week	-	-	46,553		9,902		-		16,636	
		Over 1 week	-	-	2,602		117		-		303	
Average duration of electrical power cuts (hours) [EU29]	2014		-	-	-	83.00	1.10	-	-	6.80	48.60	
	2015		-	-	24.00	93.31	1.02	-	-	4.40	58.38	
	2016		-	-	14.00	0.00	1.13	-	-	2.99	59.14	
Average System Interruption Frequency Index (ASIFI)[EU28]	2014		-	-	-	45.70	0.90	-	-	4.40	15.60	
	2015		-	-	7.00	60.07	0.88	-	-	3.24	16.17	
	2016		-	-	6.00	0.00	0.80	-	-	2.57	17.04	
Satisfaction rate with main processes. Residential customers (on a scale of 1 to 10)(2)	Continuity of gas supply.		8.84*	9.17*	-	8.92*	8.82*	8.94*	9.23*	-	-	
	Continuity of electricity supply		-	-	5.85	6.10*	8.05*	8.24	-	8.83*	7.68*	
	Billing and payment		8.05	8.96	5.72	8.78	7.09*	8.02	9.07	-	8.41	
	Telephone customer service		8.25	8.22	5.40	7.68/6.42	7.93	8.39	7.35	-	7.71	
	Centres		7.99	8.60	5.44	7.91/5.02	8.28	8.65	7.70	-	-	
	Emergencies		8.55	8.69	5.47	8.88	8.30	9.16	8.81	8.40	-	
	Inspection/review		-	-	-	-	8.42	-	-	-	-	
	New customers/start-up		-	-	-	-	7.74	-	-	-	-	
Satisfaction rate with main processes. Wholesale customers (on a scale of 1 to 10)	Global satisfaction						7.24					
	Negotiation and contracting						7.66					
	Quality of gas supply						8.40					
	Quality of electricity supply						7.68					
	Commercial management						7.87					
	Commercial manager						8.48					
Customer service ratios(3)(4)	Customer requests solved immediately (%)		30.8 (5)	80.0	87.0/20.0	87.1	91.0	95.3	92.8	86.2		
	Average time for solving requests (days)		26.0	6.0	10.6/14.0	10.9	11.3	17.2	1.7	4.9		
	Calls answered within 20 seconds (%)		93.7	64.0	72.2/80.0	77.0	79.0	73.7	80.3	52.4		
Volume of sales – gas customers (GWh)	Regulated											
	Third Party Access to the network (TPA)											
Volume of sales – electricity customers (GWh)	Regulated		32,760	61,139	16,856	27,248	0	0	20,606	0	0	158,609
	Third Party Access to the network (TPA)		38,766	10,876	30,298	929	184,619	3,578	30,590	0	0	299,656
Volume of sales – electricity customers (thousands of euros)	Regulated		1,601	-	13,623	11,298	-	-	-	2,672	4,921	34,115
	Third Party Access to the network (TPA)		345	-	696	1,008	32,025	-	-	.	69	34,143

In Spain, for the electricity business, the period that elapsed between disconnection and payment of the debt is between 1 month and 4 months. In Mexico, the figure for customers "disconnected" due to non-payment classified by the total duration between disconnection for non-payment and payment of debt, is not available.

(1)

(2) As regards the Index of satisfaction with the main processes concerning residential customers in Colombia and the customer service ratios, the first figure that appears in the table corresponds to the gas customers index and the second figure corresponds to electricity customers.
(3) In Spain, the calculation ratio is calculated in accordance with the calls responded to within 15 seconds.
(4) As regards the ratio of customer service in Chile, the first figure shown corresponds to the gas business (MetroGAS) and the second figure corresponds to the electricity business.
(5) During 2016, due to the constant regulatory changes in Argentina, several of the functions were inhibited to adapt the billing processes. This meant that many of the procedures could not be resolved in the first instance. Elsewhere, we developed and introduced the “Change of ownership by web”. This means that the process is not resolved at the time since it is referred to a back office for further processing.

* Figures from the general indices study

Commitment to results

The shareholders and investors of Gas Natural Fenosa are one of the company's main stakeholder groups. Therefore, two key aspects of the business are managing risks properly and developing a sound business model with potential for international growth and which guarantees long-term sustainability.

Commitments and principles of responsible action with shareholders and investors

- Work to obtain sustained **profitability levels** that are in keeping with the resources used.
- Encourage **efficient and assignment resource management** within the framework of ongoing process improvement.
- Guarantee that decisions are taken duly considering the **approved risk levels and thresholds**.
- Continue to include sustainability aspects into the relations with **investors**.

Gas Natural Fenosa has a solid and stable business structure. The company is the largest integrated gas and electricity operator in Spain and Latin America. In the gas market, it is the leader in distribution and commercialisation on the Iberian Peninsula, and with regards to distribution in Latin America. Similarly, the company is one of the biggest liquefied natural gas (LNG) operators in the world, where it is the benchmark in the Atlantic and the Mediterranean basins in terms of operation volume. It has a fleet of methane tankers that means it can supply natural gas to different regions of the planet, an aspect that facilitates diversification of the supply sources.

In 2016, Gas Natural Fenosa presented the new strategic vision for the 2016-2020 period, with a series of commitments to meeting targets for 2018 and aspirations for 2020.

The commitment to shareholders is reflected in the recent approval by the General Meeting of Shareholders of the new dividend policy for the 2016-2018 period, which provides for a payout of 70%, with a minimum dividend of one euro per share and the possibility of a scrip dividend. We also intend to allocate 7 billion euros to dividends over the 2016-2020 period.

The excellent economic performance of Gas Natural Fenosa and the solidity of its business were boosted by the company's outstanding performance in terms of corporate responsibility. The company aims to carry out its business in harmony with the environment, and dealing with the expectations of each of its stakeholders.

This effort was recognised with the company's presence on the most prestigious sustainability indices, such as the Dow Jones Sustainability Index (DJSI) or the Carbon Disclosure Project (CDP).

Value actions		
Proposed actions 2016		**Planned actions 2017**
Maintaining a presence on sustainability indices.	●	Maintaining a presence on sustainability indices.
Technical visits to the facilities of Gas Natural Fenosa with minor shareholders.	●	Technical visits to the facilities of Gas Natural Fenosa with minor shareholders.

Assess extending the programme of informative meetings with minor shareholders to other Spanish cities.	●	Assess extending the programme of informative meetings with minor shareholders to other Spanish cities.
Continue to include sustainability aspects into the relations with socially responsible investors.	●	Assessment and analysis of the creation of a Shareholder Club

Level of fulfilment: finalised ●, major progress ●, intermediate progress●, little progress ●, not started ●

1. Focus on growing and sustained profitability

1.1 Overall results

Net profit	Net profit for 2016 amounted to 1.347 billion euros, a decrease of 10.3% in comparison with the previous year.
Ebitda performance	Ebitda in 2016 reached 4.97 billion euros, down 5.6% compared to 2015, having discontinued the liquefied petroleum gas business in Chile, conditioned by a very demanding macroeconomic and energy setting. This setting has particularly affected the contribution of the gas commercialisation business, along with depreciation of Latin American currencies in their conversion to euros with an impact on Ebitda of 112 million euros, mainly caused by the performance of the Colombian peso and the Mexican peso. Ebitda from international activities of Gas Natural Fenosa fell by 12.1% and accounted for 44.5% of the consolidated total, compared with 47.8% for the same period in 2015. In addition, Ebitda from operations in Spain was up 0.4%, and accounted for a higher relative proportion of 55.5% in the total consolidated amount. Other activities includes the gross capital gain of 51 million euros (net capital gain of 35 million euros) from the sale of four buildings in Madrid amounting to 206 million euros.
Debt ratio	At 31 December 2016, the debt ratio was 44.8%, lower than 2015, which was at 45.8%, and the net financial debt/Ebitda ratio x 3.1 versus x 3 in 2015, despite the interim dividend paid out for 2016.
AGESA sale in Chile	In November 2016, we sealed the deal to sell a 20% stake of the company Aprovisionadora Global Energy, S.A. (AGESA), a subsidiary of Gas Natural Chile, S.A., in GNL Quintero, S.A. (Chile) to Enagas for 182 million euros. This led to a pre-tax capital gain and minority interests of 128 million euros and a net capital gain of 50 million euros.
Deconsolidation of Electricaribe	On 14 November 2016, the Superintendency of Domiciliary Public Utilities of the Republic of Colombia (Superintendency) ordered the seizure of the assets, properties and businesses of Electricaribe to guarantee the provision of the power supply. The Superintendency also ordered the removal of members of the board and general manager and their replacement by a special Agent appointed by the Superintendency. During the exercise of his duty what is true is that the Agent has replaced the managers appointed by Gas Natural

	Fenosa and has centralised the decision on the provision of information to be sent to Gas Natural Fenosa, so that at the end of December 2016 Gas Natural Fenosa had lost the power of control and significant influence over Electricaribe as it does not take part or have any direct information on decisions or relevant business activities. Subsequently, on 11 January 2017 the Superintendency agreed to the extension of the intervention, until 14 March 2017. Due to the facts mentioned above, and following the specifications set out in the accounting regulations applicable in this case, IFRS 10, on 31 December 2016 Electricaribe ceased to be included on the consolidated balance sheet of Gas Natural Fenosa, proceeding to write off the assets, liabilities and non-controlling interests for the net amount of 475 million euros. Also, under the heading "Available-for-sale financial assets", the investment in Electricaribe has been booked for its fair value in accordance with IAS 39 (475 million euros).
Confirmation of prospects	Gas Natural Fenosa confirms the prospect of a net profit for 2017 of between 1.3 and 1.4 billion euros, as well as the continuity of its dividend policy, in accordance with the 2016-2020 Strategic Vision.

1.2 Investments

The tangible and intangible investments for 2016 totalled 2.517 billion euros, with an increase of 42.4% year-on-year, mainly through the acquisition of two new methane tankers in September and December 2016.

Excluding the investment of 425 million in the methane tankers, which have been acquired under finance leases, tangible and intangible investments would stand at 2.092 billion euros, which would represent an increase of 18.4%, mainly due to the increase of investments in gas distribution in Spain by closing the deal to acquire the LPG distribution points from Repsol in 2015.

Financial investments in 2016 relate mainly to the additional acquisition of 37.88% of Gas Natural Chile (306 million euros) and the acquisition of several subsidiaries, chief among which is the acquisition of Vayu (Ireland).

Divestments and others in 2016 relate mainly to the sale of shares of Gasco S.A. that Gas Natural Fenosa owned through its subsidiaries for a total of 220 million euros; to the sale of LNG Quintero for 182 million euros and to the sale of buildings in Madrid for 206 million euros.

The gas distribution business represents 27.5% of the consolidated total, being the major focus for investment, and it is in line with the same period of the previous year. Excluding investment in gas supply, which increased due to the purchase of two new methane tankers under finance lease in September and December 2016, the highest growth was the investment in gas distribution in Spain (+59.3%) due to the acquisition of LPG supply points from Repsol agreed in 2015.

In the geographical sphere, investments in Spain were up by 73.1%, accounting for 66.4% of the total, compared with 54.7% the previous year, through the purchase of two new methane tankers under a financial lease arrangement, in September and December 2016. Without this impact, investments in Spain would increase by 29.1% and represent 59.6% of the total.

For its part, foreign investments are maintained with regard to the previous year and account for 33.6% of the total (40.4% excluding investment in new vessels) versus 49.6% in the same period of the previous year.

1.3 Stock market performance and profitability

As regards the company's stock market performance, the Gas Natural Fenosa shares closed 2016 at a price of 17.91 euros and stock market capitalisation of 17.922 billion euros, which represents a 4.8% decrease versus the previous year end, in a climate in which the Ibex 35, the main Spanish stock market index, fell 2.0%.

The proposal for distribution of 2016 profits, which the Board of Directors will forward to the Ordinary General Meeting of Shareholders for approval, is to pay 1.001 billion euros in dividends, the same as the previous year. The proposal entails an overall dividend of one euro per share and represents a payout of 74.3% and a dividend yield of 5.6%, taking the share price listing at 31 December 2016 of 17.91 euros/share as the benchmark. On 27 September, an interim dividend charged to profits for the 2016 year was paid, equivalent to 0.330 euros/share.

Stock market indicators [102-7]

	2016	2015	2014
No. of shareholders (in thousands)	82	73	73
Share prices at 31/12 (euros).	17.91	18.82	20.81
Maximum share price (euros)	19.72	20.56	24.45
Minimum share price (euros)	14.69	17.55	17.83
Earnings per share (euros)	1.35	1.57	1.46
Share price-profit ratio	13.3	12.5	14.2
Share capital (no.of shares)	1,000,689,341	1,000,689,341	1,000,689,341
Stock market capitalisation (millions of euros)	17,922	18,828	20,824

Financial ratios

	2016	2015	2014
Debt (1)	44.8	45.8	48.5
Ebitda/Net financial results	6.7x	6.4x	6.1x
Net debt/Ebitda	3.1x	3.0x	3.2x(2)
P/E	13.3x	12.4x	14.2x

(1) Net financial debt/Net financial debt + Equity
(2) In pro-forma terms including Ebitda of CGE from January to November 2014. If this were not the case, it would be 3.5x.

Profit index (millions of euros)

	2016	2015	2014
Net profit of Gas Natural Fenosa	1,347	1,502	1,462

Evolution of payout (%) (*)

(*) Equivalent total amount.

2. Communication channels adapted to the needs of shareholders and investors

Gas Natural Fenosa understands informative transparency as a key aspect in implementing its commitment with markets, shareholders and investors. To this end, the company has its own communication channels that provide the best service.

The company provides the same information to institutional and minority investors, guaranteeing the principles of equality and the simultaneous publication of information.

The Shareholder Assistance Office provides a continuous reporting service to minority shareholders through a freephone number. In 2016, the company continued to hold informative meetings with minority shareholders, two of which were held in Madrid and a further two in Barcelona. In addition, two sessions with minority shareholders were organised for the first time to visit the head office in Barcelona, and these were both well received.

The website brings together the documentation required by the Transparency Act and the corresponding consolidating legislation. Therefore, it offers a space that features information of interest to shareholders and investors that includes information on the economic and management situation and the company's results for the last five years.

The company also continued its communication programme with analysts and investors, in order to strengthen and provide more transparent economic-financial information to enable them to monitor Gas Natural Fenosa's business project.

In 2016, representatives from the management team and the Investor Relations Unit held meetings with institutional investors, both with regard to fixed income as well as equity. These meetings were held both at the company's offices as well as in the leading financial locations of Europe, North America, Asia and Australia. In total, there were 520 meetings, of which 415 were held with variable income investors.

Communication channel indicators

	2016	2015	2014
Meetings with shareholders and analysts	520	432	397

3. Inclusion in socially responsible investment indices

Socially responsible investment is that which is incorporating social, environmental, ethical and good governance criteria into portfolio selection decisions, in addition to traditional financial aspects.

Indices featuring the presence of Gas Natural Fenosa in 2016

For the last twelve years, Gas Natural Fenosa has had a constant presence on the Dow Jones Sustainability Index (DJSI). In 2016, the company improved its overall score compared to 2015, from 89 points to 91 points, enhancing the global score in the economic and environmental aspects, and maintaining the social dimension score.

The company obtained the highest scores in the Gas Utilities industry in areas such as Risks and Crisis Management, Code of Conduct, Materiality, Customer Relationship Management, Information Security Strategy and Cybersecurity, Market Opportunities, Environmental Report, Social Report, Labour Practices Indicators and Human Rights, and Corporate Citizenship and Philanthropy.

Gas Natural Fenosa has also maintained its presence, for the fifteenth year running, in the FTSE4Good index, where it has been included from the outset, in 2001.

In 2016, Gas Natural Fenosa maintained its presence on new sustainability indices such as STOXX ESG Leaders Indices and Euronext Vigeo, of which the company forms part of the World 120, Europe 120 and Eurozone 120 variants, ranking it as one of the 120 leading sustainability companies of America, the Asia-Pacific and Europe.

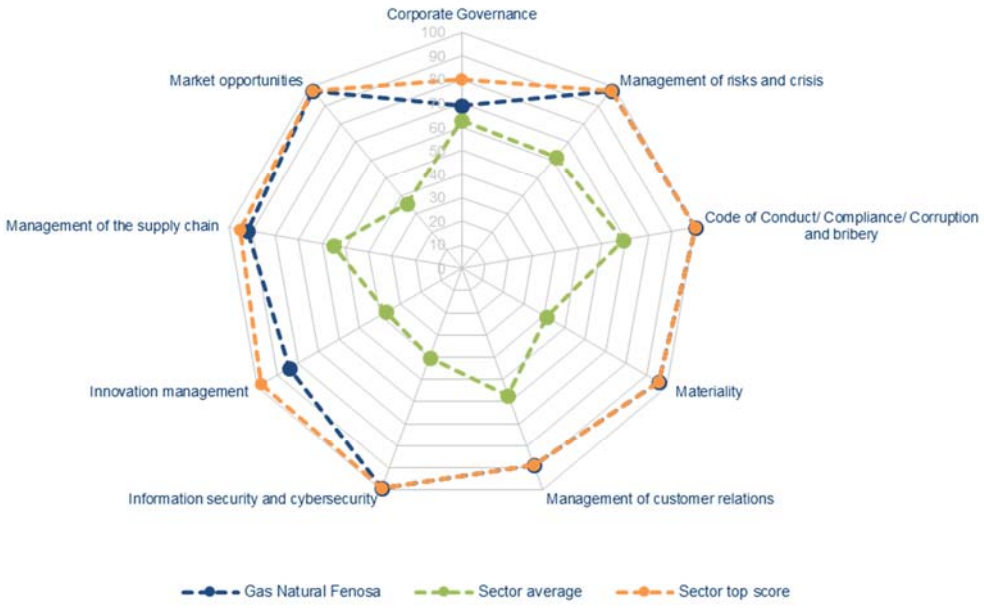
It also forms part of the MSCI Global Climate Index, which includes leading companies which strive to mitigate factors to fight climate change in the mid- and long-term.

Gas Natural Fenosa was also included in the leadership band A of the Carbon Disclosure Project (CDP).

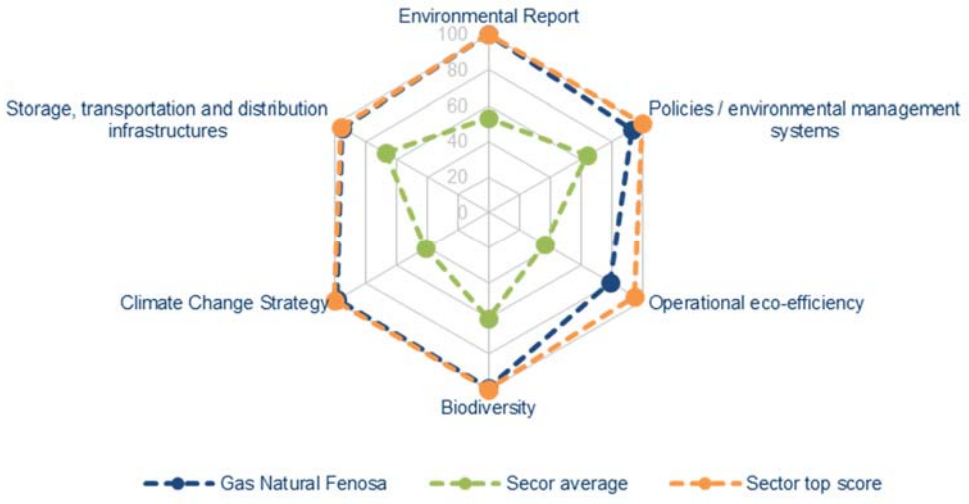
The presence of Gas Natural Fenosa on these three prestigious indices highlights the efforts made by the company in areas of corporate responsibility and transparent reporting, and represents external recognition of its excellent evolution in these fields.

Assessment of Gas Natural Fenosa on DJSI

Economic



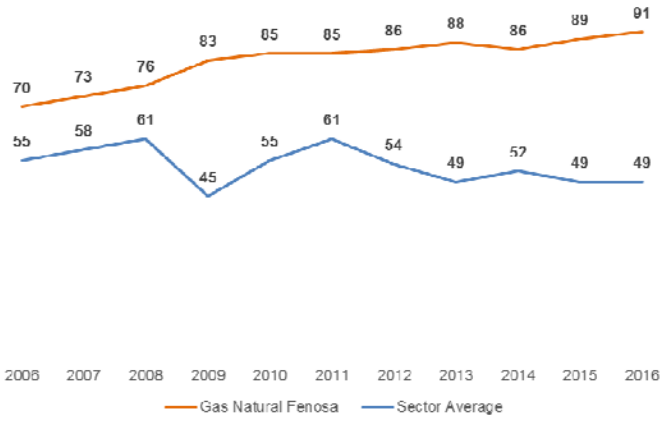
Environmental



Social

These charts illustrate the comparison of Gas Natural Fenosa to the average and highest scores in the sector in the three dimensions in which the DJSI assesses companies.

Evolution of Gas Natural Fenosa and sector average on DJSI (scale from 0 to 100)



Responsible management of the environment

Gas Natural Fenosa is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand. Gas Natural Fenosa goes beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and work and encourage our stakeholders to use energy responsibly.

Commitments and principles of responsible environmental action

- Contributing to the **sustainable development** through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.
- Contributing to the **mitigation and adaptation of climate change** through low-carbon and renewable sources of energy, encouraging savings and energy efficiency and the application of new technology.
- Integrating **environmental criteria** in business processes, in new projects, activities, products and services, and in selecting and assessing suppliers.
- Minimising adverse effects on ecosystems and fostering the conservation of **biodiversity**.
- Promoting the **efficient and responsible use of water**, introducing activities targeted at greater awareness of this resource and improving water management.
- Guaranteeing the **prevention of pollution** through ongoing improvement, the use of best available techniques and the analysis, control and minimisation of environmental risks.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Initiate certification of the integrated management model in recent businesses.	●	Conclude the incorporation into the integrated management model in recent businesses.
Improve energy efficiency in internal processes.	●	Develop the internal energy efficiency improvement plan.
Move forward in the development of biodiversity projects aligned with the Strategic Biodiversity Action Plan.	●	Introduce measures on natural capital.
Roll out the second stage of the water management strategy.	●	Evolve the assessment methodologies of environmental issues.

Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

Gas Natural Fenosa's contribution to SDG 6: Clean water and sanitation

The sixth Sustainable Development Goal (SDG) set by the Organisations of the United Nations stands on the basis that "access to water, sanitation and hygiene is a human right, yet 1.8 billion people globally use a source of drinking water that is fecally contaminated and some 2.4 billion people lack access to basic sanitation services".

With regard to Responsible Environmental Management, Gas Natural Fenosa has strengthened its commitment to water management. In addition to considering this aspect in the Corporate Responsibility Policy, the company demonstrates its commitment through the Water Strategy. This strategy permits it to be aware of the overall state of water resources and to improve management of water to local needs and environmental constraints. In addition, in 2016 the company presented the Water Management Report and every year it calculates its water footprint.

Gas Natural Fenosa's contribution to SDG 7: Affordable and clean energy

The seventh Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "a well-established energy system supports all sectors: from businesses, medicine and education to agriculture, infrastructure, communications and high-technology". One in five people around the world live without electricity.

In relation to Responsible Environmental Management, Gas Natural Fenosa operates a commitment to eco-efficiency, rational use of natural and energy resources and mitigating climate change by reducing its carbon footprint. Its contribution goes hand in hand with innovation, promotion of energy saving and efficiency at its facilities and those of the customer, use of low-carbon and renewable energies and employing the best available technologies.

Gas Natural Fenosa's contribution to SDG 8: Decent work and economic growth

The eighth Sustainable Development Goal (SDG) set by the Organisations of the United Nations is upheld on the grounds that "to achieve sustainable economic development, societies must create conditions for people to have access to quality jobs, stimulating the economy without damaging the environment".

With regard to Responsible Environmental Management, Gas Natural Fenosa performs its activity disassociating economic growth from environmental degradation. Among other measures based on technological innovation, energy saving and efficiency, the company is committed to the use of renewable and low-carbon energies, in which natural gas will play a predominant role.

Gas Natural Fenosa's contribution to SDG 11: Sustainable cities and communities

The eleventh Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "half of humanity live in cities today, and this number will continue to grow. Cities occupy just 3 per cent of the Earth's land, but account for 60-80 per cent of energy consumption and 75 per cent of carbon emissions".

In relation to Responsible Environmental Management, Gas Natural Fenosa performs its activity undertaking to ensure the prevention of pollution, as well as minimisation and control of environmental risks. The company makes investments to reduce emissions of natural gas into the atmosphere and minimise the environmental impact on the environments in which it operates regarding the use of water, soil and generation of waste, among other actions to protect the natural heritage.

Gas Natural Fenosa's contribution to SDG 12: Responsible consumption and production

The twelfth Sustainable Development Goal (SDG) set by the United Nations Organisations is upheld on the basis that "should the world population reach 9.6 billion people by 2050, we will need the equivalent of almost 3 planets to maintain the current lifestyle".

With regard to Responsible Environmental Management, Gas Natural Fenosa performs its activity with a commitment to responsible production and consumption that goes beyond the legal requirements. The company carries out actions to reduce consumption of resources, water and energy. The company also carries out educational work with its stakeholders: training employees to improve their environmental performance and raising awareness of suppliers and customers in these areas.

Gas Natural Fenosa's contribution to SDG 13: Climate action

The thirteenth Sustainable Development Goal (SDG) set by the United Nations Organisations is upheld on the basis that "if left unchecked, climate change will undo a lot of the progress made over the past years in development. Severe weather and rising sea levels are affecting people and their property in developed and developing countries".

In relation to Responsible Environmental Management, Gas Natural Fenosa operates a commitment to the adaptation and mitigation of climate change. The company has a strategy for climate change, coupled with a GHG minimisation strategy and a 2016-2020 strategic vision. It also measures its carbon footprint in order to minimise this and has developed a strategy for reducing greenhouse gases. This involves introducing clean development mechanisms, producing and supplying low-carbon energy, promoting energy efficiency at its facilities and at those of its customers, being committed to sustainable mobility and raising awareness of stakeholders in the field of energy saving and efficiency. It has also launched a plan of voluntary compensation of emissions.

Gas Natural Fenosa's contribution to SDG 14: Life below water

The fourteenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "oceans and the species that live there are being affected by the high levels of waste in their waters, overfishing and poor management of the marine environment".

With regard to Responsible Environmental Management, Gas Natural Fenosa performs its activity with a commitment to life below water. In the management of dumping, studies are conducted into the quality of water from power plants once treated, and the findings of these analyses guarantee that the company does not generate significant impacts on the aquatic ecosystems. The company also partners with third parties, especially conservation organisations and government agencies, to perform activities in this field, including the cleaning of coastal areas and the protection of marine species.

Gas Natural Fenosa's contribution to SDG 15: Life on land

The fifteenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "30% of the land surface is covered by forests and these, as well as producing food security and refuge, are fundamental in combating climate change".

With regard to Responsible Environmental Management, Gas Natural Fenosa has a sustainability strategy and performs its activity with a commitment to the life of terrestrial ecosystems. The company carries out actions for the protection and conservation of species and natural areas that go beyond legal requirements, performing diagnostic studies of the areas surrounding its facilities and providing education and awareness activities for its stakeholders.

1. Commitment to the environment

At Gas Natural Fenosa we work to ensure compliance with environmental legislation, to reduce the environmental impact, to mitigate climate change, to preserve the biodiversity of the surrounding area, to optimise consumption of natural resources such as water, to prevent pollution and to drive ongoing improvement. In all of these we go beyond the legal regulations.

In 2016, progress was made in the certification of new environmental management systems pursuant to the ISO 14001 and the company's own requirements, registering a slight increase in the percentage of certified Ebitda as a result of the incorporation of part of the electricity distribution activities in Chile. During 2017 we expect completion of the works for adaptation and certification to international benchmarks and internal requirements in environmental management.

As for climate change, in 2016 there have been significant reductions in direct CO_2 emissions compared to 2015, as a result of lower production of coal generation in Spain in benefit to production with fewer emissions. As a result, the specific emission per unit of energy generated was significantly reduced compared to 2015.

In 2016, the company also performed many and varied actions to preserve biodiversity, many in response to the requirements laid down by the environmental authorities.

As part of its commitment to the environment and employing efficient management of natural resources, in 2016 Gas Natural Fenosa made progress with the water strategy and commenced works in order to define, in 2017, the action lines in issues of the circular economy.

2. Environment management

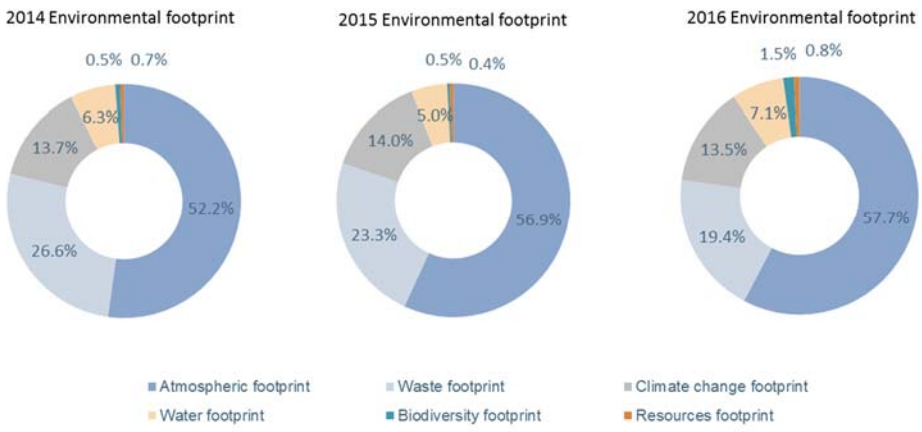
2.1. The environmental management of processes

Gas Natural Fenosa's environmental management model is based on the international ISO 14001 standard, and forms a basic part of the company's integrated management system for quality, the environment, and health and safety.

In 2016, the company retained all environmental certifications and extended the certified scope to Gas Natural Fenosa Engineering and the activities of CGE Chile. Elecda, Eliqsa, Emelari. In addition, the certifications are being adapted to the new revision of the international standard ISO 14001:2015.

In 2016, 90.1% of the Ebitda generated through activities that have an impact on Gas Natural Fenosa was covered by the environmental management model set out in the ISO 14001 standard.

We should also highlight the methodology used to calculate the Environmental Footprint of Gas Natural Fenosa.



Processes by country with certified environmental management

Country	Exploration and production	Supplies and transportation	Generation	Gas and electricity distribution	Wholesale commercialisation and global	Retail commercialisation	Customer service	Human resources management	Physical resources management	Technology and engineering management
Argentina				●						
Brazil				●		●				●
Chile				●		●	●			
Colombia				●		●				●
Costa Rica			●							
Spain	●	●	●	●	●	●	●	●	●	●
Italy				●		●				
Kenya			●							
Morocco		●								
Mexico			●	●						●
Moldova				●		●				
Panama			●	●		●				●
Dominican Republic			●							

● Certified.

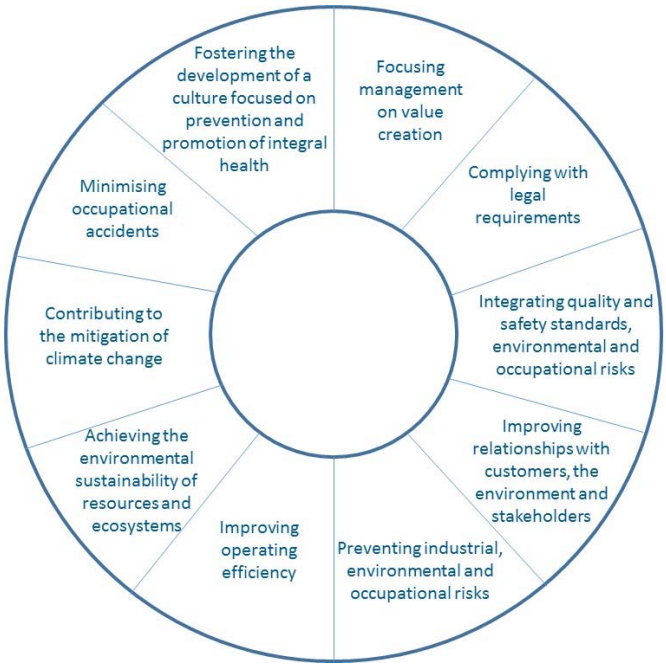
● In the process of obtaining certification or excluded in the IMS of Gas Natural Fenosa.

2.2. Management planning

Environmental planning is carried out within the framework of the company's corporate responsibility policy and strategy. It falls within the Quality, Environment & Health and Safety Plan "CAMASS Plan". This plan encompasses strategies and action lines that define the working guidelines for each period, so that all businesses approve their own management programme that is included in the plan.

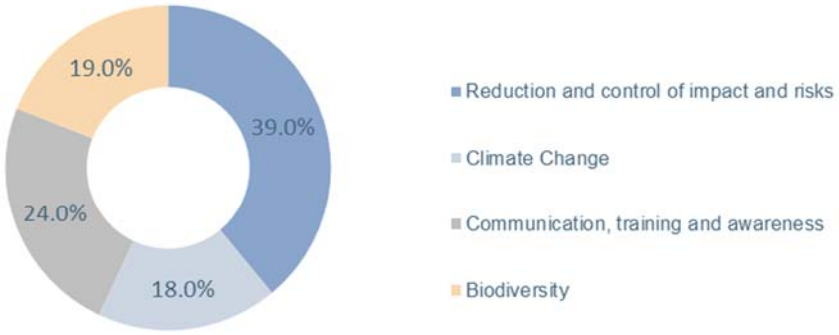
In 2016, 203 environmental targets were defined targeted at achieving environmental sustainability, and we managed to comply with 83.6% of the plan.

Action lines of the plan



	Relevant actions carried out in 2016
Reduction and control of environmental impact and risks	Actions in the area of waste management, as well as reduction in the consumption of resources, water and energy, and of the emissions generated in operations.
Water management	Actions in the field of water management, aimed at minimising consumption and improving quality.
Climate change	Actions to reduce greenhouse gases (GHG) as part of the company's climate change strategy.
Communication, training and environmental awareness	Actions focused on offering suitable, reliable and transparent information to all interested parties, as well as training employees to improve the company's environmental performance, and to raise awareness of suppliers and customers.
Biodiversity and natural capital	Actions to preserve biodiversity as part of the company's strategy, through specific projects such as better control of its own activities, as well as by signing agreements and sponsorships with the appropriate institutions.

Distribution of targets by subject matter



2.3. Tools and methodologies

Environmental management tools

Gas Natural Fenosa has a range of different tools and methodologies in issues of the environment, prevention, health and quality, providing consistency and uniformity in the company's processes.

In 2016, the Themis tool, used for the control and management of legal requirements, was used to serve 1,600 users. It allowed them to find out and access a total of 14,095 legal requirements in issues of the environment, prevention, health and quality. This year we performed verification of the contents of this database with a three-year validity.

In 2016, we consolidated the module of findings in the Prosafety tool, for recording and handling of nonconformities, observations and opportunities for improvement required for ongoing improvement of the company's environmental management. At the year-end, it was already being used by more than 1,400 users, and has recorded more than 6,000 findings and 10,500 actions managed.

In the field of integrated management, a total of 89 environmental audits, 42 external and 47 internal were conducted.

Environmental methodologies

Among the different environmental methodologies employed by the group, we can highlight the methodology used to calculate the environmental footprint of Gas Natural Fenosa. The environmental footprint is a multi-criteria measurement of the company's environmental performance from the whole life-cycle perspective, thereby revealing the direct and indirect environmental impact generated by its activities, and which aims to reduce the environmental impact, taking into account the activities of the supply chain.

The company has developed a methodology for the evaluation of significant environmental aspects, called the "Environmental aspects document", which is implemented every year in all activities and businesses that are environmentally certified. It allows us to identify the most important aspects to consider both in the environmental management of these and the environmental targets defined.

2.4. Environmental risks [306-3]

Every year Gas Natural Fenosa identifies and records environmental incidents to analyse, develop, exchange and apply preventive measures.

The company assesses facilities that have an environmental risks through reference to the UNE 150008 standard and other methodologies targeted at the same. Self-protection plans and their corresponding procedures are used to identify and establish the responses to potential accident and emergency situations, in order to prevent and reduce their environmental impact.

During 2016 we have managed to define common reporting criteria in the ProSafety tool with regard to environmental occurrences, which provides for appropriate and uniform monitoring of these events and enables us to make substantial improvements in the identification, analysis, development, exchange and application of preventive measures. In this way, the company contributes to Sustainable Development Goals (SDGs) 3, 6, 12, 14 and 15, reducing the occurrence of environmental events and their consequences that can cause environmental pollution of air, soil or water that could affect people's health.

A total of 47 spills were recorded during 2016. Most of them were contained by internal means and where this was not possible measures were taken to ensure that the consequences were slight. Because of their volume and nature, the following spillages are worthy of mention:

Incident	Location	Severity	Action taken by Gas Natural Fenosa
Spillage of 140 litres of oil from a transformer onto a nearby irrigation channel	Spain	Minor	Removal of surface oil on the water using absorbent blanket and excavation of soil affected
Spillage of 100 litres of sulphuric acid at water treatment plant	Spain	Minor	Cleaning and collection at the neutralisation tank. Tank acid was neutralised to pH 7 and sent to the effluents discharge
Spillage of 40 litres of oil in a transformer in a sandy area of a public terrestrial-maritime domain and area of blacktop	Spain	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 20 litres of oil in an overhead transformer.	Spain	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 20,234 litres of oil through theft from transformers	Chile	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 18,400 litres in a transformer.	Colombia	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 30 litres of oil through theft of a transformer.	Moldova	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 18 litres of oil in a transformer.	Panama	Minor	Cleaning and management by the waste manager of the waste produced
Spillage of 1 tonne of fuel oil in the machine room	Kenya	Minor	Spillages occurred in the engine room so they have not had direct contact with the natural soil

2.5. Awareness and training

Gas Natural Fenosa has developed the 2016 Environmental Communication Plan with numerous internal and external actions that it channels through newsletters about climate change, social networks and press releases, among others.

Also of note in 2016 was the development of audiovisual reports on biodiversity, carbon footprint reports, management of water and the environmental footprint, to inform society about what the company is doing in these issues.

In issues of climate change, Gas Natural Fenosa participated at the Conference of the Parties (COP) of the UN Framework Convention on Climate Change (UNFCCC), known as COP22 and held in Marrakech. It also took part as guest speaker at different events, notably the Climate Change Cluster of Forética and the Energy Club. Elsewhere, the company partnered the Empresa y Clima Foundation in the development and presentation of the Worldwide Status of CO_2 Emissions Report-2014.

In addition, Gas Natural Fenosa was in attendance at the 13th National Congress of the Environment (CONAMA), disclosing its actions in issues of climate change, biodiversity and management of water. Special emphasis was placed on the rehabilitation project of the Limeisa mine. The company also took part in various working groups and conferences held during the same.

In issues of natural capital, the company participated, both as sponsor as well as speaker, at the Natural Capital Summit held in Madrid.

From a more global point, Gas Natural Fenosa was part of the group of founding members of the Spanish Green Growth Group, formed by Spanish companies interested in sustainable growth.

Corporate environmental volunteers

The company has continue promoting corporate environmental volunteers, targeted at encouraging a positive attitude in the preservation of nature among employees and their families.

The acquisition of good conduct habits, such as saving water and energy, the proper segregation of waste, or caring for the natural environment, is the way each company employee can contribute value through individual responsibility with the common aim of helping towards the sustainable development of the planet.

During 2016, 514 volunteers have participated in 32 days of environmental preservation, held in protected areas and other places of natural value, and a total of 2,457 hours have been spent on this task.

In addition to the environmental volunteer actions performed in Spain, we also performed a host of actions in Argentina, Colombia, Mexico, Moldova and Panama.

2.6. Legal requirements

Gas Natural Fenosa continuously monitors environmental legislation to be aware in advance of the repercussion this has on its activity, to define its positioning and to adapt itself to new requirements.

In this context, in 2016 the company actively participated in the COP22 of Marrakech, where progress was made in approving the rules and processes of implementation of the Paris Agreement.

In 2016, Gas Natural Fenosa carried out the energy audit for more than 85% of consumption in Spain, in accordance with Royal Decree 56/2016 which transposes the European Directive on Energy Efficiency. These audits are in addition to those already conducted in France and Italy during 2015 in compliance with this directive. Some of the resulting measures will be introduced over the next few years.

In 2016, the company did not receive any significant environmental sanctions, i.e., those for an amount in excess of 60,000 euros and/or which are final judgements in the administrative channel.

To guarantee effective communication with the external interested parties, there are different formal complaint mechanisms in operation. Dealing with environmental complaints properly is of great value because these complaints represent an opportunity to improve environmental management.

In 2016, there were 38 environmental complaints or claims, 97% of which were resolved.

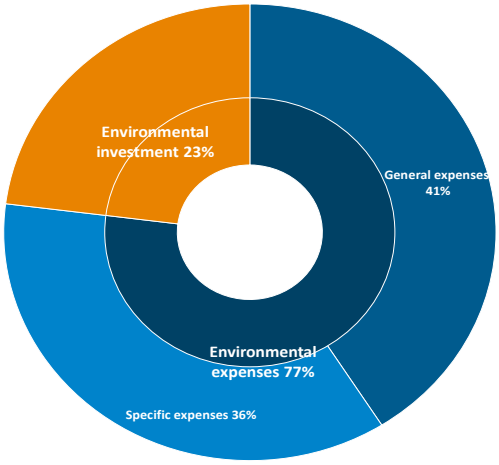
2.7. Environmental costs

Gas Natural Fenosa makes significant efforts in issues of environmental protection, making sure its facilities are provided with the resources required to guarantee compliance with environmental legislation; to reduce the environmental impact of its activities; to prevent contamination and climate change; to control and minimise emissions, dumping and waste; to obtain new environmental certificates for its facilities; to improve environmental management and information systems, and to increase environmental training and awareness of workers, customers and suppliers.

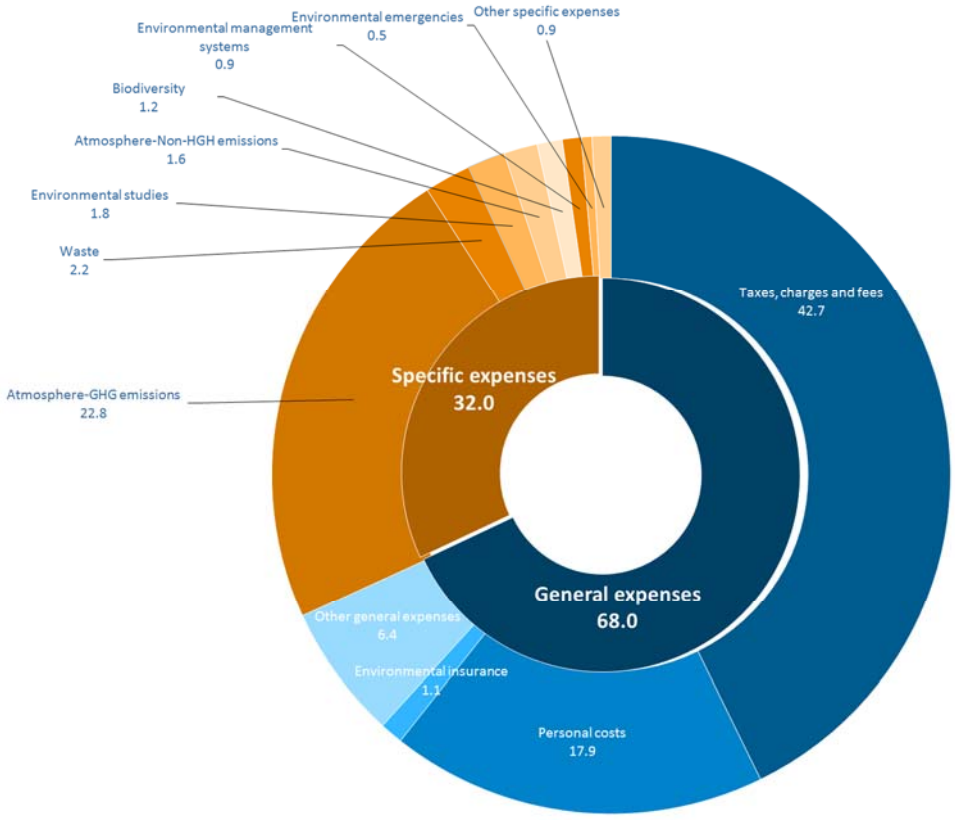
The environmental actions carried out in 2016 came to a total investment of 60 million euros, of which 14 million euros were for direct environmental investment and 46 million euros for expenses incurred in environmental management, excluding the emission rights. The most outstanding actions were those concerning the improvement to the combustion system of power stations, to different acts of renewal and improvement of generation facilities, and improvements to the distribution grid to reduce emissions of natural gas into the atmosphere.

The cost of emission allowances consumed in 2016 was 56.7 million euros. In 2016, we reviewed the accounting policy of qualifying these emission allowances as intangible fixed assets.

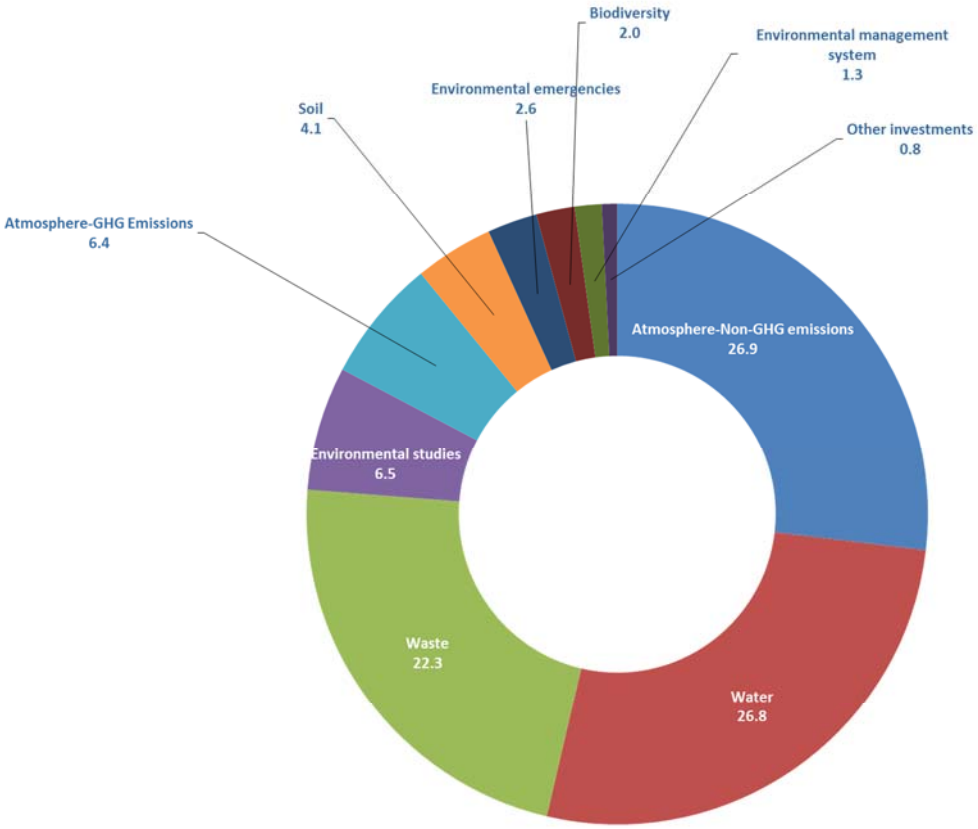
Breakdown of environmental costs



Breakdown of environmental expenditure



Breakdown of environmental investments



3. Environmental parameters

3.1. Atmospheric emissions [103-1], [103-2], [103-3] (Emissions and Climate change) and [305-6]

In 2016, there was an increase in absolute emissions of SO_2, NO_x and total suspended particles (TSP) into the atmosphere, due to increased operations of the coal-fired power stations, provoked by the increase of renewables production (hydraulic and wind) in Spain, as the appropriate environmental conditions were in place for this.

Elsewhere, we have complied with the Industrial Emissions Directive, which limits emissions in the electricity generation activity, to ensure that the Spanish power station sector complies with the environmental regulations.

As regards the specific emissions of SO_2 and NOx, these have also decreased. With reference to other emissions, 0.1 tonnes of mercury, 0.031 tonnes of HCFC and 0.23 tonnes of freon R22 refrigerant were emitted.

Compliance with total atmospheric emissions targets (kt) [305-7]

	2016 target value path	2016	2015	2014
SO2	21.6	18.2	24.7	22.3
NOx	37.5	30.8	37.3	31.0
Particles	N/A	1.5	2.1	1.6

Total specific atmospheric emissions (g/KWh) [305-7]

	2016	2015	2014
SO2	0.43	0.55	0.51
NOx	0.73	0.83	0.71
Particles	0.04	0.05	0.04

3.2. Waste management [103-1], [103-2] and [103-3] (Effluents and Waste management)

Within the framework of the integrated management system, Gas Natural Fenosa has procedures for waste control and management through which the systems for the adequate separation, storage, control and management of waste are defined. The company prioritises management targeted at recycling and reuse over other management options, and energy recovery rather than landfill dumping.

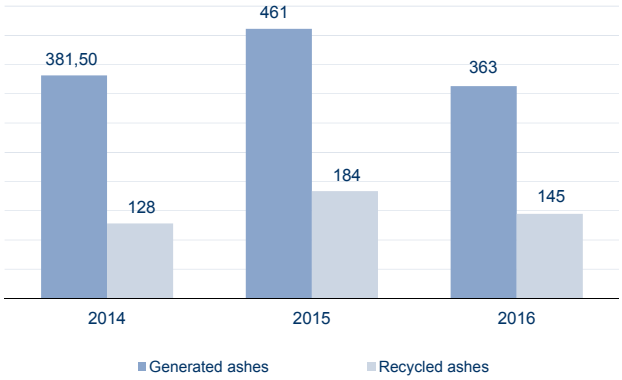
In 2016, generation of the most significant non-hazardous waste decreased significantly versus 2015. We should point out the reduction of ash and slag, and in the generation of soil and rubble. This reduction stemmed from a minor expansion of the gas distribution network and an improvement in the efficiency of the expansion works by reducing the perimeter trench. Another element that was relevant in this fall was the reduction of sludge from mining in South Africa.

In 2016, generation of the most significant non-hazardous waste increased 20% versus 2015. This is due to the increase of hydrocarbons-plus-water waste, solid waste contaminated with hydrocarbons and used oil, mainly from the electricity distribution activity.

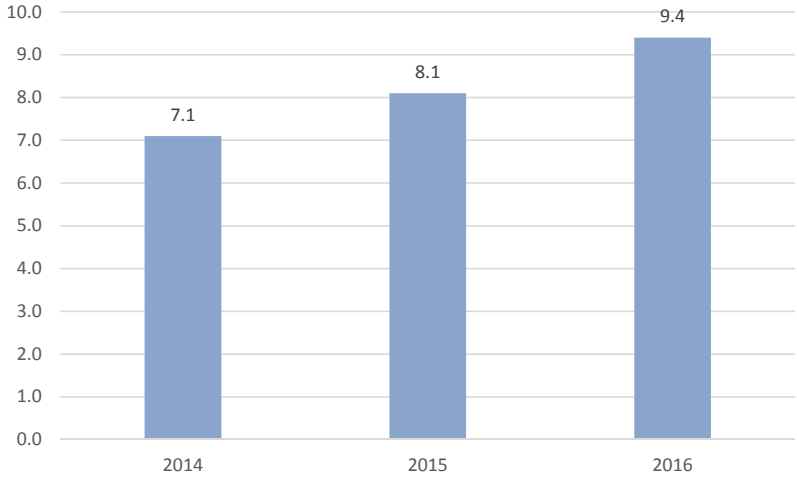
Non-hazardous waste managed and compliance with targets (kt) [306-2]

Type	2016 target value path		Amount
Soil and rubble			392.6
Fly ash			363.1
Gypsum			89.9
Sludge			81.4
Cinders			66.5
Vegetable waste			13.7
Scrap			4.7
Total		**1,287.2**	**1,011.9**

Generation and recycling of ashes (kt) [306-2]



Production of hazardous waste (kt) [306-2]



Hazardous waste managed and compliance with targets (kt) [306-2]

Type	2016 target value path	Amount
Hydrocarbons plus water		4.8
Sludge from oil and fuels		1.9
Solid waste contaminated with hydrocarbons		1.4
Used oil		0.6
Hydrocarbon-contaminated soils		0.5
Electric and electronic waste		0.3
Total	**7.8**	**9.5**

Hazardous waste management (%) [306-2]

	2016	2015	2014
Recycling and energy recovery	86	76	93
Incineration and landfill	14	24	7

Products sold for reuse (kt)

Product	2016
Fly ash	149.3 (1)
Sludge from coal washing	57.0
Cinders	7.2
Sludge from oil and fuels	1.3

(1) The difference with regard to the recycled ash value is due to the sale of stored ashes in years prior to 2016.

3.3. Water management [103-1], [103-2] and [103-3] (Water management), [103-1], [103-2] and [103-3] (Effluents and waste management), [303-2], [303-3] and [306-5]

Amount of water

Most water consumption at the facilities of Gas Natural Fenosa is due to the operation of the electricity power stations. A major part comes from water evaporation that takes place in the cooling towers. The rest is a consequence of consumption of the water-steam cycle and other ancillary services. We should state that most of the water captured is discharged back into the environment.

In 2016, there was a significant decrease in the volume of water consumed, mainly due to decreased activity at the coal-fired power stations and combined cycles.

Aware of the shortage of water in society, Gas Natural Fenosa works on a daily basis to reduce global water consumption as well as to increase the use of recycled or regenerated water for use in its activities, whether this water comes from the facilities itself from other installations. In 2016, the percentage of water experienced a slight increase 2015.

Water capture by source and compliance with targets (hm^3) [303-1]

	2016 target value path	2016	2015	2014
Surface water captured (sea)		772.49	736.65	896.12
Surface water captured (rest)*		37.04	46.28	39.12
Groundwater captured		0.14	0.64	0.19
Wastewater used from another organisation		6.80	7.19	7.30
Water captured from the mains water supply		0.19	0.21	0.24
Total volume of water captured from the environment	1,024.00	816.66	790.97	942.97

(*) Water used to fill the lake of the Limeisa mine was not taken into consideration as it was not water captured for production processes.

Water consumption and compliance with targets (hm^3)

	2016 target value path	2016	2015	2014
Consumption of cooling water		20.44	27.05	24.14
Consumption of water in water/steam cycle		0.76	1.03	0.82
Consumption of water in other processes		1.96	1.80	1.45
Consumption of water in ancillary services		0.63	0.86	0.66
Total water consumption	**30.60**	**23.79**	**30.74**	**27.07**

Water quality

The company contributes towards sustainable management of water by applying preventive measures that guarantee the maintenance of the facilities. Furthermore, in the case of heat generation power plants, we perform analytical studies of the water from the environment that receives the effluent discharge, following the criteria set out under current legislation and by the company itself. The treatment equipment and systems worked as planned in 2016, enabling effluent discharge authorisations to be met.

Furthermore, pursuant to the results of the studies conducted, the company carries out proper management of effluent discharge, and does not generate significant impacts on the aquatic ecosystems of the receiving environment. The ecological state of ecosystems where the company is present can be classified as good, except that those that reveal deterioration on grounds that are unconnected to the company's business.

Water discharge and compliance with targets (hm^3) [306-1]

	2016 target value path	2016	2015	2014
Water discharged into the sea		766.39	708.82	887.10
Water discharged into waterways		16.72	28.73	22.90
Water discharged into the public sewerage system		0.23	0.26	0.20
Water discharged into septic tanks		0.005	0.03	0.005
Water discharged for use by an aquifer		0.02	0.03	0.031
Total volume discharged	**981.20**	**783.37**	**737.87**	**910.23**

3.4. Energy and material resources [103-1], [103-2] and [103-3] (Energy efficiency and energy consumption)

The main consumptions of Gas Natural Fenosa are fuels and, to a lesser extent, chemical products used in the functional processes of our facilities, mainly electricity generation.

Materials used (tonnes)

	Amount
Fuels	**7,206,674**
Natural gas	4,364,700
Coal-fired	2,369,425
Petroleum derivatives	472,549
Other materials	**61,672**
Calcium carbonate	49,360
Magnetite	6,348
Lubricant/hydraulic oil	1,541

Sulphuric acid	1,173
Nitrogen	1,102
Sodium hypochlorite	1,085
Calcium hydroxide	1,063
Total	**7,268,346**

NB: the overall figure of other materials represents 96% of all materials considered. The use of natural gas, coal and petroleum derivatives is the same item in both tables - Total energy consumption of the organisation (TJ), and materials used (tonnes) - but expressed in different units, to respond to the corresponding GRI indicators.

In 2016, Gas Natural Fenosa continued with the elimination of polychlorinated biphenyls (PCBs/PCTs), a substance that is mainly present in some of the older electricity transformers. There are currently 187 tonnes of dielectric oils to be removed, which have a low concentration of PCB (between 50 and 500 ppm).

Total energy consumption within the organisation (TJ) [302-1]

	2016	2015	2014
Non-renewable fuels	305.273	341.051	314.818
Natural gas	232.723	246.440	243.722
Coal-fired	55.245	79.236	57.196
Petroleum derivatives	17.305	15.375	13.900
Renewable fuels	0	0	2
Electricity acquired for consumption	18.569	17.718	11.880
Renewable electricity generated (not included in the consumption of fuels)	27.684	21.084	23.987
Electricity and steam sold	(151.556)	(162.081)	(158.195)
Total	**199.971**	**217.772**	**192.492**

The company's overall energy consumption in 2016 totalled a value of 199,971 TJ, with a decrease of 8.2%, mainly due to a lower coal-fired electricity generation and combined-cycle plants in Spain. The intensity of the company's energy consumption reached 41.0 TJ/million euros of Ebitda. Broken down by business segments, electricity generation is the activity with the highest energy intensity, followed by the distribution segments of mining, electricity distribution, infrastructures, gas commercialisation and, finally, gas distribution.

Energy consumption outside the organisation (TJ) [302-2]

	2016	2015
Final use of the natural gas commercialised	2,008,799	1,962,240
Final use of the coal extracted	42,302	46,990
Total consumption	**2,051,101**	**2,009,230**

2016 energy consumption intensity ratios within the organisation by segment of activity [302-3]

	Gas distribution	Electricity distribution	Electricity	Gas	Mining	Total
Energy consumption within the organisation (TJ)	3,919	18,272	165,522	12,072	186	199,971

Ebitda (millions of euros)	1,730	1,334	972	845	1	4,882
Ratio (TJ/million euros of Ebitda)	2.3	13.7	170.3	14.3	142.9	41.0

4. Climate change [103-1], [103-2] and [103-3] (Emissions and climate change)

In order to meet the new goals to reduce CO_2 emissions, as well as to be able to offer universal access to affordable, safe and efficient energy, innovative energy solutions will play a leading role in achieving these goals. Climate change policies must encourage the development of clean technologies such as gas and renewables.

At Gas Natural Fenosa we are committed to the mitigation and adaptation of climate change through low-carbon and renewable sources of energy, energy efficiency and the application of new technology.

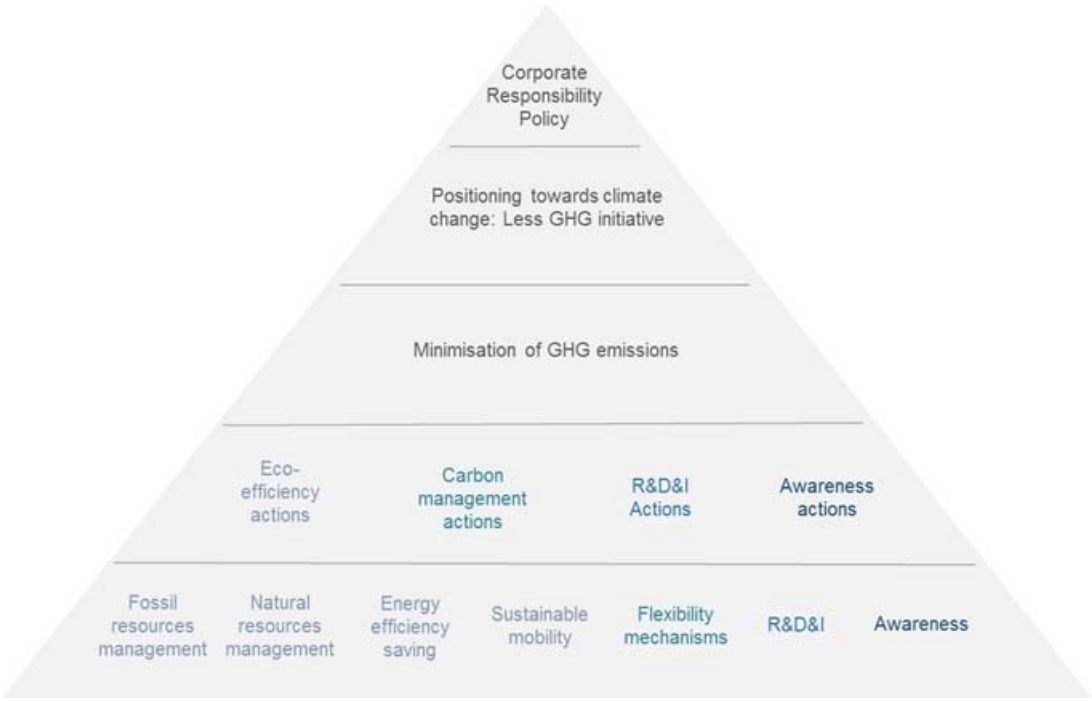
Positioning in issues of climate change

Gas Natural Fenosa's positioning vis-à-vis climate change is based on eight principles:

- Maintain energy strategies and policies in keeping with security of supply, competitiveness and environmental sustainability.
- Establish quantifiable objectives for reducing greenhouse gas (GHG) emissions.
- Work on levelling the balance of social, environmental and economic aspects to contribute to a low carbon economy.
- Encourage and optimise energy saving and efficiency at our facilities and those of our customers, as the most efficient way of fighting against global warming.
- Resort to being active in carbon markets and supporting their globalisation so that energy production and consumption trends can be sustainable.
- Guide the company's actions in order to raise awareness in society in general regarding the global solution for climate change.
- Help establish specific measures that help us reach our fair and sustainable commitments to reduce global emissions.
- Get behind projects to reduce greenhouse gas emissions on a global scale, paying special attention to developing countries.

Gas Natural Fenosa's strategy for climate change is based around four main pillars: improving eco-efficiency, carbon management, R&D&I and raising awareness.

Pyramid showing the climate change strategy of Gas Natural Fenosa



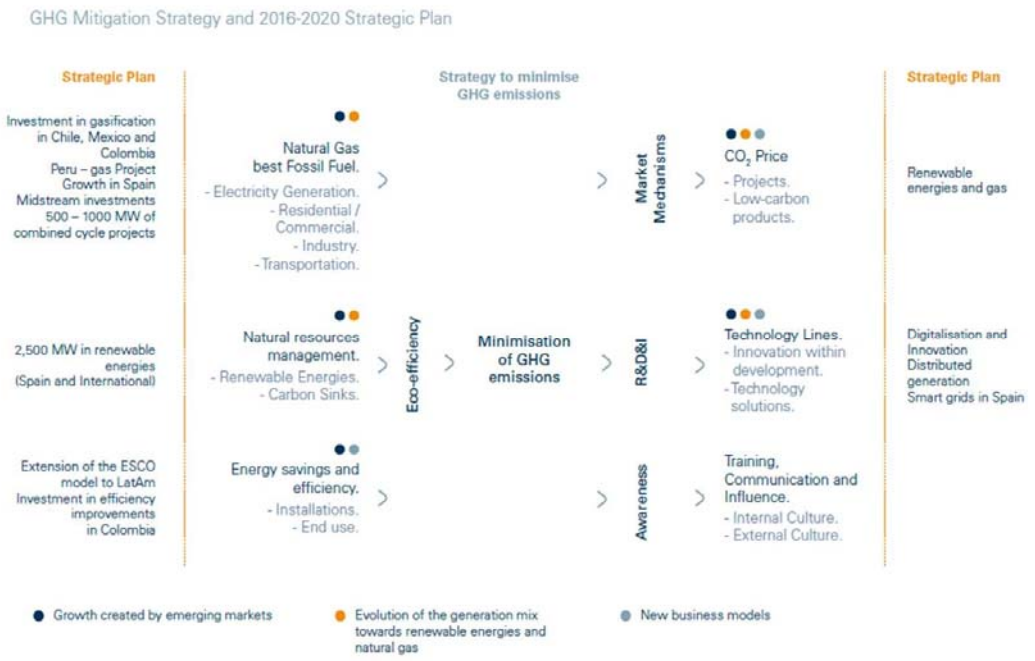
Management of climate change at Gas Natural Fenosa in figures

- Total GHG emissions (scope 1 and 2) were 21.1 $MtCO_2e$, 10.9% down on 2015.
- Specific emissions of CO_2 from electricity generation totalled 411 tCO_2/GWh, which represents a 7.6% decrease with regard to the previous year.
- In 2016, the company prevented emissions totalling 108 $MtCO_2$ thanks to the lines of action outlined in Gas Natural Fenosa's strategy: these reductions were mainly due to the replacement of the most polluting fossil fossil fuels with natural gas and by using renewable energy for the company's electricity generation plants.
- Emissions of methane per kilometre of gas transportation and distribution network totalled 9.3 tCO_2e/km.

Main indicators

	2016	2015	2014
Direct emissions of GHG ($MtCO_2e$)	**19,5**	22,4	19,8
Emission factor excluding nuclear (tCO_2/GWh)	411	445	406
Emissions prevented ($MtCO_2e$/year)	107,5	104,9	-
Emissions prevented by CDM projects ($MtCO_2e$/year)	1,1	1,4	1,0
Emissions by leaks in gas networks (tCO_2e/km grid)	9.3	9.3	9.9

For compilation of the greenhouse gas inventory we used the global heating potentials of greenhouse gases based on the 4th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), pursuant to the criteria established by the United Nations for the third stage of compliance with the Kyoto Protocol regarding National Inventories of Emissions.
The company's contribution to the achievement of SDG13 (Climate action) is based on a business model at whose core is the belief that providing clean, safe and competitive energy helps countries meet their national targets.



4.1. Response to investors with regard to climate change

The international climate change negotiation agenda has incorporated the private sector as a new and important agent. The pivotal role of the private sector in negotiations which hitherto had only been carried out at governmental level is reflected in the interest that climate change has stirred up at political, institutional and social level. At the COP22 held in Marrakech in November 2016 with the Marrakech Partnership for Global Climate Action, this new cooperation process has been endowed with legal status under the Paris Agreement

For some years now, Gas Natural Fenosa has been performing a very active role in the action against climate change, as revealed in the valuation carried out every year by the CDP. In 2016, the CDP once again recognised the company's management by incorporating it into The Climate A List; this rates the best 193 companies from around the world for their behaviour with regard to climate change.

In 2016, the Dow Jones Sustainability Index (DJSI) also acknowledged the company's climate strategy, and gave it 99 points, 11 points above the sector average.

The climate action is a new global trend that is generating major movements within the business world. The new initiatives promoted at the highest institutional level, is being widely accepted by companies. In this regard, Gas Natural Fenosa takes part in the following initiatives:

- Business Leadership Criteria on Carbon Pricing
- Caring for Climate
- Statement on fiduciary duty and climate change disclosure
- Corporate commitment to climate change
- Science Based Targets

Targets to reduce absolute emissions within scope one and two
Gas Natural Fenosa has revised its targets on absolute and specific emissions of greenhouse gases (GHG) resulting in more ambitious values than those put forward in 2015.

The target of the average reduction of total direct emissions for 2013-2030 has thus been increased, taking 2012 as its base year, remaining at 17.8%. With regard to specific CO_2 emissions from electricity generation, an average emission factor target of 339 tCO_2/GWh has been set for the period spanning 2013-2030.

NB: revision of objectives under the financial consolidation perimeter.

CO_2 price

To assess the economic impact that the CO_2 price would have on its activities, Gas Natural Fenosa has developed a stochastic model with Monte Carlo simulation to determine the optimum abatement cost in the European Union in order to comply with the 2030 targets for reducing GHG emissions.

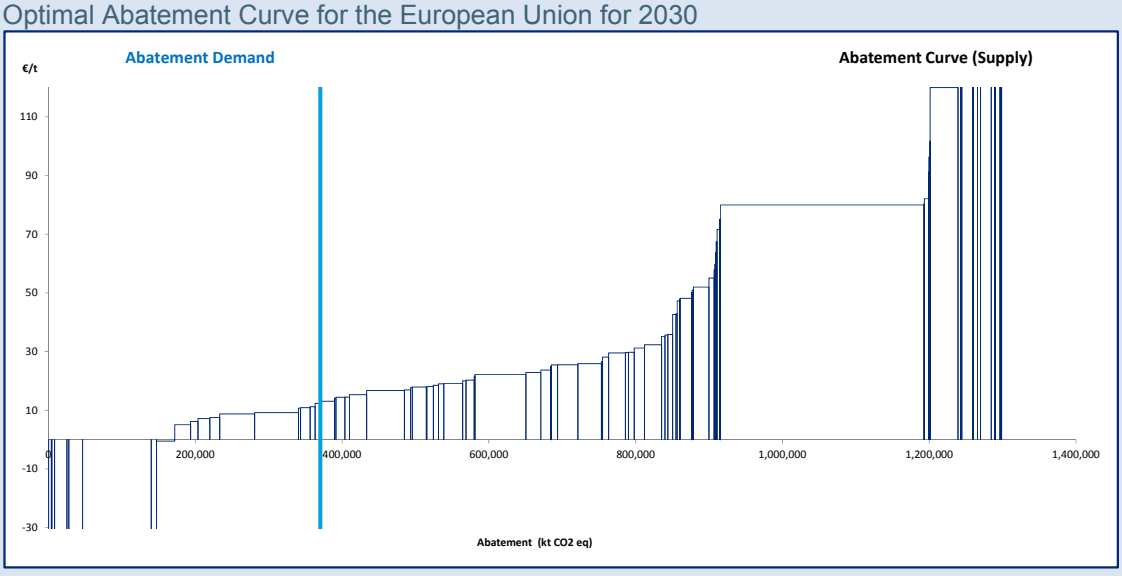
The cost of abatement of the mitigation alternative is calculated as the net present value (NPV) divided by the emission reductions achieved. The abatement curve obtained by the model does not consider the external factors of the different alternatives.

In the analysis carried out for 2016, a clear reduction in the cost of optimal abatement was obtained and this could be applied to European reduction targets for them to be met. The reasons are: the reduced cost of wind and solar generation technologies and the trend of decreasing regulated emissions in Europe. This abatement cost represents the minimum price from which the reduction targets could be met by 2030.

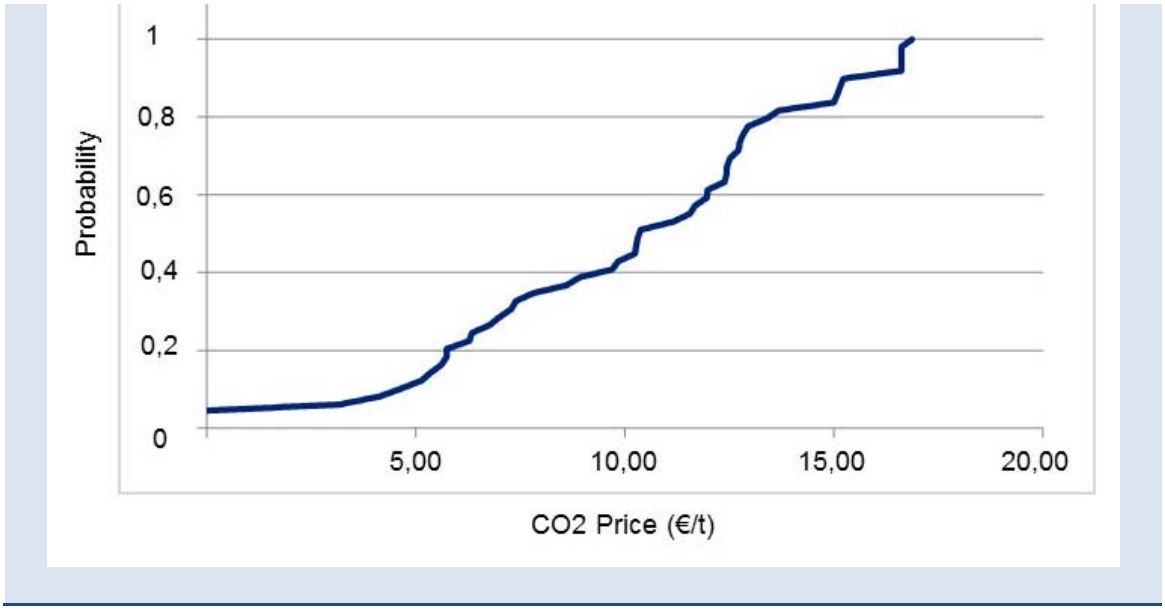
The tool works with several hypotheses and scenarios. For intermediate scenarios, prices would vary between a range of 10 and 15 euros/tCO_2 by 2030.

Results obtained from the analysis of a scenario representative of the optimum abatement cost curve for the European Union for 2030 and probability function of CO_2 prices using the MonteCarlo simulation with @Risk:

Optimal Abatement Curve for the European Union for 2030



CO_2 Cost Probability Function (2030)



4.2. Risks and opportunities regarding climate change

Risks and opportunities associated with climate change are included in the Gas Natural Fenosa's Corporate Risk Map. Their measurement allows them to be integrated within the corporate strategy and to set targets with the aim of keeping risks to a minimum and maximising opportunities.

Types of risks and opportunities

- Physical parameters: increase of temperature, modification of rainfall, rising sea level and extreme weather events.
- Market parameters: existence of CO_2 markets and the development of other possible markets with similar features
- Regulatory: development of energy policies to mitigate climate change and which revolve around fostering the use of renewable energies and promoting energy efficiency.
- Reputational risks and opportunities.

Under normal operating conditions of the transmission and distribution network, gas leaks depend on the pressure level and the types of material. To reduce these leaks, Gas Natural Fenosa always uses materials with the lowest leakage rate when constructing new networks or when renovating old ones, and high pressure steel and polyethylene for the rest.

Under abnormal operating conditions, when leaks or cuts occur, Gas Natural Fenosa works with internal procedures aimed at venting the least amount of gas into the atmosphere.

Categories of impact on the Risk Map

Category	Factors
Environmental temperature	Natural gas demand. Electricity demand. Yield by combined-cycle facilities.
Rainfall	Generation dispatch. Price of the wholesale electricity market.

Rising sea level	Floods. Loss of productivity.
Extreme weather events	Variation in the frequency and intensity of extreme weather events.
CO_2 markets	2013-2020 trading greenhouse gas emission rights scheme. Intervention of the European Commission. Introduction of CO_2 capture technology. Price of the wholesale electricity market. Thermal gap.
Renewable energies	Impact on the power generation. Awareness of the wholesale electricity market prices.
Energy efficiency	Natural gas and electricity demand. Penetration of the electric car: increased demand for electricity and increased use of installed power.
Company reputation	Impact on the reputation of the company.

Gas leaks under normal operating conditions of the transmission and distribution network depend on the pressure level and the type of materials. For the construction of new networks or the renovation of old ones, Gas Natural Fenosa always uses materials with the lowest leakage rate and high pressure steel and polyethylene for the rest. Furthermore, it opts for the adoption of elements designed to limit leaks during the installation process.

Under abnormal operating conditions, in the case of leaks or cuts – breakages that are mainly caused by third parties – Gas Natural Fenosa works with internal procedures aimed at limiting the amount of gas emitted into the atmosphere and makes said third parties aware of the location and of the necessary maintenance precautions when operating in the environment around our networks.

4.3. Promoting eco-efficiency and resource management

This is the main action line of the company's climate change strategy and it firmly believes that natural gas is the best fossil fuel alternative for reducing emissions and to substitute more polluting fossil fuels.
Natural gas allows the use of advanced and efficient technologies which, coupled with the characteristics of the molecule, increase the efficiency of technologies to reduce consumption and which, thanks to the molecule´s characteristics, favours the diversification of fuels and reduction of atmospheric emissions.

By using this fuel in electricity generation and in residential, commercial, institutional, industrial and transport sectors, we are avoiding emissions with regard to less efficient fuels in terms of carbon.

Main lines of work on eco-efficiency and resource management	
Management of renewable resources	As regards management of renewable resources, Gas Natural Fenosa remains committed to the introduction of mature renewable technologies. For 2016, electricity production from renewable sources (hydraulic and wind) was 6,339 GWh, up 40% from the previous year, due mainly to a year that was more hydrologically active.
Energy efficiency and saving actions	The energy efficiency and saving actions focus on the company's own facilities and on the end use of the energy at the customers' premises. In 2016, we continued with the Energy Efficiency Operations Plan at the coal-fired and gas power stations, with renewal of the pipework and connections of the gas distribution network, renewal of the equipment with SF_6 and energy savings carried out at the work centres. As regards the final use of energy, the efficiency solutions of Gas Natural Fenosa targeted at customers from the tertiary sector, public administrations and industry have played a major role in reducing CO_2e emissions through the replacement and renewal of boilers, the sustainable mobility solutions based on natural gas, the efficient lighting service and the electric air conditioning solutions. With regard to SDG 7 (Affordable and clean energy), Gas Natural Fenosa believes that this goal should be rooted in progress towards energy that is available, affordable and sustainable.

4.4. Carbon management [EU5]

Gas Natural Fenosa performs integral management of its emissions rights portfolio for Stage III (2013-2020) of the Kyoto Protocol. Due to the absence of free allotment rights for electricity generation over this period, Gas Natural Fenosa has to acquire 100% of the emission rights and credits required to achieve annual compliance through its active participation, both in the primary market, through auctions, as well as the secondary market.

In 2016, overall consolidated emissions of CO_2 of the power plants affected by Directive 2003/87/EC, which sets up a regime for trading greenhouse gas emission rights, were 10.5 $MtCO_2$ versus the 13.5 $MtCO_2$, in 2015.

As regards the Clean Development Mechanisms (CDM), as part of the flexibility mechanisms of the Kyoto Protocol, Gas Natural Fenosa was the first Spanish company to achieve registration of this kind with the United Nations, with Los Algarrobos hydroelectric power, in Panama.

Since then, the company has carried out further CDM projects such as the small power plants of Macho de Monte and Dolega (Panama), the hydroelectric power plants of La Joya and Torito (Costa Rica), the project to recover methane gas from the Doña Juana landfill site, the hydroelectric power plant of Amaime (Colombia) and the Bií Hioxo wind (Mexico).

4.5. Research, development and innovation (R&D&I)

In 2016, Gas Natural Fenosa continued to promote the development of innovation projects whose main lines of action contribute to the development and implementation of technological solutions,

allowing the most important challenges related to sustainability, environmental impact and efficiency to be improved and solved.

Main lines of work in environmental R&D&I	
Sustainable mobility	Gas Natural Fenosa has mainly focused on the development of projects for sea and land transportation using gas as a fuel. With regard to SDG 11 (Sustainable cities and communities), Gas Natural Fenosa includes sustainable mobility to be among its priorities. Vehicular natural gas (VNG) contributes to improving the quality of life in cities by making an economically competitive, clean and noise-free technology available to society compared with conventional liquid fuels of diesel and petrol.
Efficiency and energy services	Gas Natural Fenosa continues to increase its commitment to energy efficiency by adopting a more mature focus in different action areas. The company is focused on improving procedures to increase energy efficiency in all links of the value chain, and is determined to provide customers with information and services to enable them to reduce their energy consumption. The European Union defines heat recovery in urban environments as one of the strategic lines in the field of energy efficiency. Gas Natural Fenosa is therefore developing new solutions in urban and industrial environments, as well as models of innovative businesses to foster the development of such solutions.
Renewable gas	The company is working on the principles of operation and on the advantages of the technologies available for the production of biomethane from biogas and solid biomass to encourage the use of renewable natural gas. The use of renewable natural gas provides energy recovery from biomass, opening up the possibility of distributing and consuming gas produced domestically, reducing external energy dependence and contributing to the development of the local economy, and helping to meet the targets of the European Union by 2020.
Customer	In the Smart Client area of innovation, recently created, the company is focusing on providing products and services with high value-added for different types of end customers. This area is developing initiatives based mainly on three core actions: distributed generation and generation for self-consumption by demonstrating the use of batteries for home consumption and small businesses; and the integration of new solutions for the end consumers, in which different initiatives are implemented to demonstrate the technology. These initiatives include the Smart Home and Smart Buildings concept, representing an excellent environment for technology development in the quest for energy efficiency and reducing the environmental footprint of the end user.

4.6. Awareness

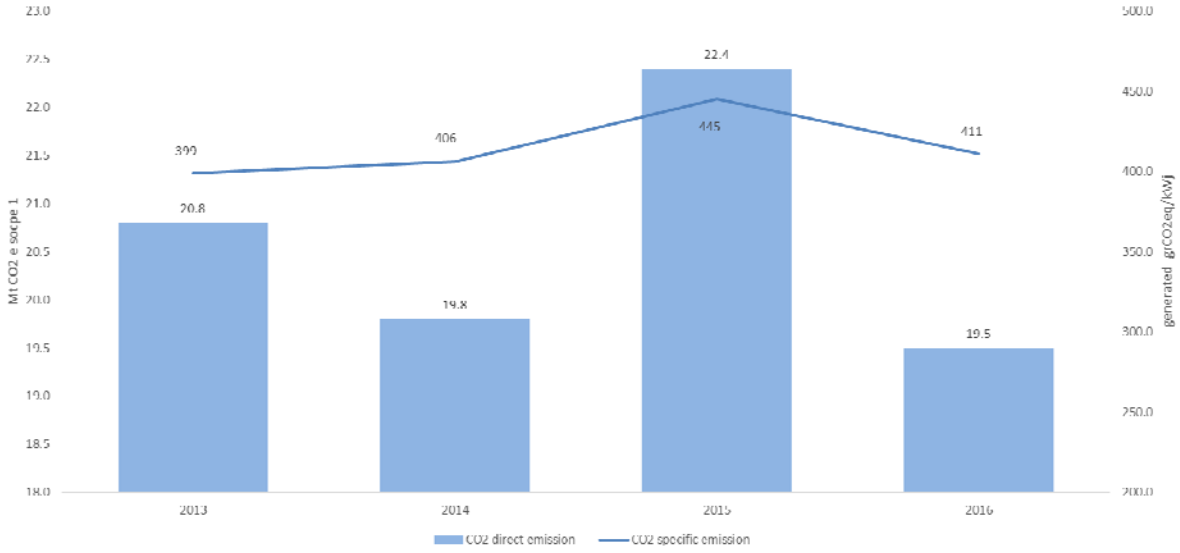
The Gas Natural Fenosa Foundation organises acts, courses and seminars to provide education and to raise environmental awareness. Its activity focuses mainly on the sphere of energy and the environment, addressing issues such as climate change, savings and efficiency in the use of energy, and sustainable mobility, among others. Within the many events organised by the foundation, the 15th International Seminar on Energy and the Environment, called “The

Agreements on Climate Change between Paris and Marrakech: Ratify and Implement" was particularly relevant.

Main actions and communications related to climate change in 2016

- Publication of the seventh carbon footprint report.
- Sponsorship of the "Status Report on CO_2 Emissions Worldwide", in collaboration with the Empresa y Clima Foundation.
- Plan for the voluntary compensation of greenhouse gases, the Compensa 2 initiative through which, in 2016, we compensated a total of 57,518 tCO_2.
- Active participation at the Climate Change Cluster of Forética and to the Spanish Green Growth group.
- Participation at the COP22 in Marrakech, the Framework Convention of the United Nations on Climate Change, which aims to reduce the concentrations of greenhouse gases in the atmosphere.

Direct GHG emissions. Total Gas Natural Fenosa ($MtCO_2e$ and $grCO_2/kWh$ generated) [305-1]



Direct GHG emissions. Total Gas Natural Fenosa ($ktCO_2$ e) [305-1]

	CO_2	CH_4	N_2O	SF_6	HFC	PFC	Total group
Electricity generation	17,487.3	6.6	25.1	0.2	0.9	0.0	**17,520.1**
Gas distribution	8,9	1,361.2	0.0	0.0	0.0	0.0	**1,370.1**
Gas (infrastructures)	651,3	3,2	2.5	0,0	0.0	0,0	**657.0**
Electricity distribution	0,0	0.0	0.0	24.7	0.0	0.0	**24.7**
Mining	2.1	0.0	0.0	0.0	0.0	0,0	**2.1**
Total	**18,149.6**	**1,371.0**	**27.6**	**24.9**	**0.9**	**0.0**	**19,574.0**

Indirect CO_2 emissions. Total Gas Natural Fenosa ($KtCO_2$) [305-2] and [305-3]

	2016	2015	2014
Fixed sources. Indirect CO_2 emissions. Scope 2	1,631	1,460	678
Emissions from natural gas sold to third parties. Scope 3	112,694	109,885	91,297
Emissions from coal extracted from the Kangra mine. Scope 3	4,002	4,445	4,349
Total	**118,327**	**115,790**	**96,324**

Ratio of energy emissions intensity by segment of activity 2016 [305-4]

	Gas distribution	Electricity distribution	Electricity	Gas	Mining	Total
Emissions of GHG ($ktCO_2e$)	1,370.1	24.7	17,520,1	657.0	2.1	19,574
Ebitda (millions of euros)	1,730	1,334	972	845	1	4,882
Ratio ($ktCO_2e$/million euros of Ebitda)	0.8	0.02	18.0	0.8	1.6	4.0

Initiatives for reducing GHG emissions (ktCO2) and associated energy savings (TJ) [302-4], [302-5] and [305-5]

Emissions prevented	Emissions prevented (tCO_2e) 2016	Energy savings (TJ) 2016	Emissions prevented (tCO_2e) 2015	Energy savings (TJ) 2015
GAS NATURAL	**100,580,887**	**456,431**	**99,278,030**	**453,006**
Most natural gas fossil energy to be replaced by other fossil fuels:				
Electricity production	55,122,580	347,937	55,692,489	350,953
Industry	22,304,946	37,000	22,012,880	36,559
Residential/Commercial	14,144,703	53,126	12,340,491	46,413
Transport	1,845,746	6,657	2,127,152	7,672
Cogeneration	7,162,912	11,711	7,105,018	11,409
NATURAL RESOURCES MANAGEMENT	**5,590,999**	**64,958**	**4,236,318**	**47,727**
Generation of renewables to replace combustion of fossil fuels				
Wind farms	1,802,042	24,324	1,788,472	21,716
Hydroelectric production	3,298,644	40,626	2,447,775	26,010
Photovoltaic production	664	8	71	1
ENERGY SAVING AND EFFICIENCY	**1,362,432**	**21,782**	**1,351,065**	**16,586**
Energy efficiency and saving actions on the company's own facilities and on the customers' premises				
Own facilities: energy efficiency operations plan				
Upgrading of networks in gas T&D	937,640	2,480	886,436	2,345
Actions in electricity distribution	17,764	87	26,430	-
Combined cycle	30,695	546	105,551	1,908
Coal-fired plants	23,267	250	116,281	1,198
Fuel oil-fired power stations	6,628	86	20,882	291
End customer				
Energy services	331,610	18,333	195,485	10,844
Total	**107,519,490**	**543,171**	**104,865,413**	**517,319**

The calculations of emissions and consumption of energy avoided have been made with respect to a baseline defined case by case and according to simplified methodologies approved by UNFCCC for projects based on Clean Development Mechanisms.

5. Biodiversity and natural capital [103-1], [103-2] and [103-3] (Biodiversity)

5.1. Commitment

Gas Natural Fenosa is committed through its Corporate Responsibility Policy to the "mitigation of adverse effects on ecosystems surrounding facilities and promoting biodiversity preservation".

There is, therefore, a clear will to respect the natural environment where the activities are carried out and to provide the necessary resources to contribute to its sustainability via strict compliance with environmental legislation as well as the establishment of additional measures of a voluntary nature. These contribute to the knowledge and mitigation of the impact derived from the development of new projects and the operation of the facilities once they are up and running.

The company is moving forward to extend the focus of its environmental management towards valuing natural capital, in other words, the reserves of renewable and non-renewable natural assets found in nature, in order to identify and assess the dependency and impact (both positive and negative) of its activities.

This new approach will allow us to assess the relationship of the company with the natural environment in a broader and more inclusive way, controlling and reducing any possible risks derived from such dependencies and negative impacts, and stimulating the increase of positive impacts that arise via this preventive and proactive approach.

		Electricity generation						
		Upstream	Gas T&D	Thermal	Hydroelectric	Wind	Electricity T&D	Mining
Construction and operation of transport infrastructures	The building of transport and distribution (T&D) infrastructures may have a temporary impact on the fauna present in the environment. The operation of electricity T&D grids may have a permanent impact on vegetation and birdlife.	●	●	●	●	●	●	●
Atmospheric pollution	Emissions from combustion may have an impact on the abiotic and biotic environments in the surroundings of the facilities.	●	●	●	●	●	●	●
Conversion of habitats	Changes in the use of land and the permanent presence of facilities in the natural environment may cause impacts on the populations of species present in the environment. Reservoirs associated with hydroelectric plants may have a significant impact (both positive and negative) on biodiversity.	●	●	●	●	●	●	●
Changes in ecological processes within their natural range of variation.	Spills can have an impact on the aquatic medium. Reservoirs associated with hydroelectric plants may have a significant impact (both positive and negative) on biodiversity.	●	●	●	●	●	●	●

Via the design of a corporate action plan, the aim is to give impetus to this aspect of environmental management by working hand in hand with the environmental areas of the various business departments.

A working group has therefore been set up through which a continuous exchange of information and good practices will take place and will include, among others, the application of methodologies, tools, indicators and common assessment criteria for the entire company.

The company therefore develops work tools and methods that provide greater knowledge of the natural spaces where our facilities are located, as a preliminary task for the subsequent design and introduction of the most appropriate preservation measures in each case.

The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

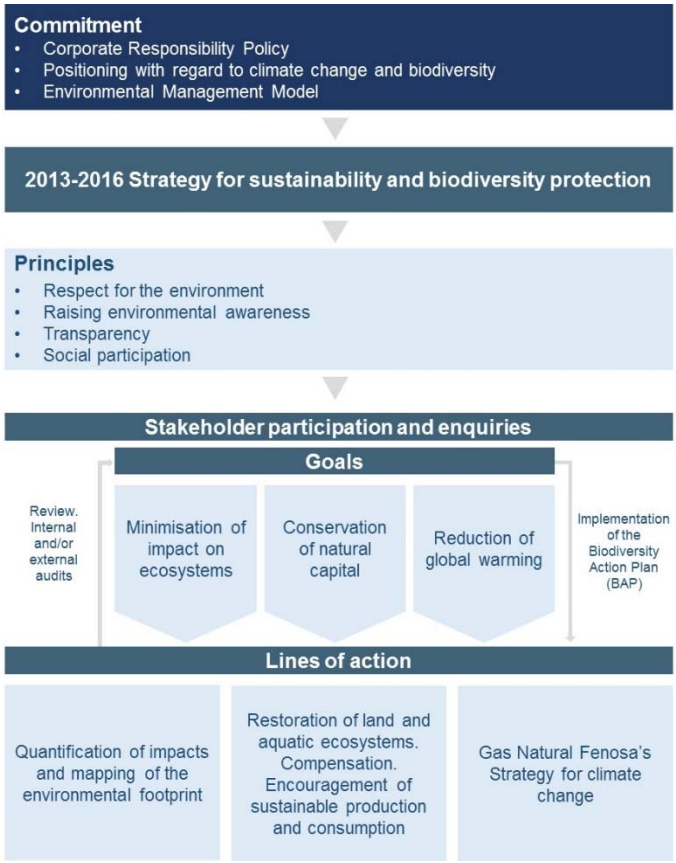
In addition, several initiatives on environmental education and awareness are carried out with stakeholders, in particular among the company's employees via voluntary environmental programmes that foster the development of individual attitudes and behaviour regarding respect for the natural environmental and its conservation.

Gas Natural Fenosa's commitment to preserving biodiversity

- Going beyond observance of nature protection laws and regulations.
- Promoting and cooperating in preserving biodiversity in the area surrounding its installations, paying special attention to protected spaces.
- Studying the environmental impact of its activities and projects, their effects on ecosystems and biological diversity, taking into account its stakeholders.
- Adopting measures to prevent and minimise possible adverse effects on biodiversity, restoring damaged areas and soils.
- Respecting the traditional ways of life of the local communities to favour the preservation and sustainable use of the environment.

In relation to the SDGs related to the conservation of ecosystems (14, 15), we would like to highlight that the generation facilities are equipped with an Environmental Monitoring Programme which controls and safeguards the environmental conditions of land and water environments.

Sustainability strategy of Gas Natural Fenosa



5.2. Indicators [304-2]

The development of Gas Natural Fenosa's business activities requires wide-ranging concerns for the land, whether this is on a temporary basis, during the construction of facilities, or permanently, once they are operational. In some cases, the terrains affected by these activities are of great value for biodiversity, which means that the company needs to adopt the measures required to minimise the risk of causing impacts and properly managing those that cannot be avoided, even when these are areas that do not have legal protection or facilities that existed before the location was designated as a protected area.

The areas that could be potentially affected have been calculated by increasing the surface area occupied by the facilities with - radius whose length is variable (10 m - 5 km), based on the type of facility under consideration.

Description of land owned, leased, managed or adjacent to protected natural spaces or unprotected high biodiversity areas [304-1]

Business	Type of operation	Location with regard to the protected area	Surface area/length of area affected	Value of biodiversity
Gas	Exploration	Interior	22 ha	SCI, SPA, PNS, RAMSAR
	Transport and distribution	Interior and adjacent	483 ha / 8,350 km	PNS, SCI, SPA, RAMSAR, BR, NR, RPC, SBEI, EPA, BG, MR
Electricity	Generation	Interior and adjacent	62,579 ha	SCI, SPA, PNS, RAMSAR, BR, AIBC, NRA
	Transport and distribution	Interior and adjacent	162 ha / 17,403 km	SCI, SPA, PNS, RAMSAR, BR, NM, NR, PLA, NAM, SR, NRA, NP, NM, WR, CONAF, NMC, NM, ARN, PF, RF, PIN, FFS, RP
Mining	Coal extraction	External	0	-

SCI: Sites of Community Importance (Spain and Italy); SPA: Special Protection Areas (Spain and Italy); PNS: Protected Natural Spaces; RAMSAR: wetlands classified through the Ramsar Convention (international); BR: Biosphere Reserve, UNESCO (international); NR: Nature Reserve (Morocco, Moldova, Italy); RPC: Permanent game reserve (Morocco); SBEI: Site of Biological and Ecological Interest (Morocco); EPA: Environmental Protection Area (Brazil); NRA: National Recreation Area (Panama); AIBC: Areas of Importance for Bird Conservation (Mexico); NM: National Monument (Spain, Italy and Chile); PLA Protected Landscape Area (Moldova, Dominican Republic); NAM: National Monument (Moldova and Panama); SR: Scientific Reserve (Moldova); RA: Recreation Area (Panama); NP: National Park (Colombia, Italy, Panama); WR: Wildlife Refuge (Panama); CONAF: National forest corporation (Chile); NMC: National Monument Council (Chile); ANR: Absolute Natural Reserve (Chile); BG: Botanical Gardens (Chile); MR: Marine Reserve and marine protected area (Italy); PF Protected Forest (Panama); FFS: Flora and Fauna Sanctuary; RP: Road Park (Colombia).

Those facilities whose surface area is located, in full or in part, on terrains that have a level of protection are classified as interior; those that are located within the radius affecting the protected space are considered adjacent, and those whose surface area is not within a protected area and not within the radius have been classified as exterior.

As regards business activities, in countries where there is no reference mapping information on protected natural spaces or spaces of value for biodiversity, we have marked out the setting of the facilities and have located, on the list of natural spaces, the distribution areas of those species that enjoy some level of protection.

In all cases, the company complies with the demands laid down by the public authorities to minimise possible negative effects that the facilities could have on the surrounding species and habitats.

Gas Natural Fenosa carries out environmental impact assessments (EIA) on new projects for the construction of electricity generation facilities and gas and electricity networks. These are done in accordance with regulations that are in force at the time in order to avoid or minimise possible adverse effects on the environment.

Public participation in the procedures to approve these projects is ensured through national and regional legislation in each country where the company carries them out.

The following EIA are worthy of particular mention:

- Carratorres, Merengue, Mirabel, Monciro, Mouriños, San Blas and Teso Pardo (Spain) wind farms.

- Tierra Noble combined-cycle plant (Chile)
- Gas distribution network (Argentina).
- Electricity distribution network (Spain).

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, as well as identifying potential risks to biodiversity, we identify the species of flora and fauna in the surrounding areas of facilities located in spaces of high natural value or close by.

Number of species whose habitats are in areas affected by operations* [304-4]

Type	Critically endangered species	Endangered species	Vulnerable species	Almost threatened species
Mammals	2	1	6	11
Birds	1	2	7	24
Reptiles	1	6	9	13
Amphibians	22	14	13	14
Fish	4	5	12	3

* According to the species catalogue of the International Union for the Conservation of Nature (IUCN Red List).

5.3. Initiatives and actions [OG4]

The commitment to promote information transparency and responsible communication of results regarding environmental management by the company is part of the action principles and commitment to stakeholders, as set out in the Corporate Responsibility Policy.

To this end, the company has been communicating the most relevant and material aspects of its environmental management for years through its corporate responsibility reports. These include issues related to the preservation of biodiversity, both on a corporate level as well as a the level of business units which draw up their own reports.

Furthermore, specific reports on biodiversity have been published since 2009 that provide more detailed content and, since 2015, have also been published in an interactive version (see http://www.informebiodiversidad.gasnaturalfenosa.com).

The information in these reports is supplemented, in addition, with other content that is disseminated via the corporate website and on other more specific websites, and is where the actions carried out by the company in favour of preserving biodiversity are communicated.

Among the initiatives that are carried out the following types can be classified:

Initiatives and actions on issues of biodiversity	
Environmental studies [EU13]	Voluntarily conducted studies within the sphere of the electricity generation facilities, to diagnose the ecological state of the land and water environment of the thermal and hydraulic power plants. These involve sampling campaigns with which we determine the physical-chemical and biological quality of the rivers and reservoirs, as well as

	getting knowledge on the basic state of the environment and its evolution in order to assess the potential influence of atmospheric contamination on forestry masses.
Environmental actions [304-3]	Targeted at the conservation of species and natural spaces, whether of a voluntary nature or in response to the requirements established by environmental authorities and which stem from the performance of projects, from the operation of the facilities or once the activity has ceased. These actions are generally carried out close to the company's facilities. On occasions, we also carry out compensatory measures or measures of another kind in other areas of interest for biodiversity.
Education and awareness actions	The aim is to raise environmental awareness of company employees, as well as other external stakeholders, in particular customers and consumers, and also schoolchildren. We organise environmental volunteer days, informal chats, publications of information brochures or training materials and Internet communication campaigns, among other actions.
Agreements and alliances with third parties	For the purpose of supporting some of the initiatives included in the previous sections, we have different partnership agreements with third parties, in particular with conservation organisations and also with the public administrations, which provide the technical knowledge required to ensure the efficiency of the actions carried out.

For more details about the initiatives on issues of biodiversity carried out by Gas Natural Fenosa, please see http://www.gasnaturalfenosa.com/html/corp_home/visor/index.html.

6. Water [103-1], [103-2] and [103-3] (Water management), [103-1], [103-2] and [103-3] (Effluents and waste management) and [102-12]

Water is a scarce natural resource which is essential to ensure life and human development. This is why water, and water management, have become a priority for international institutions, agencies and authorities, in view of the growing pressure on water resources, and the uneven way in which it is distributed and made available.

All this pressure can jeopardise the present and future supply of access to water in sufficient amounts and with the appropriate quality for the population and ecosystems.

Gas Natural Fenosa, whose unwavering commitment to society and the environment grows stronger day by day, and with its efficient management of natural resources, has developed and set up measures geared to broaden knowledge of water and to improve the way it is managed in its facilities.

Such initiatives are a starting point, but the company is fully aware of the need to structure the analysis and the control of the impact of its business activities on this precious resource, and it does this through a strategic document which is the company's global framework for action.

Water strategy [102-13]

The water strategy of Gas Natural Fenosa is enshrined in the group's corporate responsibility policy and is based on the following commitments:

- Contributing to the sustainable development through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.
- Promoting the efficient and responsible use of water, introducing activities targeted at greater awareness of this resource and improving water management.
- Guaranteeing the prevention of pollution through ongoing improvement, the use of best available techniques and the analysis, control and minimisation of environmental risks.

This strategy is designed to provide Gas Natural Fenosa with a global and objective overview of the current management of this resource and to define a framework of action for the entire group.

In order to comply with this water strategy, and in consonance with the company's global strategy and its environmental strategy, Gas Natural Fenosa has developed the 2014-2016 Action Plan, through which it shall develop a number of different actions arranged in global areas of action.

General principles	Our commitments	Global drivers
Efficiency	1 Promoting efficient and responsible water usage in Gas Natural Fenosa.	Efficient and global water management.
Responsibility and commitment.	2 Integrating global water management in the corporate culture and in the company's decision-taking process.	Complete management of risk associated with water.
Knowledge	3 Going beyond strict observance of the applicable water laws.	Raising awareness internally and externally about efficient water management.
Leadership	4 Combining water usage with local conditions and needs. 5 Safeguarding the environment and biodiversity. 6 Integrating risk management associated with water in the global risk management of Gas Natural Fenosa. 7 Promoting efficient and responsible water usage between suppliers and customers. 8 Interacting with the interested parties for carrying out initiatives, programmes, projects and awareness-raising campaigns. 9 Accurately reporting the water management carried out. 10 Promoting continuous improvement and implementing the best practices relating to water management.	Cooperation with leading water bodies.

In 2016, actions deriving from the “2014- 2016 Water Action Plan” were developed. Of note was the development of the company’s first Water Management Report which sets out both the company’s environmental performance via its water footprint as well as actions to improve its management and reduce consumption. This report is available in an interactive version (see http://www.informedelagua.gasnaturalfenosa.com).

Gas Natural Fenosa conducts different studies and projects on the issue of water among which those on the water balance of thermal power plants stand out; these have allowed the identification of recoverable water currents and the analysis of the technical viability of generating

electricity at thermal power plants, all with the aim of reducing the consumption of water during its activities.

In addition, the company has signed a collaboration agreement with the company Abengoa to develop a three-year R&D project to analyse the possibilities of recycling purge water from the boilers of the thermal power plants for other processes carried out at the facility.

Along this line to identify improvements for reducing the water consumption at its facilities, the company has also set up a project that is co-funded by the European Union and coordinated by Kema. The project consists of a pilot plant for the recovery of water in the exhaust gases of combined cycles.

As the project was being developed, tests were carried out at the Aceca combined-cycle plant with a pilot plant designed to receive 1,000 m^3/h of gas with the goal of capturing 1 m^3/h of water. Following this, and despite having previously seen good results at a coal-fired power plant and a paper mill, in the case of the combined-cycle plant the expected results were not obtained due to the different operating conditions.

In addition, Gas Natural Fenosa analyses the water stress of the regions where the facilities whose activity requires greater amounts of water are located. It can thus be seen that, in regions where water stress is higher, the company uses seawater or recycled water and therefore the availability of this resource in those areas is not affected.

In addition, the company measures the Water Footprint of all its activities in order to analyse the impact it generates on this resource.

Identification of the KPIs of water

Hydric stress zone (m^3/inhab. year)	Installed capacity (MW)
> 4,000	37.5%
1,700 – 4,000	21.9%
1,000 – 1,700	4.7%
500 – 1,000	8.3%
<500	27.7%

Climatic zones	Installed capacity (MW)
Tropical	10.2%
Warm-humid	28.8%
Warm-dry	31.0%
Dry	30.0%

Facilities with more water risks	Percentage of installed power
Dry zone and <1,000 m^3/inhab. year	17.4%
Warm dry zone and <1,000 m^3/inhab. year	17.2%
Total	**34.6%**

It should be noted that Gas Natural Fenosa has been included on the Leadership level of the Carbon Disclosure Project's 2016 Water Programme, and was rated with an A- score. This indicator recognises the company’s improvement in water management within the utilities sector from being at “Management” level in 2015 rising to “Leadership” level in 2016.

Interest in people

[103-1], [103-2] and [103-3] (Employment and conciliation)

For Gas Natural Fenosa it is essential to foster a quality working environment, based on respect, diversity and personal and professional development. Gas Natural Fenosa also has a Code of Ethics that establishes the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the group's relations and interactions with its stakeholders.

Commitments and principles of responsible action with employees

- To apply best practices in **identifying, attracting and retaining the talent** necessary for the development of the businesses, ensuring the principles of fairness and nondiscrimination on any grounds whatsoever (disability, age, gender, work history, etc.).
- To encourage the **professional development** of persons as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a **motivational work setting** that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To ensure the effective introduction of **flexibility mechanisms** that facilitate the balance between professional and personal life, and which favour the human and social development of persons.
- To promote **diversity and equal opportunities** in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster **constant liaison** between the company and workers' representatives that enables feedback in order to take decisions.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Strategic planning of persons through the launch of the Strategic Workforce Planning (SWP).	●	Consolidation of the SWP model for planning and management of workforces.
Introduction of the "Employee experience" methodology into the company's processes.	●	Cultural transformation and development of PIP services to accompany the implementation of an innovation culture.
Cultural transformation by using the People Innovation Platform (PIP).	●	Talent management, diversity, leadership and internationalisation.
Operational model of human resources management through consolidation of the Employee Care Service (SAE).	●	Consolidation of the operational model of human resources management.
		New multi-device news portal for employees.

Operational model of human resources management through consolidation of the Employee Care Service (SAE). ●	Evolution of the in-house magazine.

Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

Gas Natural Fenosa contribution's to SDG 5: Gender equality

The fifth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "women and girls represent half of the world's population and therefore also half of its potential. But, today gender inequality persists everywhere and stagnates social progress".

With regard to Interest in people, Gas Natural Fenosa is committed to gender equality in the performance of its activity, through its Code of Ethics, the Gender Equality Policy or the Protocol for the Prevention of Mobbing, Sexual Harassment and Sexual Discrimination. Gender equality is one of the three levers, along with age and disability, of the company's Integrated Diversity Plan.

Gas Natural Fenosa contribution's to SDG 8: Decent work and economic growth

The eighth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "poverty eradication is only possible through stable and well-paid jobs. Nearly 2.2 billion people live below the US$2 poverty line".

With regard to Interest in people, Gas Natural Fenosa is committed to providing decent work. The Integrated Diversity Plan embodies this commitment to its employees in issues of gender, age and disability. This plan emphasises female talent, is committed to attracting young talent, preserving senior know-how and promoting the employment integration of people with disabilities. In addition, prevention and job safety are key aspects in the company's daily management, and these are embodied in the measures and training programmes of the Health and Safety Commitment Plan.

Gas Natural Fenosa contribution's to SDG 10: Reduced inequalities

The tenth Sustainable Development Goal (SDG) set by the Organisations of the United Nations stands on the basis that "in today's world, we are all interconnected and it is not possible to achieve sustainable development to make the planet a better world for everyone if there are people that are deprived of opportunities, services and the possibility of a better life".

As regards Interest in people, Gas Natural Fenosa is committed to reducing inequalities and eradicating discrimination. Beyond the actions carried out internally and the implementation of the Code of Ethics, the Gender Equality Policy or the Integrated Diversity Plan, the company conducts negotiation processes

with unions at international level on wages, pension plans, implementation of equality plans and working conditions.

1. Commitment to people

Interest in people is one of the inspiring principles of Gas Natural Fenosa and one on which its human resources strategy is constructed. A strategy that advances every year and which in 2016 has continued promoting and deploying its employee value proposition.

Four important reasons for joining the Gas Natural Fenosa team
1. Becoming part of a great international company.
2. Being able to accept challenges.
3. Having an excellent working environment.
4. Working in a company committed to communities.

Summary of awards obtained in 2016

Certifications			
	Appreciation for promoting young workers and entrepreneurship, awarded by the Ministry of Employment and Social Security of Spain.		Appreciation for companies that excellently manage the diversity of people with disabilities.
	Certificate as a company familiarly responsible for balancing personal and professional lives of employees, awarded by the Más Familia Foundation.		Appreciation for the contribution to social entrepreneurship, awarded by the Ecumenical Forum in Argentina.
	Appreciation for showing itself to have the highest standards in the conditions and environment that it offers employees.		

Rankings

	It appears in the Top10 of the best companies in Spain in attracting and retaining talent.		Third place in the ranking of the best companies to work for in Spain.
	Acknowledged among the most attractive companies to work for, according to universities in Spain and Latin America in the category of Engineering and IT.		It is in the Top25 of companies in Spain committed to diversity and equality.
	Position 55 in the annual ranking of *Expansión*, which recognises the best places to work in Mexico.		Seventh position in the ranking of best companies to work for in Moldova.
	Position 40/100 among the best companies in Argentina in attracting and retaining talent.		Recognised among the top 100 companies in corporate citizenship in Brazil.

Awards	
	FactorW Award for the most innovative and committed companies in processes to improve diversity and gender.
	Talent Mobility Award to organisations that understand talent mobility as a priority.
El Confidencial	Diversity Award for best business practices.
Capital Humano	Honourable mention for the commitment to people, through a corporate management model that extends to the family, promotion of equality, diversity and a balance between personal and professional life.
	Special mention for the best policies, career paths and actions in issues of human resources.
	Award to the Employee Care Service in Brazil, within the People management category.
	Award to the Extended University in Brazil, within the Coexistence Assessment category.

	"Yo sí cumplo" (I do qualify) award in Panama, which recognises those companies that maintain good labour practices.

2. People in Gas Natural Fenosa

During 2016 the strategy of managing people at Gas Natural Fenosa incorporates new levers of cultural transformation, employee experience, strategic planning of people and new models of organisational performance.

We have also made progress in the consolidation of the Integrated Diversity Plan in all countries and businesses, focusing efforts on gender, age and ability.

Leadership and talent programmes have helped promote professional development and training, strengthening the human potential of the company.

Areas and levers of the people management strategy.

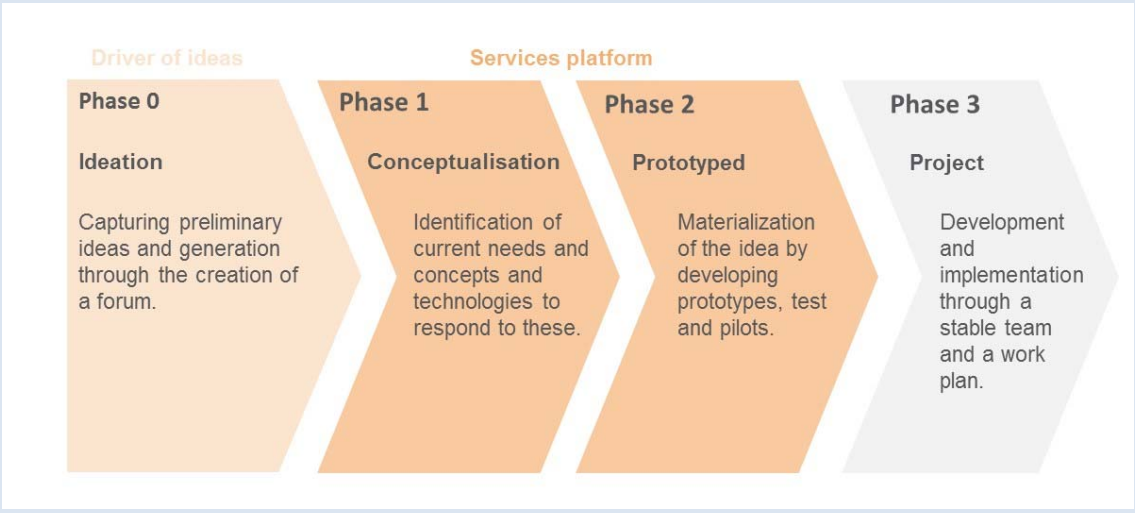
People Innovation Platform

The People and Resources Department has launched the People Innovation Platform (PIP), a multidisciplinary platform that facilitates the processes of transformation and innovation of the company by providing individuals and businesses with a portfolio of products and solutions that help them respond swiftly to the needs of VUCA (volatility, uncertainty, complexity and ambiguity).

Products and solutions that are designed in the field of PIP coexist with the traditional tools and solutions of the company and respond to the participation needs of talent in the process of ideation and intrapreneurship, development of digital skills and agile learning, physical spaces for co-creation and technological solutions that facilitate the development of prototypes.

PIP was launched for the purpose of anticipating the environment, increasing flexibility and agility in working methods and enhancing experiences for the creation of a culture of innovation and collaboration between people.

It also aims to be a space for the development of a new way of working at Gas Natural Fenosa, incorporating ideation and innovation methodologies in the daily lives of people. This facilitates the process of conceptualising and prototyping of innovative ideas and new business solutions, to the extent that it acts as an "internal accelerator" of these initiatives.



PIP has a direct impact on the professional development of people, facilitating the advancement of behaviours and habits that lead to a new way of working in the company.

3. Workforce

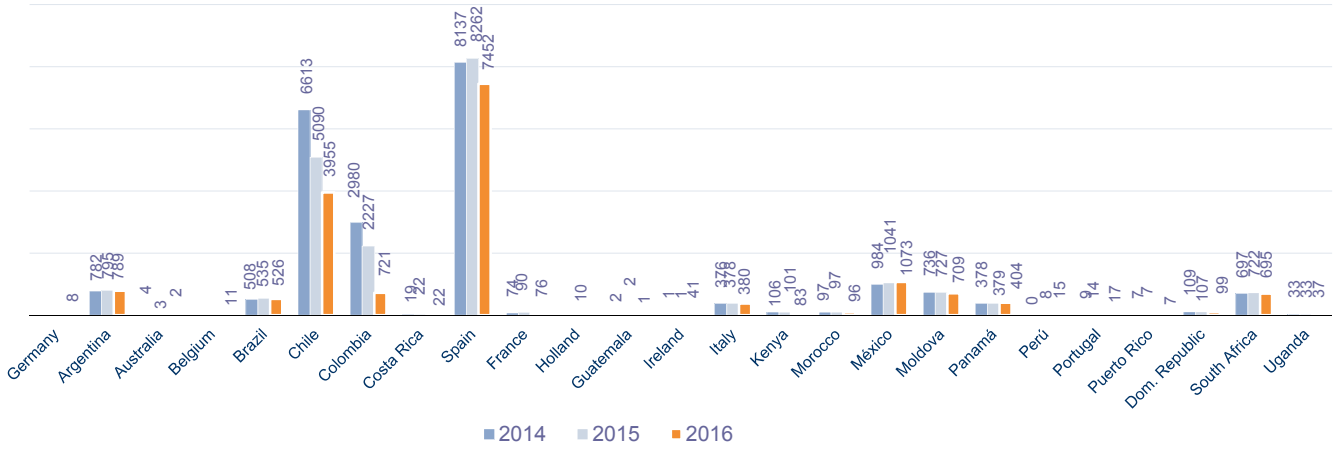
Gas Natural Fenosa offers its employees stable, quality employment together with a solid, structured and attractive professional career, where 96% of the positions have open-ended contracts.

The company is equipped with a uniform global selection model for all the countries in which it operates. By this means, it can guarantee a single employer strategy, with the same selection criteria and applying the same practices in the identification, acquisition and retention of the professional talent needed for it to develop its business activities.

3.1. Team key items [102-7] and [102-8]

Gas Natural Fenosa is a global project which is carried out in more than 30 countries. At the close of 2016, the company was operating through the direct involvement of 17,229 persons, of which 50.5% performed their activity in Europe, 44.2% in America and the remaining 5.3% in other continents. In 2014, 28.8% of the workforce was made up by women and 71.2% by men, and had an average age of 43.8 years, with an average seniority of 14.5 years.

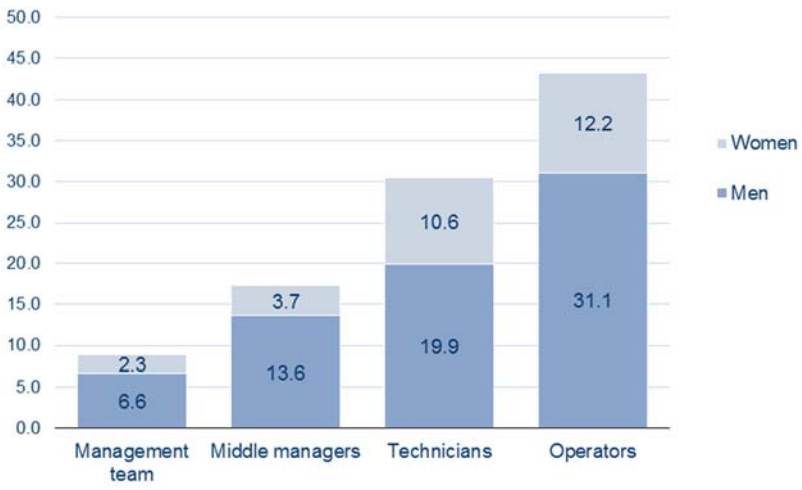
Staff index (Number of employees)*



NB 1: through the IFRS criteria which entered into force in 2014, there are a number of companies consolidated through the equity method and which do not provide a headcount breakdown, which would total 3,393 employees distributed as follows: Colombia 1,478, Argentina 830, Egypt 145, Spain 866 and Puerto Rico 74. Divestments have occurred in Chile during 2016. In addition, the criterion for corporate accounting through percentage integration has been adapted to the Financial Statements.

NB 2: the figure for Colombia in 2016 has been calculated excluding information regarding Electricaribe.

Breakdown of staff by professional category and gender (%)



NB: the figures have been calculated excluding information regarding Electricaribe (Colombia).

4. People management [103-1], [103-2] and [103-3] (Employment and conciliation), [103-1], [103-2] and [103-3] (Training, education and remuneration)

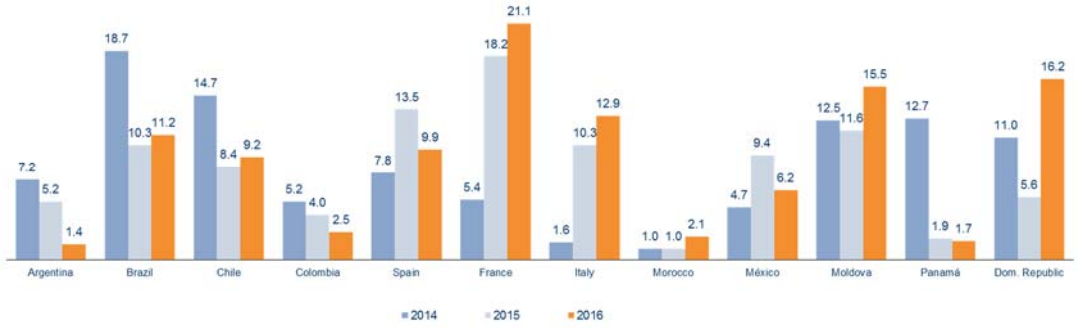
The model of leadership and talent management is committed to encouraging accountability, individual development and the career path, incorporating innovative tools and methodologies in training and development.

In 2016, progress has been made in simplifying the model to make it more accessible to all groups of employees and thus have a single uniform and standardised model for assessment and professional development.

In the same vein and as a consequence of the ongoing improvement of efficiency and in connection with the strategic priorities of the group, throughout 2016 we have worked on implementing a key tool for strategic planning of people, the Strategic Workforce Planning (SWP).

The SWP allows workforce planning scenarios to be projected, integrating information of medium- and long-term business targets, efficiency plans and recruitment models. It also helps anticipate possible scenarios and to activate global and very focused levers in terms of staffing requirements: incorporation of new professional profiles, management of internal mobility or training in skills adapted to future business needs.

Staff promoted (%)



NB 1: no promotions were made of staff in Australia, Costa Rica, Guatemala, Ireland, Portugal, Puerto Rico, Uganda, Belgium, Holland and Germany in 2016.

NB 2: the figure for Colombia in 2016 has been calculated excluding information regarding Electricaribe.

4.1. Talent attraction

Gas Natural Fenosa has a pool of young professionals with strong technical and management training, through annual programmes of professional practices and agreements for Dual Vocational Training (VT), which allows the company's needs to be met and to attract the best talent in those fields of knowledge in which Gas Natural Fenosa is the leader.

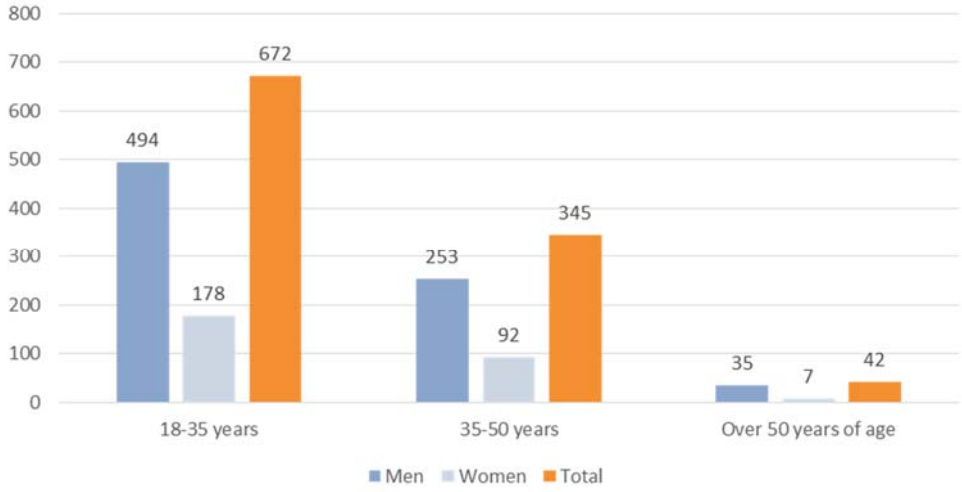
Talent attraction initiatives

Professional practices programme	Gas Natural Fenosa has partnerships with leading universities and higher educational institutions in the different countries where it operates, with special relevance in Spain. Every year, through these partnerships the company selects young persons for internships. Through this programme, students in the final year of their Bachelors Degree or Masters can perform practical training guided by a tutor from the time they join until the end of their internship, fostering their learning and active participation in the company. Every year, practical training is given to 100 university students and 100 young students from Vocational Training. Note the continuity of the Summer Internship Programme with students from different degrees and courses, and the growing incorporation of female talent to the pool of professionals, contributing to our commitment to gender equality.
Dual VT	During 2016 there has been progress in the commitment to Vocational Training and education through new partnership agreements with public administrations, closing various agreements with schools and sponsoring classroom training. The Dual VT offers Gas Natural Fenosa the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment. During the 2016-2017 course there will be more than 90 students enrolled in the Natural Gas Fenosa training cycles.
Young entrepreneurship	The commitment to including young persons in the business helps generate stable and quality employment for these young people. Consequently, Gas Natural Fenosa has been awarded the strategy for entrepreneurship and youth employment seal. In the commitment to the development of innovative ideas promoted by the businesses, we have launched the Emprende Programme, with participation by General Managers and external advisors of renowned prestige in entrepreneurship, seeking to generate, conceptualise and implement new ideas that add value to group. The programme includes a training itinerary, expert support and facilitation to a group of 25 people who act as intrapreneurship catalysts in the organisation.
Welcome Plan	The plan helps new company professionals with their integration into the organisation. The actions of the plan allow them to properly identify the cultural values that define Gas Natural Fenosa, be aware of the key aspects to launch their career path and basic networking that brings them into contact with people of reference in the organisation. From the time they join there is a relationship between the new professional and their manager or tutor that helps them to quickly adapt to the unit and to the responsibilities of their position. In addition, they have the Employee Care Service at their disposal, which helps them during their professional life cycle and where they can resolve any query or incident. They also receive a welcome kit with key information on the value chain and the basic procedures that exists in the organisation. Furthermore, it helps them to use the company's internal communication platform, NaturalNet, and the products that can be found there, including access to the corporate university and training itineraries.

Type of contract (%) [102-8]

NB: the figures have been calculated excluding information regarding Electricaribe (Colombia).

New recruitments by gender and age group [401-1]



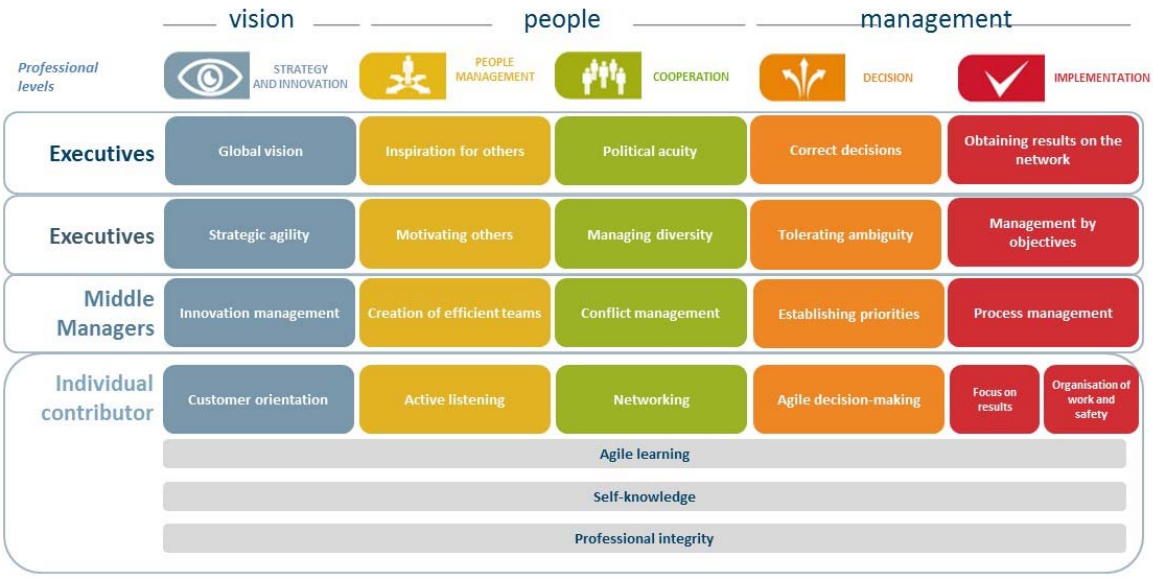
4.2. Talent development

Through the global management of talent model, the company assesses professional skills, individual development plans, talent segmentation and internal mobility and promotion.

The model is implemented in all countries, ensuring development opportunities for all professionals through customised learning actions, mobility, project assignment or by joining coaching and mentoring programmes.

The consolidation of the Gas Natural Fenosa leadership model allows use of a language universally known by professionals. The model is structured in a skills map divided by professional levels and three strategic areas (vision, people and management), and it represents the basis of the methodology and talent management practices and training at Gas Natural Fenosa.

Leadership model



Talent development cycle

All professional groups within the company are gradually incorporated into the annual talent development cycle. Every professional takes part in two key moments of the annual cycle:

- An initial 360° multisource assessment is first carried out, based on the skills of the leadership model, and this results in an assessment report, where they can check their skills results.
- This is followed by definition of their Individual Development Plan (IDP), which they must agree with their immediate manager and choose the actions for improvement, training or mobility to boost their performance and career path. For professionals, the model represents an agile and flexible roadmap that will guide their actions in the company.

During 2016 we completed the second cycle of development with the 360° assessment of 450 senior managers of the company and conducted more than 7,000 assessments as well as the formalisation of their individual development plans.

Also in 2016 we introduced the second process of talent segmentation, positioning more than 4,700 professionals in contribution matrixes and combining the key information obtained from the assessment of their skills, their interests and the findings obtained in terms of reaching their targets.

For internal mobility and promotion, we use the information obtained in the development cycle. These are carried out using to existing mobility management mechanisms: internal publication of vacancies and the Gas Natural Fenosa talent board. These are key in managing the interest and talent of people, and the needs for growth and continuous adaptation of the company's business.

Mentoring programme

In 2016, we consolidated the programme that started in 2015 as a mechanism for development of professional skills. This involves a guided programme between the mentor and mentee that allows both of them to enhance their management and leadership skills, with special emphasis on team management practices, self-confidence and networking.

The programme is spearheaded by top-tier managers of the company and consolidates values and ways of doing things that are typical of the culture of Gas Natural Fenosa.

Rotation index and voluntary rotation index (%) (*) [401-1]

(*) Rotation: layoffs/average staff. Voluntary rotation: voluntary layoffs/average staff.

NB: the breakdown of this indicator according to geographical location is available in the appendix to this report.

Rotation indices according to gender and age group (%) (*) [401-1]

		Rotation index	Voluntary rotation index
18-35	Men	11.84	5.15
	Women	12.95	5.89
36-50	Men	4.51	1.77
	Women	4.97	2.03
>50	Men	7.28	0.92
	Women	5.86	1.22

(*) Rotation: layoffs/average staff. Voluntary rotation: voluntary layoffs/average staff.

NB: the breakdown of this indicator according to geographical location is available in the appendix to this report.

4.3. Internal Mobility Programme

The international dimension and vocation of Gas Natural Fenosa makes it easier for professionals to be able to access different business areas, projects and geographies. The programme aims to maintain a culture where continuous learning and new professional experiences are features that enable the organisation to continue to grow and remain attractive for employees.

Internal mobility is a fundamental pillar of commitment to people and to that end employees have the possibility of internal mobility through the digital communication platforms.

Mobility and selection management

Gas Natural Fenosa has an internal platform that enables all employees worldwide to be informed about existing vacancies. Professionals can access information through the Employee Care Service about the status of their internal mobility process in a personalised and confidential manner.

For external selection, we use a process management portal that enables standardisation and optimisation of the entire process, ensuring elements of efficiency measurement are used, and of the key indicators of recruitment and selection.

Internal Mobility Programme figures

- Rotation of over 46% in the management team.
- A total of 757 vacancies covered thanks to internal promotion, of which 458 took place in Spain.
- 5.88% of the group's workforce put themselves forward for vacancies (1,109 employees). Each candidate has been submitted to an average of 2.09 jobs, generating 2,315 applications.

Conocerte project

To discover the preferences and concerns of professionals in the field of mobility, we have continued working on the Conocerte project.

This initiative, launched in 2015, has helped obtain individualised and centralised information for the entire company. Targeted at technical professionals who are not included in management programmes or the Savia programme, we obtained information from 10,000 employees in 15 countries.

The Conocert information is proactively integrated into the internal mobility programme, providing professionals with new development opportunities based on their professional profile and interests.

This initiative has provided access to corporate vacancies by a group of professionals interested in progressing but who may have been unaware of the opportunities the company offers.

4.4. Diversity and equality

For Gas Natural Fenosa it is essential to promote diversity and equal opportunitiesin an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

Integrated Diversity Plan

In 2016, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan (IDP) which brings together specific initiatives for the management of human resources, classified into three areas: gender, disabilities and age.

Integrated Diversity Plan initiatives and tools

Gender	• Decalogue of gender equality in management of teams. • Specific development plan for female talent. • Mentoring programme for women with a managerial career. • Actions to promote equality criteria in the company include: specific training to HR and management professionals to implement in the recruitment and selection processes. This action is set out in the decalogue.
Disabilities	The Operating Diversity Committee encourages various actions: • Family Plan: this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability. • Capacitas Plan: this aims to promote the employment of people at risk of social exclusion on grounds of disability. • Aflora Plan: this encourages those employees of Gas Natural Fenosa with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity. • Bequal Plus certificate: Since 2014, Gas Natural Fenosa has possessed this certificate, substantiating our commitment in Corporate Social Responsibility and Disability.
Age	• "We Care about Experience" plan. Please refer to the table.

We Care about Experience

Gas Natural Fenosa has obtained a diagnosis of the company's reality following an overall analysis of the current demographic context in Spain and in the energy sector. With a workforce with an average age of more than forty and a prospect of increased ageing, it was necessary to implement measures that would respond to the risks identified.

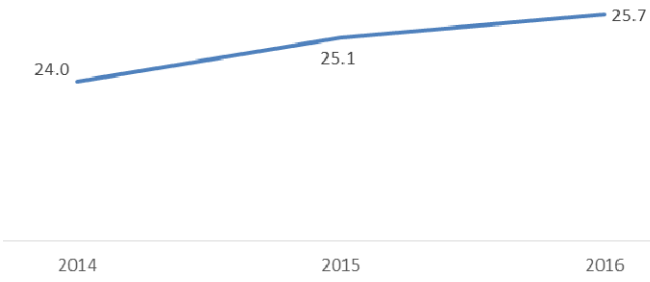
That is why Gas Natural Fenosa has developed a project that focuses on people over 55, to ensure the prevention of physical and health problems whilst aiming to extend their professional career, allowing them to complete their working life and ensuring a successful transition to positions that are less physically demanding.

The project has the following specific objectives:

- To foster intergenerational relationships, thanks to the direct interaction of each young person involved, extending the career of senior employees and leveraging their extensive experience in areas that are critical to the company.
- To incorporate younger people into the organisation, using levers such as Dual VT, thereby impacting directly on productivity in the area while simultaneously encouraging youth employment.
- To prevent potential future physical and health problems of senior employees that carry out their activity in fieldwork or particularly demanding work.

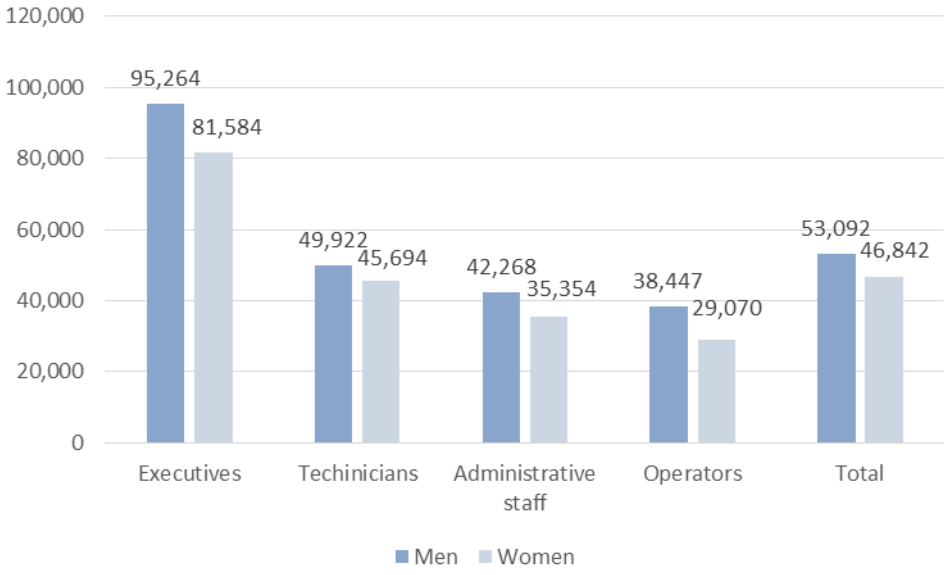
The challenge set for the 2016-2018 period is to relocate about 300 employees who perform their role in operating and maintenance jobs with a high physical demand. The vacancies will be covered by young employees who will gradually join the company.

Women in management posts (%)



NB: the figures have been calculated excluding information regarding Electricaribe (Colombia).

Average salary of men and women by professional category. Spain (euros)



NB 1: the breakdown of this indicator according to geographical location is available in the appendix to this report.

NB 2: the difference in salary shown by the results is in line with the context of the sector and generated mainly by the company's past gender make-up, which means greater average seniority of men in comparison with women.

Employees with disabilities (%)

	2016	2015	2014
Employees with disabilities in Spain	2.42	2.40	2.26

NB: in 2016, the group's global figure was 1.43%. The global figure has been calculated excluding information regarding Electricaribe (Colombia).

4.5. Flexibility [401-2]

Gas Natural Fenosa continued to promote an appropriate life/work balance through a significant number of flexible employment measures, services and benefits adapted to employees' needs.

Global FRC Certification

Gas Natural Fenosa is a benchmark of the new socio-labour and business culture. This is recognised in the Global Family Responsible Company (FRC) Certification, obtained in 2013 and renewed in 2016. We were the first company to obtain this qualification issued by the Másfamilia Foundation. This certification is audited by AENOR, and is supported by the Ministry of Health, Social Services and Equality.

This certification is an endorsement of the country-specific local measures on conciliation, but it also identifies 20 measures that are common to all of them and which are promoted at corporate level.

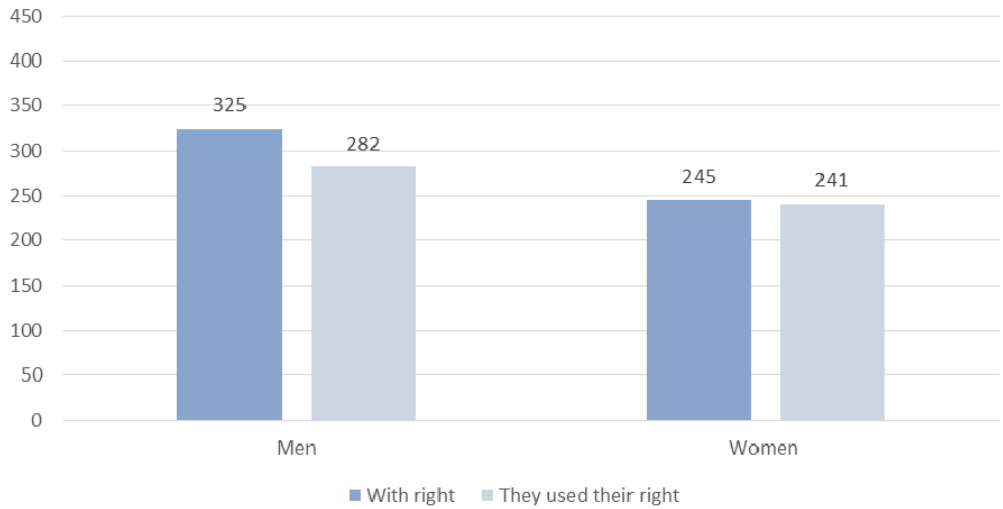
Time Bank

Gas Natural Fenosa provide its employers with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on the most enriching aspects of their personal life. The range of services available to them is extensive and structured into three blocks:

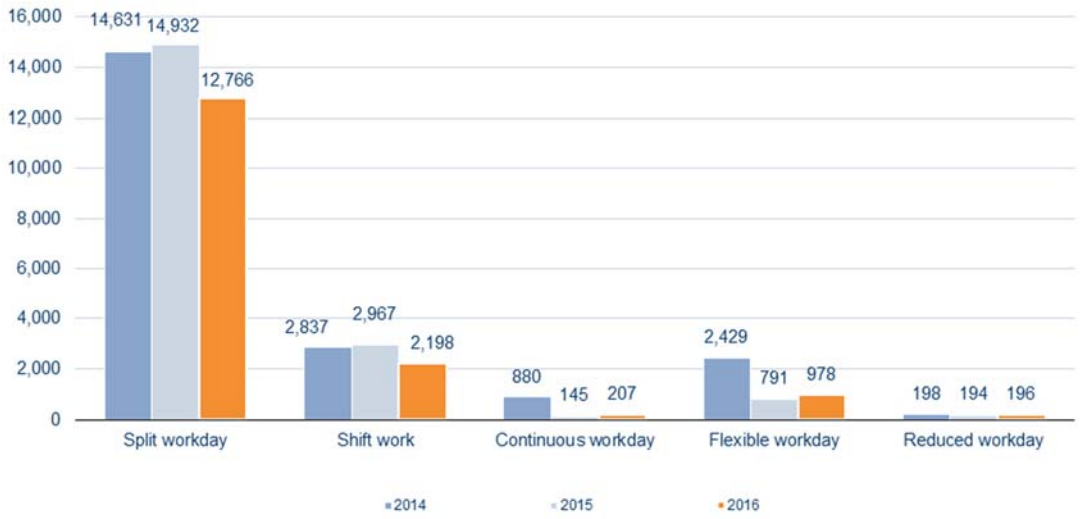
- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantages club: an exclusive virtual space with more than 500 offers.
- Easylife space: outreach services and acquisition of products.

The Time Bank also offers services available on a quotation basis, such as technical services, courier services, returning clothes to stores and currency exchange, or special services provided during Christmas or back-to-school campaigns, among others.

Comparison of employees with maternity/paternity leave with those who made use of this right [401-3]



Flexibility and support for the personal environment



NB: the figures have been calculated excluding information regarding Electricaribe (Colombia).

4.6. Employee satisfaction

Knowing employee satisfaction and the value they place on the products that the company makes available to them during their working life cycle is a key element of commitment to people.

We maintain direct communication with employees to identify those aspects that affect the emotional commitment of people and to be able to offer solutions that encourage loyalty in their relationship with Gas Natural Fenosa.

Tools such as climate survey, conducted every two years, the last one in 2015, have led to actions and improvement plans in areas such as personal development, training and mainstreaming. These plans commenced in 2016 and their impact will be assessed in the 2017 climate survey.

The company also has the Employee Care Service (ECS) implemented in Spain and Latin America, which will gradually be extended to other geographies in the coming years. In 2016 there has been a qualitative leap in the ECS, incorporating frequently used services of major interest to employees.

Cross-sectional Employee Care Service

In 2012, with the design and introduction of the Employee Care Service (ECS), Gas Natural Fenosa made a decisive decision to pursue globalisation, uniformity and quality in all its processes and to look after the employee wherever they may be located. This service has a multichannel approach and enables consolidation of global and unique models in providing care to the company's professionals.

During 2016, Gas Natural Fenosa has gone one step further with the introduction of Cross-sectional ECS, thereby enhancing the capability of giving a comprehensive response from the first level, through an online platform and personalised attention.

This platform allows employees to resolve any procedures during their time with the company, incorporating benefits related to employee needs in the areas of people, organisation and culture,

other services that the employee demands. Among others, we can highlight those related to general services, security, prevention, health monitoring and internal communication, as well as the commercial services that include “My customer channel”.

The introduction of Cross-sectional ECS aims to improve the employee’s experience through:

- Integration of employee care channels: a single point of contact to channel and resolve employee requests from different areas of the company.
- Cross-sectional and integrated overview of the processes of relations with the employee: simplification, transparency and flexibility in resolving their requests.
- A culture of commitment to the employee with regard to response times and level of satisfaction.
- Homogenisation and centralisation of response to employee inquiries: standardisation of response criteria through a list of FAQs.
- Reinforcement of the operational capacity of internal teams: allowing specialists to focus on areas of value-added aspects of their role.
- Trace and control: monitoring and tracking requests, both by areas and by employee.

During 2016 the level of employee satisfaction with the service was 7.84 out of 10; a total of 34,416 requests were dealt with and 92.1% of requests were resolved on time, representing an increase of compliance with deadlines of 1.4% year-on-year.

Employee Experience

As part of Gas Natural Fenosa’s commitment to applying the latest trends in people management, in 2016 it launched the Employee Experience project, using the same methodology introduced in Customer Experience.

The Employee Experience project aims to:

- Incorporate the vision of the employee in all processes and in all decisions.
- Foster a culture of employee orientation as a determining factor to improve the level of commitment, the sense of belonging and productivity.
- Ensure that the overview of the employee experience is uniform throughout the group and that we take advantage of lessons learned.

To do this, we analysed the employee’s experienced throughout their life-cycle in the organisation, prioritising items by importance and satisfaction for professionals.

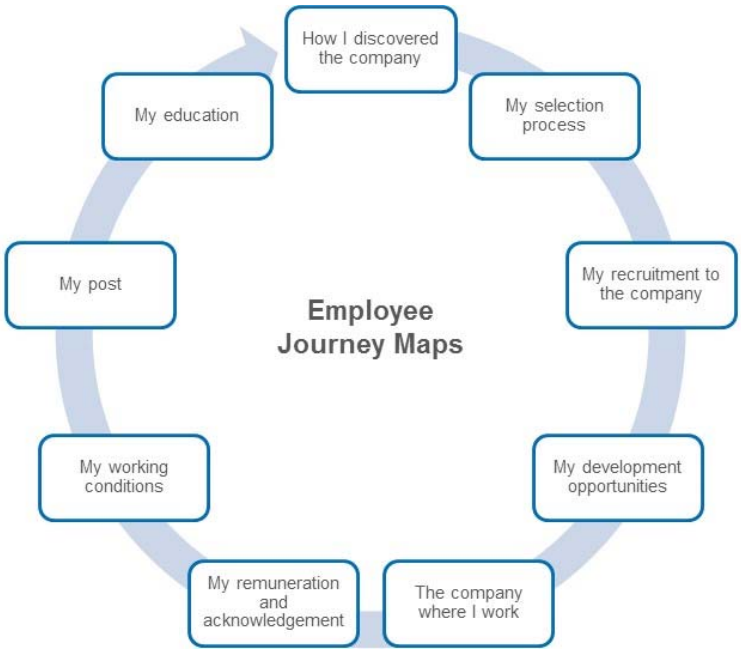
The finding obtained allows us to identify the most important motivational aspects, using the Employee Journey methodology and maps.

The methodology for collecting project information was based on an online survey, released to a representative sample of employees in each country, covering a total of 15 countries. It received a response from more than 3,000 participants.

The composition of the sample was made taking into account the representation of different segments: business, age, gender, professional category and location, in order to ensure the study was enriched with different aspects. In addition, different focus groups were held with employees as an essential complement to the survey.

During 2016, we conducted the overall analysis of the results of the “Global Survey + Focus Group” and obtained the map of importance and satisfaction of employee trips and subtrips in each country, in addition to the items and points for improvement that should be considered and analysed to improve the employee’s experience.

We also begun identifying initiatives on each trip and subtrip, and the set of possible solutions to be introduced. This set of initiatives will be prioritised for implementation in successive years, accompanied with appropriate communication and awareness actions.

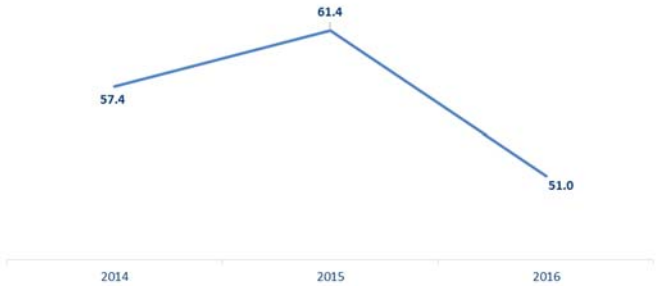


4.7. Corporate University [404-2]

The Corporate University, a pioneer in Spain, was launched in 2000 as a strategic lever of transformation that serves the business. It is a venue for meeting, debate and training that fosters innovation and excellence in the development of talent to enable the professionals of Gas Natural Fenosa to turn the company's objectives into reality.

Its advisory board is composed of representatives of senior management of the company and external advisors of the Polytechnic Universities of Barcelona and Madrid, the Technological Institute of Monterrey, IESE, ESADE and the Boston Consulting Group.

Evolution of training hours per employee



NB 1: there is a decline in average hours per employee, and generally in all indicators of training, through the consolidation of data in Chile, with a training volume that is less than the rest of the group; and through a reduction of the number of cross-cutting programmes company-wide compared to previous years (lower impact of the Smile and Commitments to Safety projects).

NB 2: the figure for 2016 has been calculated including training hours and the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figure would be 51.6 hours per employee.

The management model of the Corporate University responds to training needs both with regard to skills as well as technical expertise, and this is performed through the Leadership Institute and the Technical Institute, respectively. These institutes in turn are divided into schools and

classrooms designed to increase the level of specialisation, adequacy and quality of training to the maximum.

In addition, the Corporate University has a network of academic spaces, consisting of six training centres and 64 classrooms located in ten countries (Argentina, Brazil, Colombia, Spain, Italy, Mexico, Morocco, Moldova, Panama and the Dominican Republic), with teaching capacity for 3,000 people and close to 47,000 square metres of space.

In 2016, a total of 889,626 training hours were given with 138,872 participants. As the main programmes we can highlight the training spent on occupational health and welfare through its own innovative model, which has been recognised by AENOR, placing it in the category of reference.

Corporate University's figures	2016
Satisfaction surveys answered	27,576
Participants' average satisfaction (0-10)	9.0
Average degree of application of knowledge and skills in the job (%)	77.7%
Number of programmes with evaluation of application	215
Average perception index (0-10)	8.1

NB: Costa Rica has joined the process of measuring the quality of the training provided.

Technical Institute

The Technical Institute guarantees the training associated to the performance of the business and corporate functions. Its schools and classrooms are structured to respond to the different areas of the group's value chain. It is divided into five schools:

Leadership Institute

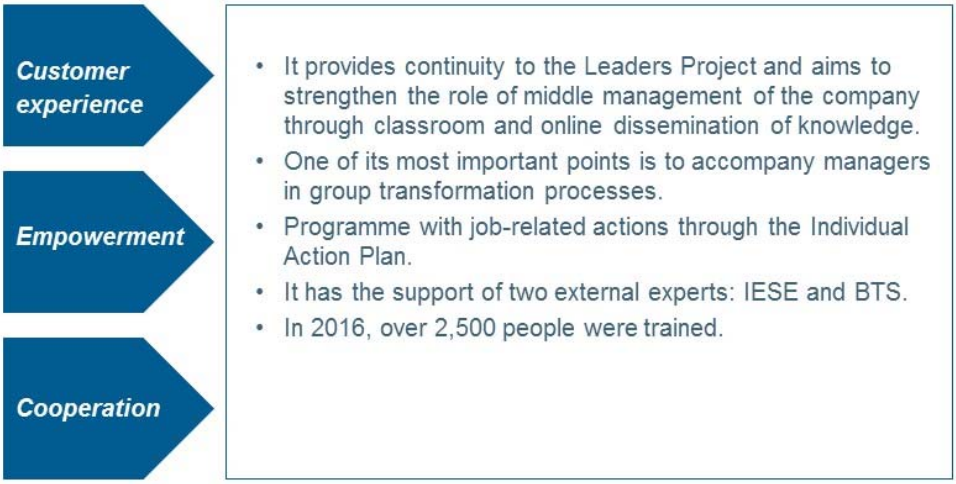
The Leadership Institute guarantees the training associated to the development of skills and abilities defined in the Gas Natural Fenosa leadership model. It is divided into three schools.

The management school is the meeting place for the company's directors, through its targeted programmes and outreach sessions. During 2016 the corporate leadership programme delved further into issues such as innovation, diversity, mainstreaming, teamwork and globalisation.

The women's leadership programme "Make Yourself Visible" has been designed to accompany the female professional during her career path, working on personal and professional skills within the management context. The DILO (Day in the Life) programme started in 2015 and has continued in 2016, strengthening the relationship between different organisational areas of the company.

During 2016, the Leadership Institute has consolidated its training offer aimed at professionals with responsibilities for teams and those with a major contribution to the results.

Savia 2.0 programme



Avanza programme

- Train leaders to assume their strategic role in the function they perform or will perform.
- Develop skills that will enable them to take on the next management level.
- Train and promote the use of relational management tools in all three axes of the leadership model.
- Promote collaborative work in their areas of responsibility.
- Convey and implement knowledge related to project management and transformation.

Training roadmaps

The contents of the aforementioned Institutes of the Corporate University are structured around training itineraries. These itineraries enable us to benefit from training synergies and to cover development needs in an organised, complete and sustainable way.

Training itinerary figures	2016
Total itineraries implemented	60
Spain	55
Other countries [1]	5
Training under this model (%) [1]	24
Professionals who have their training itinerary [2]	13,887

(1) NB: the figure has been calculated excluding information regarding Electricaribe (Colombia).
(2) NB: the figure has been calculated including the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figure would be 12,419 employees.

Gas Natural Fenosa training indicators [404-1]

	2016	2015	2014

Staff trained (%) [1] [2]	87.4	95.1	97.1
Training hours per employee [1] [2]	51.0	61.4	57.4
Total course hours [1]	**889,626**	**832,143**	**756,145**
Men	656,880	627,984	572,246
Women	232,746	204,159	183,899
Annual investment in training (euros) [3]	14,014,713	10,493,080	11,525,099
Investment in training per person (euros) [3]	803.1	774.5	874.2
Attendees	138,872	165,987	133,519
Online hours	330,213	356,805	169,733
Employees who accessed the online platform(%)[4]	68.2	86.3	83.4
People who were trained through the online channel (%)[5]	69.7	73.2	60.5
Participants' degree of satisfaction (out of 10)	9.0	8.9	8.9

(1) NB: there is a decline in average hours per employee, and generally in all indicators of training, through the consolidation of data in Chile, with a training volume that is less than the rest of the group; and through a reduction in the structure of the Corporate University due to the new organisation of People, Organisation and Culture (POC), which has limited the capacity for managing new programmes.

(2) NB: the figures for 2016 have been calculated including training hours and the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figures would be: 87.3% of the workforce, 51.6 hours per employee.

(3) NB: we have detected that in previous years the operating costs of the training service had not been included in the Training Investment indicator, and only the cost of the Corporate University was included. In 2016, it was decided to incorporate this amount in the indicator, and there is therefore a deviation from the budget.
The figure referring to the training investment per person in 2016 has been calculated including training hours and the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figure would be 869.10 euros.

(4) NB: access to the Corporate University online platform is included. We have not included those people that have accessed other external platforms whose training is considered, nor the management of Itineraries, as we have no metrics of activity for these.
As regards staff in Chile, only the employees participating in the Work Manager had access to the virtual training environment, as in 2017 there will be a technological change to the platform.
The figure for 2016 has been calculated including the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figure would be 71.7%.

(5) NB: the indicator includes all channels, including training platforms outside Gas Natural Fenosa whose data are consolidated.
The figure for 2016 has been calculated including the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figure would be 73.4%.

Training hours by areas of knowledge

Area of knowledge	Hours	Percentage with regard to the total
Technical Institute	**769,366**	**86.5%**
Business	**140,094**	**15.7%**
• Up & midstream	752	0.1%
• Generation	38,302	4.3%
• Distribution	76,210	8.6%
• Commercial	24,830	2.8%

Processes	**629,274**	**70.7%**
• Prevention of occupational, health and safety risks	238,729	26.8%
• Quality and environment	26,535	3.0%
• Corporate culture and responsibility	116,676	13.1%
• Languages	119,352	13.4%
• Information systems	37,382	4.2%
• Other corporate services	90,600	10.2%
Leadership Institute	**120,259**	**13.5%**
• Management School	20,138	2.3%
• Individual Contributors School	19,252	2.2%
• Leaders School	80,869	9.1%
Yearly plan total	**889,626**	**100.0%**

NB: during 2016 there has been a reorganisation of the Schools and Classrooms of the Corporate University, and we have proceeded to pool data from 2015 under the new structure with a view to comparing these with 2016.

There has been a substantial decrease in the hours of training of Leaders, given that the Savia 2.0 Programme - Cooperation and Empowerment initially planned for 2016, is divided into two phases, the first with implementation in Moldova, Colombia, Mexico, Brazil and half of the group of Spain, and the second in the other countries plus the rest of the group of Spain.

In issues of Culture and Corporate Responsibility there is an increase of 72% in the workload compared to 2015, mainly due to the workload of two programmes: Crime Prevention Model, Anticorruption Policy and Updating the Code of Ethics of Gas Natural Fenosa and the Higher Course on Energy.

Training hours per employee and professional category

		Management team	Middle managers	Technicians	Operators
Staff trained (%) (1)	Men	96.6	96.5	83.1	80.8
	Women	96.8	94.2	89.2	89.4
	Total	96.6	96.0	85.2	83.3
Training hours per employee. (2)		92.0	76.3	48.7	35.1
Total course hours		133,634	231,282	248,480	276,230

(1) NB: the figures have been calculated excluding information regarding Electricaribe (Colombia).
(2) NB: the figures have been calculated including training hours and the workforce of Electricaribe at the year-end. Excluding information concerning Electricaribe, the figures would be: management team 92.0 hours, middle managers 74.9 hours, technicians 48.8 hours and operators 35.7 hours.

5. Compensation and remuneration

5.1. Remuneration policy

Gas Natural Fenosa's remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two models:

- The remuneration level of employees included in the collective bargaining agreement depends on the professional group and subgroup to which they belong.

- For those not included in the agreement, it is established on an individual basis according to the remuneration policy approved by the Board of Directors' Appointments and Remuneration Committee.

General principles of the remuneration policy

- Reward employees with a comprehensive offer of monetary and non-monetary components, which recognises and respects the diversity of their needs and expectations related to the professional environment, whilst serving as a tool to communicate the organisational purposes and business objectives.
- Foster a culture of commitment to the company's objectives, where individual contribution as well as teamwork is fundamental.
- Assess -systematically and using uniform criteria of professional development- the results of the action and the level of adaptation to the skills required at any given time.
- Provide fair and competitive remuneration. Fair, by recognising differences in accordance with the responsibilities and critical nature of the job or the person's worth for the group. Competitive, by applying a flexible market positioning adapted to the specific nature of local markets to be able to attract the best professionals and ensure they remain with the company.
- Guarantee application of the remuneration and reward criteria as a whole, unique and transparent for everybody, to ensure objective management.

5.2. Variable remuneration

Variable remuneration, within the remuneration policy of Gas Natural Fenosa, is for the purpose of reinforcing employees' commitment and motivating them to perform to the best of their ability, aligning these functions with the company's long-term interests and those of its shareholders.

The annual variable remuneration assesses the contribution to achieving individual objectives in accordance with the job, related to economic-financial variables of efficiency and growth, and also issues such as quality and safety.

Share in results

The Management by Objectives and variable commercial remuneration are methods in place at Gas Natural Fenosa as incentives for employee involvement in achieving the company's targets and direct share in results. Both of these are instrumented through two types of annual variable remuneration, depending on the group at which it is targeted:

- Management: based on management by objectives and assessment of performance. This applies to persons that belong to the management group and who are excluded from the bargaining agreement.

- Commercial: based on meeting commercial targets. This is aimed at those persons that hold a commercial function within the group.

The company also has a monetary incentive scheme for all management personnel, on a three-year basis (PREMP), tied to achieving medium-term objectives. The aim of this programme is to help retain and motivate key personnel tied to these objectives and to achieve an alignment with maximising the value of Gas Natural Fenosa in a sustained way over time.

Breakdown of personnel costs (millions of euros)

	2016	2015	2014
Wages and salaries	857	820	691
Social Security costs	136	134	126
Defined contribution plans	44	41	36
Defined benefit plans	9	10	5
Work carried out for the company's fixed assets	-116	(113)	(86)
Others	83	81	56
Total	**1,013**	**973**	**828**

5.3. Social benefits and flexible remuneration

The remuneration package of Gas Natural Fenosa employees is supplemented with a social benefits system, which includes a pension plan, the main vehicle of funding post-employment commitments.

By the same token, the company provides a series of social benefits that complement the remunerative package of employees. In the international arena, and pursuant to the provisions set out in the legal frameworks of each country where the company is operational, Gas Natural Fenosa has established or agreed with employees' representatives the introduction of social benefits and different measures of reconciliation, the extension and limits of which will depend on each sphere, country or regulatory agreement.

Regarding social benefits, in 2016 we launched the "My Benefits" platform in Spain, which is a unique and comprehensive solution to manage and communicate compensation and benefits programmes. It is a living technological platform that evolves by adapting to the various benefits and compensation strategies.

Some of the modules contained on this platform are the "Social security system" which helps the employee understand their retirement and to find out about the company's internal plans, or "Health and Well-being" where the employee can manage their plans in this area.

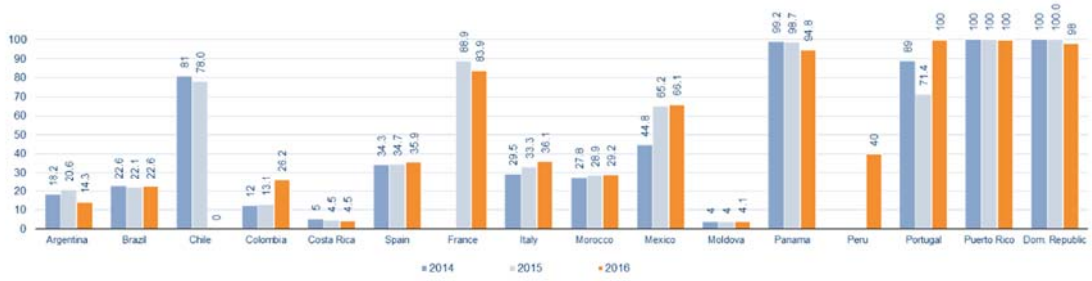
In addition, it has a flexible remuneration system in Spain, which has been consolidated since 2012. This enables the recipients to voluntarily design the make-up of their remuneration package.

Social benefits to employees

- Flexitime and intensive working hours in summer.
- Extension of time off work for births, marriages, deaths and similar.
- Medical insurance and services (hospitalisation, care, ophthalmology assessment, dentistry plan and similar).
- Supplements to public welfare benefits in cases of temporary invalidity.
- Collaboration on cultural, sport and leisure activities.
- Financial contributions to compensate meal expenses.
- Family Plan, for relatives (parents, children, siblings and spouses) of employees with a level of disability equal to or greater than 33% and between 0 and 65 years of age.

- Aid for the professional studies of employees and for scholarship programmes, book allowances and scholarship fund with different regulations and scope.
- Pension plans and/or savings funds.
- Loans, advances and credit and insurance facilities for employees and their families.
- Electricity or natural gas consumption allowances.
- Preferential agreements with insurance companies and banks.
- Summer residences.
- Family allowance for the birth of a child, marriage, financial assistance for nurseries and for professionals that have disabled children.

Performance Management and Management by Objectives (MbO) Indicators (*) [404-3]



(*) Percentage of participants in the MbO system. The breakdown by gender for this indicator is available in the appendix of this report.

NB 1: in Australia, Guatemala and Ireland there is a workforce volume that is irrelevant for the purposes of this indicator.

NB 2: the figure for Colombia in 2016 has been calculated excluding information regarding Electricaribe.

6. Internal communication with employees

6.1. Internal communication strategy

Linked to the period of growth facing the company, there is an important challenge for transformation to address the strategic objectives: anticipation, proactivity, innovation, safety, continuous improvement and the customer as the focal point, are key to this.

The value of growth has been implicit in the communication approach of all themes and projects under the specific objectives of internal communication:

- Aligning the organisation with strategic objectives.
- Fostering the culture and corporate values.
- Improving the working environment.

With this focus, Gas Natural Fenosa uses a range of channels to reach its employees; these include the corporate intranet, Naturalnet, the internal magazine, Natural, which is sent to all countries in different languages, and all those actions that foster direct communication with managers and other work teams. In 2016, there were around 900 publications on Naturalnet and nearly 50 videos, many of them from our own employees.

6.2. Awareness-raising campaigns

The internal communication campaigns have enabled employees to find out about and get involved in the company's key projects and which have a direct repercussion on their day-to-day work.

In line with the positioning of the company, the messages have been accompanied by "facts", which gives strength to the arguments, providing visibility to what is already being done well, recognising teams' achievements and also appealing to their responsibility.

During 2016 all employees were informed about the new 2016-2020 Strategic Vision of the group. In addition, we have continued with the Health and Safety Commitment campaign which, together with the Customer Experience: the customer as the focal point campaign and the Ambassadors Programme, have become the driving forces of cultural change for persons that form part of the company.

We have also launched other relevant campaigns such as the new Corporate Responsibility Policy, the Cibersecurity Plan and the Corporate Volunteer Plan, among others.

All these campaigns are implemented through different channels, whether this involves informative publications on the intranet, posters put up at work centres, emails sent to employees, informative audiovisual material, conferences or impact actions.

6.3. Emotional-type activities with employees

Some of the internal communication initiatives are for the purpose of getting employees involved and participating with other teams and people either within their job setting or outside of work. An example of this can be seen in the competitions or participation in activities of the Sports Club of Gas Natural Fenosa.

The annual announcement of the Our Energy Awards, which fosters the contribution of innovative ideas and improvements at work, recognising personal involvement in the company, helping workers to feel proud of working for the company, as well as assessing and strengthening the value of innovation.

In 2016 we announced the continuity of the Safety Contacts competition. We also launched a new initiative, the Health and Safety Leadership Award, where the employees themselves nominate peers as leaders in this field.

Reinforcing proximity through direct communication

During 2016, the company continued with the Dialogue Programme, whose aim is to bring senior management and employees closer together through dialogue, communication and the transfer of information.

These actions include "Breakfasts with Management"; "I have a Question", where questions are put to company managers; and "Speaking about the Company", in which managers from the Top 50 offer informative sessions featuring previously compiled corporate content, as well as answering spontaneous questions from employees. These also include specific subject matters from their management area. In addition, during 2016 we also added a new action, the "Mic: microevents" to allow employees to meet up with spokespersons for some of the cross-disciplinary projects being introduced at the company.

In 2016, in Spain alone, 40 direct communication actions were carried out as part of the Dialogue Programme, featuring participation from 2,200 persons. Of those actions, 16 referred to "Speaking about the Company", 3 to "Speaking about the International Company", 15 to "Breakfast with Management", 2 to "I have a Question" and 4 to "Mic".

Other actions, such as the functional meetings of divisions, have enabled people to align themselves with common business objectives, whilst simultaneously facilitating interrelationships between employees and the exchange of experiences.

At Gas Natural Fenosa we regularly provide channel-access statistics, satisfaction surveys and the internal communication annual audit, to measure the impact of these projects and employees' perception.

"Ambassadors Program" communication campaign

As part of the Customer Experience project, we have launched the Ambassadors Programme, which includes initiatives that bring the company closer to customers and help improve knowledge about the company.

Great efforts were made in 2016 to provide details of this project which has affected, in the first stage, all employees in Spain. Through various channels it has pursued the employees' involvement in this programme by providing them with the necessary tools to achieve their effectiveness, referred to as the "Decalogue of the Good Ambassador".

Of particular prominence among the internal communication actions that were carried out were the novelty and impact of the personalisation of coffee machines using campaign vinyls, the videos made on each of the decalogue tools with a certain humorous tone, the physical deliverables for employees, the "ambassador" cardholders, as well as the usual channels.

7. Labour relations

Respect for fundamental rights, freedom of association, collective bargaining, and the culture of the agreement represent essential principles for Gas Natural Fenosa, having workers' representatives freely elected in each country where the company is present.

Gas Natural Fenosa promotes collective bargaining, promoting active communication channels as part of its corporate principles.

As a result, in Spain it has signed the 2nd Collective Bargaining Agreement of Gas Natural Fenosa Group of Companies with effect from 2016 to 2020, affecting 5,250 workers and 22 companies in all areas and lines of business.

On the international stage, we have completed negotiation processes in Argentina (two signed wage agreements), Brazil (two signed collective agreements), Chile (12 collective agreements with 19 unions in the fields of gas and electricity), Colombia (one collective bargaining agreement and eight wage updates) and Mexico (six collective bargaining agreements signed). Overall we have achieved the amount of 42 collective bargaining agreements across the group.

Within the sphere of all societies in which Gas Natural Fenosa operates, a total of 80 unions with representation in all spheres of action, eight in Spain and 72 in the international business.

Finally, it should be pointed out that, at 31 December 2016, there had been a total of 48,691 visits, enquiries and downloads of "Employment Information" on Naturalnet across the group, and 21,247 enquiries, incidents and requests through the Employee Care Service, dealt with directly by the service or through Labour Relations.

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Number of employees [1] [2]		8	789	2	11	526	3,955	721	22	7,452	76	1	10	41	380	83	96	1,073	709	404	15	17	7	99	695	37	17,229
Breakdown of staff by age range (%). 2016. [2] [3]	18-35	50.00	17.87	0.00	63.64	29.85	31.98	29.40	31.82	13.16	68.42	0	10.00	46.34	10.53	22.89	14.58	40.17	18.76	36.14	60.00	52.94	14.29	23.23	-	56.76	22.43
	36-50	25.00	37.64	100	36.36	54.94	46.98	54.79	59.09	53.59	30.26	100	90.00	48.78	61.32	66.27	52.08	51.63	43.02	27.97	33.33	47.06	57.14	60.61	-	37.84	50.20
	>50	25.00	44.49	0.00	0	15.21	21.04	15.81	9.09	33.25	1.32	0	0.00	4.88	28.16	10.84	33.33	8.20	38.22	35.89	6.67	0.00	28.57	16.16	-	5.41	27.36
Breakdown of staff by gender. (%). 2016.(2) [102-8]	Men	75.00	77.1	100.00	54.5	61.8	75.3	60.3	95.5	69.1	51.3	0.00	80.0	63.4	77.9	86.7	85.4	74.2	71.1	69.8	60.0	29.4	71.4	82.8	-	78.4	71.2
	Women	25.00	22.9	0.00	45.5	38.2	24.7	39.7	4.5	30.9	48.7	100.0	20.0	36.6	22.1	13.3	14.6	25.8	28.9	30.2	40.0	70.6	28.6	17.2	-	21.6	28.8
Women in management posts (%). [2] [4]	2014	-	14.7	-	-	32.4	11.5	43.7	-	24.4	20.0	-	-	-	20.0	-	25.0	20.4	36	34.5	-	100	0.0	66.7	-	-	-
	2015	-	14.3	-	-	31.1	16.0	42.5	-	24.9	25.0	-	-	-	17.6	-	25.0	20.3	34.6	32.1	-	100	0.0	66.7	-	-	-
	2016	0.0	14.7	-	0.0	38.1	17.3	44.6	0.0	25.5	22.2	-	0.0	7.7	19.4	0.0	25.0	20.6	38.5	31	100	100	0.0	66.7	-	-	-
Senior managers from the local community (%). [2] [5] [202-2]	2014	-	100.0	-	-	66.7	-	66.7	-	99.4	0.0	-	-	-	0.0	-	0.0	16.7	50.0	66.7	-	-	0.0	-	-	-	92.6
	2015	-	100.0	-	-	60.0	-	50.0	-	99.4	33.3	-	-	-	-	-	-	33.3	-	66.7	-	-	-	-	-	-	92
	2016	-	100.0	-	-	40.0	25.0	50.0	-	99.4	50.0	-	-	100.0	-	-	-	50	-	66.7	-	-	-	-	-	-	92.6

			Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Breakdown of staff by professional categories and gender (%). 2016. (2) [102-8]	Management team	Men	12.5	3.7	0.0	9.1	4.9	2.3	4.3	4.5	10.3	9.2	0.0	10.0	29.3	7.6	1.2	3.1	5.0	2.3	5.0	0.0	0.0	28.6	1.0	-	0.0	6.6
		Women	0.0	0.6	0.0	0.0	3.0	0.5	3.5	0.0	3.5	2.6	0.0	0.0	2.4	1.8	0.0	1.0	1.3	1.4	2.2	13.3	11.8	0.0	2.0	-	0.0	2.3
	Middle managers	Men	0.0	11.4	0.0	0.0	12.5	9.3	7.5	4.5	15.2	10.5	0.0	10.0	7.3	13.4	13.3	37.5	16.6	18.8	21.3	6.7	0.0	14.3	21.2	-	37.8	13.6
		Women	0.0	3.5	0.0	9.1	6.5	2.5	3.5	0.0	3.8	5.3	100.0	0.0	2.4	2.1	2.4	2.1	3.3	5.4	7.9	0.0	0.0	0.0	8.1	-	8.1	3.7
	Technicians.	Men	62.5	11.2	100.0	45.5	17.1	26.6	20.1	9.1	19.0	28.9	0.0	50.0	26.8	17.1	6.0	11.5	23.0	5.9	14.4	33.3	23.5	14.3	7.1	-	8.1	19.9
		Women	25	3.8	0.0	27.3	11.8	9.6	16.5	0.0	12.0	28.9	0.0	20.0	29.3	7.4	0.0	2.1	9.9	6.6	9.7	20.0	41.2	0.0	5.1	-	2.7	10.6
	Operators	Men	0.0	50.8	0.0	0.0	27.2	37.1	28.4	77.3	24.7	2.6	0, 0	10.0	0.0	39.7	66.3	33.3	29.5	44.1	29.2	20.0	5.9	14.3	53.5	-	32.4	31.1
		Women	0.0	15.0	0.0	9.1	16.9	12.1	16.2	4.5	11.6	11.8	0.0	0.0	2.4	10.8	10.8	9.4	11.4	15.5	10.4	6.7	17.6	28.6	2.0	-	10.8	12.2
Breakdown of workforce by contract type (%). 2016.[2] [102-8]	Permanent contracts	Men	75.0	77.1	100.0	54.5	61.8	73.7	25.0	95.5	68.1	51.3	-	80.0	61.0	77.9	83.1	85.4	65.1	71.1	69.8	60.0	29.4	71.4	82.8	-	78.4	68.2
		Women	25.0	22.9	-	45.5	38.2	24.3	15.5	4.5	30.6	48.7	100.0	20.0	36.6	22.1	12.0	14.6	23.2	28.1	30.2	40.0	70.6	28.6	16.2	-	18.9	27.3
	Temporary contracts	Men	-	-	-	-	-	1.6	35.4	-	1.0	-	-	-	2.4	-	3.6	-	9.1	-	-	-	-	-	-	-	-	3.0
		Women	-	-	-	-	-	0.4	24.1	-	0.3	-	-	-	-	-	1.2	-	2.6	0.8	-	-	-	-	1.0	-	2.7	1.5

			Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Average salary of men and women by professional category (euros). 2016. (2)	Executives	Men	-	77,000	-	-	79,730	127,464	66,833	-	95,264	91,053	-	-	-	68,769	-	86,428	35,633	18,317	42,885	-	-	-	108,212	-	-	-
		Women	-	62,283	-	-	65,866	94,487	55,522	-	81,584	79,411	-	-	-	65,762	-	82,460	30,990	17,959	44,307	-	73,593	-	82,645	-	-	-
	Technicians	Men	-	32,106	-	-	28,482	42,149	17,760	-	49,922	51,017	-	-	-	37,034	-	33,102	13,621	7,644	17,613	-	34,121	-	21,852	-	-	-
		Women	-	28,297	-	-	25,785	35,908	14,286	-	45,694	44,271	-	-	-	37,625	-	29,153	13,610	7,464	20,561	-	31,302	-	24,393	-	-	-
	Administrative staff	Men	-	25,687	-	-	-	25,275	7,705	-	42,268	33,197	-	-	-	29,525	-	10,773	7,092	8,160	17,738	-	-	-	12,596	-	-	-
		Women	-	23,442	-	-	22,163	20,179	6,885	-	35,799	31,447	-	-	-	28,890	-	12,719	9,168	9,773	17,022	-	24,180	-	9,747	-	-	-
	Operative	Men	-	27,217	-	-	16,482	15,342	6,477	-	38,447	-	-	-	-	.	-	16,020	5,845	4,666	14,328	-	-	-	12,273	-	-	-
		Women	-	31,450	-	-	15,724	12,539	7,088	-	29,070	-	-	-	-	30,584	-	-	5,901	4,850	-	-	-	-	-	-	-	-
Ratio between the standard minimum salary and the local minimum salary by country and gender. 2016. [202-1]	Total		-	2.83	-	-	2.90	1.99	1.61	-	2.17	1.50	-	-	-	1.25	-	2.90	3.20	2.72	1.47	-	3.57	-	2.47	-	-	-
	Men		-	2.82	-	-	2.65	1.99	1.80	-	2.17	1.46	-	-	-	1.26	-	2.50	3.04	2.72	1.55	-	4.20	-	1.97	-	-	-
	Women		-	2.83	-	-	3.15	1.98	1.42	-	2.17	1.54	-	-	-	1.24	-	3.30	3.36	2.72	1.38	-	2.94	-	2.96	-	-	-

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		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Total annual ratio of the best paid person of the company with the total annual average remuneration of the workforce [6] [7] [102-38]	2016	-	7.81	-	-	12.30	14.70	17.07	-	14.56	3.85	-	-	-	3.69	-	3.33	8.11	6.41	14.45	-	2.46	-	6.82	-	-	-
Ratio between the percentage increase of total annual remuneration of the best paid person of the company with the percentage increase of the total annual average remuneration of the entire workforce. [8] [9] [102-39]	2016	-	0.86	-	-	1.09	0.00	1.16	-	0.93	2.06	-	-	-	0.00	-	1.07	2.00	0.52	1.12	-	1.83	-	1.09	-	-	-
Rotation index (%) (number of layoffs/average staff) [401-1]	2016	13.8	5.9	44.8	9.8	2.8	14.8	4.0	-	3.7	15.8	72.2	11.8	51.2	1.1	20.9	1.0	5.7	6.3	4.2	-	6.9	-	9.8	-	-	7.1
Voluntary rotation index (%) (number of voluntary layoffs/average staff) [401-1]	2016	-	3.2	44.8	9.8	1.1	3.6	2.8	-	0.8	12.9	72.2	11.8	51.2	0.5	20.9	1.0	4.2	3.5	1.8	-	6.9	-	8.9	-	-	2.5

			Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Performance Management and Management by Objectives (MbO) indicators broken down by gender and professional category. 2016. (2) (10) [404-3]	Management team	Men	-	3.0	0.0	-	4.9	-	3.9	4.5	10.2	9.5	0.0	-	0.0	7.6	0.0	3.1	5.0	2.3	5.0	0.0	0.0	28.6	1.0	-	0.0	-
		Women	-	0.6	0.0	-	3.0	-	3.5	0.0	3.5	1.9	0.0	-	0.0	1.8	0.0	1.0	1.3	1.4	2.2	6.7	11.8	0.0	2.0	-	0.0	-
	Middle managers	Men	-	3.0	0.0	-	7.4	-	5.0	0.0	3.9	8.6	0.0	-	0.0	5.5	0.0	9.4	14.0	0.4	20.8	6.7	0.0	14.3	21.2	-	0.0	-
		Women	-	2.5	0.0	-	4.8	-	2.8	0.0	2.0	4.8	0.0	-	0.0	2.1	0.0	2.1	3.2	0.0	7.9	0.0	0.0	0.0	8.1	-	0.0	-
	Technicians	Men	-	3.3	0.0	-	1.0	-	6.4	0.0	7.6	33.3	0.0	-	0.0	11.8	0.0	11.5	22.1	0.0	12.9	20.0	23.5	14.3	6.1	-	0.0	-
		Women	-	0.9	0.0	-	1.5	-	4.6	0.0	4.0	25.7	0.0	-	0.0	6.8	0.0	2.1	9.6	0.0	9.2	0.0	41.2	0.0	5.1	-	0.0	-
	Operators	Men	-	0.6	0.0	-	0.0	-	0.1	0.0	3.0	0.0	0.0	-	0.0	0.0	0.0	0.0	6.1	0.0	27.0	6.7	5.9	14.3	52.5	-	0.0	-
		Women	-	0.3	0.0	-	0.0	-	0.0	0.0	1.8	0.0	0.0	--	0.0	0.3	0.0	0.0	4.8	0.0	9.9	0.0	17.6	28.6	2.0	-	0.0	-
	Total	Men	-	10.0	0.0	-	13.3	-	15.4	4.5	24.7	51.4	0.0	-	0.0	25.0	0.0	24.0	47.2	2.7	65.6	33.3	29.4	71.4	80.8	-	0.0	-
		Women	-	4.3	0.0	-	9.3	-	10.8	0.0	11.2	32.4	0.0	-	0.0	11.1	0.0	5.2	18.9	1.4	29.2	6.7	70.6	28.6	17.2	-	0.0	-
		Total	-	14.3	0.0	-	22.6	-	26.2	4.5	35.9	83.8	0.0	-	0.0	36.1	0.0	29.2	66.1	4.1	94.8	40.0	100.0	100.0	98.0	-	0.0	-

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
Staff promoted (%) (11)	2014	-	7.2	-	-	18.7	14.7	5.2	-	7.8	5.4	-	-	-	1.6	-	1.0	4.7	12.5	12.7	-	-	-	11.0	-	-	-
	2015	-	5.2	-	-	10.3	8.4	4.0	-	13.5	18.2	-	-	-	10.3	-	1.0	9.4	11.6	1.9	-	-	-	5.6	-	-	-
	2016	-	1.4	-	-	11.2	9.2	2.5	-	9.9	21.1	-	-	-	12.9	-	2.1	6.2	15.5	1.7	-	-	-	16.2	-	-	-
Employees with/without collective bargaining agreement. 2016. (2) [102-41]	Not covered by collective bargaining agreements.	0.0	21.9	0.0	18.2	24.5	5.2	29.1	0.0	28.0	69.7	0.0	0.0	97.6	1.8	0.0	32.3	20.0	0.0	59.2	0.0	0.0	57.1	3.0	-	0.0	20.5
	Covered by collective bargaining agreements.	100.0	78.1	100.0	81.8	75.5	94.8	70.9	100.0	72.0	30.3	100.0	100.0	2.4	98.2	100.0	67.7	80.0	100.0	40.8	100.0	100.0	42.9	97.0	-	100.0	79.5
Trade union membership (%). (2) (12)	2014	-	47.8	-	-	12.0	-	58.0	-	24.8	-	-	-	-	40.2	-	67.0	21.4	66.2	38.6	-	-	-	-	-	51.5	72.5
	2015	-	31.3	-	-	10.3	41.9	46.3	-	25.6	-	-	-	-	42.3	-	67.0	19.8	62.8	39.1	-	-	-	-	-	39.4	-
	2016	-	48.0	-	-	9.9	67.1	4.93	-	35.3	-	-	-	-	42.3	45.8	67.7	21.6	60.6	37.7	-	-	-	-	86.7	31.4	-
Employees five years from retirement age (%). 2016 (2) [EU15]	Management team	-	14.7	-	-	2.4	7.3	14.3	-	3.6	0.0	-	-	-	0.0	0.0	25.0	2.9	15.4	24.1	-	-	0.0	0.0	-	-	5.0
	Middle managers	-	11.0	-	-	7.0	4.9	2.5	-	7.1	0.0	-	-	-	6.8	0.0	13.2	2.3	21.1	22.9	-	-	100	6.9	-	-	7.9
	Technicians	-	7.6	-	-	4.6	3.8	4.9	-	4.2	0.0	-	-	-	1.1	20.0	15.4	2.3	13.5	10.3	-	-	0.0	0.0	-	-	4.3
	Operators	-	20.0	-	-	3.4	6.7	6.2	-	13.0	9.1	-	-	-	3.1	1.6	7.3	6.4	28.6	35.6	-	-	0.0	12.7	-	-	11.7
	Total	-	16.6	-	-	4.4	5.5	6.0	-	7.8	1.3	-	-	-	2.9	2.4	11.5	4.0	24.4	25.0	-	-	14.3	9.1	-	-	8.2
Employees ten years from retirement age (%). 2016 (2) [EU15]	Management team	0.0	52.9	-	-	16.7	19.1	26.8	0.0	13.5	0.0	-	-	-	5.6	100.0	100.0	8.8	30.8	34.5	-	-	0.0	33.3	-	-	15.8
	Middle managers	-	31.4	-	-	21.0	12.8	24.1	0.0	20.7	0.0	-	-	-	15.3	7.7	57.9	8.0	33.9	35.6	-	-	100.0	10.3	-	5.9	20.4
	Technicians	28.6	16.1	-	-	10.5	9.4	15.9	0.0	13.8	0.0	-	-	-	5.4	20.0	15.4	5.1	15.7	14.4	-	-	0.0	8.3	-	0.0	11.6
	Operators	-	39.1	-	-	8.6	17.8	16.8	5.6	33.1	9.1	-	-	-	20.3	9.4	31.7	13.7	43.7	49.4	-	-	0.0	21.8	-	6.3	26.7
	Total	25.0	35.1	-	-	12.2	14.2	18.0	4.5	22.1	1.3	-	-	-	14.5	10.8	42.7	9.4	37.4	35.9	-	-	14.3	17.2	-	5.4	20.0

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	South Africa	Uganda	TOTAL
New employees. [401-1]	2014	-	26	0	-	45	890	844	0	176	16	0	-	0	9	-	1	87	38	25	0	2	1	2	-	2	2164
	2015	-	41	0	-	50	644	236	3	306	31	0	-	0	11	-	0	126	36	40	0	5	0	2	-	4	1535
	2016	2	40	-	0	6	528	61	-	164	21	-	3	48	6	1	-	91	27	41	7	4	-	2	-	7	1059
No. of employees with maternity/paternity leave entitlements. 2016 [13] [401-3]	Men	2	5	1	0	6	36	15	0	174	4	0	1	1	7	11	3	28	14	10	0	0	0	2	-	5	325
	Women	0	5	0	1	9	87	15	1	79	8	0	0	0	7	1	0	18	7	2	0	1	0	3	-	1	245
	Total	2	10	1	1	15	123	30	1	253	12	0	1	1	14	12	3	46	21	12	0	1	0	5	-	6	570
No. of employees who took maternity/paternity leave. 2016. [401-3]	Men	2	5	0	0	3	15	15	0	164	4	0	1	1	7	11	3	28	6	10	0	0	0	2	-	5	282
	Women	0	5	0	1	8	87	15	0	77	8	0	0	0	7	1	0	18	7	2	0	1	0	3	-	1	241
	Total	2	10	0	1	11	102	30	0	241	12	0	1	1	14	12	3	46	13	12	0	1	0	5	-	6	523
No. of employees who did not return to work once their maternity/paternity leave was complete. 2016. [401-3]	Men	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	2
	Women	0	0	0	0	0	32	0	0	6	0	0	0	0	0	0	0	2	5	0	0	0	0	0	0	0	45
	Total	0	0	0	0	0	32	0	0	7	0	0	0	0	0	0	0	2	6	0	0	0	0	0	0	0	47
Ratio of employees who returned to their position following paternity/maternity leave and continue in the company one year after their leave (%). 2016 [401-3]	Men	100.00	100.00	-	-	100.00	60.00	90.00	-	98.79	100.00	-	100.00	-	100.00	83.33	100.00	94.29	100.00	100.00	-	-	-	100.00	-	100.00	93.65
	Women	100.00	100.00	-	-	100.00	78.95	87.50	-	94.79	100.00	-	100.00	-	100.00	100.00	100.00	82.35	100.00	100.00	-	-	-	66.67	-	-	87.92
	Total	100.00	100.00	-	-	100.00	75.00	88.64	-	97.32	100.00	-	100.00	-	100.00	87.50	100.00	90.38	100.00	100.00	-	-	-	83.33	-	100.00	90.79

(1) NB: through the new IFRS criteria which entered into force in 2014, there are a number of companies consolidated through the equity method and which do not provide a headcount breakdown, which would total 3,393 employees distributed as follows: Colombia 1,478, Argentina 830, Egypt 145, Spain 866 and Puerto Rico 74.Divestments have occurred in Chile during 2016. In addition, the criterion for corporate accounting through percentage integration has been adapted to the Financial Statements.

(2) NB: the figure for Colombia reflects the situation excluding information regarding Electricaribe.

(3) NB: Kangra Coal (South Africa) is a Not Managed company, there is no information detail.
(4) NB: there are no executives in Australia, Guatemala and Uganda.
(5) NB: with the acquisition of Vayu in Ireland, new directors from the local community have joined.
(6) NB: In Australia, Costa Rica, Guatemala, Ireland, Peru, Puerto Rico and Uganda there is a workforce volume that is irrelevant for the purposes of this indicator.
(7) NB: relationship between the total annual remuneration of the best paid person of the organisation in each country where significant operations are carried out with the average annual total remuneration of the entire workforce (without counting the best paid person) of the corresponding country.
(8) NB: ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.
(9) NB: the figures showing zero mean that one of the indicators is equal to zero.
(10) NB: for Germany, Belgium, Holland and France (GN Europe and its branches) the consolidated figure in France is given.
(11) NB: no promotions were made of staff in Australia, Costa Rica, Guatemala, Ireland, Portugal, Puerto Rico, Uganda, Belgium, Holland and Germany in 2016
(12) NB: in Chile the change has occurred as a result of not considering in 2015 the affiliation of the gas area, as well as through modifications that took place in the business group. Kenya and South Africa: these countries have joined the perimeter.
(13) NB: the concept of maternity/paternity leave and the related social benefits present specifics that are connected to the labour laws in force in each of the countries where Gas Natural Fenosa operates and must be taken into account when interpreting this information. For instance, legislation in Moldova determines that women have the right to maternity leave of 126 days 100% paid by the Social Security system. After this period, they have the right to take maternity leave of absence for up to 3 years, with 30% payment by the Social Security system, and from 3 to 6 years of unpaid leave, which explains why the number of people who did not return to work after their leave was complete was so high for this country.

Health and safety

[103-1], [103-2] and [103-3] (Occupational Health and Safety)

Gas Natural Fenosa plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This involves not only persons that work for Gas Natural Fenosa, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damages to health, providing a safe and healthy environment as well as promoting health and well-being.

Commitments and principles of responsible action in health and safety

- Guarantee that health and safety are **non-delegable individual duties**, and that they are taken on by senior management through a visible **collective commitment,** proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a **condition of employment** at Gas Natural Fenosa and of the activity of its collaborating companies.
- Ensure that any potential situations of risk that may affect employees, suppliers, customers, the general public and the safety of facilities are **brought to attention, assessed and managed in the appropriate manner**.
- Work to maintain a risk-free work environment by integrating into business management the prevention of occupational risks and actions to protect and promote health and well-being.
- Establish **learning as the driver** of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.
- Incorporate **health and safety criteria** into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Invest in new strategies of **health education and health promotion**, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.
- Implement measures targeted at improving the **quality of life, well-being and health** of people within the **communities** where the company operates.
- Provide the **resources and necessary means** to enable compliance with established safety standards at all times.

Gas Natural Fenosa contribution's to SDG 3: Good health and well-being

The third Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "ensuring healthy lives and promoting the well-being for all at all ages is essential to sustainable development".

Gas Natural Fenosa develops its activity in such a way that the health and well-being of persons is a priority, as reflected in its Health and Safety Commitment. Specifically, from health services located in the workplace, the company contributes to meeting targets of SDG related to prevention, care, acute treatment and promotion of occupational health. The company has developed tools for managing work stress and has defined a process post-traumatic stress prevention device. Regarding SDG goals related to road safety, it should be noted that the company has a specific plan for road safety.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Global action plan for collaborating companies	●	Awareness programme on health and safety Journey to the Safety of Collaborating Companies
Global implementation of the documentary management tool Controlar (Achilles)	●	Implementation of the methodology for calculating accident indicators for collaborating companies
Implementation of the Health and Safety Commitment Plan in Chile	●	Implementation of the new management model of health and safety training in the global scope of the company
Implementation of cardio-protection through the gradual introduction of defibrillators at international level in the workplace and at all of the company's medical services	●	Implementation of predictive medicine
Progressive implementation of the healthy business model in countries pending introduction	●	Consolidation of the healthy business model in countries already certified, and achieving new certifications

Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

1. Safety and health as a strategy at Gas Natural Fenosa

Health and safety are essential elements in Gas Natural Fenosa's business strategy. A common culture has been achieved around these elements in which all levels of the company, spearheaded by the Board of Directors, have acquired a firm commitment to continuous improvement in this area.

The preventive culture of Health and Safety at Gas Natural Fenosa has consolidated itself as a consequence of the implementation of the "Commitment to Health and Safety Plan" introduced between 2012 and 2015. From this year onwards, and thanks to the work carried out, the targets set have gone from a project with temporary implications to an ongoing and internalised reality. Under the new name "Health and Safety Commitment", we continue working to improve the results obtained. The actions of the entire organisation are based on the motto "nothing is more important than Health and Safety".

Participation by management in the 817 Health and Safety Committee sessions, the training given in this issue, with the issue subject to most hours of training with 220,252 hours, and the spread

of this culture to collaborating companies through 43,011 work inspections or supervision, are clear examples of the efforts made since the commencement of the undertaking in 2012.

2. Health and Safety Commitment

After the breakthrough of the Health and Safety Commitment, and with the integration of health and safety as a value taken into consideration by all persons in the organisation, 2016 has been the turning point towards the consolidation of a stable and continuous health and safety commitment.

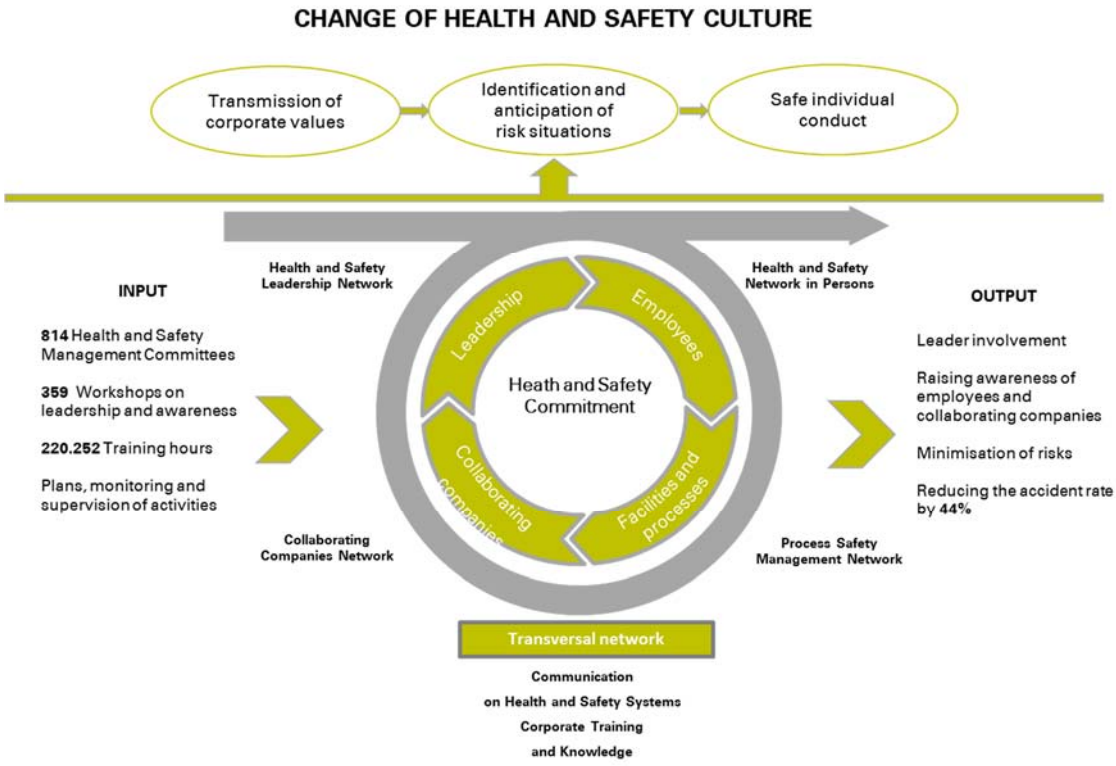
This new approach has closed a cycle whose driving force has been the ongoing improvement into the daily life of the company, the increased efforts to achieve the desired objectives and the proposal for innovative initiatives.

The four areas of action: leadership, employees, collaborating companies, and facilities and processes remain the aspects on which the Health and Safety Commitment focuses.

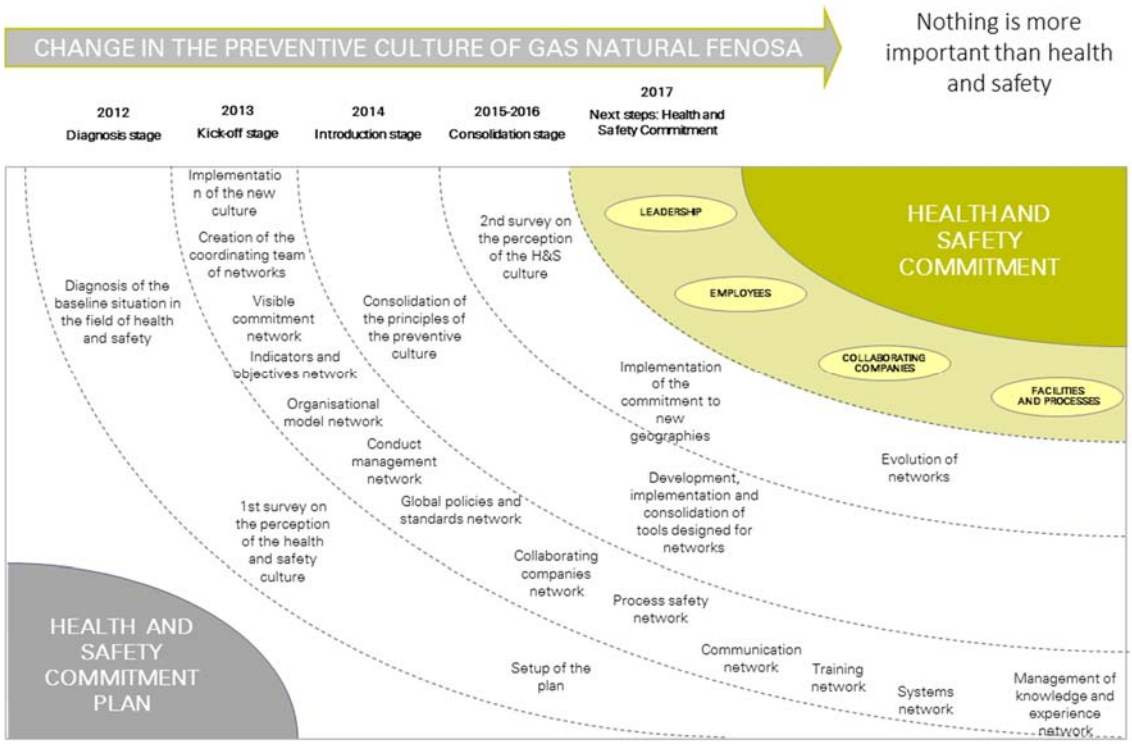
The implementation of the tools from the project has meant that the working groups “networks” initially designed in 2012 are evolving into a new structure to meet the current needs of the Health and Safety Commitment.

In 2017, efforts will focus on the functioning and coordination of the different networks and committees, ensuring the global implementation of the commitment.

The cultural change has served to transfer the company’s principles of health and safety to the daily activity, and it has reached our collaborating companies and new businesses that join Gas Natural Fenosa.



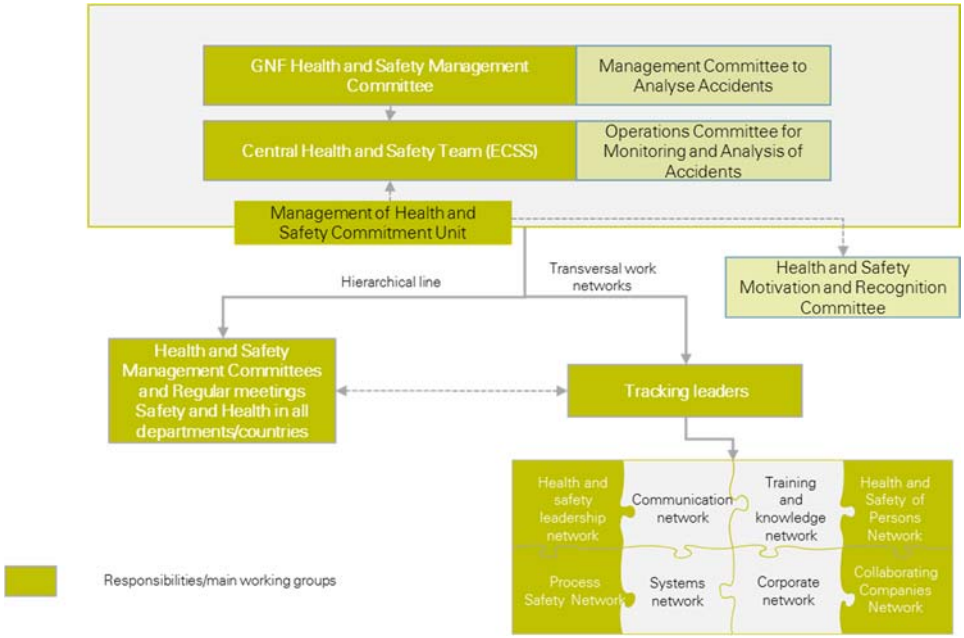
Since the launch of the plan, there have been many milestones overcome year after year to consolidate the Health and Safety Commitment, where work continues to maintain leadership in health and safety.



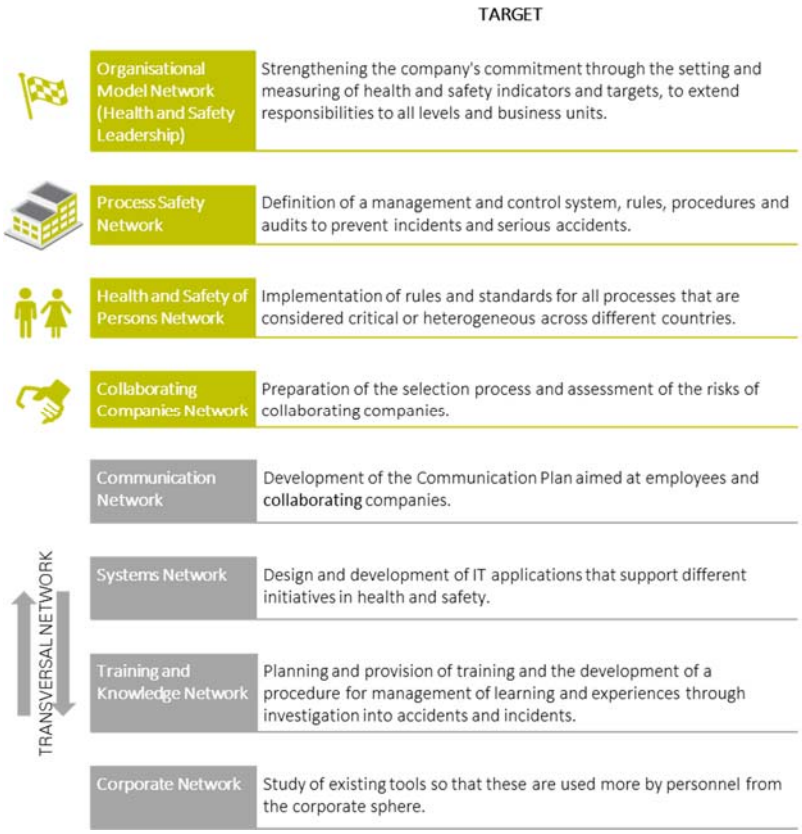
Health and safety leadership

Leadership is considered as the driver of cultural change in the company. This means efforts have to be made at all organisational levels, and is promoted by the management, with a visible, solid and firm commitment in taking all decisions, with health and safety paramount at all times.

2016 has seen consolidation of the health and safety management committees, and other forums of presentation, discussion and decision on proposals. And we have encouraged coordination actions, the introduction of plans, monitoring and supervision of health and safety activities in the different divisions of the company.



In 2016, Gas Natural Fenosa has upgraded its networks to continue promoting the company's health and safety culture.



3. Health and safety culture

Cultural change is the result of the implementation and maintenance of the very highest standards of health and safety focused on the company's objective: zero accidents.

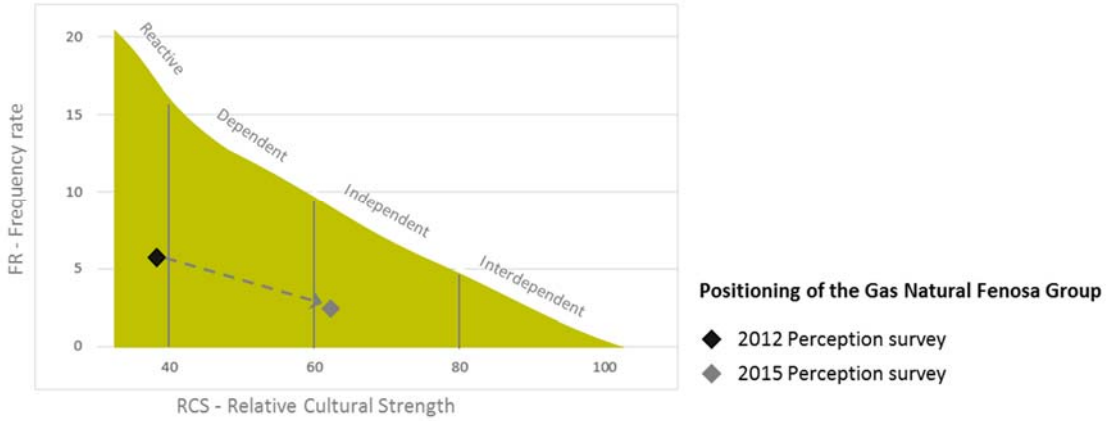
Survey on the perception of the health and safety culture

The health and safety culture perception survey conducted in 2015 has been a clear reflection of the transformation in the corporate culture.

This survey, with participation of 62% of the total workforce of the group, showed that for employees, safety had become somewhat personal and that through their actions they could make a difference in their work environment. In addition, this change of attitude became effective with a reduction of the Frequency Rate, down by 45% in the 2012-2015 period and 44%, with regard to 2016.

The measurement of cultural change was carried out using the Bradley Curve of DuPont, an effective tool for understanding the cultural development in safety at a company.

Gas Natural Fenosa went from being in a Reactive Stage in 2012 (Persons do not take responsibility. They believe that safety is more a matter of luck than management, and that "accidents happen"), to joining the Independent Stage in 2015 (People take responsibility for themselves. They believe safety is personal and that they can make a difference with their own actions), implementing cultural change in the company.



One remarkable aspect is that all areas showed positive developments in relative cultural relative, improving by 75% the result obtained in the survey conducted in 2012.

The results of this survey reflected that Gas Natural Fenosa is above average in the electricity industry and practically at the level of the gas industry, when in 2012 it was below the overall averages.

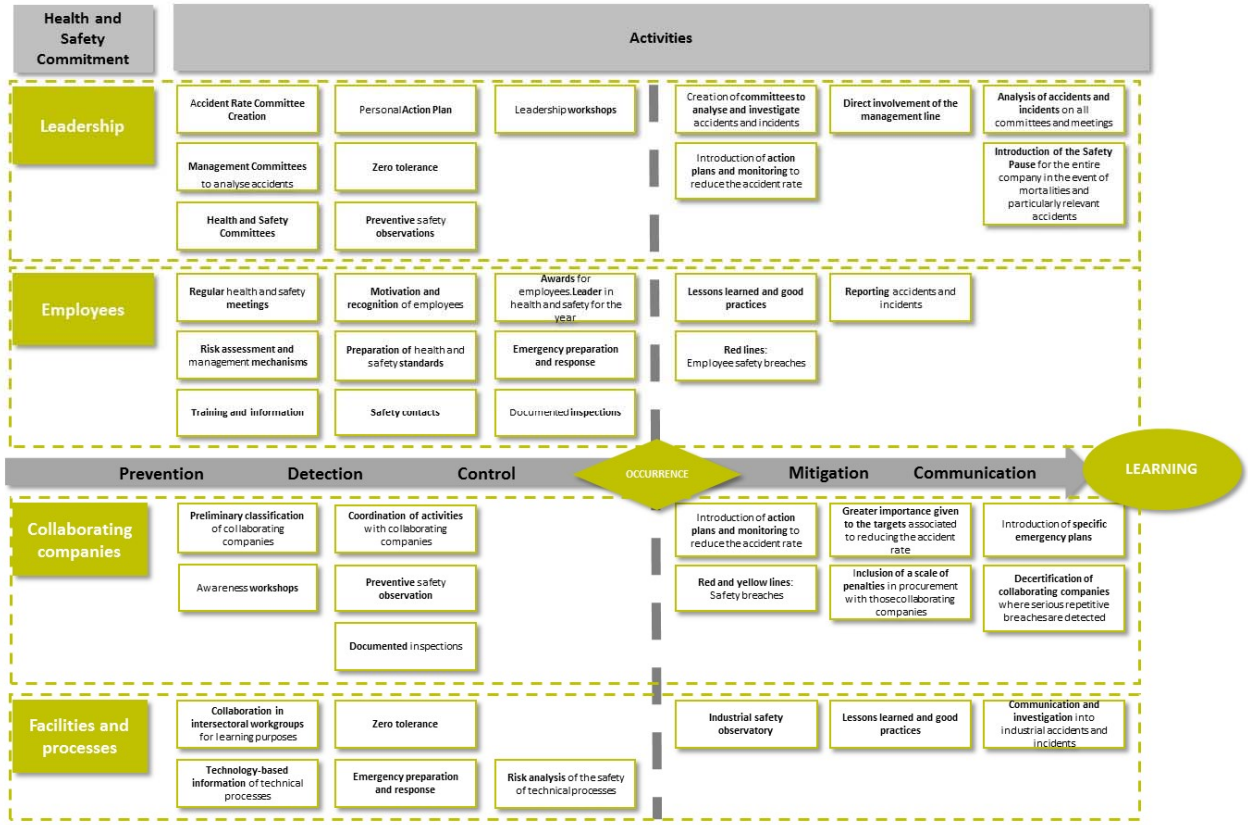
3.1. Culture in response to the highest standards

In line with the corporate health and safety targets, in 2016 standards were prepared, reviewed and introduced; these standards are applicable in the geographical areas where the company operates, through the establishment of uniform and homogeneous criteria:

Leadership standards	• Standards of the month: twelve months, twelve standards • Classification of the health and safety risk of collaborating companies
Technical standards for the critical nature of activities	• Works at voltage • Cutting, pruning and clearing • Transport, loading and unloading of liquefied natural gas • Trenching and excavation • Handling of cargo with self-loading cranes and self-propelled mobile cranes • Works at voltage for facilities of >1kV • Explosive atmospheres

4. Risk prevention

To ensure safety in the activities of Gas Natural Fenosa, measures aimed at preventing accidents and incidents have been introduced. Furthermore, we have also developed mechanisms to learn from events that occur and to avoid them in the future. These actions revolve around the main cultural axes of the company's health and safety, the cornerstone of its commitment.



4.1. Risk management

Identifying and minimising risks concerning health and safety are priority tasks for the areas of health and safety of Gas Natural Fenosa.

In this regard, the company has mechanisms that allow the assessment and management of risks, this being a process of continuous learning in the prevention and mitigation of the consequences of these.

Risk assessment and management mechanisms

The process of occupational risk assessment aims to estimate the magnitude of those risks that could not be avoided. In these cases, the company obtains information for the adoption of effective preventive measures.

Gas Natural Fenosa uses a general procedure that applies to the entire group and which establishes the guidelines and principles to be followed for the identification, assessment and control of occupational risks. The following review periods are established:

- Risk assessments every three years.
- Periodic checks of the health and safety conditions every year.
- Monitoring of preventive measures to be introduced as a result of the risk assessment and regular checks every quarter.

Gas Natural Fenosa has specific management mechanisms to achieve its target of reducing the number of accidents to a minimum. In 2016, the main indicators of these mechanisms have been:

Gas Natural Fenosa continues to work on these pillars to manage risks, minimise accidents and unsafe acts in the daily activity of its employees and partners.
The Health and Safety Commitment has also been made effective through regular publications on the corporate intranet and with the implementation and consolidation of the Prosafety software tool for global safety management in the company.

"A Thousand Ways to Prevent" campaign (Colombia)

Gas Natural Fenosa has launched a campaign to identify the risk of falls at the same level, the risks associated to the use of ladders, handling loads and ergonomic factors.

Through different pieces and in a very original way, different scenarios are presented showing where the risk is present and the proper way to act to prevent it.

The main challenges addressed with this initiative are:

- Identifying and addressing the different types of risks that can be generated at the company's own facilities.
- Eliminating accidents caused by this type of occupational hazards.
- Raising awareness and promoting the importance of preventing risks, by reporting these risks and showcasing the individual responsibility of persons.

Risk prevention in collaborating companies [EU17]

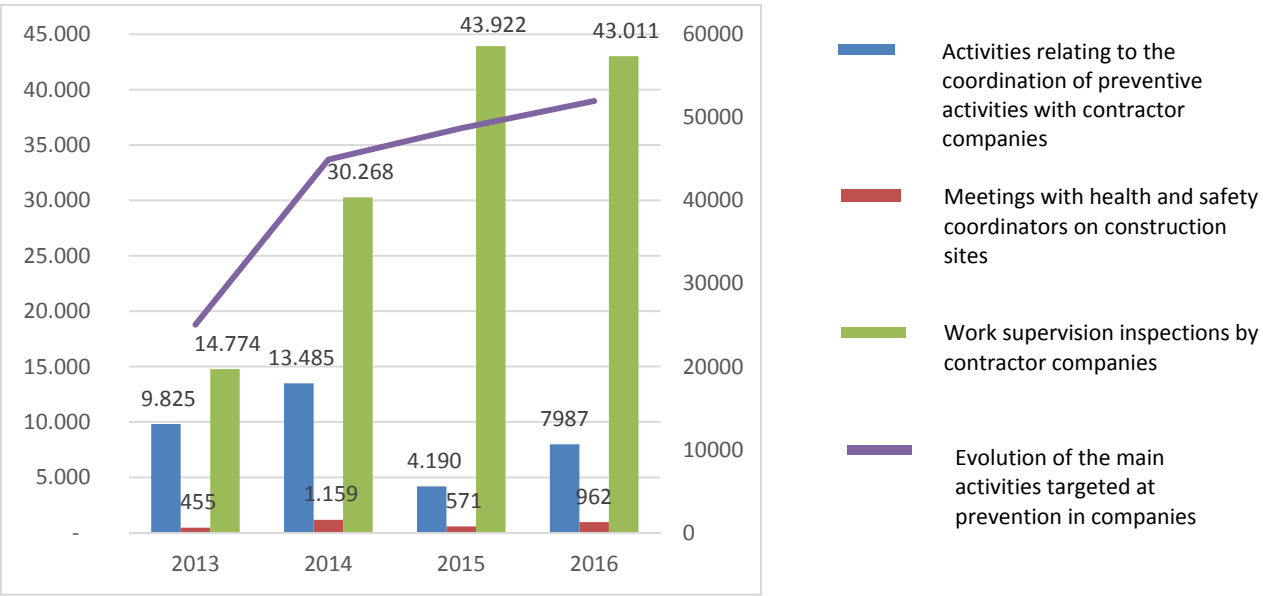
Gas Natural Fenosa acquires the undertaking to provide a safe working environment not only for its employees but for all those who make the activity of the company possible.

For this reason, the growth of involvement of the collaborating companies within the health and safety culture has been essential.

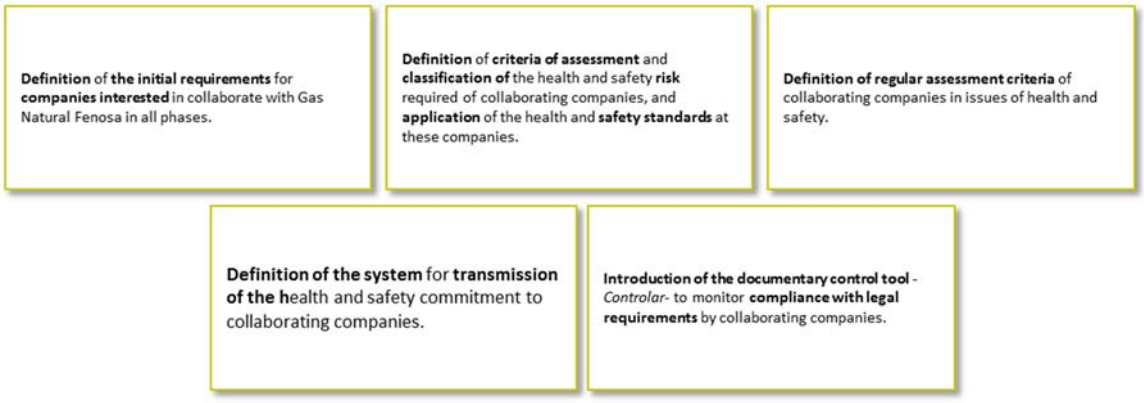
To achieve this end, we have carried out the "Journey to the Safety of Collaborating Companies initiative". This methodology based on simple and regular communication seeks to convey general safety concepts and share experiences. For this, the key liaison party of collaborating companies includes "safety conversations" at work meetings, which are characterised by their frequency, intensity and brevity.

In addition, reinforcement activities are carried out with collaborating companies in the issue of risk prevention.

Main risk prevention activities



In addition, Gas Natural Fenosa has developed other mechanisms designed to ensure that the safety level of collaborating companies is the same as for its own staff:



In 2016, 5,734 collaborating companies were registered with a total of 66,720,806 hours worked between contractors and subcontractors undertaking, among others, construction, operations or maintenance activities[1].

4.2. Management and investigation of accidents and incidents

No company today can afford for a worker to be at risk in his job. Therefore, one of the basic preventive pillars of Gas Natural Fenosa is the reduction of risk situations in order to eliminate accidents.

Having achieved in previous years the unification of criteria for reporting and investigation into occurrences for all countries and businesses, as well as the development of specific action plans, in 2016 efforts focused on actions targeted at preventing recurrence.

In this regard, we should highlight:

▽ 50% of accidents resulting from business activities

Down from 2% to 1% in accidents caused by electrical contacts, fires, gas intoxication or incidents, among others

44% of the Frequency Rate over the last year

Decrease from 3.08 to 1.72

69% of the Frequency Rate over the last year

Decrease from 5.60 to 1.72

△ 43% in the reporting of incidents

Increase in reported incidents from 1,556 to 2,221, which has allowed us to reduce or eliminate potential risk situations.

Introduction of specific Shock Plans

Due to relevant accident rate events, plans are drawn up for PPE, vehicles and handling loads.

Achieving the goal of removing or reducing situations of risk and, as a consequence, the accident rate, is fundamental and represents a huge challenge. It is therefore essential to manage all the information available to the company, from both proactive and reactive indicators, in order to develop systems that allow for adequate and detailed analysis to be able to act before an accident occurs.

[1] In regard to the indicator EU17, it provides the information in hours instead of days to be consistent with other health and safety indicators. It includes the total amount of hours, without an activity breakdown.

In this regard, the actions arising from investigations into accidents and incidents, and the learning derived therefrom represent an essential part. The quick and efficient reporting of events to the entire company for rapid and uniform implementation are the keys to eradicating the situations that arise.

We should point out that in 2016 there were 16,192 health and safety meetings and committees, to monitor the rate of accidents, distribute lessons learnt and monitor actions targeted at reducing these. Furthermore, there were 6,243 Safety Pauses as a consequence of mortal and relevant accidents, targeted at eradicating these.

A key part of this process is the updating of standards and criteria for recording and reporting accidents, and optimising the application of events log and the monitoring of actions.

These developed improvements have helped to achieve important milestones in the face of reducing accidents.

In addition, Gas Natural Fenosa is working on improving a new methodology for accounting for accidents based on standards set by OSHA. In 2017, the accident rate data calculated in accordance with OSHA methodology will be published. Thus, a metric of recognised prestige will be used, already employed by other companies.

4.3. Communication to employees and action plans

The Health and Safety Commitment sets out as the main communication objectives the reinforcement of the commitment and acknowledging the effort. These two communication objectives have been achieved through the following actions:

- Putting the focus on the risk of falls at the same level, raising awareness of road safety and the safety of collaborating companies.
- Providing value-added to the employee through participatory actions.
- Giving prominence to the employee through recognition.

Consultation and participation [403-1] and [403-4]

Gas Natural Fenosa's management of health and safety requires the commitment of all of the company's employees. For this reason, the group has channels for the transmission of information, queries and participation that allow us to encourage awareness and to respond to their information needs in health and safety issues.

One mechanism for consultation and employee participation are the regular health and safety meetings held in all areas of the company. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the workforce is represented at meetings. In 2016, there were 13,637health and safety meetings.

It should be noted that the holding of these meetings is to not replace the various health and safety committees required under labour legislation and which correspond to each country. The main issues, formerly dealt with during 2016 of these kinds of meetings with the workers' representatives, are:

Health and Safety Commitment	Analysis of the accident rate	Launch of new internal regulations
Comprehensive health	Quarterly monitoring of preventive measures	

Employee recognition

First Health and Safety Leadership Award

In 2016, all employees were informed about the 1st Health and Safety Leadership Award, to recognise the effort, commitment and work carried out in health and safety.

This award aims to motivate and recognise exemplary behaviour in this matter.

You can participate by proposing a colleague as a candidate for the award, and each candidate must be supported by at least three company employees.

In this way, it is the team and the working environment itself which recognise the merits of this person, thus rewarding the individual considered deserving of the award.

In this first edition there were a total of 339 candidates, and the winner was an employee of the Directorate General for Latin America in Mexico.

Road safety

Road Safety Plan

The company continues to strengthen this specific plan launched in 2014 because of the need to exercise caution while travelling to and from work and on assignment, the main causes of occupational accidents at Gas Natural Fenosa.

The project bases its pillars on classroom training, online training, vehicle servicing campaigns and actions of awareness and information on road safety in more than 30 countries in which this plan is being developed.

Within this framework, the Road Safety Week was held in June 2016 to remind all employees of the risks as a driver and as a pedestrian, and how to prevent and know what to do in any risk situation.

Also during 2016 there was the launch of the accompanied practical driving training for which specific software has been designed for company employees.

4.4. Training and awareness

The cultural change achieved at the company in recent years in health and safety issues is largely due to the efforts made in providing quality training, both for our own employees as well as collaborating companies.

In 2016, this issue has been the area of knowledge on which most hours have been spent, training 53,650 employees, over 3,518 sessions, which translates into 220,252 training hours. The average number of training hours per employee was 15.32.

Training of collaborating companies [EU18]

To ensure the commitment of collaborating companies to safety and health, Gas Natural Fenosa requires by contract that all its suppliers and contractors certify that their employees have received specific occupational risk prevention and safety training for the work commissioned to them.

As regards collaborating companies, in 2016 100% of the collaborating companies of Gas Natural Fenosa certified that their employees had received training on health and safety.

It has also established internal rules of global application in which operational coordination between business units and its collaborating companies is promoted through leadership workshops and awareness in health and safety issues.

Raising awareness and leadership for collaborating companies
The company has a specialized body of instructors that already reaches 400 internal facilitators. Its mission is to convey the philosophy of the company's commitment to health and safety through leadership workshops with participation from executives and managers of all companies that have been selected as partners of Natural Gas Fenosa in the development of the works. It is these same senior managers of collaborating companies that are to disseminate, within their organisations, the key messages among the rest of their collaborators, through custom-designed workshops to raise awareness. Thus, the commitment permeates all areas of the company's activity, both its own staff and collaborating companies. Gas Natural Fenosa will only work with those collaborating companies that take, share and apply its Health and Safety Commitment. To this end, it has established various mechanisms of dissemination, communication and awareness.

4.5. Certifications

As included in the strategic lines of the commitment, the certification according to health and safety standards enables consistency and standardisation of working conditions at Gas Natural Fenosa.

Throughout 2016, there were a total of 26 internal audits conducted by qualified auditors and 28 external audits of the management system pursuant to OHSAS 18001, covering 81.7% of the company.

For 2017, we plan to introduce an internal audit system that will allow each business to analyse the degree of implementation of the Health and Safety Commitment in each of the company's business.

5. Safety in facilities and processes [103-1], [103-2] and [103-3]

(Occupational Health and Safety)

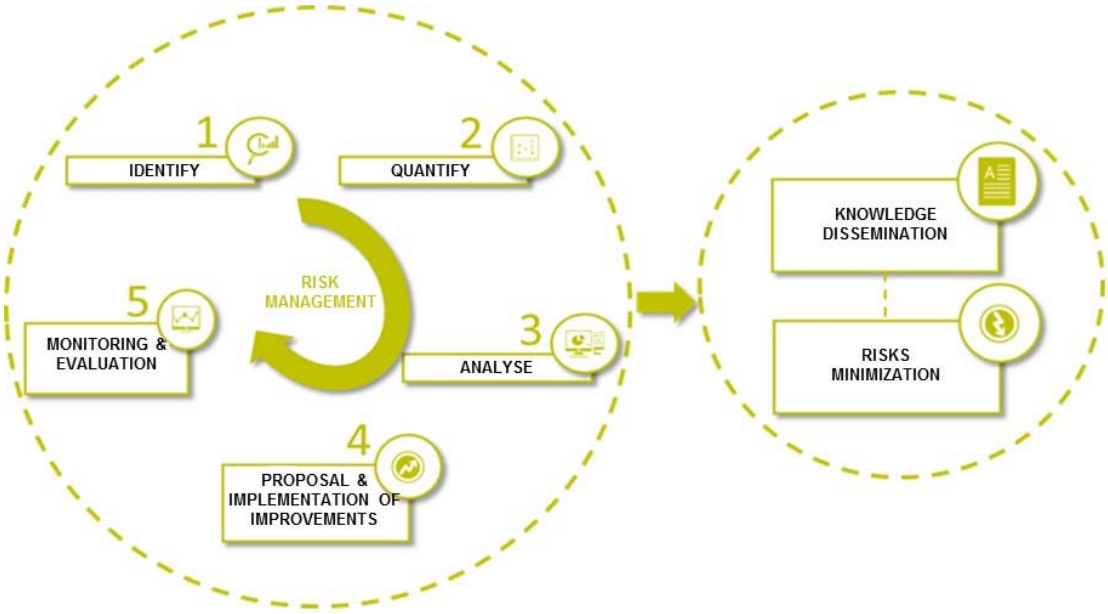
The activities of the company that are carried out in the field meet, and in some cases exceed, the legal requirements. Gas Natural Fenosa has systems designed to ensure the safe operation of facilities and processes, and the company has experienced professionals who manage to operate without significant deviations even where the system presents opportunities for improvement.

5.1. Risk management at industrial facilities

Industrial risk management is included in the preventive activity of Gas Natural Fenosa.

In risk management, its main objectives are the detection and minimisation of risks affecting activities, products and services that may have an effect on the company's facilities or its environment, causing economic, environmental and social damages.

To do this, the company has a specific Industrial Safety Unit, tasked with assisting in the reduction of industrial risks at the company. For compliance the following conceptual scheme is used.



The model with which the Industrial Safety Unit operates is supported on six levers:

Risk Map and Process Safety Management	Safety audits and risk diagnostics	Actions in issues of technology and investigation of incidents and accidents
Fire protection	Training activities	Dissemination and support activities

During 2016, Gas Natural Fenosa continued to analyse each of the levers in more depth from a continuous improvement standpoint and within a process, which is fed with the experience of day to day life, in tune with the various industrial businesses in the company.

5.2. Risk Map and Process Safety Management

Gas Natural Fenosa has a tool for risk assessment of industrial facilities in operation for each type of facility, designed with a proprietary methodology. The tool aims to identify risk points and how these could possibly affect people, property and the environment.

The aim is to prevent and minimise impacts through periodic evaluations of facilities to detect possible areas for improvement.

The following risk map models continue to be operational today:

- Maghreb gas pipeline.
- Electrical substations.
- Liquefied natural gas satellite plants.
- Combined-cycle power generation plants.

In 2016, there were evolutions to the Maghreb gas pipeline and the liquefied natural gas (LNG) satellite plants risk maps.

During 2016 there has been progress in process safety management through the development of global standards. One of these is the Safety Risk Analysis of Technical Processes, which regulates all matters relating to risk maps of industrial installations.

The global risk map, a tool that geographically shows the general risks to which the industrial facilities of the company are exposed, has been completed and is at the deployment stage throughout the group. The main aim of global risk map is to guarantee the correct identification, assessment and management of the most important risks.

It is possible to geographically represent an overview of the risks of the main facilities of the group, in all its businesses and internationally.

Also during 2016 we conducted the review of the Major Accident Prevention Policy and the standard for prevention of major accidents, applicable in Spain, and which implements the Safety Management System to be adopted by all establishments affected by the new European Directive 2012/18/EU on the control of risks involving hazardous substances.

In this regard, it should be noted that the scope of the new directive, in addition to the facilities already covered by the previous directives, affects those facilities for underground storage of gas, and there has been a complete adaptation of all these facilities to the new regulations.

Likewise, throughout 2016, we have introduced the standard for transport, loading and unloading of liquefied natural gas, an activity which affects many facilities of the group and which is expanding.

5.3. Safety audits and process diagnostics

We conduct safety audits of the company’s different technical processes to verify compliance with the prevailing rules and regulations of the country, of the technical procedures established by the group and the business unit’s own internal regulations.

We also review the monitoring and control of operational risks relating to technology, accidents and breakdowns and impacts on the environment, and relevant management parameters. The main goal is to bring value to the business lines and assist in the continuous improvement of processes.

Also, technical processes diagnosis are performed at the request of the different business units. They show the degree of control of the process monitoring mechanisms and, if anomalies are found, the appropriate actions for correction can be carried out.

The audits and diagnoses are carried out by audit teams that specialise in the technical processes of transport and distribution of gas and electricity, strategic storage of gas, electricity generation, satellite plants of liquefied natural gas (LNG) and liquefied petroleum gas (LPG), vehicular natural gas (VNG), service stations and energy management facilities.

The following audits were conducted in 2016:

- Maintenance of the electricity distribution systems
- Management of incidents in electricity distribution systems
- Start-up of gas facilities
- Construction of gas distribution networks
- Emergency care in gas distribution and transport systems
- Operation and maintenance of LPG plants
- Operation and maintenance of the peak-shaving plant
- Operation and maintenance of the Maghreb-Europe gas transportation system
- Operation and maintenance of LNG satellite plants for mobility and associated service station (LNG and CNG)
- Operation and maintenance of a coal-fired power station
- Operation and maintenance of wind farms

In addition, diagnostic processes were carried out in Spain and internationally related to the degree of implementation of the integrated management system in underground gas storage, the analysis of energy management facilities, the safety conditions at a self-consumption facility, the safety and regulatory requirements at receiving facilities and gas appliances, and the project to change the gas of grids, facilities and appliances using LPG gas to natural gas.

5.4. Investigation of incidents and accidents

As a preventive strategy, Gas Natural Fenosa incorporates the investigation of incidents and accidents, and identifies their root causes as a basis for the formulation of improvement measures with the aim of increasing the safety of facilities and processes and prevent their recurrence.

The advisory services from workgroups designated to investigate accidents, as well as direct participation in these, are a major activity aimed at reinforcing the strategy of extending the use of Root Cause Analysis (RCA).

Mention should be made of the specialised accident investigation RCA training, which in 2016 covered five courses with participation from 70 persons from all business areas. This training has been given in Colombia, Spain and Mexico, with attendance by the same employees of the group with work offices in different countries.

From the analysis carried out with these methodologies, we see that the most commonly identified root causes point to weaknesses in the preparation of the work, the coordination of the work, the need for better training, and communication deficiencies.

Dissemination of lessons learned in the various incidents and accidents, among the different groups, including personnel of collaborating companies, has proved to be an excellent way of promoting reflection on the consequences of accidents and learning how to avoid them.

5.5. Fire protection

In 2016, the general procedure of the fire protection model was approved and the documentation development of the same was finalised.

The fire protection model has been created and developed for the purpose of providing the company with the protection best suited to the needs of the facilities and the risks to which they are exposed, based on standardised protection criteria in accordance with the state-of-the-art, and national and international standards.

This model aims to reduce fire incidents and accidents and reduce the consequences of incidents and accidents by using best practices and operational solutions on the premises.

Reduction of the consequences implies:

- Reduced risk of injury to persons in the environment.
- Cost reduction through a decrease/attenuation of the accident rate.
- Improvement of the company's image.

During 2016, as part of the collaboration and advice to businesses, we have worked on:

- Providing technical consulting services to those that require it, significantly increasing this collaboration with regard to 2015.
- Finalising the main technical and management procedures of the model.
- Developing an IT application for maintaining the databases of protection systems, suppliers, products, projects, etc.
- Planning the training, implementing the training modules according to the reviews and analysis of incidents/accidents analysed or investigated.

The most noteworthy fire protection activities undertaken in 2016 were as follows:

- Identification of actions to improve fire protection facilities, in order to minimise risks of fire and explosion. This action was carried out at the combined-cycle power plants in Mexico.
- Finalisation of improved fire protection at the combined-cycle power plants in Spain.
- Finalisation of the first stage to improve fire protection at the combustion plants of the Dominican Republic.
- Introduction of actions to improve fire protection in electrical substations in Colombia and Panama.

5.6. Training activities

In 2016, training activities were developed in issues covering the safety of facilities and processes, which were attended by employees of the group, highlighting those held in Morocco, with a high rate of satisfaction and a high degree of utilization. This training was particularly targeted at the electricity distribution businesses and those that operate at LNG plants.

In connection with the new Directive 2012/18/EU, on major accidents, three training courses were provided in 2016. We also created a module that includes the new processes of the Management Network of Process Safety (GSP).

With the 2016 approval of the fire protection model, in 2017 we intend to provide training to personnel from the different businesses affected at the company.

It should be noted that the management of safety training of the facilities and processes is performed with outsourced centres of proven experience, reputation and reliability in the field of industrial safety (Cepreven and Bequinor).

5.7. Dissemination activities

Regarding outreach activities, as part of the Health and Safety Commitment Plan we can highlight the internal dissemination in 2016 of 39 own or third-party events, from lessons learned to best practices, to prevent recurrence.

Also in 2016, the Safety Observatory identified twelve items of news for executives and middle managers to disseminate to other employees or external partners. These news items mention accidents at other companies, reveal what happens in the world of industrial safety and delve more deeply into the occurrence and the responses that those affected have carried out.

Gas Natural Fenosa participates in different associations and government agencies in the field of industrial safety:

- Spanish Gas Association (Sedigas)
- Aenor Technical Standardisation Committees in the gas sector (CTN60)
- Aenor Technical Standardisation Committees in the fire protection model (CTN23)
- Professional Engineering Association for Fire Protection (APICI)
- National Fire Protection Association (NFPA)
- Board of Directors of Cepreven
- Chair of the National Consumer Goods and Industrial Safety Association (Bequinor)
- Correspondence Member of the American Gas Association (AGA)

As for support activities within the group, we should highlight the participation in the Management Network of Process Safety (GSP) and the Network of Business Contractors (REC).

6. Safety among customers and society

Gas Natural Fenosa conducts accident prevention campaigns for customers of the company, through giving advice that is communicated through the global communication channels.

Additionally, the company uses the bills as a direct communication channel with customers. They contain awareness campaigns and information on correct action to take in risky situations.

These campaigns are conducted every year at most, so that the energy that the company distributes is perceived by the user with confidence, but without losing sight of situations of risk to be avoided.

In relation to the distribution assets and according to the records of the various group companies, there were 227 accidents involving the general public, causing 259 injuries and 28 deaths in 2016. At the end of the year, five legal actions were brought against Gas Natural Fenosa for these

causes. With respect to 2015, a slight increase was observed in the number of accidents, deaths and injuries.

7. Quantitative safety indicators

Employee accident indicators [403-2]

	Target 2017	Target 2016	2016			2015			2014		
			Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave(1)	55	106	65	55	10	125	109	16	118	102	16
Days lost(2)	2,060	3,122	2,424	1,870	554	3,674	2,639	1,035	3,035	2,887	148
Mortalities (3)	0	0	0	0	0	1	1	0	1	1	0
Frequency rate (4)	1.45	2.61	1.72	2.04	0.91	3.08	3.72	1.41	3.93	4.82	1.80
Severity rate (5)	0.05	0.07	0.06	0.07	0.05	0.09	0.09	0.09	0.10	0.14	0.02
Incidence rate (6)	2.94	5.38	3.48	4.14	1.85	6.33	7.66	2.90	8.32	10.21	3.81
Absenteeism rate (7)	2.13	1.92	2.15	-	-	2.02	-	-	1.86	-	-

NB: in 2016, the rate of accidents requiring sick leave fell by 48% and the frequency rate by 44% compared to 2015. There have been no own staff fatalities in 2016. The decline is mainly due to the expansion of the Commitment to Health and Safety Project to all countries, including Chile in 2016, and to the consolidation of the latest tools introduced, such as health and safety committees or safety pauses.

(1) Accidents requiring sick leave: number of accidents in labore leading the employee to take sick leave.

(2) Days lost: days not worked due to sick leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.

(3) Mortalities: number of workers who died due to accidents at work.

(4) Frequency rate: number of accidents in labore with sick leave occurring during the working day for every million hours worked.

(5) Severity rate: number of days lost as a result of occupational accidents in labore for every 1,000 hours worked.

(6) Incidence rate: number of occupational accidents in labore for every 1,000 employees.

(7) Absenteeism rate: absence of employees from their jobs.

Accident indicators by countries of employees

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate	Absenteeism rate
Germany	0	0	0	0.00	0.00	0.00	0.00
Argentina	9	71	0	5.42	0.04	11.49	5.07
Australia	0	0	0	0.00	0.00	0.00	0.00
Belgium	0	0	0	0.00	0.00	0.00	0.00
Brazil	1	9	0	1.03	0.01	1.89	1.43
Chile	15	540	0	1.77	0.06	3.70	-
Colombia	18	140	0	4.11	0.03	8.20	1.40
Costa Rica	2	176	0	45.99	4.05	90.91	0.59
Egypt	0	0	0	0.00	0.00	0.00	0.00
Spain	12	1,335	0	0.84	0.09	1.64	2.51
France	0	0	0	0.00	0.00	0.00	2.01
Guatemala	0	0	0	0.00	0.00	0.00	0.00
Netherlands	0	0	0	0.00	0.00	0.00	0.00

Ireland	0	0	0	0.00	0.00	0.00	0.00
Italy	2	73	0	2.81	0.10	5.28	2.25
Kenya	0	0	0	0.00	0.00	0.00	0.44
Morocco	0	0	0	0.00	0.00	0.00	1.00
Mexico	0	0	0	0.00	0.00	0.00	0.00
Moldova	2	19	0	1.27	0.01	2.79	2.65
Panama	0	0	0	0.00	0.00	0.00	1.37
Peru	0	0	0	0.00	0.00	0.00	0.00
Portugal	0	0	0	0.00	0.00	0.00	0.00
Dominican Republic	0	0	0	0.00	0.00	0.00	1.10
South Africa	4	61	0	2.73	0.04	5.55	3.15
Uganda	0	0	0	0.00	0.00	0.00	0.76

NB: The overall accident rates have fallen, with a significant decline in Chile, Colombia and Mexico. The decline is mainly due to the expansion of the Commitment to Health and Safety Project to all countries, including Chile in 2016, and to the consolidation of the latest tools introduced, such as health and safety committees or safety pauses.

NB 2: Energía San Juan, S.A. is an Argentine company that is reported as part of CGE Chile.

Accident rates of contractors and subcontractors

	2016			2015			2014		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave (1)	856	769	87	838	770	68	948	872	76
Days lost (2)	17,465	15,819	1,646	19,600	18,445	1,155	8,258	7,522	736
Mortalities (3)	5	4	1	7	7	0	6	6	0
Frequency rate (4)	7.72	8.12	5.37	12.20	13.85	5.18	16.92	17.11	15.04
Severity rate (5)	0.16	0.17	0.10	0.29	0.33	0.09	0.15	0.15	0.15
Incident rate	13.99	14.76	9.56	25.71	29.02	11.21	35.71	36.19	30.93

NB: in 2016, fatalities were down 29% with regard to 2015 as a consequence of specific plans of the Accident Analysis Committee. By the same token, the frequency rate has been reduced by 36% and the severity rate by 45%. The decline is mainly due to consolidation of the tools for companies collaborating with the Health and Safety Commitment Project.

(1) Accidents requiring sick leave: number of accidents in labore leading the employee to take sick leave.

(2) Days lost: days not worked due to sick leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.

(3) Mortalities: number of workers who died due to accidents at work.

(4) Frequency rate: number of accidents in labore with sick leave occurring during the working day for every million hours worked.

(5) Severity rate: number of days lost as a result of occupational accidents in labore for every 1,000 hours worked.

Accident indicators by countries of contractors and subcontractors

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate
Germany	0	0	0	0.00	0.00	0.00
Argentina	35	1,025	0	7.13	0,21	12,98
Australia	0	0	0	0.00	0.00	0.00

Belgium	0	0	0	0.00	0.00	0.00
Brazil	27	402	0	3.35	0,05	5,97
Chile	102	1,561	0	6.35	0,10	12,59
Colombia	484	3,961	1	20.14	0.16	35.85
Costa Rica	2	31	0	29.22	0.45	52.01
Egypt	0	0	0	0.00	0.00	0.00
Spain	163	7,871	1	4.83	0.23	8.60
France	0	0	0	0.00	0.00	0.00
Guatemala	0	0	0	0.00	0.00	0.00
Netherlands	0	0	0	0.00	0.00	0.00
Ireland	0	0	0	0.00	0.00	0.00
Italy	2	14	0	1.90	0.01	3.39
Kenya	0	0	0	0.00	0.00	0.00
Morocco	0	0	0	0.00	0.00	0.00
Mexico	8	692	0	0.79	0.07	1.41
Moldova	2	156	0	0.39	0.03	0.69
Panama	26	1,641	3	7.59	0.48	13.52
Peru	3	6	0	4.13	0.01	4.98
Portugal	0	0	0	0.00	0.00	0.00
Puerto Rico	0	0	0	0.00	0.00	0.00
Dominican Republic	0	0	0	0.00	0.00	0.00
South Africa	2	105	0	0.91	0.05	2.26
Uganda	0	0	0	0.00	0.00	0.00

NB: In 2016 there has been a general decrease in the frequency rate as a consequence of consolidating the reporting from all partner companies, increasing preventive actions targeted at partner companies and introducing specific monitoring plans established by the accident analysis committees. Moreover, specific groups have been created to monitor the accident rate in businesses and we have increased monitoring actions and the specific plans.

Accident indicators by country and business of public affected due to the company's activities [EU25]

	Accidents	Injuries	Deaths	Legal actions
Gas business	**60**	**133**	**9**	**5**
Argentina	3	6	0	0
Brazil	4	14	6	0
Chile	0	0	0	0
Colombia	17	17	0	0
Spain	36	96	3	5
Italy	0	0	0	0
Mexico	0	0	0	0
Electricity business	**167**	**126**	**49**	**0**
Chile	9	8	2	0
Colombia	144	104	44	0
Spain	10	10	1	0
Moldova	4	4	2	0
Total	**227**	**259**	**58**	**5**

Safety training for employees

	2016	2015	2014
Attendees in terms of total staff %	78.76	85.88	96.15
Training actions completed	3,518	3,409	3,605
Training hours per employee	15.32	15.46	16.32

8. Health [403-3]

Gas Natural Fenosa is firmly committed to offering its employees a healthy working environment and well-being.

The Integral Health and Well-being Unit contributes to achieving this goal and improve working conditions, the working climate, productivity and performance, with a positive impact in terms of costs and profitability.

8.1. Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Gas Natural Fenosa in the field of healthcare, ergonomics and psychology/sociology.

The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive health services act as advisors for the development, monitoring and control of the plan in each of the areas.

Master Health Plan targets	
Standardised actions	Ensuring the health of workers, developing standardised actions respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in health.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establish monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Continuous training	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

8.2. Actions for employees' health

The Integral Health and Well-being Unit usually carries out activities related to:

- Ergonomics and applied social psychology.
- The performance of health promotion campaigns designed after studying the epidemiological data of workers and analysing gaps and needs in health matters.
- The performance of medical examinations as one of the main tasks according to the specific risks of workers at work.

Prevention campaigns and health promotion

In 2016, we continued with the implementation of prevention campaigns and health promotion, continuing with the regular campaigns and introducing other new ones. The purpose of the campaigns is to raise awareness and mobilise workers to generate a culture of prevention of disease, promote healthy lifestyles and control risk factors to significantly reduce the incidence of various diseases.

In Spain, among the new campaigns we can highlight the information campaign Promotion for Donating Organs and Bone Marrow and the Active Aging campaign, in line with the directives of the European Agency for Safety and Health at Work, which aims to increase awareness about healthy lifestyles, improve levels of well-being and prevent cognitive decline for a sustainable and healthy aging.

On the international stage, new health promotion and prevention campaigns have been incorporated, in line with the group's corporate criteria. We have also compiled an Annual Comprehensive Health Plan, based on the Master Health Plan, which involves planning actions to be carried out in issues of comprehensive health and well-being during 2016, such as the definition of indicators to monitor compliance and analysis of the effectiveness of these.
Also in 2016 we introduced a healthcare protocol for international travel to prevent health risks in the destination country and to establish a procedure for communicating health alerts for that purpose.

Moreover, in 2016 data was collected and the corresponding initial reports issued to assess psychosocial risk factors in Argentina, Brazil, France, Morocco, Moldova, Panama and the Dominican Republic. The group's overall report was also compiled. Meanwhile, in Colombia this was carried out using the specific methodology required under the country's legislation.

Healthcare monitoring

Every year, the company checks the health of all its employees, with particular scrutiny on those that perform special risk activities.

In 2016, appointments for medical check-ups were sent out along with the visits agenda, through the Employee Attention Service (EAS). This allows workers to have more uniform, flexible and convenient access to the health services.

In the international sphere, most countries are bringing their medical examinations into line with the corporate requirements whenever possible, depending on the legislation and available resources.

In the event that workers' children are affected by serious illnesses, the medical services of the company, coordinated with work health insurance companies, manage the provision of care, hospitalisation and treatment of children affected by cancer or serious illnesses in accordance with prevailing legislation. In these cases, the company offers reduced paid working hours by at least 50%.

8.3. Your Health Always on your Agenda

The multidisciplinary campaign "Your Health Always on your Agenda", promoted by the health services of Gas Natural Fenosa, forms part of the Health and Safety Commitment Plan, and has an impact on preventive aspects as important as encouraging good nutrition habits or playing sport regularly to improve cardiovascular health.

The aim of the campaign is to educate people working in Gas Natural Fenosa and their families about the importance of protecting their health and prevention to ensure future quality of life,

under the view that the welfare of the company employees is also the welfare of those around them.

During 2016, in the psychosocial field specific campaigns on positive management of emotions were implemented, instrumented through conferences targeted at workers.

We also commenced a Mindfulness campaign, with a presentation to senior management, and an intensive course for employees designated as ambassadors for the implementation of this method as a tool to manage stress both inside and outside the workplace, and to enhance leadership capabilities.

Healthy company model

Gas Natural Fenosa was the first energy company in Spain that is certified as a healthy company.

This certification establishes the requirements of a management system for organisations committed to the principles and existing international recommendations for healthy companies that want to promote and protect continuously health, safety and welfare of workers and sustainability in the working environment of their workers, their families and the community in which the business operates.

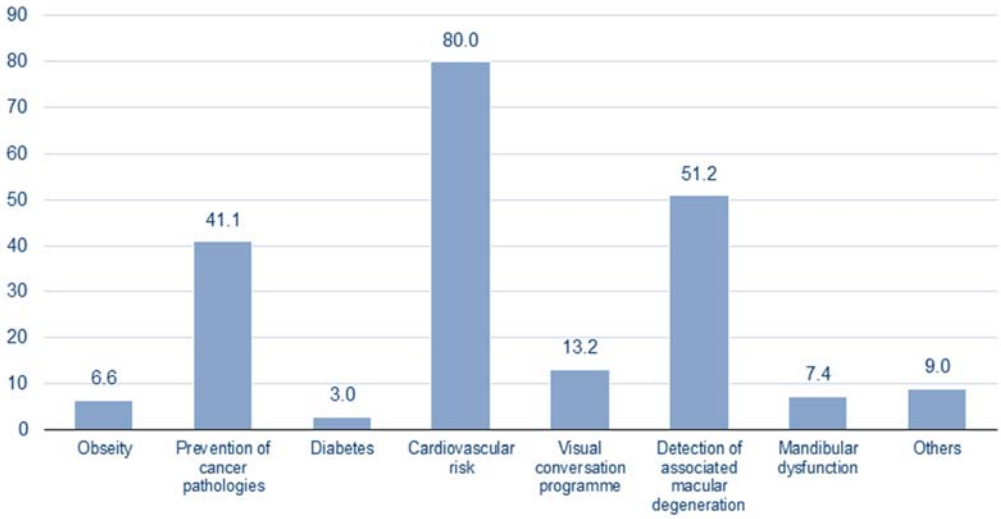
After the model was introduced in Argentina, Brazil and Spain, in 2016 the model has been extended to Morocco and the Dominican Republic. It is scheduled to be gradually introduced into the other countries where the company operates.

8.4. Quantitative health indicators

Participants in occupational health campaigns

	2016	2015	2014
Prevention and/or early detection campaigns	30,067	18,034	12,568
Vaccination campaigns	4,547	3,571	3,822
Medical check-ups	12,095	11,461	14,008
Medical assistance	34,857	38,280	35,449

Staff taking part in prevention campaigns (%)


90
80
70
60
50
40
30
20
10
0
6.6
41.1
3.0
80.0
13.2
51.2
7.4
9.0
Obseity
Prevention of cancer pathologies
Diabetes
Cardiovascular risk
Visual conversation programme
Detection of associated macular degeneration
Mandibular dysfunction
Others

Responsible supply chain

[103-1], [103-2] and [103-3] (Supply chain assessment)

Suppliers and collaborating companies are key players in optimum performance of the value chain of Gas Natural Fenosa, and the company therefore promotes long-term relations based on trust that are stable, sound and of mutual benefit, under the principles of risk efficiency and management.

Commitments and principles of responsible action with suppliers

- **Extending the culture** of Gas Natural Fenosa to the supply chain, passing on the target of excellence in service and the company's principles of acting responsibly, and encouraging the **incorporation of sustainability criteria** in their daily management.
- Fostering **compliance with the codes and policies** of Gas Natural Fenosa in the supply chain, in particular in the area of human rights, ethics and health and safety.
- Promoting procurement of **suppliers from the country or region** where the company carries out its activities, helping to generate a positive social impact.
- Fostering practices that encourage **traceability and fair trade of raw materials** at source.

Value actions	
Proposed actions 2016	**Planned actions 2017**
Extend and introduce the purchase family tree at the main subsidiaries ●	Finalise the introduction of the supplier classification process in the entire group
Extend and introduce the Bravo platform at the main subsidiaries ●	Complete the extension and introduction of the Bravo platform at the main subsidiaries

Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

Gas Natural Fenosa contribution's to SDG 12: Responsible production and consumption
 The twelfth Sustainable Development Goal (SDG) set by the United Nations Organisations is based on "should the world population reach 9.6 billion people by 2050, we will need the equivalent of almost 3 planets to maintain the current lifestyle". With regard to the responsible supply chain, Gas Natural Fenosa operates a commitment to sustainability in its supply chain. In addition to strengthening procurement with local suppliers, the company promotes compliance with ethical and political codes of the company throughout the supply chain, and incorporates sustainability criteria in the assessment and management of suppliers, beyond regulatory compliance.

1. The supply chain of Gas Natural Fenosa

Suppliers and contractors are at the centre of optimum performance of Gas Natural Fenosa's value chain. They are responsible for a large part of the company's image and service level, and in many cases, they represent the first line of contact with customers. The company therefore promotes long-term relations based on trust, under the principles of risk control and management.

In the performance of its activity, Gas Natural Fenosa set up trade relations with a total of 12,072 suppliers in 2016, which accounted for a total expenditure of 3.599 billion euros. Two thirds of these are service suppliers that fundamentally take part in the following business areas:

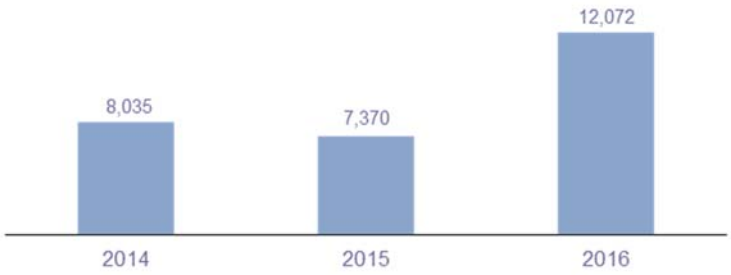
- Development and maintenance of grids, both gas and electricity.
- Operators and maintenance workers of energy plants.
- Commercial management services.

The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity.

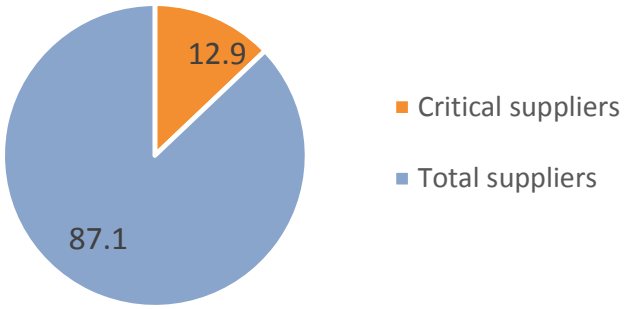
Specific nature of the Gas Natural Fenosa supply chain	
Local service suppliers	The service suppliers are local supplies of each country. Gas Natural Fenosa mainly carries out its activity in Argentina, Brazil, Chile, Colombia, Spain, France, Italy, Mexico, Moldova and Panama and, to a lesser extent, in Australia, Costa Rica, Kenya, Morocco, Puerto Rico, Dominican Republic and South Africa.
Global management of the purchase of materials	Managing the materials purchase process is mainly conducted globally, except for those that require local management because of market characteristics. The company encourages the award of these purchases to local and regional suppliers. The electricity materials are mainly purchased in Colombia, Spain and Mexico. As regards gas materials, these are essentially purchased in Argentina, Colombia, Spain, Italy and Mexico.
Regulated activity that requires prior official approval	Part of the sector activity is a regulated activity, so therefore it is subject to strict regulations. This requires both the suppliers as well as the materials used to be officially approved for those key activities of the business. The company incorporates requirements over and above strict legal compliance in those aspects considered of special importance, such as health and safety, social and environmental aspects, in order to minimise the risks in the supply chain and to ensure better results and efficiency in its suppliers.

	These additional requirements are requested both at business level and at the level of individuals, and their purpose is to promote the development of the group's suppliers.

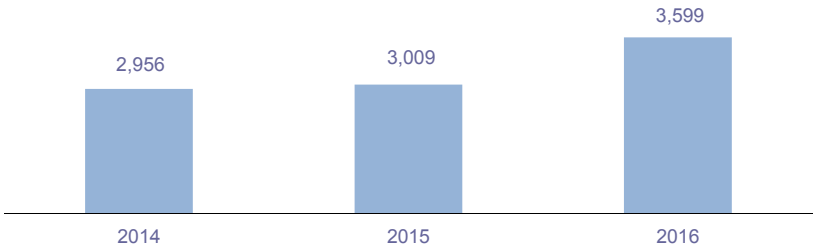
Suppliers with contracts currently in force



Critical suppliers (%)



Total purchase volume awarded (millions of euros)



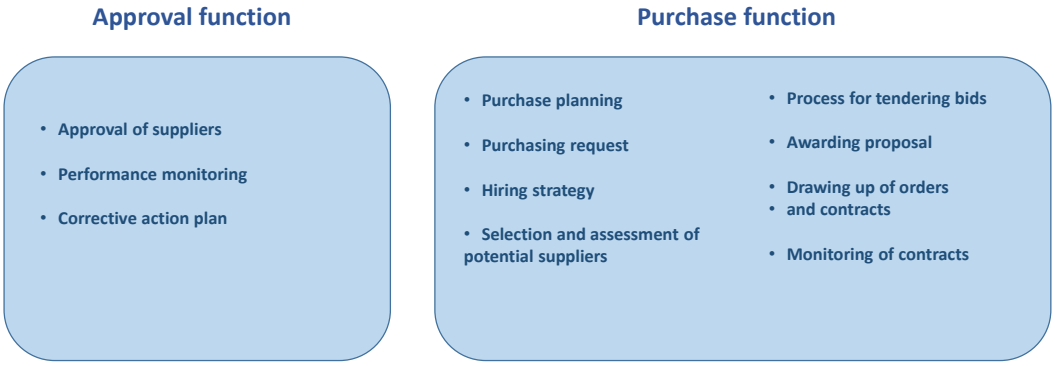
Purchases from local suppliers

	2016			2015			2014		
	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers
Argentina	492	100.0	100.0	486	100.0	100.0	487	100.0	100.0

Australia	130	96.9	85.1	183	88.0	93.3	176	88.1	85.8
Brazil	1,849	98.2	99.7	1,929	97.6	99.6	1,933	98.6	99.5
Chile	200,685	99.8	95.2	-	-	-	-	-	-
Colombia	2,553	98.8	98.3	2,798	98.7	97.5	3,263	98.3	97.6
Costa Rica	162	76.5	55.7	169	80.5	77.1	147	67.3	18.4
Spain	9,997	96.9	96.0	10,533	96.5	95.9	12,711	96.4	94.9
Guatemala	-	-	-	-	-	-	405	83.5	80.5
Italia	1,962	91.9	74.6	1,890	97.1	97.6	2,246	97.9	97.2
Kenya	558	80.8	46.6	558	80.3	31.9	1,204	81.4	44.7
Morocco	252	55.2	48.9	264	52.7	71.1	282	63.8	41.3
Mexico	5,544	93.8	84.6	6,927	92.1	82.0	5,087	95.3	75.3
Moldova	957	97.6	96.6	939	96.3	92.9	1,178	96.1	91.7
Panama	1,577	68.5	62.4	1,029	70.2	70.9	2,104	83.6	81.9
Peru	173	75.1	82.9	-	-	-	-	-	-
Dominican Republic	708	59.0	58.6	677	61.9	51.3	684	63.6	58.6
South Africa	4,754	99.9	99.7	4,487	1.6	1.4	5,108	99.0	100.0
Total	**232,353**	**99.0**	**91.9**	**32,869**	**80.7**	**92.3**	**37,015**	**94.7**	**92.9**

2. Management of the supply chain [102-9] and [102-13]

Gas Natural Fenosa segregates the supplier approval function from the purchasing function, by defining supplementary and independent figures that oversee application of the regulation and of the company's policies and procedures.



Gas Natural Fenosa has a regulatory corpus, key among which are the General External Procurement Standard and the General Supplier Quality Standard, which lays down the global management system covering the entire life-cycle of procurement with suppliers.

The management of the supply chain is based on application of unified and universal contractual conditions for the entire scope of the company's action:

- Code of ethics applicable to procurement processes.
- Classification of suppliers in accordance with what they can supply and the level of risk that this supply involves.
- Monitoring of the requirements set out in the contractual conditions given to suppliers that are awarded contracts and of the service levels actually provided.
- Evaluation of the performance of suppliers awarded contracts to obtain an objective assessment of suppliers that can be used for subsequent bidding processes, actions for improvement and development of suppliers.

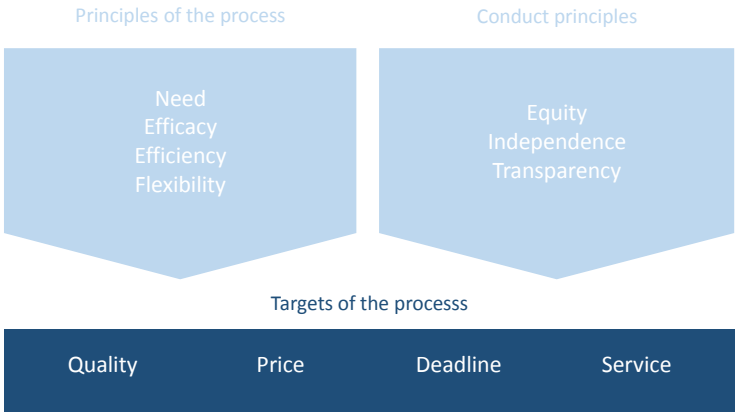
Gas Natural Fenosa actively participates at associations, national and international fairs on supply chain management. In this regard, the company is member of the Association Representing Purchasing and Materials Management Professionals in Spain (Aerce) and RePro in Argentina, Brazil, Chile, Colombia, Spain and Italy.

Furthermore, the company subscribes to the worldwide Procurement Leaders network and in 2016 took part in the Aerce annual conference in Spain and in the CPOnet Congress, where the risk management model of the supply chain was presented. It is also a member of the Procurement Leadership Council, an initiative led by the Corporate Executive Board (CEB).

2.1. Purchasing model

The Gas Natural Fenosa Purchasing Model, set out in the General External Procurement Standard and the General Supplier Quality Standard, establishes the principles that should govern any process of awarding and contracting.

Process of awarding and contracting



Principles related to management of the supply chain	
Assessment of potential suppliers	Potential suppliers are evaluated to minimise the risk exposure of companies in the activity and environment in which these activities are performed. The supplier assessment process requires us to consider the history of their ethical behaviour according to the principles of the group.
Working with approved suppliers in critical processes	In the critical business processes defined in the Supplier Quality Standard, we work with approved suppliers to obtain high levels of safety, quality, respect for the environment and better terms and prices in the group's actions.
Promoting competition and long-term relationships	We consistently promote competition as a basic element to achieve cost efficiency and quality, as well as maintaining long-term relationships and trust with suppliers. Wherever possible, trade relations are based on the general terms and conditions of the group.
Specification of the acquisition	All procurement must be based on a specification of the product or service to be acquired that is clear and complete and which details what the supplier will be required to provide. The contract award is made to the most economically advantageous option for the group within those that are technically valid, taking into account the direct and indirect, present and future costs, and quantifying the associated risks.
Procurement formalisation	The procurement process must be formalised in a contract or order that sets out what has been agreed between the parties. Contract awards cannot be approved in those cases in which there may be a conflict of interest according to established policies and codes of conduct.
Procurement monitoring and control	There is adequate monitoring and control of procurement, to ensure that the service levels and procurement targets are complied with and reached, under the agreed terms.

Furthermore, as part of Gas Natural Fenosa's Health and Safety Commitment, the company asks its suppliers and contractors in every country in which it operates to undertake to comply with the

company's health and safety principles and policy. In a supplementary way, we continue to invite suppliers that have demonstrated excellent performance in safety.

2.2. Supply chain management process [102-9], [308-1] and [414-1]

Given the size and complexity of the company, it is essential to standardise the supplier selection and management processes, ensuring a uniform, efficient and quality model for management of the purchase processes and for the approval and procurement of services.

Stages in the supply chain management process	
1. Contractual model	Universal and unified contractual conditions for the company's entire scope of action. Code of ethics applicable to the procurement processes, set out in the Supplier Code of Ethics, based on principles of transparency, traceability, auditing capability and fairness.
2. Classification and approval process	Classification of suppliers in accordance with the purchasing sub-families that are able to supply and the level of risk that this supply involves. The results of this process is the supplier tree that pools together all suitable suppliers to take part in the different bids according to their different risk levels. The processes that require approval are determined according to risk factors defined by the company to ensure that suppliers comply with the requirements requested.
3. Contractual compliance and documentary management	Documentary monitoring of the requirements set out in the contractual conditions given to suppliers that are awarded contracts. Monitoring, by the units, of the service levels actually provided. The greater or lesser scope of this process is determined by the risk and complexity of the purchase.
4. Performance evaluation	Monitoring and analysis of the performance of suppliers from different points of view, to obtain an objective assessment of suppliers that can be used for subsequent bidding processes and actions for improvement and development of suppliers.

2.3. Risk management of the supply chain

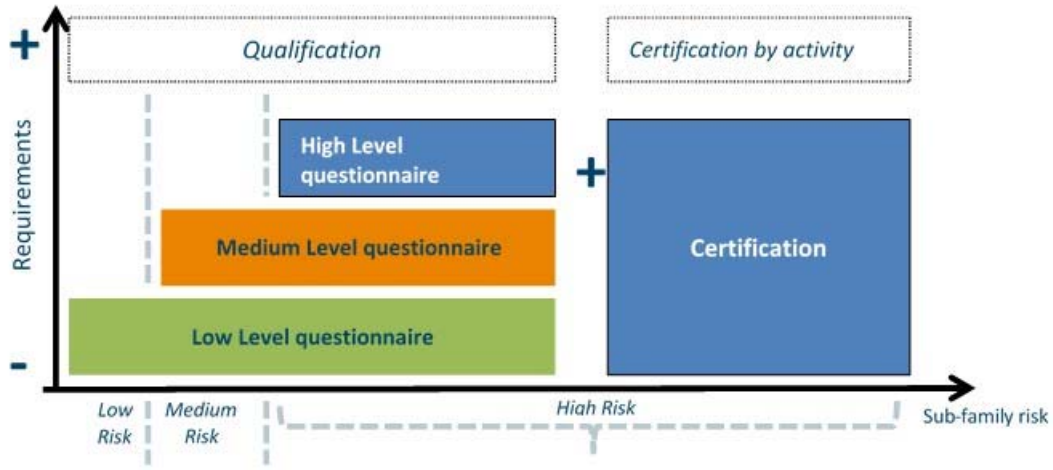
The process of global quality management of suppliers is based on the assessment of risk factors of the supply chain that are intrinsic in outsourcing a service or supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally.

The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals. These include factors of health and safety; quality; the environment, society and governance (ESG); operations; and legal. In addition, the company has established mechanisms to analyse issues that could negatively affect its reputation, and supplies may be excluded for this reason.

Furthermore, we have continued to deploy the Controlar tool at subsidiaries to facilitate the documentary tracking those contractual requirements to mitigate the risks inherent in the contracted services.

3. Assessment of suppliers [308-1], [308-2], [414-1] and [414-2]

Supplier assessment at Gas Natural Fenosa comprises the business classification of the supplier and the approval process of the supplier for the supply. Both processes are set out in the risk map by subfamily.



In 2016, Gas Natural Fenosa assessed a total of 9,689 suppliers based on environmental, social and employment practices criteria. Moreover, in 2016 total of 1,556 critical suppliers were subject to review of the approval. As a consequence of this process, 165 suppliers were awarded a category of provisional approval, identifying actions for development and corrective actions to be implemented to achieve compliance with the requirements and standards established by the company. Notably, fiveteen suppliers were suspended or had their approval withdrawn through failing this process for different reasons.

3.1. Supplier classification

Regarding the process of supplier classification, during 2016 the Purchasing Department extended the new supplier classification model introduced in Spain to its subsidiaries in Brazil, Chile, Colombia and Italy, and implementation in Argentina, Mexico and Panama is scheduled for 2017.

This process is based on the assessment of compliance at business level of what is required by the group in the different risk factors, in order to participate in the procurement process of goods and services.

Risk factors assessed	
Health and safety	This measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.
Quality	The impact that breach by the supplier with regard to the expected or agreed quality levels would have at Gas Natural Fenosa.
Environmental, social and corporate	This measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect.

governance (ESG)	- Environment: the impact on the atmosphere, biodiversity, waters, soil, countryside, waste and consumption of resources. - Social: well-being of communities, human rights, workers' rights and data protection. - Governance: fraud, corruption, competition, terrorism, professional ethics and regulatory compliance.
Operational risk	The potential impact on operations incurred by Gas Natural Fenosa as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.
Legal	Possibility of infringements and breaches by providers of laws, rules and practices that apply to them.

With the evaluation of the risks of the 300 subfamilies of purchases that are managed worldwide, and assessing the risks of 50 countries where the company contracts, we obtain the risk of each subfamily of purchases in accordance with the activity of the same and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each subfamily of purchases by country, which feeds the process that was already being formalised to detect risk situations in the supply chain.

Furthermore, the company carries out a systematised verification of compliance with the legal requirements and basic structure of potential suppliers which makes up a business qualification that all suppliers must pass before they can commence commercial relations with Gas Natural Fenosa.

The classification is applied to self-assessment questionnaires that delve into more depth in accordance with the risk level. These questionnaires are filled in on the Achiles platform (supplier classification system). For high risk cases, it is necessary to provide documentary and audit evidence. In 2016, the corporate responsibility audit was introduced for those high-risk suppliers priority given to those with the largest invoices.

We should point out that the suppliers that have a high risk level associated to the subfamily where intends to supply will be considered by the company as critical suppliers.

The high and medium level classification process includes obtaining a grade that enables suitable suppliers to be assessed in accordance with objective and measurable criteria, for use in the different stages of the bid processes.

The result of the overall process shapes a suppliers tree in which they are classified in accordance with the subfamilies for which they are able to supply services or products, and for which they have been rated as suitable with regard to the associated risk.

Consequently, the suppliers trees contains eligible suppliers in each country that can take part in bidding and contract award procedures, complying with the guidelines set by Gas Natural Fenosa.

In 2016, 1,556 approved suppliers were subject to impact assessments on the environment, labour practices, human rights and society.

3.2. Official approval and management of supplier quality

To ensure compliance by suppliers and to mitigate the risks associated to the characteristics of supplies, Gas Natural Fenosa has established a validation, control and monitoring system that

covers the entire lifecycle of contracts, from acceptance of potential suppliers into the processes of business classification and approval to monitoring the performance of active suppliers and their development.

The Purchasing Department has a specialised organisational structure, the Supplier Quality Unit, which is responsible for the official approval and supplier performance processes, and it has a presence in all countries where purchases are organised.

This organisational structure is also responsible for conducting the pertinent audits on current or potential suppliers, even if they are in countries where the company does not have a business presence.

The management of official approval, inspection and monitoring of suppliers is carried out in a uniform way, pursuant to a single model on suppliers quality, in all countries in which the Suppliers Quality Unit is present. This model employs corporate systems that enable us to have supplier databases that optimise the management of purchases and the quality of suppliers. The model is also supported through the in-depth experience and expertise acquired by the company in its diversified operation of businesses and countries.

Gas Natural Fenosa has established the goal whereby all suppliers that perform activities within the scope of approval, i.e. high-risk activities defined in any of the risk factors, must therefore be approved. Through this, the company makes sure that the top-tier, critical suppliers comply with the strict requirements related to the activity and/or supply contracted.

In addition, for certain suppliers the company assesses documentary and audit evidence to check compliance with specific requirements, using its own specialist personnel or companies of recognised prestige. It also carries out corrective action plans for certain suppliers that have not been officially approved.

Auditing officially approved suppliers

Audits are carried out in the process of approval and monitoring of active suppliers and are a key element of the supplier quality model of Gas Natural Fenosa model. The audits check compliance with the specific requirements defined for the service or material of the subfamilies classified as high level in any of the risk factors.

In 2016, Gas Natural Fenosa conducted 105 audits with suppliers in Spain. These audits include those conducted with service suppliers and the audits and inspections at source carried out with product suppliers.

Furthermore, in 2016 we conducted 393 audits of the company’s subsidiaries outside Spain, mainly in Latin America.

Gas Natural Fenosa formally reports the audit results to suppliers, detailing the deviations identified so they can be remedied. It also performs monitoring to verify that the supplier corrects the deviations detected and does so within the agreed deadlines.

In 2016, throughout the group, 55% of audits conducted with suppliers resulted in the need to submit a corrective action plan. As a consequence of these audits, in Spain no supplier approval was withdrawn and at the remaining subsidiaries the approval was suspended or withdrawn from 15 suppliers on grounds of breach related to safety, quality and other aspects.

It should be pointed out that Gas Natural Fenosa only considers suspension of the official approval of suppliers in those cases in which it is clear that the supplier is unable to efficiently correct the deviations detected.

Monitoring of the performance of officially approved suppliers

The supplier quality model of Gas Natural Fenosa also includes monitoring the performance of active suppliers, in other words those that have a contractual relationship with the company.

For service providers, surveys are conducted with units of Gas Natural Fenosa to measure their satisfaction with suppliers.

In 2016, these surveys were conducted with suppliers that have performed relevant or key activities in the company's processes, and mainly focused on activities classified as high risk in health and safety. In 2016, the surveys were conducted in Argentina, Brazil, Colombia, Spain, Italy, Mexico, Moldova and Panama. These surveys were carried out for the second consecutive year using the corporate IT system that Gas Natural Fenosa has developed to obtain annual results and check the trend of these by supplier and by contract types.

In 2016, the company conducted over 900 supplier performance assessments by sending 1,561 surveys to user units. We were therefore able to assess a total of 400 suppliers, which account for more than 650 contracts in eight countries.

In addition to the general satisfaction level of the service user, the surveys include detailed aspects on the quality of service, health and safety, operations and ESG aspects.

To assess the health and safety aspects at those suppliers that perform activities classified as high risk, we use the metrics and the method set out in the Gas Natural Fenosa “Health and Safety Standard: Health and safety performance evaluation of collaborating companies” which enables us to evaluate the conduct of suppliers in health and safety issues in a more objective and uniform way.

Lastly, the results and classification obtained are reported to the affected internal units of the company which, where appropriate, may pass these on to the supplier, also specifying their weak points and where they need to improve. This enables suppliers to be able to introduce action plans to improve the process and thus the service performed. In 2016, in Spain, action plans have been agreed with eleven suppliers whose score in the performance measurement proved insufficient.

4. Development of suppliers

Gas Natural Fenosa performs actions targeted at the development of suppliers based on the information collected in the supplier tree, the approval information and the results of measuring ESG performance.

The Corporate University, through its Extended University, offers a wide range of training to external partner companies, customers and suppliers of Gas Natural Fenosa.

Through technical training and management, companies improve their operational efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The Extended University thus helps to establish a common planning and management model, contributing to the professionalisation of companies that form part of the value chain of Gas Natural Fenosa.

Since 2012, the Extended University has been rolled out in nine countries: Argentina, Brazil, Chile, Colombia, Spain, Italy, Mexico, Moldova and Panama. 2016 has seen its definitive consolidation in all businesses and countries, implementing special programmes that have achieved excellent results.

In 2016, around 250,000 training hours to over 40,000 attendees who took part belonging to partner companies were provided. It is important to note the high level of satisfaction shown by attendees, a score of 8.8 out of 10, obtained from the feedback on the more than 1,692 courses taught.

The major milestones reached by the Extended University in 2016 were as follows:

Major milestones reached by the Extended University in 2016	
Customer Experience	Extension of the methodology at suppliers and companies that manage the healthcare and home visit processes. This action has trained more than 4,500 people.
Atenea Channel	Consolidation in Spain and the commencement of international implementation in Argentina, Brazil, Chile, Colombia, Italy, Mexico and Panama of the video clip channel, showing videos especially developed by partner companies. The channel focuses on the development of contents aimed at increasing occupational safety and quality in operations, with a volume of more than 14,000 hits since its launch.
Commitment to safety	Incorporation of the training methodology used in 'customer journey' into the Safety Commitment training programme. Implementation of the 'journey to safety' as a technique aimed at getting partner companies to acquire habits and attitudes in risk prevention and safe conduct. The programme will be extended to the entire network of partner companies in the coming years.
Fire station network	The Extended University, in collaboration with the gas distribution business, has launched a training project aimed at the network of Spanish fire stations in order to unify and standardise the technical training in gas emergency actions.

Furthermore, the company seeks to involve suppliers in some of its commitment to society policies. For this reason, the company continued to promote the Social Supply Chain project, the aim of which is to achieve the greatest efficiency and social return possible through the involvement of suppliers and, more specifically, increasing the social insertion of disabled persons.

As part of the social action initiatives spearheaded by the Latin American Integrated Operational Centre (COIL), there is also a special emphasis on training suppliers through the Value for Suppliers programme, which provides technical and business training for self-employed suppliers and micro-enterprises associated to the energy sector.

Bettercoal: responsible purchase of coal guarantee [102-13]

In 2013, Gas Natural Fenosa became a member of the Bettercoal international initiative, an initiative made up of major European energy companies (Dong Energy, Drax, EDF, Enel, Engie, E.ON, Fortum, RWE and Vattenfall, among others) and which strives to attain the ongoing improvement of corporate responsibility in the coal supply chain. In 2015, the company became part of the Bettercoal Board.

The initiative, launched in 2012, seeks to include social, environmental and ethical practices into the coal supply chain, with the aim of producing changes that benefit employees, communities, businesses and the environment.

The adherence to an initiative such as Bettercoal provides the additional guarantee that purchases of coal by the company comply with certain criteria and conditions that are perfectly aligned with the undertakings set out in the human rights policy of Gas Natural Fenosa.

One of the first advances of Bettercoal was to develop a new code of practices based on already existing mining standards, which recognises the current best practices in the sector. The Bettercoal Code sets out the ethical, social and environmental principles on which members of the initiative will base their coal supply chain.

These principles will be the basis for performing in-situ assessments conducted by outsourced consultants. The findings of these assessments will be shared among members of Bettercoal.

The Bettercoal Code was developed with the help of an independent group representing the different stakeholders and comprised of experts from civil society, unions and the mining community. The code was subject to a global process of public consultation and included meetings with stakeholders in Colombia, Indonesia, Russia and South Africa, all of which are major producers of coal.

Likewise, in 2016, the company acquired 930,000 tonnes of coal (63% of the total acquired) under a formal agreement with suppliers, to cater to the requirements defined in the Bettercoal Code.

Social commitment

[103-1], [103-2] and [103-3] (Social action and development of local communities)

Gas Natural Fenosa is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity and creativity, as well as spending part of its profits on social investment. Fluid and ongoing dialogue with society enables the company to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development, seeking to give a more appropriate response to their needs.

Commitments and principles of responsible action with society

- Guarantee fluid and two-way dialogue and to encourage involvement in **local communities**, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the **social impact** that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives within the **venture philanthropy** framework to create shared value and to have a positive social impact in energy projects.
- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through **social investment**.
- Transfer **knowledge and values** to society through partnership agreements with the academic community and to use the necessary and/or existing mechanisms as a vehicle for transmitting the service quality levels to collaborating companies and suppliers.

Gas Natural Fenosa contribution's to SDG 1: No poverty

The first Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "growing inequality is detrimental to economic growth and undermines social cohesion, increasing political and social tensions and, in some circumstances, driving instability and conflicts". More than 700 million people live in extreme poverty and are struggling to meet their most basic needs.

With regard to Social Commitment, Gas Natural Fenosa maintains a commitment to poverty primarily through the Gas Natural Fenosa Foundation. Several programmes related to the eradication of poverty have been introduced, notably the "Gas Natural Fenosa Classroom Foundation" in Argentina, which offers training to build skills and provides tools to socially marginalised persons to overcome poverty and reintegrate themselves in the job market.

Gas Natural Fenosa contribution's to SDG 4: Quality education

The fourth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "when people are able to get quality education they can break from the cycle of poverty".
Education contributes to reducing inequalities and achieve gender equality and help create more peaceful and tolerant societies.

Regarding Social Commitment, at Gas Natural Fenosa there is a commitment to universal access to a quality and practical education. As regards the Gas Natural Fenosa Foundation, we can highlight the "Training of gas inspection technicians" in Brazil, which serves to train young people from the slums to encourage their professional progress and subsequent recruitment by different enterprises that provide services to the company in Brazil.

Gas Natural Fenosa contribution's to SDG 7: Affordable and clean energy

The seventh Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "a well-established energy system supports all sectors: from businesses, medicine and education to agriculture, infrastructure, communications and high-technology". One in five people around the world live without electricity.

With regard to Social Commitment, from Gas Natural Fenosa as well as Gas Natural Fenosa Foundation there is a firm commitment to meet an essential need, access to energy in low-income populations in regions where the company operates. Thanks to schemes to provide access to energy, the neighborhoods that are being developed have managed to reduce their energy costs, improve their infrastructure and have access to cleaner energy.

Gas Natural Fenosa contribution's to SDG 11: Sustainable cities and communities

The eleventh Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "half of humanity live in cities today, and this number will continue to grow. Cities occupy just 3 per cent of the Earth's land, but account for 60-80 per cent of energy consumption and 75 per cent of carbon emissions".

With regard to Social Commitment, Gas Natural Fenosa performs its activity committed to sustainability of the communities where it operates and in those where it seeks to establish itself. To this end, it ensures fluid dialogue and conducts analyses into the social impact from the company's business. One outstanding example is the Bií Hioxi wind farm in Mexico, where the activity is carried out in total harmony with traditional lifestyles and actions to improve the living conditions of its inhabitants are promoted.

Also, the Gas Natural Fenosa Foundation undertakes actions to safeguard both cultural heritage and historic heritage of the gas and electricity sectors, one example being the Museum of Contemporary Art (MCA) and the Gas Museum of the Gas Natural Fenosa Foundation.

Gas Natural Fenosa contribution's to SDG 17: Partnership for the goals

The seventeenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "to successfully apply the 2030 Agenda for Sustainable Development, we need to move from commitment to action through solid, inclusive and integrated partnerships at all levels".

With regard to Social Commitment, Gas Natural Fenosa considers partnerships to promote development as absolutely essential. This commitment is materialised through financial contributions maintained over time and by signing agreements with different organisations and public bodies in the field of access to energy, support for education, fostering health and research, social action aimed at disadvantaged groups and the promotion of culture.

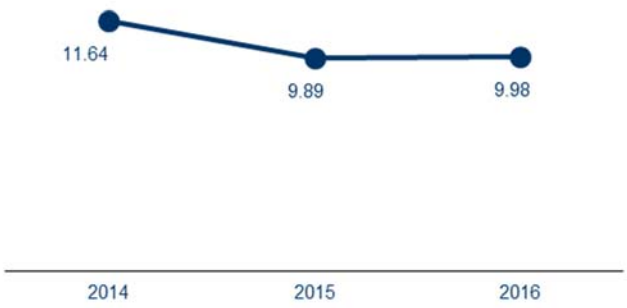
1. Economic contributions

Economic contributions to social investment programmes are another important part of the Gas Natural Fenosa commitment. In 2016, they totalled 9.98 million euros.

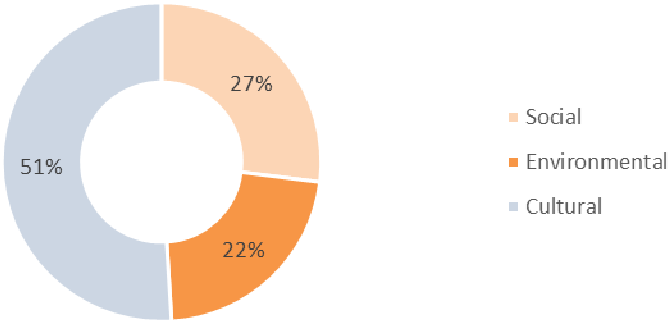
The aim of the company is to generate a higher corporate commitment to society of which it forms a part. The programmes to which these resources are therefore allocated form part of the business development strategy.

In order to measure the results, Gas Natural Fenosa has tools for assessing the reputation of the social programmes it carries out. As in previous years, in 2016 it continued to use the London Benchmarking Group methodology (LBG), which offers an overall view of social investment and enables a comparison of the results obtained with those of other companies.

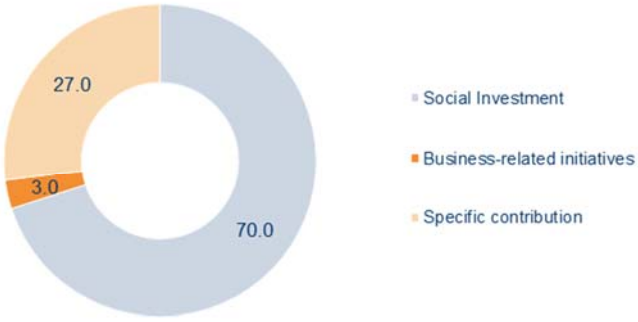
Evolution of contributions (millions of euros)



Breakdown by type of action (%)

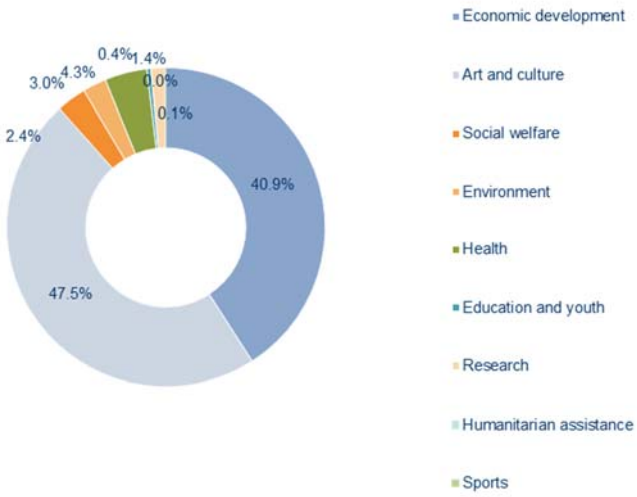


Motivation for initiatives (%) (*)



(*) London Benchmarking Group methodology (LBG)

Area of action (%) (*)



(*) London Benchmarking Group methodology (LBG)

Value actions	
Proposed actions 2016	**Planned actions 2017**
Conducting the third edition of CINERGÍA for the purpose of reporting the savings from energy efficiency as well as its impact on the environment. Encouraging the promotion of new talent with the second edition of Cinergía Talent.	Reviewing and updating the General Regulations on Sponsorship and Donations.
Extending an action plan for social networks in order to generate content and activities of general interest in line with the support of culture, energy efficiency and savings.	Launching the fourth edition of CINERGÍA.
Taking part in certain investment projects to assess the social impact.	Consolidating the activity of the Gas Natural Foundation in Chile.
	Introducing, with the collaboration of the Gas Natural Fenosa Foundation, the pilot programme aimed at groups that are vulnerable in energy poverty.

Level of fulfilment: finalised ●, major progress ●, intermediate progress●, little progress ●, not started ●

2. Creation of wealth and well-being where the company operates [102-13]

Gas Natural Fenosa develops its commitment to society through four main lines of action that are aligned with the company's core activities.

Lines of action			
Sponsorship, patronage and donations			
Cultural	Social	Energy and environment	Foundation and Museum of Contemporary Art (MAC)
Social actions. Latin America Integrated Operational Centre (COIL)			
Value for suppliers		Responsible use	Relatives of employees
Relationship with communities. Social impact			
Corporate Governance	Environmental management	Infrastructure	Products and Services
Employment	Skills and training	Suppliers	Taxes
Access to energy			

- **Access to energy**: providing and facilitating access to this basic service by those populations with limited resources, in areas where the company is present.
- **Relationship with communities:** ensuring fluid dialogue and to be aware of the social impact the company's business has.
- **Social action:** developed through the Latin America Integrated Operational Centre (COIL) through the strong presence the company has in this area. Three model social action

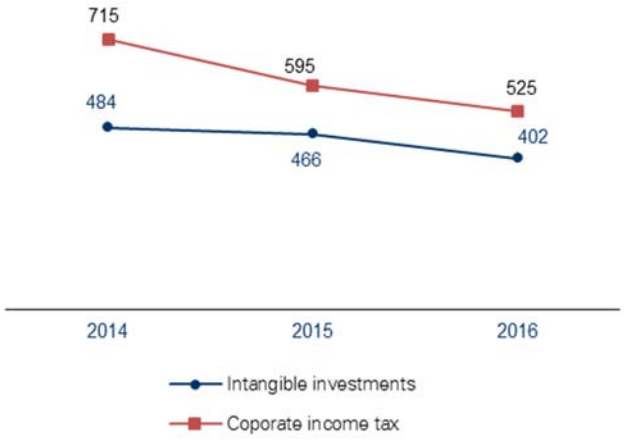
programmes have been defined. The idea is for them to be aligned with the company's business as well as catering to the different stakeholders with which the company has relations.

- **Sponsorship, patronage and donations:** through which the company supports projects and initiatives that generate value for society and, in turn, strengthen the company's social commitment. These values are based on support for culture, social causes and the environment. The adoption of these values is channelled through the different sponsorship and activity initiatives, both of the Gas Natural Fenosa Foundation and the Gas Natural Fenosa Museum of Contemporary Art.

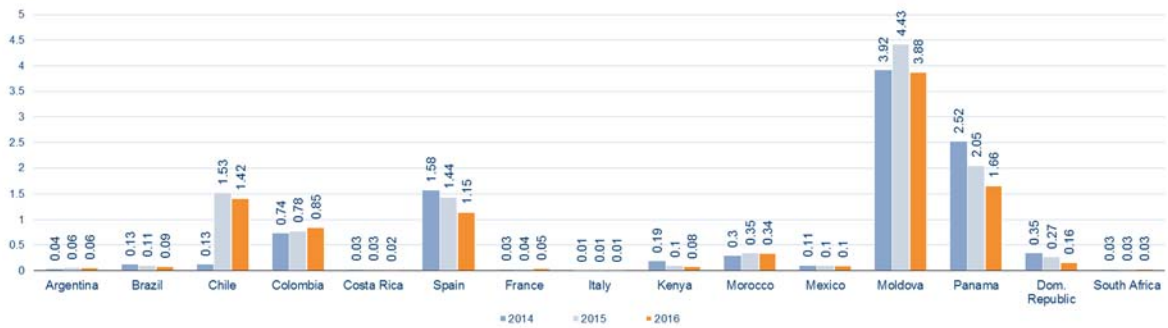
Gas Natural Fenosa actively collaborates with prestigious national and international sectorial and business institutions, in which it participates with its experience, know-how and resources. It is also part of the governing bodies of the business federations for the electricity and gas sectors, Unesa and Sedigas respectively, of the International Chamber of Commerce (ICC) and the Spanish Energy Club.

In the field of corporate responsibility, Gas Natural Fenosa is a member of Forética and of the Spanish Association for the UN Global Compact. The company also takes part in the Foundation for Renewable Energy & Environment and in the Corporate Excellence-Centre for Reputation Leadership.

Contribution to society (millions of euros)



Contribution to GDP by country (%)



3. Access to energy [103-1], [103-2] and [103-3] (Access to energy)

Gas Natural Fenosa performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

The company has extensive experience in this regard. Accordingly, the project carried out at Cuartel V in Argentina or the CGE group agreement in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people.

The company has also reached agreements for the protection of vulnerable customers, in Spain, to prevent supply cut-off to customers that the municipal social services have reported as vulnerable.

3.1 Inclusive Integral Gas Supply Model (Argentina)

Argentina continues to develop an inclusive model to extend the gas network to impoverished neighbourhoods.

Together with the Pro-Vivienda Social Foundation (FPVS), the gas network continued to spread to more than 10 other neighbourhoods in the Partido de Moreno district. The expansion projects will continue over the next few years, which will enable the company to reach a higher number of families. Residents of these neighbourhoods have certain advantages with regard to other customers, ranging from the distribution of bills by people within the communities, to the possibility of receiving a different treatment with regard to payment of monies owed, among others.

In 2016, the natural gas network reached 550 new properties through the construction of 7,500 m of new network in Barrio 25 de Mayo, Partido de Moreno district. In global terms, since its inception more than 28,000 people (a figure that accounts for over half the population) have benefited from this programme and have achieved access to cleaner energy thus increasing the value of properties, thanks to the overall construction of 134.5 km of gas network here.

In addition, in June 2016 works for the Neighbourhood Trusts of Unión and Futuro, where the distribution grid is set to be extended by more than 60 km, with gasification potential of more than 3,500 homes, were put into operation. Since the start of this initiative, the company has spent more than 880,000 euros on investment in these areas.

The model's success requires the company to work on specific issues such as management of projects or providing customers with the service they require. This involves several areas in the overall process and requires long-term partnering, through the Customer Service area, from the time when new users join the company.

Within the framework of other gasification project for low income districts, we can mention El Tambo (13,000 metres and 900 homes) and Mi Esperanza (18,000 metres and 1,100 homes), both in the district of La Matanza, together with La Reja Grande (20,000 metres and 1,300 homes) and Lomas de Mariló (35,000 metres and 1,500 homes) also in the district of Moreno.

It is worth highlighting that the process is performed together with the national government, through Anses-Onabe and the Ministerio de Planificación (Planning Ministry) for projects called "PROCREAR"" we plan to provide credits throughout the country, in two ways, "with own land" and "without land". Gas Natural Fenosa has made it possible for all these neighbourhoods to have natural gas and is currently working in thirteen districts in the distribution area with a potential of 6,500 homes.

In addition, it continues with the saturation of networks in the Falklands Islands. In 2016 we promoted the gasification in the Parque Alvear district, with a total of 55,000 additional metres and 3,500 potential customers. This means that the most populated area of Malvinas Argentinas was fully gasified.

3.2 CGE Group (Chile)

CGE is committed to ensuring that it provides available, stable and safe energy to everyone from large cities to the most isolated sectors of Chile.

Here, the subsidiary Edelmag signed three agreements designed to bring electricity to the most isolated sectors of the country, permitting 134 families to access reliable energy on a permanent and stable basis, improving their quality of life and promoting their integration in the same way as the rest of the country.

Within the framework of implementing the regularisation project, during the year agreements were signed with two regional governments (Antofagasta and Tarapaca), in order to seek solutions to the problems in the settlements. A total of 1,300 families from the settlements were connected to the power grid during 2016.

CGE, in line with the Energy Equity initiative of Chili's Ministry of Energy, launched five rural electrification projects, which benefited 204 families who were able to connect their homes to the electricity grid, thus solving the difficulties in accessing basic services.

3.3 Providing vulnerable customers with access to energy

Gas Natural Fenosa is sensitive to the different issues and situations that can cause difficulty in paying for the supply. For this reason, the company uses a range of mechanisms to ensure the supply is not cut off, thus protecting vulnerable customers. These mechanisms include payment by instalments, applied in specific situations.

The company has always pursued a proactive policy against energy poverty, which covers more than 93% of its customers in Spain, based on agreements and on cooperation and information from the municipal social services.

To date, the administrations have forwarded the company's 18,178 cases of vulnerable customers, from 1,176 towns and cities throughout the country, and we have managed to prevent cutting-off the supply because of nonpayment.

In 2016, in Spain, Gas Natural Fenosa reached agreements to protect vulnerable customers with different administrations to prevent cutting off customers that social services had reported as being vulnerable. In these cases, the company provides operational solutions for payment of its bills through the mechanisms that the authorities use in cases of social emergency.

In 2016, we reached agreements with the following administrations:

- Locally: A Coruña city council, Almassora town council, Barcelona city council, Metropolitan Area of Barcelona (AMB), Castellón, Logroño and Sevilla city councils, Vilagarcia de Arousa town council and Zaragoza city council.
- At the regional level: the autonomous communities of Cantabria, Castilla-La Mancha Madrid, Castilla y Leon, Galicia, Madrid, Navarre and Valencia.

We have also reached agreements with the Basque Country Red Cross.

We are also finalising agreements with the governments of Aragon, the Balearic Islands and Extremadura.

International initiatives to provide energy access to vulnerable customers	
Brazil	There is an unbundled tariff called the Social Tariff. This tariff is a little cheaper for initial consumption bands and applies to families who, through specific documentation, can check whether they are recipients of aid programmes from the federal government for the low-income population.
Mexico	Gas Natural Fenosa offers customers payment by installments through systematic home visit campaigns. Around 70,000 agreements are reached every year where the customer signs an agreement for payment that is split into the system of instalments paid on subsequent gas bills.
Moldova	The company works with clients individually based on their request. Payment arrangements are made and the customer can pay off their bill or debt during the period agreed.
Italy	The electricity bonus is a discount on the bill introduced by the government and implemented by the Electricity Authority, water and gas supply system, and with the cooperation of municipalities, to ensure savings in energy expenditure for families in situations of economic and physical discomfort, as well as large families. Families are entitled to the economic hardship bonuses if they have an Equivalent Economic Situation Indicator (EESI) no greater than 8,107.50 euros or large families with an EESI not exceeding 20,000 euros. The physical discomfort bonus is provided for cases where serious illnesses require the use of power-driven medical devices.

Energy Vulnerability Plan in Spain

During 2016, Gas Natural Fenosa developed a new Energy Vulnerability Plan throughout Spain to protect vulnerable customers, which has been introduced in early 2017.

The plan aims to intensify the actions that were already being carried out, to systematise the management of vulnerable customers and strengthen collaboration with government and tertiary sector organizations.

The objectives of the new plan are:

1. Improve management and customer relations in cases of energy vulnerability.
2. Streamlining the exchange of information with Town and City Councils for better identification of situations of vulnerability.
3. Implementing activities with associations that work to alleviate energy poverty cases and to detect vulnerabilities.

To do this, Gas Natural Fenosa has launched a specific package of 20 measures with a financial endowment of 4.5 million euros and a team of 60 employees. The initiatives are both of an operational and social nature, allowing us to conduct comprehensive monitoring and development towards energy vulnerability.

Operational initiatives

- Making flexible the system for splitting the debt, removing the initial instalment and extending the repayment period for up to two years, and increasing the minimum amount of debt that activates the supply cut-off.
- Commissioning of the Specific Unit to deal with vulnerability, as well as a Special Collectives Management Group to perform exhaustive and close monitoring of all customers who may be vulnerable.

- Free of charge helplines for vulnerable customers (900 724 900), municipal social services (900 104 559) and third sector organizations (900 444 000) to develop actions against energy poverty.
- Support for social services, an area where the most work is required to help the vulnerable public.
- Awareness training for employees and partner companies about potential situations of vulnerability, and implementing a proactive review of the records of potential vulnerable customers.

Social initiatives through the Gas Natural Fenosa Foundation

- Call for aid for social organisations working with vulnerable people so they can develop initiatives for energy efficiency and safety in the homes of this group.
- Opening of an Energy Efficiency School to support local and third sector organisations, targeted particularly at people who help the vulnerable public.
- Activating a corporate volunteer programme of solidarity aimed at helping vulnerable people in order to advise on consumption habits, energy efficiency and entering into contracts.
- Implementation of a specific rehabilitation project that allows low-cost improvements inside the homes of vulnerable groups.
- Creation of a care and management team for third sector enterprises.

4. Relationship with communities [413-1] and [413-2]

Gas Natural Fenosa, under its Policy on Human Rights, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Gas Natural Fenosa has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company bases its relationship with communities on the following principles:

- Identifying communities affected by the company's activity, and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause to the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to and inviting participation from the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.
- Incorporating into the impact assessment studies the opportunities identified through dialogue with the communities and which encourage sustainable development of the community.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in those locations where the company is looking to carry out new investment projects. These assessments measure a range of impacts, including the impact on human rights.

4.1. Bujagali hydroelectric plant (Uganda)

During 2016, we continued with the implementation and development of programmes derived from social impact assessment conducted in 2012 in the hydroelectric power plant operated by a subsidiary of Gas Natural Fenosa, Operación y Mantenimiento Energy. The social impact project of the Bujagali hydroelectric plant celebrated its fourth anniversary since its launch in 2013.

Programmes deriving from the project at the Bujagali hydroelectric power station (Uganda) in 2016	
Local procurement	It aims to encourage people to buy from local suppliers, taking into account sustainability criteria in their selection and assessment. During 2016, we continued to develop a broad base of local suppliers that provide products and services necessary for the operation of the plant. Currently, around 14% of the plant's suppliers are locally sourced and the local purchase percentage is 27.6%.
Development of suppliers	Gas Natural Fenosa provides training and advice (on tax, safety and accounting aspects, inter alia) to local suppliers in order to adapt themselves to the needs of the company. In 2016, the same 12 companies as in 2015 remained in this programme, and they have received some kind of aid or training to improve their quality, technical level and efficiency. The initiative to improve road safety continued to be implemented, with participation of almost 5,000 students from neighbouring schools on courses to raise awareness about road safety and first aid.
Health and prevention	Its objective is to improve the resources available to meet the health needs of plant employees and the community, and simultaneously reducing days missed due to health, thus, increasing productivity. The programme is aimed at raising awareness on issues related to health, prevention and early detection of diseases. In 2016, two medical camps were organised, which represents the fourth medical camp for the local population in the area, where training and diagnosis of diseases activities were conducted. More than 3,000 people benefited from this initiative. Company personnel also benefited from a range of actions to raise awareness about health-related issues.
Training	In collaboration with local educational institutions, the aim is to provide access to training programmes for young people in the area, in order to improve their qualifications and simultaneously have people in the catchment area of the plant with the training and skills in line with the needs of Gas Natural Fenosa. In the last years, 113 students have benefited from this programme.
Fight against energy poverty	This is a programme to address one of the main demands of the community. Since it is not possible to directly provide the electricity produced in the area to its inhabitants, agreements were established with certain organisations, to provide renewable generation sources such as sunlamps. At the end of 2016, a total of 85 families benefited from this programme, of which 40% had already repaid the microcredit extended to them for the purchase.

4.2. Bií Hioxo wind farm (Mexico)

The Bií Hioxo wind farm is a project of 234 MW in Juchitan de Zaragoza (Oaxaca, Mexico). It began commercial operations in October 2014.

Gas Natural Fenosa, according to its firm commitment to respect for human rights and specifically the traditional ways of life, has consistently worked with the affected community and, additionally to the project itself, generating wealth, and implementing actions that contribute to improving the living conditions of the inhabitants of the area.

Having identified the needs of the community affected by the project, the company is developing several programmes for various stakeholders based on five lines of action: health, education, infrastructure, production projects and environment.

Programmes derived from the Bií Hioxo wind farm project (Mexico) in 2016	
Support for fishermen	Support has been provided to fishermen of the Seventh Section, providing them with vouchers to redeem for the material they decide, related to their activities. A total of 251 fishermen benefited.
Improved roads and delivery of material	With the nearest town to the park, Playa Vicente, it was agreed to improve the road leading to it. This will be an initiative which will run until 2017 and will benefit 200 people directly and indirectly. Members of the Irrigation No. 11 module were provided with two wheels for use on a backhoe excavator. The group comprises about 90 people
Support to fireman	Support has been provided to the heroic fire department of Juchitan, comprising 12 members. It consisted of the handover of four wheels and a motor-pump to pump water in case of fires. This group works in a town with a population of approximately 90,000 inhabitants.
Health campaigns	The campaigns were held over three days, and overall benefited 635 people. - The first, aimed at preventing diabetes, was attended by 215 people. - The second, called “Wind and life against cervical cancer”, focused on women over 18. 210 women took part. - The third was targeted at the prevention of breast cancer. With respect to this action, this is the third year that it has taken place and it also benefited 210 women over the age of 40.
Improved education infrastructures	Support has been given to four schools to improve part of their infrastructure, with the construction of a roof, a school canteen, a well, repair of a bathroom and the donation of building material. Altogether, 967 students benefited.
Support for culture and technology	There have been different types of support, the most representative were provided to the Juchiteco Ecological Forum for the 26th Festival of Rio and to the Council for Economic Development for the implementation of the second competition of technological prototypes, where Bií Hioxo was the official sponsor.
Guided tours to the park	The park was visited by two groups of students, from the Puebla Technological Institute and the ITISTMO, along with a specific visit by teachers. This activity provides relevant information about the operation of wind turbines and wind power. In 2016, 72 people visited the park on guided tours.

4.3. Nairobi thermal power plant (Kenya)

Since 1997, Gas Natural Fenosa participates in the electricity production market in Kenya through the Nairobi South power plant that has 109 MW of installed capacity.

In addition to the management of the plant, the company has a community action programme in low-income neighbourhoods surrounding the centre, known as slums.

In 2016, we continued to collaborate with neighbouring districts to continue the implementation of the programmes. The collaboration between local authorities and neighbourhood committees was key to the success of the projects.

These programmes have continued to improve the view that local residents have of the company, progressively appreciating the importance of a clean environment.

Programmes derived from the thermal power plant project in Nairobi (Kenya) in 2016	
Educational initiatives	The company provides grants to students without resources to go to university and donates books for subjects in higher education. In 2016, eight students were awarded grants, and 28 had the possibility of work experience at the plant itself.
Health campaigns	Campaigns focusing on improving the health of employees and their families were conducted, such as the diagnosis and prevention of diabetes, cancer and cardiovascular disease, awareness days and nutrition programmes campaigns. All employees participated in a health programme that included a full medical examination. We have established a system of recognition and motivation, through which employees are encouraged to make suggestions to improve the health and safety of employees.
Environmental protection	Involvement in conservation, cleaning and awareness. Through planting trees, cleaning up the slums around the plant and awareness of environmental protection and waste separation. In 2016, the company partnered Kenya Forest Services for the second year running and planted 2,200 trees
Promotion of local art and culture	Collaboration, through an annual donation, with the Spanish Speaking Association. The company also participated in several charity events through donations. These included First Lady Half Marathon in support of maternal care, and Mater Heart Run, which helps children with heart disease and diabetes to walk in order to raise awareness about diabetes and provide free insulin for diabetic patients.
Donations to vulnerable people	The company also made donations to a home for orphaned children and a hospice (Kenyatta Referral Hospital - Children Cancer Ward and Nairobi Hospice).

4.4. Torito hydroelectric power plant (Costa Rica)

Gas Natural Fenosa, through its subsidiary in Costa Rica, Union Fenosa Generadora Torito, which operates a 50MW hydro plant, built with own resources between 2012 and 2015, continues to support communities in the catchment area of the project in the field of environment and education, through the Gas Natural Fenosa Foundation.

Specifically, the actions are part of the development of the Blue Flag Ecological Programme (PBAE) in three schools, with about 250 children in total, which are close to the Torito hydroelectric plant.

This programme promotes the environmental education of students and community outreach, as well as the development of school micro-projects to improve risk management, infrastructure, reforestation, health-hygiene, and energy fertilizer.

The benefits of this project are as follows:

- Improving the social and environmental image for the school.
- Development of an environmental culture in the educational community.
- Physical improvements in school infrastructure.
- School administrative efficiency in environmental sustainability.

4.5. CGE (Chile)

The distribution companies of CGE are introducing plans to encourage relations with social organisations to foster their links with neighbourhood councils, through participative meetings.

In 2016, there were 377 meetings with neighbourhood associations and social organisations throughout the country. At these meetings, the company's regional teams worked together with the leaders and the community to strengthen information on payment channels, external collectors, customer service channels and tips on safety and energy saving, among other issues.

In addition, three agreements were signed under the "Strengthening the Electric System" project and the ongoing work with communities:

- An agreement with the Chairmen of the Neighbourhood Associations numbers 6, 7 and 8 of the Cerro Alto Sector in the municipality of Los Alamos, where the company took delivery of household refuse containers, intended to contribute to the eradication of illegal rubbish dumps in the community and thereby improve the quality of life for residents.
- Collaborative agreement with the "Marihuen" indigenous community of Arauco. The company committed to the delivery of materials and the community agreed to provide manpower to build the perimeter fence on the land where their future homes will be built.
- Collaborative agreement with "Las Puentes" indigenous community of Arauco. Through this agreement, the company provided adequate machinery for optimisation and modernization of agricultural production processes of the community.

Moreover, in the VII Region of Maule, in the municipality of San Clemente, the company contributed to the construction of a rural medical centre for the town Flor del Llano, contributing significantly to a specific need of the community where it operates.

5. Social action [103-1], [103-2] and [103-3] (Social action and development of local communities)

Gas Natural Fenosa believes that its community investment programmes have to focus on the geographical areas where it has a presence and must develop in tandem with the corporate activity. To meet this target, the Latin America Integrated Operational Centre (COIL) for management of community investment programmes was created in 2011. Under the motto "Energy to Grow", it implements three kinds of projects.

Types of COIL projects	
Inclusive business	Projects that promote the inclusion of the most disadvantaged social sectors through inclusive programmes. Within this typology, we created a new programme called Energy of Flavour, which aims to promote social inclusion of disadvantaged groups through training linked to gastronomy. The need for this programme came as a result of detecting that subsidiaries in countries such as Argentina, Brazil, Mexico and Panama were performing actions related to this issue.
Responsible use	Projects targeted at providing knowledge about energy in general, safety and efficient use, of both gas and electricity. They also promote environmental stewardship among customers and society. Two programmes were designed as part of this pillar: • Responsible Use of Gas, which is being introduced in Argentina, Brazil, Colombia and Mexico in its versions for children and adults. • Responsible Use of Electricity, which is being undertaken in Panama, also in versions for children and adults.

	In 2016, we continued using the Natural Family, in all the group's subsidiaries in Latin America, to transmit the contents of this programme in an educational and fun way. With a strong presence on social networks like Facebook, Twitter and YouTube, Natural Family provided tips on safety and the efficient use of gas and electricity, in order to reach a greater number of customers. Furthermore, the characters of the family toured the offices of Gas Natural Fenosa in Latin America to educate workers on the responsible use of natural resources.
Staff families	Projects that foster the studies and access to employment for the children and relatives of collaborators in Latin American countries: • The "Training for Leadership" programme offers the possibility of receiving a leadership training course, taught by the Corporate University of Gas Natural Fenosa, to the children of employees who are finishing their university education. It was implemented in Argentina, Brazil, Colombia, Mexico, Panama and the Dominican Republic. • The "Planning your Future" programme provides a financial grant for those who are starting college in Argentina. • The "Natural Vocation" and "Summer Internship" programmes in Argentina offer participants a vocational career advice or the possibility of work experience in the company in the summer months.

Social innovation programmes

	Total since the beginning	2016
Responsible use (trained children)	1,090,056	89,075
Responsible use (trained adults)	1,103,369	163,102
Inclusive business	62	62
Staff families (1)	121	18

(1) Includes the "Training for Leadership", "Planning your Future", "Natural Vocation" and "Summer Internship" programmes.

6. Patronage and sponsorship

To help develop society through the promotion of culture, art, science or other disciplines, Gas Natural Fenosa provides occasional financial support to specific sponsorship projects and donations. This improves its image and attraction for the general public.

Through the General Regulations on Sponsorship and Donations of the company, the general management principles are established for sponsorships and donations by the company and to define the processes that regulate and control its development. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The regulations also provide priorities, which can be summarised in social action, culture and energy and the environment.

6.1. Educational initiatives

As part of its commitment to society, Gas Natural Fenosa develops educational activities for young people on the correct use of energy and sustainable development.

By the same token, the company implemented a wide range of collaboration, participation and sponsorship initiatives with different educational entities in Spain and Latin America.

6.2. Social action focused on underprivileged groups

The company drives and support projects targeted at integrating the most vulnerable social groups and to mitigate problems stemming from social exclusion. It therefore collaborates financially with foundations and associations whose corporate purpose is to help mitigate or minimise these problems in some of the countries where it performs its activity.

6.3. Promotion of health and research

Among the different programmes in which Gas Natural Fenosa participates to promote research and health, we can highlight research targeted at improving the life quality of the infirm and their relatives, or research into cardiovascular diseases, which are the leading cause of mortality worldwide, through the Procnic Foundation, as well as the awareness and prevention campaign "Wind and Life against Cancer" in Mexico, and collaboration with the Pedriatría en la Red paediatric network in Argentina.

6.4. Promotion of music, theatre and films

Gas Natural Fenosa also maintained its commitment to collaborate with the world of film, music and theatre, by providing support to festivals, musical events and concerts.

With its support to the world of film, through sponsorship of the main festivals and cinemas in Spain, the company collaborates with one of the industries that has been most affected, in particular in the case of festivals, through cutbacks in the public aid.

In 2016, we launched the third edition of Cinergía, to bring energy saving closer through the cinema and to encourage talent in the Spanish film industry.

"The Third Eye" campaign to attract followers

As part of the Sitges Film Festival, Gas Natural Fenosa and the Ulls del Món Foundation launched "The Third Eye" initiative.

The campaign was to encourage festival goers to take photograph, placing a sticker in the form of an eye, and putting it on their social networks as followers of the foundation.

Under the slogan "1 follower = 1 operation", the foundation undertook to perform one cataract operation for each new follower it received on the social networks, up to a limit of 100 operations.

A total of 639 new followers were achieved with the resulting eye care of 100 patients with visual impairment and without financial resources in Bolivia.

In addition, 190,000 printings were recorded in relevant publications and almost 15,000 "likes" on social networks.

6.5. Fostering cultural enrichment

The Gas Natural Fenosa Museum of Contemporary Art (MAC) has consolidated itself as a cultural benchmark in Galicia, where it is based, and in Spain. The MAC has become an open workspace committed to art, culture, research, development, education, youth and social action.

The Plan of Cooperation and Internationalisation of the MAC has managed to join together the more consolidated proposals with other new ones, such as support for young professionals in the Galician creative sector and, more specifically in 2016, young fashion designers.

Active collaboration with other organisations and institutions of civil society has been one of the basic interests that has come to fruition through the permanent museum located at the Galician Association of Creators.

Likewise, the company supports other institutions, such as the National Art Museum of Catalonia (MNAC), the Museum of Contemporary Art of Barcelona (MACBA), the Valladolid Science Museum and the Royal Association of the Queen Sofia National Art Gallery and Museum.

7. Corporate volunteers and employee participation

The corporate volunteering of Gas Natural Fenosa consists of those not-for-profit actions and initiatives promoted the company in which the employee is involved and gives their time voluntarily.

Through corporate volunteering, Gas Natural Fenosa aims to promote social cohesion, values and the spirit of solidarity.

To achieve this, Gas Natural Fenosa has defined the programme objectives in three areas simultaneously -corporate, employees and the environment-, and an integrated structure of committees that includes both the areas of persons as well as communication and the environment of all countries that form part of the programme.

Throughout 2016, employees have spent more than 6,153 hours volunteering, featuring participation by 892 employees worldwide. Worldwide, a total of 32 environmental volunteer actions were carried out along with 49 social volunteer actions, in which employees contributed their time and their personal and professional skills.

This programme is of global nature and comprises 12 countries where Gas Natural Fenosa has a presence: Argentina, Brazil, Chile, Colombia, Peru, Spain, Italy, Morocco, Mexico, Moldova, Panama and the Dominican Republic.

Throughout 2016, it has standardised the voluntary reporting system, whereby all countries collect the same indicators. This allows us to measure programme performance in the most rigorous way possible, thus fulfilling the company’s economic and social commitment.

Moreover, the corporate volunteer mailbox has been made available to employees, where everyone can submit their proposals for action which, following assessment by the responsible

committee, are included in the volunteer programme. In addition, we have continued deploying social volunteering linked to commitments and initiatives defined by the company.

The corporate volunteering of Gas Natural Fenosa aims to be a living initiative that draws on the ideas and proposals of members of both the company and society in general, providing value-added to the company and society simultaneously.

Solidarity Day

In addition to the corporate volunteer actions, we should also highlight the Solidarity Day initiative, created in 1997 and managed by the employees.

It involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which Gas Natural Fenosa operates.

For the Solidarity Day event, the company donates an amount equal to the amount donated by employees and assumes all management costs, so that the total amount raised can be used for the annual selected project. Close to 2,000 employees around the world took part in the initiative. Since it began, the Solidarity Day Association has raised over 4 million euros

In 2016, Solidarity Day financed the education of over 220 school, technical and university students as part of the ordinary projects being implemented in Argentina Brazil, Colombia, Morocco, Mexico, Moldova, Nicaragua, Panama and Portugal.

As well as the ordinary projects, this initiative allows us to perform extraordinary projects of a social nature in Spain, to cover the needs of those groups most affected by the economic crisis. In 2015, we launched a project to fund 800 school meal grants at schools in Galicia, La Rioja and Navarre during the 2015-2016 and 2016-2017 courses and summer 2016.

The proceeds raised by Solidarity Day in 2016 will be used for new educational projects in Chile to begin in 2017.

8. Gas Natural Fenosa Foundation

The Gas Natural Fenosa Foundation, established in 1992, is committed to training and raising awareness in society with regard to rational and sustainable use of energy resources.

The pillars of the foundation are based on training, dissemination and raising awareness about energy and the environment, essentially with the purpose of promoting the rational use of energy resources and promoting sustainable development.

As in previous years, the foundation came, in 2016, in first place in the ranking of transparency annually carried out by the Compromiso y Transparencia Foundation.

During 2016, the foundation held 20 seminars on energy and environment in Spain, with 2,338 participants. It has also forged ahead with the "First Export Programme", with a total of 21 seminars in a number of different autonomous regions across Spain, which were attended by 1,841 people. It also offered customised assessment to 25 companies.

The international activities of the foundation were developed in 11 countries: Argentina, Algeria, Brazil, Chile, Colombia, Costa Rica, Italy, Mexico, Morocco, Moldova and South Africa. 17 programmes were developed, which benefited more than 30,100 people and more than 5,545 companies and institutions.

The foundation also promotes cultural activities aimed at the preservation and dissemination of the historical and cultural heritage of the gas and electricity industry, through its Gas Museum and historic archives.

The Gas Museum has a permanent exhibition shows the significance that gas has in the development and modernisation of society and also raises the energy challenges of the future. It also has a space used for temporary exhibitions. In December 2016, the new temporary exhibition entitled “A Kaleidoscope in the City. 10 years of the Gas Natural Fenosa building” was inaugurated, to mark the 10th anniversary of the company's headquarters.

It also has an educational programme for schools and performs activities for children, adults and families. The activities are spread throughout Spain, which has involved 40,027 students and has had more than 132,000 users. Also in 2016, it has intensified roaming exhibitions in different towns and cities of Spain.

Main international activities carried out in 2016	
Argentina	• Gas Natural Fenosa Classroom Foundation: training to build skills and provide tools to socially marginalised persons to overcome poverty and reintegrate themselves in the job market. • Social Entrepreneur Programme: volunteer initiatives are rewarded. In 2016, the “SENDAS” award programme, which aims to allow the local population to have the appropriate treatments to study and to work.
Brazil	• Young Cooks: training of chefs in an area of limited resources in the metropolitan area of Rio de Janeiro for subsequent employment. • Training of Periodic Inspection and Gas Facilities Technicians: training young people in the favelas to help their progress and personal advancement so as to become employed by different companies that provide services to Gas Natural Fenosa in Brazil.
Colombia	• Young Scientists: this applies guided investigation in the classroom and in cooperative work by introducing new teaching practices in natural sciences in schools in poor areas of the cities of Bogota, Turja and Mosquera. • Training of Mechanics for Natural Gas Vehicles: training young people with limited resources to be specialists in automobile mechanics and vehicles that run on natural gas, to achieve the job skills required.
Costa Rica	• Blue Flag: environmental education programme that promotes the improvement of quality in environmental education, to achieve development that is sustainable and in harmony with the environment in schools with limited resources in Costa Rica.
Morocco	• Support and help in development of autistic children at the Tangiers Autism Centre, founded by the Gas Natural Fenosa Foundation.
Mexico	• Boost your Business: training of experts in the installation and repair of household gas, electricity and water services in poor areas of Mexico City, and subsequently help them to find jobs.
South Africa	• Quedela Secondary School in Mpumalanga: the goal of this programme is to implement a development model that addresses the academic environment, social environment, infrastructures and security of schools in an area with very limited resources.

Refer to the www.fundaciongasnaturalfenosa.org website for in-depth information about the activities of the Gas Natural Fenosa Foundation.

Energytruck

Energytruck is a project launched by the Gas Natural Fenosa Foundation's Gas Museum, which aims to provide society with knowledge related to energy, the environment and industrial heritage.

This is an exhibition that travels throughout Spain, and which simultaneously represents a mobile educational classroom, with teaching activities conducted by specialist educators.

The project aims to contribute to the educational, environmental and cultural development of society, and to discover, in a very visual and interactive way, what energy is and how it can be consumed responsibly.

By the same token, the exhibition looks to the past to discover the historical changes and social progress marked by the arrival of gas and electricity, and also looks to the future to find out how energy will be in a few years.

The truck has a dual natural gas engine that generates between 15% and 20% less CO2 emissions compared to conventional diesel engines, which makes the vehicle itself part of the exhibition contents.

In 2016, Energytruck visited 136 Spanish towns and cities, and a total of 60,398 people, both schoolchildren and adults, have become beneficiaries of this initiative.

Activities of the Gas Natural Foundation. Spain

	2016	2015	2014
Active agreements with autonomous regions	24	24	23
Seminars/courses held	20	20	19
PPE programme days held	28	21	15
Budget allocation in acts (% out of total)	45	35	45

Publications	0	1	1
Environmental education fact sheets	0	1	1

International activities of the Gas Natural Fenosa Foundation.

	2016	2015	2014
Activities	17	16	16
International activities budget (% out of total)	24	23	22
Countries in which it operates	11	10	9

Integrity and transparency

Gas Natural Fenosa considers that the trust of its customers, its professionals, suppliers and external collaborators, shareholders, investors and funders, regulatory bodies and other market agents and social groups, is based on integrity, which is understood to be action which is ethical, honest, responsible and in good faith of each one of the people who work in and for the group.

Commitments and principles of full responsible action

- **Reject corruption, fraud and bribery** in business dealings and establishing measures to prevent and combat them, developing internal channels allowing communication of irregularities while respecting and preserving anonymity.
- **Comply with national and international laws and standards** in force in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the UN Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- **Act with responsibility** in business management and **complying with fiscal obligations** in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.
- **Compete fairly on the market**, not to allow misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote **transparency in information** and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's actions and initiatives and to offer a specific response to the information required by the company's stakeholders.
- Maintain permanent **dialogue with stakeholders** through the most adequate and accessible communication channels.

1. Integrity is key to the company's success [102-16]

Gas Natural Fenosa believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

Indeed, ethics and honesty, to which the company's highest body of administration is committed, are essential pillars of the declaration of the company's mission, vision and values, of its Strategic Plans, and the Corporate Responsibility Policy.

The company needs to pay special attention to the lack of confidence which has ailed affected the energy sector, in order to improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Gas Natural Fenosa. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

Gas Natural Fenosa faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics.

These elements seek to ensure that the company's activities and those of its employees and suppliers comply with applicable standards and laws in every country in which it operates. They also seek to ensure that all the units and organisations behave impeccably in accordance with ethical values and formal commitments to conduct, and to preventing and detecting any breach in the appropriate time and manner.

Gas Natural Fenosa put in place various corporate integrity programmes to guarantee the above targets. These programmes are:

- Code of Ethics Management Model
- Crime Prevention Model
- Antifraud and anticorruption policies and plans
- Fiscal policies
- Human Rights Policy

These programmes give rise to indicators for the management, control and supervision of the company's ethical conduct, which makes it possible to measure the effectiveness of the programmes that are in place and develop new improvement plans adapted to the specific needs of the business.

Value actions		
Proposed actions 2016		**Planned actions 2017**
Launch of a new regular declaration tool (workflow), compliance with the Code of Ethics and Anticorruption Policy.	●	Actions of dissemination and communication of the Corporate Hospitality Policy.
Disclosure and dissemination of Code of Ethics for suppliers.	●	
Approval of update of the Human Rights Policy text and the concepts and terminology of the UN Guiding Principles on Business & Human Rights.	●	Completing the process of declaration of the Anticorruption Policy.

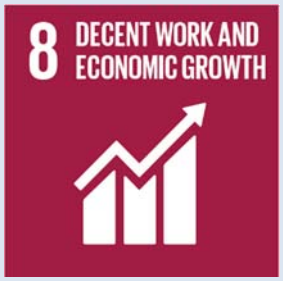
Level of fulfilment: finalised ●, major progress ●, intermediate progress ●, little progress ●, not started ●

Gas Natural Fenosa contribution's to SDG 5: Gender equality

The fifth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "women and girls represent half of the world's population and therefore also half of its potential. But, today gender inequality persists everywhere and stagnates social progress".

With regard to Integrity and transparency, Gas Natural Fenosa operates a commitment to equal opportunities at all levels of the organisation. The company's Code of Ethics, applicable to management and employees, along with the whistleblower channel, represent the main mechanisms of this commitment.

Gas Natural Fenosa contribution's to SDG 8: Decent work and economic growth



The eighth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "poverty eradication is only possible through stable and well-paid jobs. Nearly 2.2 billion people live below the US$2 poverty line".

With regard to Integrity and transparency, Gas Natural Fenosa is committed to guaranteeing decent work at all locations where the company operates. To this end, it applies a Human Rights Policy that sets out, among other principles, the eradication of child labour, freedom of association and providing decent employment.

Gas Natural Fenosa contribution's to SDG 16: Peace, justice and strong institutions

The sixteenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "to achieve the Sustainable Development Goals (SDGs). People everywhere need to be free of fear from all forms of violence".

With regard to Integrity and transparency, Gas Natural Fenosa operates a commitment to integrity, responsibility, transparency and no violence. To do this, the internal mechanisms at its disposal are the Code of Ethics, the Crime Prevention Model, the Antifraud and Anticorruption Policy, and the Human Rights Policy.

2. Code of Ethics Management Model [102-16] and [102-17]

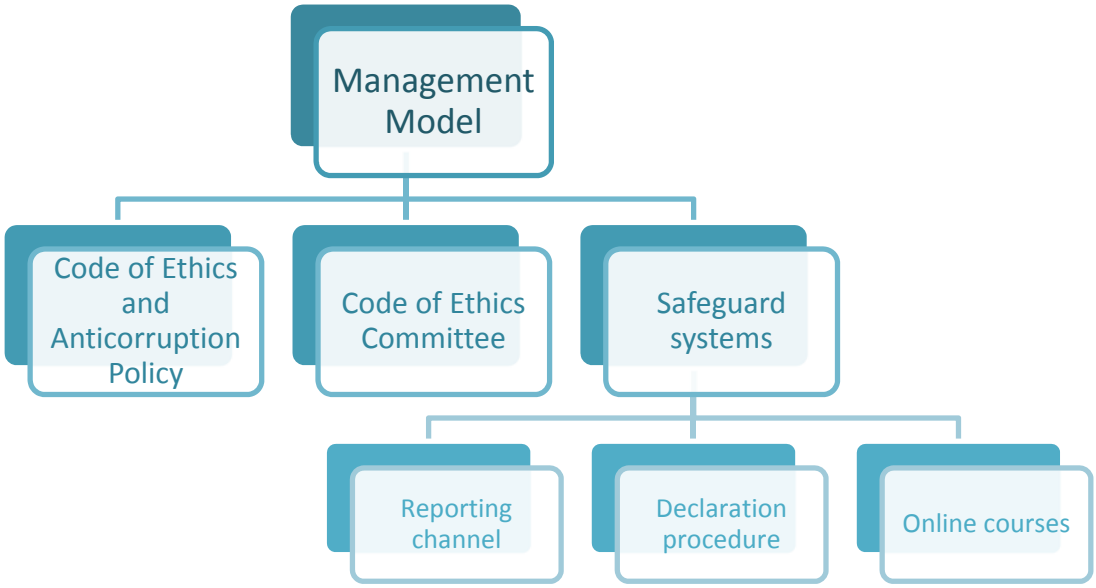
The Code of Ethics of Gas Natural, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Gas Natural Fenosa, in their daily work, with regard to relationships and interactions with all its stakeholders. The principles for the company's employees are related to corruption and bribery, respect for people, professional development, equal opportunities, relation with collaborating companies, occupational health and safety, and caring for the environment, among others.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Gas Natural Fenosa in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

Gas Natural Fenosa also has an Anticorruption Policy, as an extension of chapter 4.7. on "Corruption and Bribery" on the Code of Ethics, which establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

The company also has a Code of Ethics and Anticorruption Policy Management Model managed by the Internal Auditing, Compliance and Control Department, whose targets are to ensure the knowledge, application and fulfilment of the code.

Components of the management model



- **The Code of Ethics and Anticorruption Policy** provide essential tools to act in an honest, responsible and transparent manner.
- **The Code of Ethics Committee**, chaired by the Director of Internal Auditing, Compliance and Control that ensures its objectiveness and independence, is responsible for guaranteeing the dissemination and fulfilment of the code through the supervision and control of the safeguard systems. It has local committees in the countries in which the company carries out its major activities.

For further information, refer to the “Corporate Responsibility of Gas Natural Fenosa” section in this report.

- **Safeguard systems** are the company's mechanisms for ensuring the fulfilment of the Code of Ethics:
  - Reporting channel, through which all the employees and suppliers can send the Code of Ethics Committee queries or notify breaches of the code, in good faith, in a confidential manner and without fear of reprisal.
  - Annual declaration procedure, through which all the employees repeatedly declare that they have read, understood and comply with the code.
  - Online courses on the issues included in the Code of Ethics and the Anticorruption Policy, mandatory for all employees.

This model also provides that the Audit Committee of the Board of Directors and the Management Committee must receive regular reports from the Code of Ethics Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anticorruption Policy. In 2016, 15% of the notifications received were related to alleged fraud, none of which had any significant impact.

The committee did not receive any notification of incidents taking place in the Gas Natural Fenosa related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights. A total of 22% of the notifications were related to “Respect for people" chapter of the Code of Ethics, and they were all solved appropriately. Only two of them were related to discrimination.

Queries and notifications to the Code of Ethics

	2016	2015	2014
Queries	58	37	33
Notifications	120	98	56
Total	**178**	**135**	**89**
No. of messages received per 200 employees	**1.92**	**1.37**	**1.20**

Gas Natural Fenosa expects a high level of commitment in fulfilling its Code of Ethics and Anticorruption Policy of all its employees. Therefore, emphasis is placed on transmitting a culture of integrity of the company. Its breach is analysed according to internal procedures, legal regulations and existing agreements.

During 2016, we managed various disciplinary situations from complaints made to the Code of Ethics Committee, or from situations covered in the Code of Ethics or the Anticorruption Policy. In total, 18 misdemeanours, 29 serious offences and 18 very serious offences, of which thirteen have resulted in layoffs due to the lack of compliance with the Code of Ethics.

3.3 % of the total complaints received in 2016 by the Code of Ethics Committee resulted in layoffs. In 2016, it was not necessary to repair damages relating to impacts caused by human rights cases.

The Code of Ethics Committee also has a multi-year work plan, which includes actions in the short- and medium-term, with the ultimate goal of extending the code to the highest possible number of activities and people at the company.

In 2016, the annual work plan of the Code of Ethics Committee included:

- Training and informative actions on the Code of Ethics, Anticorruption Policy and Crime Prevention Model targeted at the company's employees.
- Updating the Code of Ethics and Anticorruption Policy space on the Intranet of the company.
- Launch of the "Declaration of Fulfilment" workflow.
- External informative actions.
- Definition and approval of the Code of Ethics internal procedures.
- Activities for extending the Code of Ethics to suppliers in Spain and abroad.

The company set up local committees in Argentina, Brazil, Colombia, Chile, Italy, Mexico, Moldova, Panama and South Africa. With a structure similar to that of the Code of Ethics Committee, the main mission is to make everyone aware of the Code of Ethics and the Anticorruption Policy and to reproduce the functions the committee carries out in Spain in each country to cover the company's entire area of action. Accordingly, the company guarantees the existence of safeguard procedures in the different countries in which it operates.

In 2016, the Code of Ethics Committee held five working meetings, and the local committees held 24.

Code of Ethics chapter to which notifications refers (%)

	Queries	Notices	Total
Respect for the law, human rights and ethical values	5	7	6
Respect for the individual	0	22	15
Professional development and equal opportunities	2	8	6
Cooperation and dedication	0	5	3
Health and safety at work	2	4	3
Corruption and bribery	2	13	10
Use and protection of assets	0	4	3
Corporate image and reputation	3	1	2
Loyalty to the company and conflicts of interest	86	3	30
Processing of information and knowledge	0	3	2
Customer relations	0	21	14
Relations with collaborating companies and suppliers	0	9	6
Respect for the environment	0	0	0
Total	**100**	**100**	**100**

Received complaint management

	Type of impact	2016
No. of complaints about negative impacts presented through formal mechanisms	Environment	0
	Labour practices	52
	Company	68
	Human rights	0
Complaints received, investigation opened (%)	Environment	0%
	Labour practices	100%
	Company	100%
	Human rights	0%
Complaints received that were solved (%)	Environment	0%
	Labour practices	90%
	Company	88%
	Human rights	0%
Complaints about negative impacts filed before 2016 and that were resolved in 2016	Environment	0
	Labour practices	16
	Company	4
	Human rights	0

Average time for resolving correspondence (days)

	2016	2015	2014

Queries	26	25	14
Notices	83	57	53
Total	**63**	**47**	**38**

3. Crime Prevention Model

The company has a Crime Prevention Model which is updated annually.

This model incorporates the already established Gas Natural Fenosa internal control structure. Its purpose is to effectively prevent the occurrence of offences under the Organic Law 5/2010 governing the Amendment of the Penal Code. This modification introduces in Spain the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority.

From an organisational standpoint, the Board of Directors has assigned the the functions of Autonomous Body, described in Organic Law 1/2015, to the Compliance Assessment Committee, which is responsible for taking significant decisions in relation to the regular monitoring and oversight of the working and compliance with the Crime Prevention Model.

The model contains 21 crimes that have been identified, together with definitions of their impact and probability of occurrence, mechanisms for their control and minimisation, and responsibilities with regard to their fulfilment. It is one of the company's factors of differentiation in the area of integrity, enabling it to prevent crimes that could give rise to legal or other kinds of problems.

Each year, the model is assessed by an independent third party. In 2016, it issued a satisfactory report on its design and effectiveness.

Worldwide, the group has deployed crime prevention models in countries with laws governing the civil liability of legal persons.

In 2016, we launched a training course on the Crime Prevention Model, the Code of Ethics and the Anticorruption Policy in order to emphasise the importance of compliance, ensure implementation of preventive and control activities and to inform all employees of the current status in these matters.

Gas Natural Fenosa attaches great importance to having a tool in order to ensure the adequate control of the crime prevention model management. Accordingly, it manages and uses the SAP GRC Process Control for the comprehensive management of documentation, assessment and oversight of the model.

4. Antifraud and anticorruption plans and policies [103-1], [103-2] and [103-3] (Anti-corruption), [205-2] and [205-3]

Although fraud and corruption are covered in the crime prevention system, the company worked to improve and update its internal regulations and define specific protocols and mechanisms in this area.

The Gas Natural Fenosa Anticorruption Policy complies with national and international legislation on corruption and bribery, and mainly that dictated by the Spanish Penal Code. Currently, several countries have specific regulations in this area, which establish relevant sanctions for non-compliance.

This policy has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Gas Natural Fenosa with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation. It covers all the actions in this area and avoid conduct that may give rise to fraud or corruption and lead to situations that are damaging for the company, its administrators and employees from a legal point of view or in relation to its reputation.

The policy establishes 14 principles of action, including aspects such as promoting integrity and transparency in the processing of information, money laundering, conflicts of interest and relationships with third parties.

The focus of the Gas Natural Fenosa anticorruption programme covers three key areas:

- Establishment of an antifraud and anticorruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- Development of measures and response plans in the event of situations that constitute fraud and corruption. These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Gas Natural Fenosa organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- Update of the NaturalNet space which concerns the Code of Ethics and the Anticorruption Policy.
- Publication of information about the Code of Ethics Committee's activities (notifications received, activities carried out, etc.).
- Training course on Crime Prevention Model, Code of Ethics and Anticorruption Policy.
- Specific training in relation to the Crime Prevention Model for new employees and administrators.
- Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.
- Regular declaration of compliance with the Code of Ethics and Anticorruption Policy.

It should be noted that, in 2016, Gas Natural has adopted a Corporate Hospitality Policy, within the framework of the Code of Ethics and the Anticorruption Policy. This policy aims to regulate the conditions under which the managers and employees of Gas Natural Fenosa can accept/offer corporate hospitality from or to business counterparts within the framework of the performance of their professional duties.

Also, in all operations involving risk, the company conducts due diligence processes systematically, both for high-risk suppliers, and company relationships with third parties (partners, joint ventures, etc.).

The counterpart due diligence procedure aims to ensure that, across the board, reputational risk and corruption are analysed and assessed efficiently and in a standard way when third parties intervene in business relationships of the companies forming the group.

In the security area, in 2016 there were 9,232 investigation and antifraud cases of action that took place in Argentina, Brazil, Colombia, Spain, Mexico, Moldova and Panama.

Of these actions 7,763 cases corresponded to planned investigations and antifraud projects in the field of electricity and gas distribution, and a further 1,466 cases were instigated at the request

of the different areas and businesses of the company, completing three investigative collaborations in accordance with the Code of Ethics.

All these actions, taken by the Security area, have led to the identification of malpractice acts in the activities of external staff and employees, and as a consequence or result ten employees, from the thirteen fired due to the lack of compliance with the Code of Ethics were dismissed and 156 workers of partner companies are no longer involved with us.

Furthermore, we managed to recover significant volumes of energy by billing the defrauding party for the energy defrauded, reducing fraud in the sphere of electricity and gas distribution, more specifically 77.08 million KWh of electricity, which led to an amount recovered of 11.48 million euros[2] and 3.22 million m3 equivalent to 1.8 million euros[1].

5. Fiscal policies

5.1. Fiscal risk management

The fiscal policies of Gas Natural Fenosa are aligned with its Corporate Responsibility Policy, which sets out one of the commitments and principles as that of "acting responsibly in management of businesses and complying with fiscal obligations in all jurisdictions where the company operates, undertaking the commitment to transparency and collaboration with the corresponding tax authorities."

Thus, since 2010 Gas Natural Fenosa has subscribed to the Code of Good Tax Practices drawn up by the Large Companies Forum together with the Spanish tax authorities. The aim of this initiative, which is promoted by the Spanish Government, is to promote transparency, good faith and cooperation with the National Tax Authority in corporate fiscal practice and in the legal security in the application and interpretation of tax laws.

In this regard, the company has expressly undertaken to: (a) avoid any opaque structures with tax purposes, (b) cooperate with tax administrations, (c) regularly inform the Board of Directors about fiscal policies applied and (d) apply fiscal criteria which are in accordance with administrative doctrine and case law.

In order to assure that the tax practices of Gas Natural Fenosa are based on these principles, the group uses a General Good Tax Practices Procedure.

Gas Natural Fenosa also has a risk map in place in which fiscal risks and controversial questions concerning the interpretation or application of the fiscal legal framework are specifically identified. Information about the most important fiscal actions is set out in the "Fiscal Status" section of Note 21 of the Consolidated Annual Accounts.

The Board of Directors is informed of the fiscal consequences of important or particular operations when such consequences are relevant. The Board of Directors should be informed of the creation or acquisition of holdings in companies which are registered in countries or territories which are considered to be tax havens, through the Audit Committee.

Pursuant to Spanish laws which determine which countries are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa has two shareholdings in companies incorporated in those territories:

- The 95.0% stake in Buenergía Gas & Power, Ltd., domiciled in the Cayman Islands. It is a company which indirectly owns a single industrial shareholding which carries out the electrical

[2]There has been a USD to euros currency conversion. At 31 December 2016, one dollar was equal to 0.94901 euros.

generation activity by gas combined-cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pays tax on their income in this country and which does not offer any kind of tax advantage for Gas Natural Fenosa.

- The 52.2% stake in Gasoducto del Pacífico (Cayman), Ltd., domiciled in the Cayman Islands. This is a company which does not engage in business activities and which was included in the group as a result of the acquisition of the CGE group, and as such does not offer any type of tax advantage to Gas Natural Fenosa.

As regards the holdings of 47.5% in Ecoeléctric Holding Ltd and the 47.5% in Ecoeléctrica Limited, in 2016 they changed their address from the Cayman Islands to Puerto Rico, and are no longer considered to be holdings held in tax havens.

Intra-group operations carried out with these companies concern dividends received as indicated:

Recipient company	Distributing company	Amount (thousands of euros)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	6,036

5.2. Fiscal contribution

Gas Natural Fenosa is acutely aware of its responsibility towards the economic development of the countries in which it operates. The taxes it pays represent a significant part of the economic contribution in those countries in which it operates. Accordingly, it pays special attention to complying with its tax obligations in accordance with laws applicable in each territory.

Paying taxes is a question of significant economic importance and implies a high level of commitment towards compliance with formal obligations and cooperation with the tax authorities.

The total fiscal contribution of Gas Natural Fenosa in 2016 amounted to 3,419 million euros (3,636 million euros in 2015). The following table shows the breakdown of the tax actually paid by Gas Natural Fenosa by countries, broken down according to those which are an effective expense for the group (referred to as own taxes) and those which are retained or passed on to the final taxpayer (called third-party taxes):

Country	First-party taxes						Third-party taxes								Total	
	Profit tax [1]		Others [2]		Total		VAT		Taxes on hydrocarbons		Others [3]		Total			
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Spain	199	347	512	549	711	896	1,007	1,169	352	362	229	200	1,588	1,731	2,299	2,627
Argentina	10	4	42	40	52	44	13	13	-	-	22	16	35	29	87	73
Brazil	38	51	49	44	87	95	58	56	-	-	9	18	67	74	154	169
Colombia	75	69	78	78	153	147	7	9	-	-	14	22	21	31	174	178
Chile	42	48	11	16	53	64	117	99	-	-	18	22	135	121	188	185
Mexico	31	33	3	4	34	37	39	32	-	-	11	12	50	44	84	81
Panama	89	8	7	11	96	19	-	-	-	-	3	4	3	4	99	23
Rest of LATAM	12	11	1	1	13	12	2	3	-	-	3	2	5	5	18	17
Total LATAM	297	224	191	194	488	418	236	212	-	-	80	96	316	308	804	726
Italy	19	14	7	5	26	19	27	30	42	34	5	5	74	69	100	88
Others	10	10	23	35	33	45	128	112	49	32	6	6	183	150	216	195
Total	**525**	**595**	**733**	**783**	**1,258**	**1,378**	**1,398**	**1,523**	**443**	**428**	**320**	**307**	**2,161**	**2,258**	**3,419**	**3,636**

(1) Corporate income tax actually paid during the year. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 "Fiscal Status" of Consolidated Annual Accounts.

(2) Includes energy taxes which in Spain totalled 244 million euros in 2016 (262 million euros in 2015), local taxes, social security payable by the company and other specific taxes of each country.

(3) Basically includes withholdings on employees and Social Security for the employee's contribution.

6. Human Rights Policy

The company is acutely aware of the society's growing demands concerning human rights, and takes into account, above all, the growth in international activity which has led the company to operate in certain areas where the protection of human rights is particularly important.

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. The Human Rights Policy defines and precisely establishes how the company believes it has to include these principles in its business management.

Since 2011, Gas Natural Fenosa has a Human Rights Policy approved by the Management Committee, which is the company’s supreme body in issues of human rights.

How the Human Rights Policy is prepared
The policy began to be prepared in 2010, when the human rights policies of relevant companies and of the most important international requirements were analysed. The risks which affect Gas Natural Fenosa's business and the commitments to human rights were defined. To ensure that the analysis was as rigorous as possible, the information about perceived risk was cross-checked with directors of 14 countries, and this was used to draw up the first draft of the policy. Once it was finished, five specialised and independent human rights organisations were consulted and an internal consultation process was performed with members of Gas Natural Fenosa’s Reputation Committee. The policy was approved in 2011, and subsequently a communication and training model was designed to disclose its commitments and fields of application. An independent third party and the Internal Audit Area also verified the degree of implementation of many of the critical commitments of the policy.

The policy has been developed and approved in response to society's growing demands. It is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Gas Natural Fenosa undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.

Its compliance is horizontally integrated in the company and is the responsibility of each one of the business areas.

The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the UN Guiding Principles on Business and Human Rights. It is also focused on the most important principles which have the greatest impact on the company business.

Human Rights Policy Principles
1. Avoiding any practices which are discriminatory or which might compromise people's dignity 2. Eradicating the use of child labour 3. Helping to ensure freedom of association and collective negotiation 4. Protecting people's health

5. Offering dignified employment
6. Commitment towards people linked to suppliers, contractors and collaborating companies
7. Supporting and publicly promoting respect for human rights
8. Respecting for indigenous communities and traditional ways of life
9. Protecting facilities and people on the basis of respect for human rights
10. Helping to fight corruption

During 2014, the policy was exhaustively analysed in order to ensure that it was completely in line with the said guiding principles.

The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity. Towards the end of 2016, 10,180 people[3] had completed the course.

As indicated in the policy, the company is actively taking steps to include human rights matters in process for analysing new investments, introducing this variable in any assessments of social impact.

It is also important to note that, in 2016, 1,250 security officers provided an active service in Argentina, Brazil, Chile, Colombia, Spain, Mexico, Moldova, Panama, South Africa and the Dominica Republic, and 707 of them (56.6%) took part in the various refresher courses on private security.

Regarding training and fulfilling the contractual article concerning the updating of knowledge and forms of action in respect of human rights, in 2016, 660 security guards (52.8%) participated in courses of this nature, totalling 5,262 hours.

Training on human rights focuses on the characteristics of each of the countries in which Gas Natural Fenosa has contracted the services of security guards and the activities performed by the company in each of them, allowing a more specific and effective training.

Therefore, best practices are adopted, taking as reference initiatives such as the Voluntary Principles on Security and Human Rights, and the UN Basic Principles on the Use of Force and Firearms for staff belonging to surveillance and security companies that the company hires.

Gas Natural Fenosa publishes its Human Rights Policy. You can read it on the website in ten different languages (www.gasnaturalfenosa.com).

7. Non-compliances and fines

Gas Natural Fenosa works actively towards carrying out its business activities in accordance with applicable laws. For that purpose, the company carries out preventive actions with executives and areas of greatest risk and implements the corrective actions necessary to prevent occurrences which could breach the regulations of each one of the countries in which the company operates.

In Spain, in 2016 we paid the amount of the fine imposed by the Territorial Headquarters of the Department of Industry in A Coruna totalling 970,000 euros. Gas Natural Sur SDG, SA was also

[3]The decrease in the figure reported is due toa change of criterion, as in previous reports this included those persons that had been trained, whether or not at the company, and the figure included in this report only considers the current active workforce.

sanctioned for perpetrating eight serious infringements concerning electricity billing and customer service; the largest of these fines totalled 700,000 euros. In addition, the Town Council of Viladecans sanctioned Gas Natural Servicios SDG, SA for the delay in the implementation of a vehicular natural gas station. The fine amounted to 82,100 euros, and was appealed.

Furthermore, the Spanish Ministry of Energy, Tourism and the Digital Agenda imposed three sanctions on AIE Almaraz-Trillo Nuclear Power Plants related to time surveillance concerning fire protection for a total amount of 1,400,000 euros. For its participation in the AIE, Gas Natural Fenosa is subject to payment of 158,088 euros.

In Chile, the company received four fines totalling 3,555,111 euros for breaches relating to the maximum downtime allowed by the rules, during a weather event that occurred in 2015. Appeals were lodged before the Court of Appeals of Santiago claiming that the fine was illegal, and the matter is currently pending resolution. The company also picked up a 131,942 euro fine for failing to comply with its obligation of maintaining electrical infrastructures, and these fines were upheld by the courts of justice and paid.

In addition, Gas Natural Fenosa received two fines in Chile for the amounts of 65,971 and 659,710 euros for infringements relating to meter reading and billing of the services in the Town of Buin, and violation of the prohibition on suspending the power supply to centres of primary healthcare, respectively. Appeals were lodged before the Court of Appeals of Santiago claiming that the fines were illegal, and the matter is currently pending resolution.

In 2016, the company registered no fines for monopolistic practices or for breach of regulations on commercialisation communications, including advertising, promotions and sponsorship.

Process for Drafting this Report. Materiality.

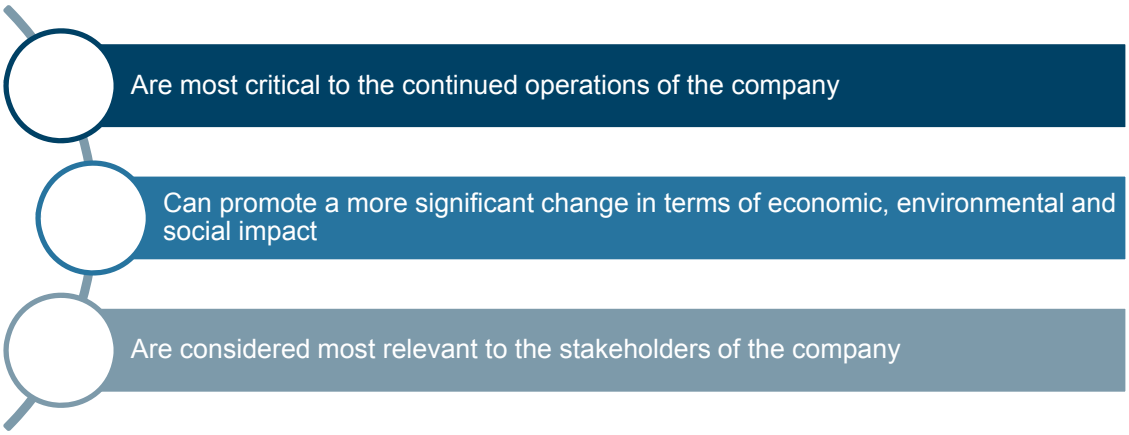
1. Materiality focus [102-46]

Gas Natural Fenosa has based itself on the Global Reporting Initiative (GRI) standards, more popularly known as the GRI Standards, in compiling this 2016 Corporate Responsibility Report.

The company believes that the report has been prepared in accordance with the comprehensive level of GRI Standards. The Materiality Disclosures methodology has been applied for yet another year. This methodology reviews the definition of material issues, their scope and the information on the commitment of the interested parties.

During 2016, following the approval of the new Corporate Responsibility Policy and preparation of the Sustainability Master Plan 2016-2020, it has proceeded to also update the materiality analysis, to bring it into line with the commitments and strategy of the company in corporate responsibility.

The material issues identified at the corporate level are those that:



1.1. List of material aspects at corporate level [102-47]

Gas Natural Fenosa has identified 14 material issues of the utmost importance. It has also identified 14 other matters of interest.

	#	Issue identified	Nature of the issue
Issues of utmost importance	1	Customer care and satisfaction	Social
	2	Occupational health and safety	Social
	3	Training, education and remuneration	Social
	4	Social action and development of local communities	Social
	5	Access to energy	Social
	6	Emissions and climate change	Environmental
	7	Water management	Environmental
	8	Biodiversity	Environmental
	9	Technology and innovation	Economic
	10	Energy efficiency and consumption	Environmental

	11	**Management of leaks, effluent and waste**	**Environmental**
	12	**Assessment of the supply chain**	**Social and environmental**
	13	**Employability and work-life balance**	**Social**
	14	**Anticorruption**	**Economic**
Other issues of interest	**15**	Diversity and equal opportunities	Social
	16	Assessment of human rights	Social
	17	Responsible purchasing	Economic
	18	Socio-economic and environmental compliance	Economic, social and environmental
	19	Competition practices	Economic
	20	Cybersecurity and information security	Social
	21	Freedom of association and collective bargaining	Social
	22	Health and safety of consumers and of society	Social
	23	Materials used, recycled and reused	Environmental
	24	Taxation	Economic
	25	Resettlements	Social
	26	Economic performance	Economic
	27	Management of relations between company - worker and internal communication	Social
	28	Indirect economic impacts	Economic

NB: each country has a different prioritisation based on its corporate responsibility agenda

1.2. Process for identifying material aspects [102-49]

For the updating of material issues carried out in 2016, we have based ourselves on the 33 specific standards defined by GRI, as well as the sectoral documents “Electric Utilities” and “Oil & Gas”, and they have been adapted to the company’s own characteristics.

Furthermore, for the prioritisation and definition of material issues we conducted interviews with different areas of the company and with external stakeholders, and have included other inputs, both internal and external.

For each of the 14 material issues identified, Gas Natural Fenosa has collected, identified and analysed the following information in its materiality study:

- What is material:
  - Definition and description of the issue.
  - Material sub-issues.
  - Stage of the value chain where the material issues have greatest impact.
- Formal reporting references:
  - GRI Standards indicators related to the issue.
  - Corporate Responsibility Report chapter that deals with the issue.
- Management approach - responding to the GRI Standards and to the ISO 19600 on compliance management:
  - How Gas Natural Fenosa manages the issue (policies, strategies, tools, initiatives and objectives).
  - Sustainable Development Goal (SDG) associated to the issue.
  - Stakeholder related to the issue.

1.3. Sources and stakeholders consulted

In the identification and prioritisation of material issues, the following sources were taken into consideration:

- Reference framework for the preparation of sustainability reports: 33 specific standards from the Global Reporting Initiative (GRI Standards).
- Internal interviews: interviews with key areas of the company.
- External interviews: interviews with external stakeholders
- Investors: material issues identified by RobecoSAM for the Dow Jones Sustainability Index (DJSI) and by the Sustainability Accounting Standards Board (SASB).
- Reputational analysis: reputational risks identified by the company.
- Corporate Responsibility Master Plan: relevant aspects identified and analysed.

1.4. Review of material issues by country where Gas Natural Fenosa is operational

In 2016 the study conducted to determine the relevance of each material issue of Gas Natural Fenosa in countries where it has operations remained in force, in accordance with the agenda of each country. It is scheduled to be updated in 2017 to bring it into line with the new materiality analysis performed during 2016.

We identified official statistical sources whose coverage guarantees the information of all countries in which the company operates. This information was subsequently used to review the relevance of each issue based on the country's agenda (in-depth analysis of the relevant aspects identified by countries where the company is operational).

The company analysed the following countries: Germany, Angola, Algeria, Argentina, Australia, Belgium, Brazil, Chile, Colombia, Korea, Costa Rica, Egypt, Spain, France, Holland, India, Ireland, Italy, Japan, Kenya, Luxembourg, Morocco, Mexico, Moldova, Oman, Panama, Peru, Portugal, Puerto Rico, UK, the Dominican Republic, South Africa and Uganda.

1.5. Map of material issues [102-46] and [102-49]

In order to respond to the GRI Standards, a map of material issues that identify what represents a material issue for Gas Natural Fenosa and where it is relevant is provided. As regards the latter criterion, Gas Natural Fenosa identifies the materiality of the issue from three standpoints:

- Point of the value chain at which the issue is material.
- Impact of the aspect inside and outside the company and, consequently, the stakeholder affected.
- Geographic location. To determine those countries in which the issues are material we need to cross-check the following table with the activity map at the beginning of this report. In this way, and based on the governing philosophy of integrated and uniform management at Gas Natural Fenosa, the issue will be material in those countries that perform the activity of the value chain in which the issue is material.

#	Material aspects for Gas Natural Fenosa	GRI Standard related to the material issue	Nature	Stages of the value chain where the material issues have greatest impact							Impact of the aspect inside and/or outside the organisation by stakeholder	2016 Corporate Responsibility Report chapter that deals with the issue
				Electricity			Gas					
				Generation	Gas	Commercialisation	Supply	Transportation	Distribution	Commercialisation		
1	Customer care and satisfaction	417. Marketing and labelling	SO		•	•			•	•	Customers	Service excellence
2	Occupational health and safety	403. Occupational health and safety	SO	•	•		•	•	•		Employees, suppliers, customers, society	Health and safety
3	Training, education and remuneration	404. Training and education, and 202. Presence in market	SO	•	•	•	•	•	•	•	Employees and suppliers	Interest in people
4	Social action and development of local communities	413. Local communities	SO	•	•	•	•	•	•	•	Society	Commitment to society
5	Access to energy	Electric Utilities - EU. Access to energy	SO	•	•	•	•	•	•	•	Customers, society and administrations	Commitment to society
6	Emissions and climate change	305. Emissions	MA	•	•		•	•	•		Society	Responsible management of the environment
7	Water management	303. Water	MA	•							Society	Responsible management of the environment
8	Biodiversity	304. Biodiversity	MA	•	•		•	•	•		Society	Responsible management of the environment
9	Technology and innovation	Oil and Gas - OG. Innovation	EC	•	•	•	•	•	•	•	Customers	Service excellence
10	Energy efficiency and consumption	302. Energy	MA	•	•		•	•	•		Customers and society	Responsible management of the environment
11	Management of leaks, effluent and waste	306. Effluent and Waste	MA	•	•		•	•	•		Society	Responsible management of the environment
12	Assessment of the supply chain	308. Environmental assessment of suppliers, and 404. Social assessment of suppliers	SO and MA	•	•	•	•	•	•	•	Suppliers	Responsible supply chain
13	Employability and work-life balance	401. Employment	SO	•	•	•	•	•	•	•	Employees and society	Interest in people
14	Anticorruption	205. Anticorruption	EC	•	•	•	•	•	•	•	Employees, suppliers and administrations	Integrity and transparency

2. Scope of the information [102-48], [102-49] and [102-50]

The information included in this report refers to all activities conducted by Gas Natural Fenosa in 2016, as a worldwide gas and electricity operator.

Since 2014, Gas Natural Fenosa retroactively applied IFRS 11 "Joint Arrangements". As a result, joint businesses (those in which participants hold rights only in respect of the net assets of the investees) are consolidated by the equity method instead of the proportional integration method.

The information included in the 2016 section on the environment refers solely to those companies or activities in which the participation is equal to or greater than 50%, that have the capacity to influence environmental management and which have a significant capacity to impact environmental data, considering the global data.

On 14 November 2016, the Superintendency of Domiciliary Public Utilities of the Republic of Colombia (Superintendency) ordered the seizure of the assets, properties and businesses of Electricaribe to guarantee the provision of the power supply.

The Superintendency also ordered the removal of members of the board and general manager and their replacement by a special Agent appointed by the Superintendency.

During the exercise of his duty what is true is that the Agent has replaced the managers appointed by Gas Natural Fenosa and has centralised the decision on the provision of information to be sent to Gas Natural Fenosa, so that at the end of December 2016 Gas Natural Fenosa had lost the power of control and significant influence over Electricaribe as it does not take part or have any direct information on decisions or relevant business activities.

Subsequently, on 11 January 2017 the Superintendency agreed to the extension of the intervention, until 14 March 2017.

Due to the facts mentioned above, and following the specifications set out in the accounting regulations applicable in this case, IFRS 10, on 31 December 2016 Electricaribe ceased to be included on the consolidated balance sheet of Gas Natural Fenosa, proceeding to write off the assets, liabilities and non-controlling interests for the net amount of 475 million euros.

The indicators affected in this report will include fully information from Electricaribe for 2016 unless specified otherwise in a footnote.

3. The company's contributions to the Sustainable Development Goals

3.1. Sustainable Development Goals

In August 2015, the United Nations Organisation (UN) introduced the 2030 Agenda for Sustainable Development, establishing 17 Sustainable Development Goals (SDGs) and 169 related targets, of an integrated and indivisible nature.

The SDGs replace the Millennium Development Goals (MDGs) set in 2000 for 2015. Unlike the MDGs, which were focused on developing countries, the SDGs are universally applicable equally to developing and developed countries.

The plan is being implemented by all countries and stakeholders through a collaborative partnership, engaging leaders worldwide in a common action and endeavour.

The 17 SDGs are as follows:

3.2. Gas Natural Fenosa and the Sustainable Development Goals

The SDGs are predominantly targeted at governments and administrations. However, they also recognise the fundamental role of companies in complying with the goals.

It is noteworthy that, for the first year, this report shows how Gas Natural Fenosa contributes to achieving the SDGs. Thus, at the beginning of the relevant chapters we give a brief description of how the company contributes to these.

Furthermore, the Additional Information chapter includes a table specifying which SDG and targets it contributes to, and whether this contribution is made directly or indirectly.

4. Compliance with benchmark standards [102-46] [102-52] and [102-54]

The 2016 Corporate Responsibility Report of Gas Natural Fenosa complies with the most prestigious international standards for the compilation of reports of this type. The company prepares its report in accordance with the GRI Standards, and includes the applicable additional information required by the “Utilities” and “Oil and gas” supplements. The company believes that the report has been prepared in accordance with the comprehensive level of GRI Standards. This report has also been drawn up in accordance with the AA1000APS standard (2008) and the United Nations Guiding Principles Reporting Framework.

- **AA1000APS standard.** The purpose of this standard is to provide organisations with a set of principles to situate and structure the way in which they assess, implement, administrate, govern and surrender their accounts in sustainability performance.
- **Global Reporting Initiative**. In accordance with the Global Reporting Initiative recommendations, the balanced and reasonable presentation of the organisation's performance requires application of certain principles to determine the content of public information on this issue and to guarantee its quality.
- **United Nations Guiding Principles Reporting Framework.** The idea behind this framework is that the companies should report all information relating to human rights in line with the UN Guiding Principles on Business and Human Rights.

The consideration of the principles set out in the following table ensure that the information satisfies the guarantees required through the foregoing standards.

Application of the AA1000APS standard [102-46]
• **Inclusiveness**. In relation to this principle, particular importance is placed on the information presented by Gas Natural Fenosa in the chapter of this report on actions that lead to dialogue with its stakeholders. • **Relevance.** The relevant matters for Gas Natural Fenosa are included in its Corporate Responsibility Policy that was approved in December 2015. This report is structured according to said matters. The contents of this report are also determined by the materiality study. • **Capacity for response**. It includes key performance indicators of the company, as well as its core policies and management systems in the spheres taken into account.
Principles for drafting this report (GRI) [102-46]
• **Stakeholder engagement**. The company has defined its stakeholders, identified its expectations and set actions to establish a two-way dialogue. This process is explained in the sections on dialogue with interest groups and corporate responsibility governance. • **Sustainability context.** The report offers a detailed analysis of the company's performance in the context of the social, environmental and economic requirements of its social and market environments. The sections on business model, strategy and sustainable opportunities focus specifically on this area. • **Materiality**. Those issues identified in the materiality study have been considered as material and have been included in the 2016 Corporate Responsibility Report. • **Exhaustiveness**. The outline of contents are defined with the help of those in charge of the key management areas of the company. This guarantees that essential aspects and impacts that each activity area of Gas Natural Fenosa has on its environment and on its own business targets have been taken into consideration.
Quality of the information given (GRI) [102-52]
• **Accuracy**. All the information in the report is accurate and given in sufficient detail for the company's stakeholders to be able to value its performance in an appropriate manner. • **Balance**. The report clearly shows the positive and negative aspects of the organisation's performance, which enables a reasonable valuation thereof. • **Clarity**. The information is presented in a way that is understandable, accessible and useful. To enable its correct understanding, the use of technical terms is avoided. In addition, it uses graphs, diagrams, tables and indicators to describe the company's most relevant impacts and make it easier to read the document. • **Comparativeness**. The information given in this report makes it possible to analyse the evolution of the company performance over time. • **Reliability**. The figures given in this report have been verified by PwC. The drafting of the report took into account the three principles required by the AccountAbility AA1000 standard, and whether or not the information given responds to the stakeholders' concerns and requirements. • **Frequency**. Gas Natural Fenosa publishes its Corporate Responsibility Reports annually, as soon as the information is available, so that the stakeholders have a good understanding of the company.
United Nations Guiding Principles Reporting Framework
• Setting human rights reporting in the business context. • Meeting a minimum threshold of information. • Demonstrating ongoing improvement. • Focusing on respect for human rights.

- Addressing the most severe impacts on human rights.
- Providing balanced examples from relevant geographies.
- Explaining any omission of important information.

5. Verification [102-56]

The integrity, sound and truthful nature of the information given in this report are maintained by the policies and procedures included in Gas Natural Fenosa internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In the said policies and in accordance with the Global Reporting Initiative recommendations, Gas Natural Fenosa committees an annual external verification of the contents of its report.

This review is made by an independent expert, PwC, which reviews the adaptation of the contents of the Corporate Responsibility Report to the provisions laid down in the Global Reporting Initiative Guidelines and the AA1000APS standard.

As a result of the said process, an independent review report is drawn up to include the goals and scope of the process, as well as the verification procedures used and the corresponding conclusions. After the assessment of the information included in the report, the independent expert applied the level of assurance specified in the Independent Review Report.

6. Queries and additional information [102-53]

In addition to this Corporate Responsibility Report, in 2016 Gas Natural Fenosa is publishing the Integrated Annual Report, the Corporate Governance Report and the Audit and Control Committee Report, all pertaining to 2016.

Furthermore, special mention must be made of the fact that Gas Natural Fenosa publishes corporate responsibility reports in Argentina, Brazil, Chile, Colombia, Mexico, Moldova and Panama.

Readers can send their doubts, queries or requests for information to the company's website, www.gasnaturalfenosa.com

Additional Information

GRI content index

[102-55]

NB: The pagination indicated in the following GRI Content Index table corresponds to the Spanish version of the Corporate Responsibility Report 2016.

Aquí se incluirá el “GRI Service Icon” con un tamaño de 330px x 93px o superior

GRI Content Index				
GRI Standard	**Disclosure**	**Page number**	**Omission**	**External assurance**
GRI 101: Foundation 2016				
GRI 102: General Disclosures 2016				
Organizational profile	102-1 Name of the organization	Page. 3		Yes, page 296 -300
	102-2 Activities, brands, products, and services	Page. 13,14, 93 y 94		Yes, page 296 -300
	102-3 Location of headquarters	Page. 301		Yes, page 296 -300
	102-4 Location of operations	Page. 7		Yes, page 296 -300
	102-5 Ownerships and legal form	Page. 10		Yes, page 296 -300
	102-6 Markets served	Page. 7-9, 13 y 14		Yes, page 296 -300
	102-7 Scale of the organization	Page. 11, 114 y 163		Yes, page 296 -300
	102-8 Information on employees and other workers	Page. 163,166 y 187-188		Yes, page 296 -300
	102-9 Supply chain	Page. 224 - 227		Yes, page 296 -300
	102-10 Significant changes to the organization and its supply chain	Page. 7		Yes, page 296 -300
	102-11 Precautionary Principle or approach	Page. 65 - 67		Yes, page 296 -300
	102-12 External initiatives	Page. 27, 47, 52 y 153		Yes, page 296 -300
	102-13 Membership of associations	Page. 47, 154, 225, 233 y 238		Yes, page 296 -300
	EU1 Installed capacity	Page. 16		Yes, page 296 -300
	EU2 Net energy output	Page. 17		Yes, page 296 -300
	EU3 Number of clients	Page. 88, 89		Yes, page 296 -300
	EU4Length of above and underground transmission and distribution lines	Page. 18		Yes, page 296 -300
	EU5 Allocation of CO_2 emissions allowances or equivalent	Page. 145		Yes, page 296 -300
Strategy	102-14 Statement from senior decision-maker	Page. 3 y 4		Yes, page 296 -300
	102-15 Key impacts, risks, and opportunities	Page. 67 – 70		Yes, page 296 -300
	102-16 Values, principles, standards, and norms of behavior	Page. 256, 257, 259 - 261		Yes, page 296 -300

Ethics and Integrity	102-17 Mechanisms for advice and concerns about ethics	Page. 259, 260		Yes, page 296 -300
Governance	102-18 Governance structure	Page. 51 y 52		Yes, page 296 -300
	102-19 Delegating authority	Page. 56		Yes, page 296 -300
	102-20 Executive-level responsibility for economic, environmental and social topics	Page. 56		Yes, page 296 -300
	102-21 Consulting stakeholders on economic, environmental, and social topics	Page. 62		Yes, page 296 -300
	102-22 Composition of the highest governance body and its committees	Page. 54		Yes, page 296 -300
	102-23 Chair of the highest governance body	Page. 54		Yes, page 296 -300
	102-24 Nominating and selecting the highest governance body	Page. 57		Yes, page 296 -300
	102-25 Conflicts of interest	Page. 57		Yes, page 296 -300
	102-26 Role of the highest governance body in setting purpose, values, and strategy	Page. 53, 54 y 56		Yes, page 296 -300
	102-27 Collective knowledge of highest governance body	Page. 56		Yes, page 296 -300
	102-28 Evaluating the highest governance body's performance	Page. 55		Yes, page 296 -300
	102-29 Identifying and managing economic, environmental, and social impacts	Page. 56 y 63		Yes, page 296 -300
	102-30 Effectiveness of risk management processes	Page. 56, 63 y 64		Yes, page 296 -300
	102-31 Review of economic, environmental, and social topics	Page. 56 y 65		Yes, page 296 -300
	102-32 Highest governance body's role in sustainability reporting	Page. 53		Yes, page 296 -300
	102-33 Communicating critical concerns	Page. 56 y 62		Yes, page 296 -300
	102-34 Nature and total number of critical concerns	Page. 62		Yes, page 296 -300
	102-35 Remuneration policies	Page. 58 y 59		Yes, page 296 -300
	102-36 Process for determining remuneration	Page. 61		Yes, page 296 -300
	102-37 Stakeholders' involvement in remuneration	Page. 58, 61 y 62		Yes, page 296 -300
	102-38 Annual compensation ratio	Page. 190		Yes, page 296 -300
	102-39 Percentage increase in annual compensation ratio	Page. 190		Yes, page 296 -300
Stakeholder engagement	102-40 List of stakeholder groups	Page. 81		Yes, page 296 -300
	102-41 Collective bargaining agreements	Page. 192		Yes, page 296 -300

	102-42 Identifying and selecting stakeholders	Page. 81		Yes, page 296 -300
	102-43 Approach to stakeholder engagement	Page. 81, 96		Yes, page 296 -300
	102-44 Key topics and concerns raised	Page. 81 – 85 y 96		Yes, page 296 -300
Reporting practice	102-45 Entities included in the consolidated financial statements	2016 IAR Consolidated Management Report, Page. 224-235.		Yes, page 296 -300
	102-46 Defining report content and topic Boundaries	Page. 270, 272, 273, 275 y 276		Yes, page 296 -300
	102-47 List of material topics	Page. 270 y 271		Yes, page 296 -300
	102-48 Restatements of information	Page. 274		Yes, page 296 -300
	102-49 Changes in reporting	Page. 271, 272 y 274		Yes, page 296 -300
	102-50 Reporting period	Page. 274		Yes, page 296 -300
	102-51 Date of most recent report	Año 2015		Yes, page 296 -300
	102-52 Reporting cycle	Page. 275 y 276		Yes, page 296 -300
	102-53 Contact point for questions regarding the report	Page.277		Yes, page 296 -300
	102-54 Claims of reporting in accordance with the GRI Standards	Page. 275		Yes, page 296 -300
	102-55 GRI content index	Page. 278		Yes, page 296 -300
	102-56 External assurance	Page. 277		Yes, page 296 -300
Material Topics				
Customer satisfaction and attention				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 86		Yes, page 296 -300
	103-2 The management approach and its components	Page. 86		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 86		Yes, page 296 -300
GRI 417: Marketing and labeling 2016	417-1 Requirements for product and service information and labeling	The general terms and conditions of contracting for the services provided by Gas Natural Fenosa provide customers with the appropriate information about their rights and obligations and about the features of the services provided (gas and electricity). There are no records of breaches		Yes, page 296 -300

		of agreements regarding the legal obligations required in each country in which the company operates in this area.		
	417-2 Incidents of non-compliance concerning product and service information and labeling	Page. 268		Yes, page 296 -300
	417-3 Incidents of non-compliance concerning marketing communications	Page. 268		Yes, page 296 -300
Occupational health and safety				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 195, 209		Yes, page 296 -300
	103-2 The management approach and its components	Page. 195, 209		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 195, 209		Yes, page 296 -300
GRI 403:Occupational health and safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	Page. 206		Yes, page 296 -300
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Page. 214 – 216		Yes, page 296 -300
	403-3 Workers with high incidence of high risk of diseases related to their occupation	Page. 217-219		Yes, page 296 -300
	403-4 Health and safety topics covered in formal agreements with trade unions	Page. 206		Yes, page 296 -300
	EU25 Number of injuries and fatalities to the public involving company assets	Page. 217		Yes, page 296 -300
Training, education and remuneration				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 164		Yes, page 296 -300
	103-2 The management approach and its components	Page. 164		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 164		Yes, page 296 -300
GRI 202: Market presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Page. 189		Yes, page 296 -300
	202-2 Proportion of senior management hired from the local community	Page. 187		Yes, page 296 -300
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	Page. 179		Yes, page 296 -300
	404-2 Programs for upgrading employee skills and transition assistance programs	Page. 177 – 179		Yes, page 296 -300
	404-3Percentage of employees receiving regular performance and career development reviews	Page. 183, 191		Yes, page 296 -300
Social action and development of local communities				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 234, 248		Yes, page 296 -300
	103-2 The management approach and its components	Page. 234, 248		Yes, page 296 -300

	103-3 The evaluation of the management approach	Page. 234, 248		Yes, page 296 -300
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Page. 244 -248		Yes, page 296 -300
	413-2 Operations with significant actual and potential negative impacts on local communities	Page. 244 -248		Yes, page 296 -300
	EU22 Number of people physically or economically displaced and compensation	All people displacement was avoided in 2016 as a result of the company's infrastructures development projects.		Yes, page 296 -300
	OG10 Number and description of significant disputes with local communities and indigenous people	No record of incidents of this type.		Yes, page 296 -300
	OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned	No record of sites in this situation.		Yes, page 296 -300
Energy access				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 89, 240		Yes, page 296 -300
	103-2 The management approach and its components	Page. 89, 240		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 89, 240		Yes, page 296 -300
EU: Access 2016	EU26 Percentage of population unserved in licensed distribution or service areas		Not available. The information systems of the company do not allow this information to be reported.	Yes, page 296 -300
	EU27 Number or residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime	Page. 91, 109		Yes, page 296 -300
	EU28 Power outage frequency	Page. 91, 109		Yes, page 296 -300
	EU29 Average power outage duration	Page. 91, 109		Yes, page 296 -300
	EU30 Average plant availability factor by energy source and by regulatory regime	Page. 17		Yes, page 296 -300
Emissions and climate change				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 133, 138		Yes, page 296 -300
	103-2 The management approach and its components	Page. 133, 138		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 133, 138		Yes, page 296 -300
GRI 305: Emissions 2016	305-1 Direct GHG emissions (Scope 1)	Page. 147		Yes, page 296 -300
	305-2 Energy indirect GHG emissions (Scope 2)	Page. 147		Yes, page 296 -300
	305-3 Other indirect GHG emissions (Scope 3)	Page. 147		Yes, page 296 -300

	305-4 GHG emissions intensity	Page. 148		Yes, page 296 -300
	305-5 Reduction of GHG emissions	Page. 148		Yes, page 296 -300
	305-6 Emissions of ozone-depleting substances (ODS)	Page. 133		Yes, page 296 -300
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Page. 133		Yes, page 296 -300
Water management				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 135, 153		Yes, page 296 -300
	103-2 The management approach and its components	Page. 135, 153		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 135, 153		Yes, page 296 -300
GRI 303: Water 2016	303-1 Water withdrawal by source	Page. 135 y 136		Yes, page 296 -300
	303-2 Water sources significantly affected by withdrawal of water	Page. 135		Yes, page 296 -300
	303-3 Water recycled and reused	Page. 135		Yes, page 296 -300
Biodiversity				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 148		Yes, page 296 -300
	103-2 The management approach and its components	Page. 148		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 148		Yes, page 296 -300
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page. 151		Yes, page 296 -300
	304-2 Significant impacts of activities, products, and services on biodiversity	Page. 151 y 152		Yes, page 296 -300
	304-3 Habitats protected or restored	Page. 153		Yes, page 296 -300
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Page. 152		Yes, page 296 -300
	EU13 Biodiversity of offset habitats compared to the biodiversity of the affected areas	Page. 153		Yes, page 296 -300
	OG4 Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Page. 152 y 153		Yes, page 296 -300
Technology and innovation				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 27		Yes, page 296 -300
	103-2 The management approach and its components	Page. 27		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 27		Yes, page 296 -300

OG: Technology and innovation 2016	OG2 Total amount invested in renewable energy	Page. 29		Yes, page 296 -300
Energy efficiency and energy consumption				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 137		Yes, page 296 -300
	103-2 The management approach and its components	Page. 137		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 137		Yes, page 296 -300
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Page. 137 y 138		Yes, page 296 -300
	302-2 Energy consumption outside of the organization	Page. 138		Yes, page 296 -300
	302-3 Energy intensity	Page. 138		Yes, page 296 -300
	302-4 Reduction of energy consumption	Page. 148		Yes, page 296 -300
	302-5 Reductions in energy requirements of products and services	Page. 148		Yes, page 296 -300
	OG3 Total amount of renewable energy generated by source	Page. 17		Yes, page 296 -300
Leaks, effluents and waste management				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 133, 153		Yes, page 296 -300
	103-2 The management approach and its components	Page. 133, 153		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 133, 153		Yes, page 296 -300
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	Page. 136		Yes, page 296 -300
	306-2 Waste by type and disposal method	Page. 134 y 135		Yes, page 296 -300
	306-3 Significant spills	Page. 128		Yes, page 296 -300
	306-4 Transport of hazardous waste		Not applicable. Gas Natural Fenosa administrates its hazardous waste as generated by the company's activities through authorized handlers, in accordance with current legislation in each country. Consequently, it does not transport said waste itself.	Yes, page 296 -300

	306-5 Water bodies affected by water discharges and/or runoff	Page. 135		Yes, page 296 -300
Supply chain assessment				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 221		Yes, page 296 -300
	103-2 The management approach and its components	Page. 221		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 221		Yes, page 296 -300
GRI 308: Supplier environmental assessment 2016	308-1 New suppliers that were screened using environmental criteria	Page. 227 y 228		Yes, page 296 -300
	308-2 Negative environmental impacts in the supply chain and actions taken	Page. 228		Yes, page 296 -300
GRI 414: Supplier social assessment 2016	414-1 New suppliers that were screened using social criteria	Page. 227 y 228		Yes, page 296 -300
	414-2 Negative social impacts in the supply chain and actions taken	Page. 228		Yes, page 296 -300
Employability and work/life balance				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 156, 164		Yes, page 296 -300
	103-2 The management approach and its components	Page. 156, 164		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 156, 164		Yes, page 296 -300
GRI 401: Employment 2016	401-1 New employees hires and employee turnover	Page. 167, 169, 170, 190 y 193		Yes, page 296 -300
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page. 173		Yes, page 296 -300
	401-3 Parental leave	Page. 174, 193		Yes, page 296 -300
	EU15 Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region	Page. 192		Yes, page 296 -300
	EU17Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities	Page. 203		Yes, page 296 -300
	EU18 Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	Page. 208		Yes, page 296 -300
Anti-corruption				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page. 262 y 263		Yes, page 296 -300
	103-2 The management approach and its components	Page. 262 y 263		Yes, page 296 -300
	103-3 The evaluation of the management approach	Page. 262 y 263		Yes, page 296 -300
	205-1 Operations assessed for risks related to corruption	Page. 71 y 72		Yes, page 296 -300

GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	Page. 262 y 263		Yes, page 296 -300
	205-3 Confirmed incidents of corruption and actions taken	Page. 262 – 264		Yes, page 296 -300

Glossary of Key Corporate Responsibility Indicators

Key Corporate Responsibility Indicators	Description
Service excellence	
Overall satisfaction with service quality	Customers' degree of satisfaction with quality of global service on a scale from 1 to 10 (Chile from 1 to 7), divided by country or geographical region.
Commitment to results	
Net turnover (millions of euros)	Company turnover.
Gross operating profit. Ebitda (millions of euros)	Company's earnings before interests, tax, depreciation and amortisation.
Total investments (millions of euros)	Resources used by the company in seeking future profit or return.
Net profit (millions of euros)	Gross profits before tax, interests, depreciation and general expenses.
Dividend (millions of euros)	Part of the company's profits which are distributed to its shareholders.
Evolution of classification on the DJSI	The company's global score in the annual Dow Jones Sustainability Index evaluation
Responsible management of the environment	
Direct greenhouse gas emissions (GHG) (MtCO2e)	Greenhouse gases emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor (tCO2/GWh)	Emission rate as a result of electrical generation activity arising from the ratio of the amount of atmospheric pollution emitted (tons of carbon dioxide) divided by energy produced (GWh).
Methane emissions in transportation and distribution (tCO2e/km grid)	Methane emissions caused by natural gas transportation and distribution.
Emissions of SO2/electricity produced (g/kWh)	Sulphur dioxide emissions per KwH generated.
Emissions of NOx/electricity produced (g/kWh)	Nitrogen oxide emissions per KwH generated.
Emissions of particles/electricity produced (g/kWh)	Particle emissions per KwH generated.
Generation of hazardous waste (t)	Amount of hazardous waste generated.
Recycling of fly ash (%)	Amount of fly ash that has been recycled vs. total fly ash generated, as a percentage.
Interest in people	
Headcount index (number of employees)	Number of company employees at year end.
Men/Women (%)	Number of male staff as against total company headcount at year end, as a percentage/number of women staff as against the company's total headcount at year end, as a percentage.
Women in management posts (%)	Percentage of women directors as against the total company employees with positions as directors at year end.
Personnel costs (millions of euros)	Monetary amount representing the staff expenses for the company (wages and salaries, Social Security expenses, define contribution plans, defined benefit plans, works performed for the company's fixed assets, and others).
Training hours per employee	Average training hours received by each employee (total hours of training as against total headcount at year end).
Annual investment in training (euros)	Total monetary amount invested by the company in employee training.
Employees covered by collective bargaining agreements (%)	Percentage of employees who are represented in a collective wage agreement as against total employees, at year end.
Health and safety	
Accidents requiring medical leave	Number of accidents in the workplace leading the employee to take medical leave.
Days lost	Days not worked due to medical leave caused by accidents at work. Calculated from the day following the day the medical leave is received and considering calendar days.
Mortalities	Number of workers who have died due to accidents at work.
Frequency rate	Number of accidents with medical leave occurring during the working day for every million hours worked.
Severity rate	Number of days lost as a result of accidents at work for every 1,000 hours worked.

Incident rate	Number of accidents in the workplace for every 1,000 employees.
Absenteeism rate (%)	Workers' absences from their jobs, measured as the ratio of the number of working hours lost over the total theoretical working hours during the year.
Responsible supply chain	
Suppliers with contracts currently in force	Number of suppliers from which any product or service has been contracted during the last year.
Total purchase volume awarded (millions of euros)	Total monetary amount used to cover the company's procurement.
Purchasing budget targeted at local suppliers (%)	Amount of budget used for the procurement of suppliers located in the geographical area from where the purchases are made over the total procurement budget.
Suppliers assessed according to environmental, social, and working practice criteria (number).	Suppliers which have filled in the rating questionnaire which is used to assess environmental, social and labour practice criteria.
Commitment to society	
Evolution of the contribution from Gas Natural Fenosa (millions of euros)	Economic contribution to social action or investment and sponsorship and patronage programmes
Breakdown by type of action (%)	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LGB) methodology.
Sponsorship and social action activities	Number of sponsorship, patronage and social action activities carried out by the company.
Integrity and transparency	
Correspondence received by the Code of Ethics Committee	Number of communications made by employees and suppliers relating to the Code of Ethics and Anticorruption Policy which have been received by the Code of Ethics Committee.
Correspondence received per 200 employees	Ratio of number of communications received relating to the Ethical Code and the Anticorruption Policy which have been received by the Code of Ethics Committee for every 200 company employees.
Geographical origin of correspondence (%)	Percentage of communications relating to theCode of Ethics and the Anticorruption Policy which have been received by the Code of Ethics Committee, deriving from each country and against the total.
Average time for resolving correspondence (days)	Average number of days from the time the company receives the communications until it resolves them.
Audit projects analysed on the basis of the risk of fraud	Audit projects analysed on the basis of the risk of fraud.
Communications received in the area of human rights	Number of communications which the company has received concerning humanrights.
Number of persons trained in the human rights policy	Number of employees who have taken part in training about the human rights policy.
Level of compliance with the Corporate Responsibility Commitments	
Finalised.	100% of actions complete.
Major progress.	75% of actions complete.
Intermediate progress.	50% of actions complete.
Little progress.	25% of actions complete.
Not started.	Actions not started.

Gas Natural Fenosa's contribution to the Sustainable Development Goals

The table shown below represents Gas Natural Fenosa's contribution to the Sustainable Development Goals (SDGs). Specifically, the goals are broken down by each SDG to which the company is directly or indirectly contributing.

- Direct contribution: the company carries out initiatives, programmes or actions that contribute towards said goal.
- Indirect contribution: the company carries out initiatives, programmes or actions that help achieve said goal, or contribute to this goal through a third party, such as the Gas Natural Fenosa Foundation.

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 1: No poverty	
By 2030, to eradicate extreme poverty for all people in the world, currently measured by a person having income of less than US$1.25 a day.	Indirect
By 2030, to halve the proportion of men, women and children of all ages living in any kind of poverty according to national definitions.	Indirect
By 2030, to foster the resilience of the poor and of people in vulnerable situations and to reduce exposure and vulnerability to extreme climate-related events and other economic, social and environmental crises and disasters.	Indirect
SDG 3: Good health and well-being	
By 2030, to reduce premature mortality from noncommunicable diseases by one third through prevention and treatment, and promote mental health and well-being.	Direct
By 2020, to halve the number of deaths and injuries caused by traffic accidents in the world.	Direct
SDG 4: Quality education	
By 2030, to ensure that all children finish their primary and secondary education, an education that must be free, fair, quality based, and produce relevant and effective learning outcomes.	Indirect
By 2030, to ensure that all children have access to healthcare and development during early childhood, and quality preschool learning so they are ready for primary education.	Indirect
By 2030, to substantially increase the number of young people and adults who have the necessary skills, especially technical and professional, to find decent jobs and encourage entrepreneurship.	Direct
By 2030, to ensure that all students acquire the knowledge and skills necessary to promote sustainable development, including through education for sustainable development and the adoption of sustainable lifestyles, human rights, gender equality, promoting a culture of peace and non-violence, world citizenship and appreciation of cultural diversity and the contribution of culture to sustainable development, among other means.	Indirect
To build and adapt schooling facilities that meet the needs of children and persons with disabilities and which are responsive to issues of gender, offering environments that provide safe, non-violent, inclusive and effective learning for everyone.	Direct
By 2020, to substantially increase the number of scholarships available to developing countries worldwide, particularly the least developed countries, small island developing states and African countries, so that their students can enroll in higher education programmes, including vocational training programmes and technical, scientific, engineering and information technology and communications programmes, in developed countries and other developing countries.	Direct
SDG 5: Gender equality	
To end all forms of discrimination against all women and girls worldwide.	Direct

To eradicate all forms of violence against all women and girls in the public and private sectors, including trafficking and sexual exploitation and other forms of exploitation.	Direct
To ensure the full and effective participation of women and equal opportunities for leadership at all levels of decision-making in the political, economic and public life.	Direct
SDG 6: Clean water and sanitation	
By 2030, to improve water quality by reducing pollution, elimination of dumping and minimisation of the discharge of hazardous materials and chemicals, halving the percentage of untreated sewage and a substantial increase in recycling and reuse under conditions of safety worldwide.	Direct
By 2030, to substantially increase the efficient use of water resources in all sectors and ensure the sustainability of the extraction and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water shortages.	Direct
By 2020, to protect and restore water-related ecosystems, including forests, mountains, wetlands, rivers, aquifers and lakes.	Direct
SDG 7: Affordable and clean energy	
By 2030, to ensure universal access to affordable, reliable and modern energy services.	Direct
By 2030, to substantially increase the share of renewable energy in the overall energy sources.	Direct
By 2030, to double the worldwide rate of improved energy efficiency.	Direct
By 2030, to expand infrastructure and to improve technology for the provision of modern and sustainable energy for everybody in developing countries, particularly the least developed countries, small island developing states and landlocked developing countries, in harmony with their respective aid programmes.	Direct
SDG 8: Decent work and economic growth	
To achieve higher levels of economic productivity through diversification, technological modernisation and innovation, among other things focusing on sectors with value-added and intensive manpower use.	Direct
To gradually improve, for 2030, the production and efficient use of global resources, and strive to decouple economic growth from environmental degradation, in accordance with the ten-year framework of programmes on sustainable consumption and production, starting with developed countries.	Direct
By 2030, to achieve full and productive employment and ensure decent work for all men and women, including young persons and people with disabilities, and equal pay for work of equal value.	Direct
By 2020, to substantially reduce the proportion of young persons who are not employed and not in education or undergoing training.	Direct
To take immediate and effective measures to eradicate forced labour, end modern forms of slavery and trafficking in human beings, and secure the prohibition and elimination of the worst forms of child labour, including the recruitment and use of child soldiers, and end all forms of child labour by 2025 at the latest.	Direct
To protect labour rights and promote a safe and secure workplace for all workers, including migrant workers, particularly migrant women and people with precarious jobs.	Direct
SDG 9: Industry, innovation and infrastructure	
To develop reliable, sustainable, resilient and quality infrastructures, including regional and cross-border infrastructures, to support economic development and human well-being, with a special emphasis on fair and affordable access for all.	Direct
To increase scientific research and improve the technological capacity of the industrial sectors of all countries, particularly developing countries, *inter alia* by encouraging innovation and substantially increasing the number of people working in the field of R&D for every one million people, and increasing expenditure on R&D of the public and private sectors by 2030.	Direct
To facilitate the development of sustainable and resilient infrastructures in developing countries with greater financial, technological and technical support towards African countries, the least developed countries, landlocked developing countries and small island developing states.	Direct
SDG 10: Reduced inequalities	
By 2030, to enhance and promote the social, economic and political inclusion of all persons, regardless of age, sex, disability, race, ethnic origin, religion or economic status or other factor.	Direct

To ensure equal opportunities and reduce inequality of results, in particular by removing laws, policies and discriminatory practices, and promoting laws, policies and appropriate measures in this regard.	Direct
SDG 11: Sustainable cities and communities	
By 2030, to ensure all people have access to housing and adequate, safe and affordable basic services and to upgrade slum areas.	Indirect
By 2030, to provide access to transportation systems that are safe, affordable, accessible and sustainable for all, and improve road safety, in particular by expanding public transport, with particular focus on the needs of vulnerable people, women, children, people with disabilities and the elderly.	Direct
To redouble efforts to protect and safeguard the cultural and natural heritage of the world.	Direct
By 2030, to reduce the per capita negative environmental impact of cities, even paying particular attention to air quality and management of municipal waste and other types of waste.	Direct
By 2020, to substantially increase the number of cities and human settlements that adopt and introduce integrated policies and plans to promote inclusion, the efficient use of resources, mitigating climate change and the adaptation to this, and disaster resilience; and to develop and implement -in line with the Sendai Framework for Disaster Risk Reduction 2015-2030- the comprehensive management of disaster risk at all levels.	Indirect
SDG 12: Responsible consumption and production	
By 2030, to achieve sustainable management and efficient use of natural resources.	Direct
By 2030, to substantially reduce waste generation through policies of prevention, reduction, recycling and reuse.	Indirect
To encourage enterprises, especially large enterprises and transnational corporations, to adopt sustainable practices and incorporate information on sustainability in their reporting cycle.	Indirect
By 2030, to ensure that people worldwide have information and knowledge relevant to sustainable development and lifestyles that are in harmony with nature.	Direct
SDG 13: Climate action	
To strengthen resilience and adaptability to climate-related risks and natural disasters in all countries.	Indirect
To improve education, awareness and human and institutional capacity in mitigating climate change, adaptation to this, reducing its effects and early warning.	Direct
SDG 14: Life below water	
By 2025, to prevent and significantly reduce marine pollution from all sources, particularly pollution from land based activities, including marine debris and nutrient pollution.	Direct
SDG 15: Life on land	
By 2020, to ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and the services they provide, in particular forests, wetlands, mountains and arid areas, in line with obligations under international agreements.	Direct
By 2020, to promote the sustainable management of all types of forests, stop deforestation, restore degraded forests and increase afforestation and reforestation worldwide.	Direct
By 2030, to ensure the conservation of mountain ecosystems, including biological diversity, to improve their ability to provide essential benefits for sustainable development.	Direct
To take urgent and meaningful measures to reduce degradation of natural habitats to halt the loss of biodiversity and, by 2020, protect endangered species and prevent their extinction.	Direct
To mobilise and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.	Direct
To mobilise a significant volume of resources from all sources and at all levels to finance sustainable forest management and provide appropriate incentives to developing countries to promote such management, particularly with a view to conservation and reforestation.	Direct
SDG 16: Peace, justice and strong institutions	
To significantly reduce all forms of violence and related mortality rates worldwide.	Direct
To end the abuse, exploitation, trafficking, torture and all forms of violence against children.	Direct
To substantially reduce all forms of corruption and bribery.	Direct

SDG 17: Partnerships for the goals	
To mobilise additional financial resources from multiple sources for developing countries.	Direct
To respect leadership and the regulatory margin of each country to establish and implement policies aimed at eradicating poverty and promoting sustainable development.	Direct
To strengthen the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships to mobilise and promote the exchange of knowledge, technical expertise, technology and financial resources to secure the objectives of sustainable development in all countries, particularly developing countries.	Indirect
To encourage and promote the creation of effective partnerships in the public, public-private and civil society spheres, drawing on the experience and the strategies to obtain resources from associations.	Direct

Contents in accordance with the United Nations Guiding Principles Reporting Framework

Indicator	Page	Level of fulfilment
Governance of respect for human rights (A)		
A1. Policy commitment	2016 CRR – pages 266-268 2016 IAR – page 1 Human Rights Policy Code of Ethics – pages 8-9	Complete
A1.1 Development of policy commitment	2016 CRR – pages 266-268 Human Rights Policy – page 19	Complete
A1.2 Extent and scope of application of commitment	2016 CRR – pages 266-268 Human Rights Policy – pages 6 and 7	Complete
A1.3 Form of communication of commitment	2016 CRR – pages 229, 266-268 Human Rights Policy – pages 17 and 18	Complete
A2. Embedding respect for human rights	2016 CRR – pages 71-72, 116-118, 229, 266-268 Code of Ethics – page 8 Human Rights Policy – pages 17 and 18 2016 Annual Report on Remuneration – page 10	Complete
A2.1 Organisation of responsibility in field of human rights	2016 CRR – pages 56, 77-78, 266-268 Human Rights Policy – page 18	Complete
A2.2 Human rights issues escalated to the senior management and the governing board	2016 CRR – pages 77-78, 266-268 Human Rights Policy – page 18 2016 Audit Report – pages 19-21	Partial
A2.3 Raising employees' awareness about human rights issues	2016 CRR – pages 266-268 Human Rights Policy – pages 15 and 18 2016 Annual Report on Remuneration – page 10	Partial
A2.4 Company's form of stating its commitment towards human rights in commercial relations	2016 CRR – pages 227-233, 266-268 Human Rights Policy – pages 11, 17-18	Complete
A2.5 Lessons learned about human rights and consequences which have arisen as a result	2016 CRR – pages 227-233, 266-268	Partial
Defining a focus of reporting (B)		
B1. Statement of salient issues	2016 CRR – pages 270-274	Complete
B2. Determination of salient issues	2016 CRR – pages 51, 270-277	Partial
B3. Choice of focal geographies	2016 CRR – pages 270-274	Complete
B4. Additional severe impacts	2016 CRR – pages 260-261, 266-268, 278-294	Complete
Management of salient human rights issues (C)		
C1. Specific policies	2016 CRR – pages 74, 171, 186, 195, 256-257, 266-268	Complete
C1.1 Importance of human rights policy for persons responsible for implementing it	2016 CRR – pages 74, 171, 186, 195, 256-257, 266-268	Complete
C2. Stakeholders commitments	2016 CRR – pages 81-85, 186 and 232-233	Complete
C2.1 Identification of stakeholders to take part in salient human rights issues	2016 CRR – pages 81-85	Partial
C2.2 Stakeholders which have had relations with the company in connection to human rights	2016 CRR – pages 81-85, 259-261,266-268	Partial
C2.3 Influence of the stakeholders' vision regarding human rights issues	2016 CRR – pages 81-85, 259-261	Partial

C3. Assessing impacts	2016 CRR – pages 21-22, 71-72, 77-78, 109-110, 214-217, 228-233, 244-248, 259-260	Complete
C3.1 Patterns or trends in human rights impacts	2016 CRR – pages 21-22, 186, 257-262	Partial
C3.2 Severe impacts on human rights	2016 CRR – pages 257-262	Complete
C4. Integrating findings and taking action	2016 CRR – pages 77-78, 259-264	Partial
C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues	2016 CRR – pages 77-78, 259-264, 266-268	Partial
C4.2 Tensions of human rights impacts	2016 CRR – page 267-268 Human Rights Policy - Commitment 6	Partial
C4.3 Actions taken to prevent or mitigate potential impacts on human rights	2016 CRR – pages 183, 186, 228-233, 240-248, 267-268	Partial
C5. Tracking performance	2016 CRR – pages 21-22, 71-72, 77-80, 109-110, 184-185, 214-217, 228-233, 240-248, 257-262	Partial
C5.1 Effective management of human rights issues	2016 CRR – page 214-217, 261-262	Partial
C6. Remediation	2016 CRR – pages 257-262	Complete
C6.1 Means of claiming regarding human rights issues	2016 CRR – pages 257-262 Code of Ethics – page 22	Partial
C6.2 People's capacity to make claims or complaints	2016 CRR – pages 257-262 Code of Ethics – page 22	Partial
C6.3 Processing of claims and evaluation of effectiveness of results	2016 CRR – pages 257-262 Code of Ethics – page 22 2016 Audit Report – page 17	Partial
C6.4 Patterns and trends in claims or complaints	2016 CRR – pages 257-262	Partial
C6.5 Repairs in relation to any impact relating to human rights	2016 CRR – page 259-260	Complete

Independent review report

[102-56]

28 February 2017

Gas Natural SDG, S.A.
Plaza del Gas, 1
08003 Barcelona

To the Board of Directors of Gas Natural SDG, S.A.:

Dear Sirs,

According to the assurance engagement requested by you, we have carried out the review of the information stated below from the 2016 Corporate Responsibility Report (hereinafter, 2016 CRR) of Gas Natural SDG, S.A. and subsidiaries (hereinafter, the Group or Gas Natural Fenosa) for the financial year ending 31 December 2016:

- The Key Corporate Responsibility Indicators, prepared in accordance with Gas Natural Fenosa's criteria set out in the section "Glossary of indicators" of the 2016 CRR.
- The Corporate Responsibility Indicators stated in the Chapter "GRI content index" of the 2016 CRR, prepared in accordance with the disclosures proposed in the GRI Standards of the Global Reporting Initiative (GRI) and the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures.
- The information on the "Value Actions" performed in the financial year 2016 for each of corporate responsibility commitments, regarding the level of compliance of the commitments, prepared in accordance with the criteria established by Gas Natural Fenosa set out in the section "Glossary of indicators" of the 2016 CRR.
- The adaptation of the 2016 CRR contents described in the section "Compliance with benchmark standards" to the principles of inclusivity, materiality and responsiveness of the 2008 Accountability Principles Standard AA1000 (hereinafter, AA1000APS) issued by AccountAbility.

Our work is substantially finished. The most relevant aspects for the completion of the work are:

- Review of subsequent events.
- Obtaining a letter of representation from Management.
- Obtaining the Corporate Responsibility Report of Gas Natural Fenosa for the financial year ending 31 December 2016 drawn up and approved by the Board and with its final layout.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

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For your information, we include below our draft independent assurance report on Corporate Responsibility Report for the financial year 2016. We will issue the final version of this independent assurance report as soon as we will have all the aforementioned outstanding information. The mentioned draft report includes a description of the scope of our work and a summary of the main review procedures applied to perform the work.

"Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT ASSURANCE REPORT
ON CORPORATE RESPONSIBILITY REPORT

To the Board of Directors of Gas Natural SDG, S.A.:

We have carried out an assurance engagement on the information stated below and included in the 2016 Corporate Responsibility Report of Gas Natural SDG, S.A. and subsidiaries ("Gas Natural Fenosa") for the financial year ending 31 December 2016 (the "2016 CRR"):

- *Reasonable assurance of the Key Corporate Responsibility Indicators on Integrity and transparency stated on pages 20 and 21 of the 2016 CRR.*
- *Limited assurance of:*
  - *The Corporate Responsibility Indicators stated in the Chapter "GRI content index" on pages 265 to 273 of the 2016 CRR.*
  - *The Key Corporate Responsibility Indicators on Service excellence, Responsible management of the environment, Interest in people, Health and safety, Responsible supply chain and Commitment to society stated on pages 19 to 21 of the 2016 CRR.*
  - *The level of compliance of corporate responsibility commitments shown in the "Value Actions" tables on pages 49, 70, 82-83, 105-106, 113, 148-149, 185, 209, 226 and 244 of the 2016 CRR.*
- *Moderate assurance of application of the principles of inclusivity, materiality and responsiveness as described in the information included in the section "Compliance with benchmark standards" on pages 261 and 262 of the 2016 CRR in accordance with the 2008 Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.*

The Corporate Responsibility Indicators stated above have been prepared in accordance with the disclosures proposed in the GRI Standards of the Global Reporting Initiative (GRI) and the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures and with Gas Natural Fenosa's criteria set out in the section "Glossary of indicators" on pages 274 to 275 of the 2016 CRR, which also includes the criteria for the level of compliance of corporate responsibility commitments.

The 2016 Key Corporate Responsibility Indicators on Commitment to results stated on page 19 of the 2016 CRR are from the Dow Jones Sustainability Index and the consolidated annual accounts of Gas Natural SDG, S.A. and subsidiaries at 31 December 2016, regarding which we issued our audit report on 10 February 2017 in which we gave a favourable audit opinion.

Our engagement has been carried out by a multi-disciplinary team made up of specialists in corporate social responsibility and social, environmental and financial performances of companies and specialists in assurance engagements.

Responsibility of the Appointments and Remuneration Committee of Gas Natural SDG, S.A.

Gas Natural SDG, S.A.'s Appointments and Remuneration Committee is responsible for the preparation, contents and presentation of the 2016 CRR in accordance with the criteria referred to above and for establishing its corporate responsibility commitments and assessing their level of compliance. This responsibility includes establishing, implementing and maintaining the internal controls required to ensure that the information included in the 2016 CRR is free from material misstatement due to fraud or error. The Company's Appointments and Remuneration Committee is also responsible for creating, implementing, adapting and

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maintaining the management systems where the information required to prepare the corporate responsibility indicators is obtained and for monitoring the level of compliance of corporate responsibility commitments and application of AA1000APS (2008) principles.

Our responsibility

Our responsibility is to issue an assurance report based on the procedures carried out and evidence obtained by us. We have carried out our assurance engagement in accordance with the guidance of the International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard issued by AccountAbility.

In accordance with ISAE 3000 (Revised), the assurance engagement requires the application of procedures to obtain evidence on the quantification of the reviewed information included in the 2016 CRR and includes an assessment of the criteria used in preparing this information. The selected procedures depend on the auditor's judgment and include an assessment of the risks of material misstatement in the aforementioned indicators due to fraud or error. On making this risk assessment, the auditor takes into account the relevant internal control for the Company's preparation of the reviewed information to design procedures which are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The scope of a limited assurance engagement is substantially less extensive than that of a reasonable assurance engagement and, consequently, less assurance is provided.

The procedures that we have applied in this engagement have included consultations, observation of processes, inspection of documents, analytical procedures and review tests applied to a random sample. The procedures have generally been as follows:

- *Meetings with the persons in charge of Gas Natural Fenosa and other key staff regarding the application of corporate responsibility policies.*
- *Interviews with staff of several departments involved in the preparation of the 2016 CRR including the persons in charge of obtaining, reviewing and consolidating the information included in the CRR.*
- *Analysis of the procedures and systems used to obtain and validate the information presented in the 2016 CRR.*
- *Analysis of the presentation of Gas Natural Fenosa's corporate responsibility indicators in the 2016 CRR and their adaptation to the disclosures proposed in the GRI Standards of Global Reporting Initiative (GRI), the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures and the criteria established by Gas Natural Fenosa, and verification that these criteria have been consistently applied.*
- *Review of original support documentation (quantitative and/or qualitative) obtained from Gas Natural Fenosa's information management systems or external sources which are used to prepare the corporate responsibility indicators.*
- *Verification of the quantitative and qualitative corporate responsibility indicators, by review tests made on a random sample, including analytical and substantive tests.*
- *Analysis of internal and external documentation on the actions carried out by Gas Natural Fenosa in 2016 for each of its corporate responsibility commitments to review their level of compliance.*
- *Analysis of the documentation and actions related to the application of inclusivity, materiality and responsiveness principles of the AA1000APS AccountAbility Principles Standard.*

In addition, we have applied the following procedures for our reasonable assurance engagement:

- *Review of the information management systems where information related to the Key Corporate Responsibility Indicators on Integrity and transparency are obtained.*
- *Tests on the creation and effectiveness of the internal controls established for the procedures of obtaining and validating the information included in the Key Corporate Responsibility Indicators on Integrity and transparency.*
- *Substantive tests and analyses on variations of the Key Corporate Responsibility Indicators on Integrity and transparency and evaluation of the criteria established by Gas Natural Fenosa.*

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Our independence and quality control

We have complied with the requirement of independence and other requirements of the Code of Ethics for Accountants issued by the International Ethics Standard Board for Accountants (IESBA), based on the main principles of integrity, professional competence and due care, confidentiality and professional conduct.

PwC applies International Standard on Quality Control (ISQC 1) and consequently, our firm has a global quality control system which includes policies and procedures on the compliance of ethical requirements, professional standards and applicable statutory requirements.

Our reasonable assurance opinion

As a result of the procedures carried out and the evidence obtained by us, the Key Corporate Responsibility Indicators on Integrity and transparency of Gas Natural Fenosa for the financial year ending 31 December 2016 stated on pages 20 and 21 of the 2016 CRR have been appropriately and reliably prepared, in all material respects, in accordance with the criteria established by Gas Natural Fenosa as stated in the section "Glossary of indicators" on pages 274 to 275 of the 2016 CRR.

Our limited and moderate assurance conclusion

As a result of the procedures carried out and the evidence obtained by us, nothing has come to our attention that causes us to believe that:

- *The Corporate Responsibility Indicators included in the Chapter "GRI content index" of the 2016 CRR and the Key Corporate Responsibility Indicators on Service excellence, Responsible management of the environment, Interest in people, Health and safety, Responsible supply chain and Commitment to society contain errors and have not been prepared, in all material respects, in accordance with the disclosures proposed in the GRI Standards of Global Reporting Initiative (GRI) and in the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures, and with the criteria established by Gas Natural Fenosa.*
- *The level of compliance of the corporate responsibility commitments indicated in the "Value Actions" tables of the 2016 CRR is not presented, in all material respects, in accordance with the criteria established by Gas Natural Fenosa.*
- *The information included in the section "Compliance with benchmark standards" of the 2016 CRR regarding the application of the principles of inclusivity (establishing processes for the involvement and participation of stakeholders), materiality (balanced understanding of issues regarding sustainability which are relevant to the organisation and its stakeholders) and responsiveness (procedure to decide appropriate response to relevant stakeholder issues that affect its sustainability performance) has not been prepared, in all material respects, in accordance with the contents established in the AA1000APS (2008) AccountAbility Principles Standard.*

Recommendations

During our assurance engagement, some observations and recommendations for improvements have come to our attention, which we have presented in an internal document. Set out below is a summary of the main recommendations regarding improvements to the application of the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, which do not alter our opinion or our limited or moderate assurance conclusions given in this report.

Inclusivity
Gas Natural Fenosa has an active and bidirectional dialogue with its stakeholders via various communication channels, which enables the Company to identify the relevant issues for each of them. The 2016 CRR presents the actions which it has taken during the year in terms of dialogue with its various stakeholders, including their frequency and geographical coverage. We recommend that the Company continues with its internal and external dialogue, concentrating on those actions which enable it to take into consideration the expectations of stakeholders for its business strategy.

Materiality
Gas Natural Fenosa has updated in 2016 its materiality analysis to determine the relevant issues for the Company, to align it to its new corporate responsibility strategy and commitments. We recommend that Gas Natural Fenosa continues developing its materiality analysis, giving priority to key stakeholders for the Group considering the different territories and businesses, and incorporating the 2030 sustainability agenda set by the United Nations' Sustainable Development Goals. This analysis will enable it to prioritise its resources and establish specific plans to deploy the new Sustainability Master Plan of the Group in all the geographies in which it has presence.

Responsiveness
In 2016, after the formal approval of the new Group's Corporate Responsibility Policy by Gas Natural Fenosa's Board of Directors in 2015, the development of a new Sustainability Master Plan 2016-2020 has begun. This Sustainability Master Plan is planned to be approved in 2017. We recommend that Gas Natural Fenosa encourages the internal communication of this policy, and specifically of this new Sustainability Master Plan, fostering the involvement of all the corporate and business areas and geographies in its deployment and monitoring. We also suggest the Group to regularly report about the progress on the commitments and actions defined, both internally and externally, with simple and consistent messages.

Use and distribution

Our report is issued solely for the Gas Natural SDG, S.A.'s Board of Directors, in accordance with the terms and conditions of our engagement letter for its publication together with Gas Natural Fenosa's 2016 Corporate Responsibility Report. We accept no responsibility to third parties other than the addressees of our report."

This letter is for the information and use of the Board of Directors of Gas Natural SDG, S.A. and should therefore not be used for any other purpose.

We would like to thank all the persons from Gas Natural Fenosa who have collaborated with us in the course of our work.

Please do not hesitate to contact us should you wish to discuss any matter.

Yours sincerely,

PricewaterhouseCoopers Auditores, S.L.

Mª Luz Castilla

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