

Done and said

2017  
Integrated  
Annual  
Report

1843-2018





1843  
2018

**How much energy fits into one hundred and seventy five years!**

This is a tale in which journeys, cities, technology, nature and people cross paths. Everything grows, evolves and expands. Like the histories of cities and the people that live there thanks to energy.

There are many parties involved... entire communities have lit up a large part of their life with the energy produced by the company. And that same innovative spirit that has guided us through almost 175 years, day by day, continues to do so for the purpose of offering our customers the best solutions and providing them with every comfort and well-being with the utmost efficiency and sustainability.

# 2017 Integrated Annual Report

## Letter from the Chairman

The Chairman of Gas Natural Fenosa gives his view on the group's outlook and performance. [Page 16](#)



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## Value creation and sustainable management

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# 175

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2018

years of facts





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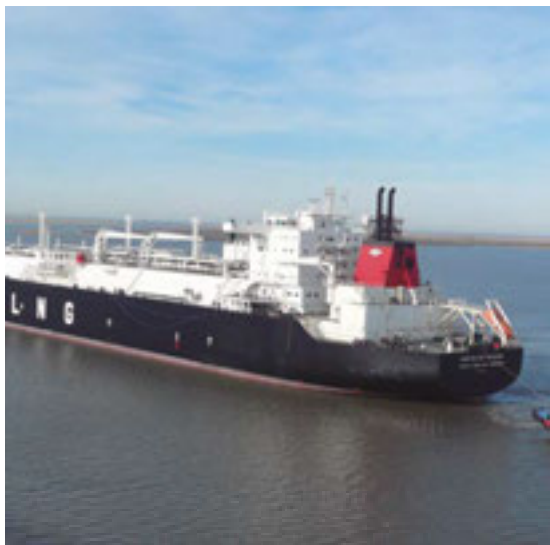
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# 175 years. An extensive history and a great future

Street lamps, gas meters, combustions, corporations, companies, mergers...  
Each step forward is a challenge and a potential milestone. **Telling the story of Gas Natural Fenosa means recounting a tale of passion, faith, work and vision of progress**, because energy is progress. Energy is change.

Like life itself.



# 175

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175 years full of history  
and energy





# 1843

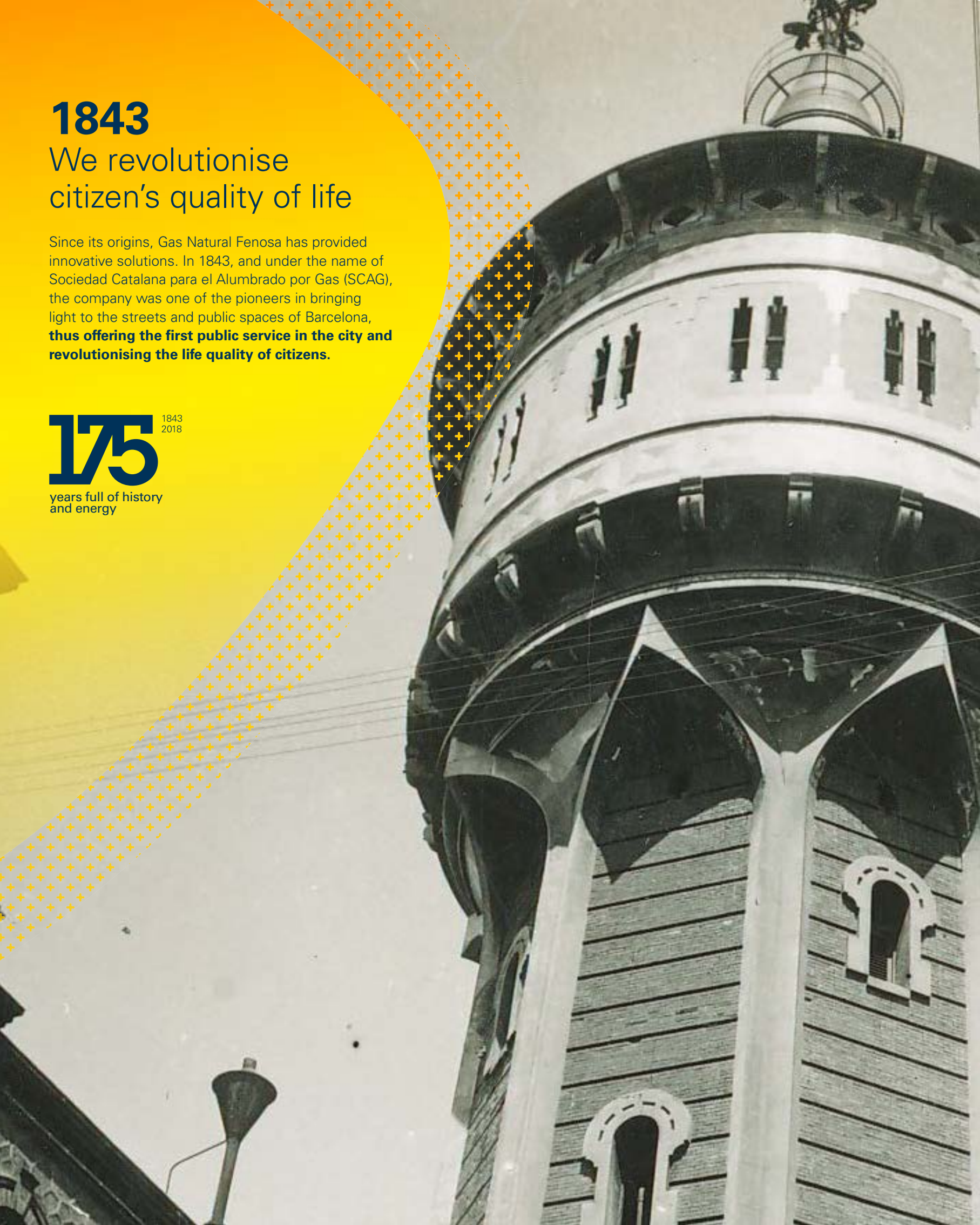
## We revolutionise citizen's quality of life

Since its origins, Gas Natural Fenosa has provided innovative solutions. In 1843, and under the name of Sociedad Catalana para el Alumbrado por Gas (SCAG), the company was one of the pioneers in bringing light to the streets and public spaces of Barcelona, **thus offering the first public service in the city and revolutionising the life quality of citizens.**

# 175

1843  
2018

years full of history  
and energy





2017 Integrated Annual Report

# Basic figures

## 2017 Highlights

Gas Natural Fenosa launches its first green bonds in a Euros 800 million issue to finance renewable projects with a 0.875% annual coupon.

### January to March

- Gas Natural Fenosa issues Euros 1,000 million in notes with a 1.375% annual coupon, maturing in 10 years.
- Continues to be a member of the FTSE4Good sustainability index, for the fifteenth consecutive year.
- The company is ranked Gold Class in the 2017 RobecoSam sustainability index.
- Gas Natural Fenosa earmarks Euros 4.5 million to tackle vulnerability in vulnerable clients.
- Once again, the company is certified as one of Spain's Top Employers based on its employees' work conditions.
- Gas Natural Fenosa issues Euros 1,000 million in notes with a 1.125% annual coupon, maturing in 7 years.

### April to June

- Gas Natural Fenosa Renovables will invest Euros 700 million after being awarded 667 MW of wind capacity in an auction held by the Spanish government.
- Gas Natural Fenosa takes part in the European Make Power Clean initiative to foster a cleaner electricity market in Europe.
- The Integrated Control Centre (ICC) for the company's hydroelectric plants is opened in Ourense.

### July to September

- Gas Natural Fenosa is granted a Euros 450 million loan from the European Investment Bank (EIB) to finance wind farms and electricity distribution in Spain. It also signs a Euros 200 million loan agreement with Instituto de Crédito Oficial (ICO) to help fund its investment plan through 2020.
- Gas Natural Fenosa signs its first "sustainable loan," for Euros 330 million, with ING.
- The company is awarded 250 MW of photovoltaic capacity in the new renewables auction which will result in Euros 165 million investments.
- Gas Natural Fenosa signs an agreement to sell a non-controlling 20% stake in its gas distribution business in Spain for Euros 1,500 million.
- Gas Natural Fenosa is one of the winners in DuPont's International Safety and Sustainability Awards.
- Gas Natural Fenosa is a leader in the Gas Utilities sector of the Dow Jones Sustainability Index.
- Actualidad Económica ranks Gas Natural Fenosa among the top five best companies to work for.
- Gas Natural Fenosa, through its subsidiary GPG, launches commercial operations at its first photovoltaic power plant in Brazil (68MW).





### October to December

- > Gas Natural Fenosa agrees to sell its companies and assets in Italy to 2i Rete Gas and Edison.
- > Gas Natural Fenosa launches its first green bonds in a Euros 800 million issue to finance renewable projects with a 0.875% annual coupon.
- > The company teams up with Norwegian tech firm Connect LNG to develop DirectLink LNG, the world's first floating LNG ship-to-shore transfer system.
- > Gas Natural Distribución to become Nedgia in compliance with the principle of unbundling under European Directive 2009/73/EC (gas).
- > Gas Natural Fenosa agrees to sell its stake in gas distribution in Colombia to Canadian fund Brookfield.
- > The company is again included in the Euronext Vigeo Europe 120 and Euronext Vigeo Eurozone 120 indices.

## Financial performance

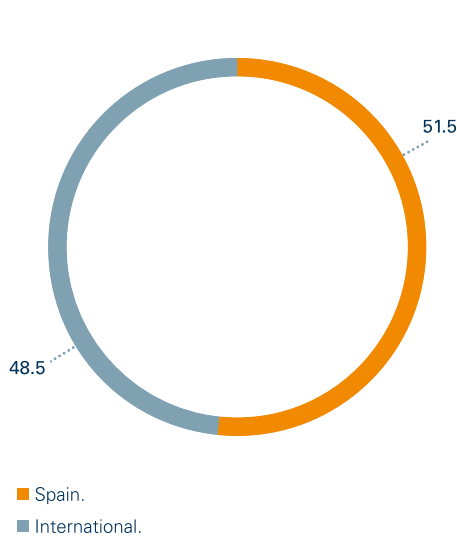
### Main financial aggregates

(euros million)	2017	2016	2015
Revenue	23,306	21,908	26,015
Ebitda <sup>1</sup>	3,915	4,664	5,264
Income attributable to equity holders of the parent	1,360	1,347	1,502
Net capital expenditure	1,597	2,225	1,422
Net debt (at 31/12)	15,154	15,423	15,648

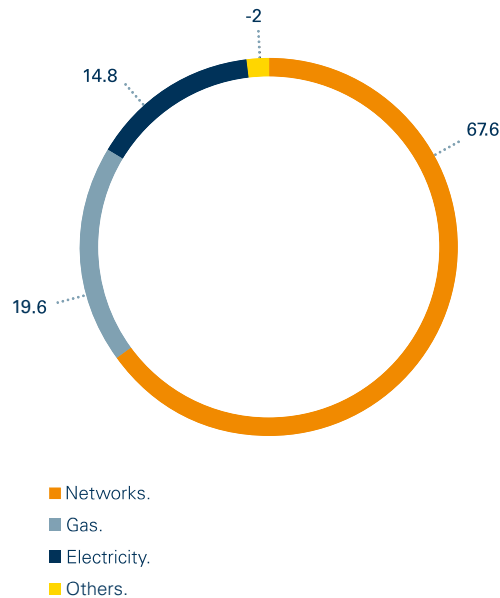
<sup>1</sup> Ebitda (Gross operating results): Operating profit + Amortisation and depreciation + Operating provisions-Other results.

**2017 Net income objective achieved of 1,360 euro millions for 2017 despite electricity production adversities in Spain.**

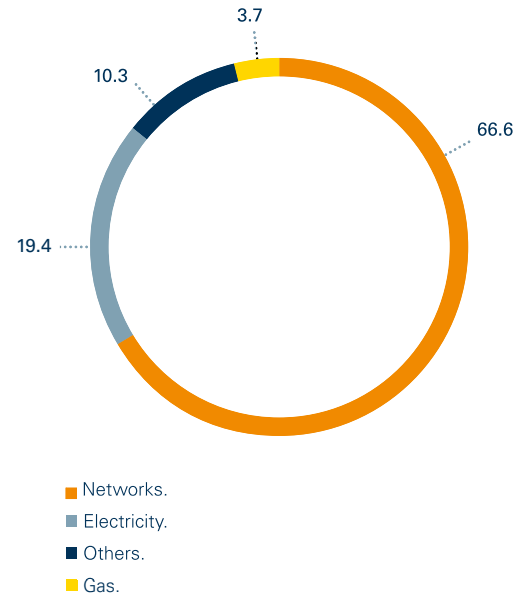
Ebitda by geography in 2017 (%)



Ebitda by business in 2017 (%)



Capital expenditure by business in 2017 (%)



#### Notes to financial and operating information

The consolidated income statement and operating figures for 2016 have been re-stated due to the discontinuation of the following operations: gas distribution in Italy and Colombia, electricity distribution in Moldova, gas supply in Italy and electricity generation in Kenya in application of IFRS 5.

Gas Natural Fenosa's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. Annex II in the Consolidated Directors' Report includes a glossary of terms with the definition of the APMs.

## Main financial ratios

### Net debt/Ebitda



### Debt<sup>1</sup> (%)



<sup>1</sup>Net financial debt/(Net financial debt + Net equity).

The ratio of Net debt/Ebitda for 2017 adjusted for the income from the divestments scheduled in the first half of 2018, would be 3.2x.

## Main stock market ratios and shareholder remuneration

	2017	2016	2015
Average no. of shares ('000) <sup>1</sup>	1,000,478	1,000,468	1,000,468
Share price at 31/12 (Euros)	19.25	17.91	18.82
Market capitalisation at 31/12 (Euros million)	19,263	17,922	18,828
Earnings per share (Euros) <sup>1</sup>	1.36	1.35	1.57
Payout (%)	73.6	74.3	66.6
Total dividend <sup>2</sup>	1,001	1,001	1,001
Dividend per share	1.00	1.00	1.00

<sup>1</sup> Calculated considering the weighted average number of shares during the year.

<sup>2</sup> Based on the total equivalent amount used to pay dividends. In 2017, this included a supplementary dividend amounting to Euros 671 million, pending approval by shareholders at the General Meeting.

Overall remuneration to the shareholder of +13.1% in 2017 calculated as the share increase of +7.5% and the dividend yield of +5.6% (taking the share price at 31 December 2016 of 17.91 euros per share as the reference).



## Operational performance

Distribution	2017	2016	2015
Gas distribution (GWh)	460,014	426,510	473,831
Electricity distribution (GWh)	53,670	65,586	68,731
Gas distribution connections ('000)	10,491	10,224	13,172
Electricity connection points ('000)	7,447	7,324	10,622
Gas distribution network (km)	116,181	113,083	138,217
Length of electricity transmission and distribution network (km)	214,399	215,894	302,705
<b>Gas</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Gas supply in Spain (GWh)	176,053	178,916	185,851
Gas supply in rest of world (GWh)	183,978	146,541	130,417
<b>Total gas supply (GWh)</b>	<b>360,031</b>	<b>325,457</b>	<b>316,268</b>
<b>Electricity</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Installed capacity in Spain (MW)	12,716	12,716	12,769
Installed capacity in rest of world (MW)	2,732	2,590	2,702
<b>Total installed capacity (MW)</b>	<b>15,448</b>	<b>15,306</b>	<b>15,471</b>
Net production in Spain (GWh)	27,953	28,504	31,568
Net production in rest of world (GWh)	18,436	17,857	17,980
<b>Total net production (GWh)</b>	<b>46,389</b>	<b>46,361</b>	<b>49,548</b>

### Notes to financial and operating information

The consolidated income statement and operating figures for 2016 have been re-stated due to the discontinuation of the following operations: gas distribution in Italy and Colombia, electricity distribution in Moldova, gas supply in Italy and electricity generation in Kenya in application of IFRS 5.

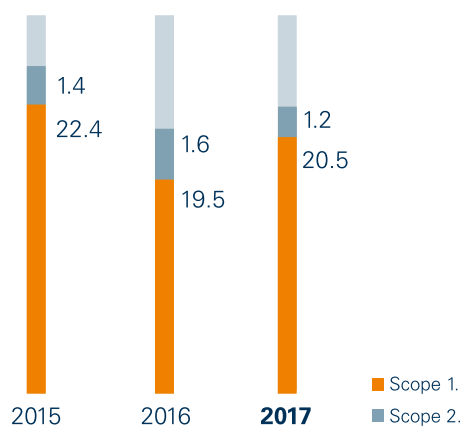
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## Environmental and social performance

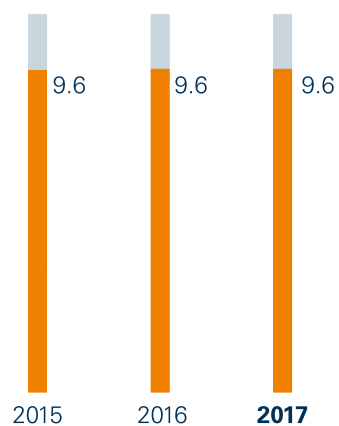
Environment	2017	2016	2015
Emission factor (t CO <sub>2</sub> /GWh)	431	411	445
GHG emissions <sup>1</sup>	20.5	19.5	22.4
Emissions-free installed capacity (%)	22.4	22.1	22.0
Emissions-free net production (%)	9.7	16.4	11.8

<sup>1</sup> GHG: greenhouse gases, measured as CO<sub>2</sub> equivalent (scope 1).

Greenhouse gas emissions (million tCO<sub>2</sub>e)



Methane emissions in gas distribution (tCO<sub>2</sub>e/km network)

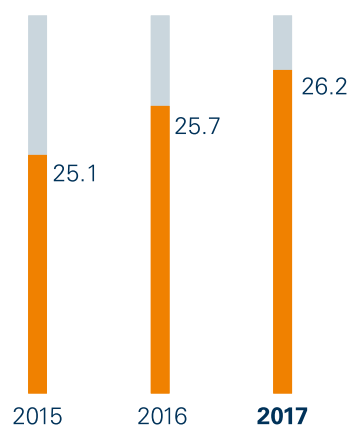


Interest in people	2017	2016	2015
No. of employees <sup>1</sup>	15,375	15,502	19,939
Training hours per employee	38.4	51.0	61.4
Men/women (%)	71/29	71/29	73/27

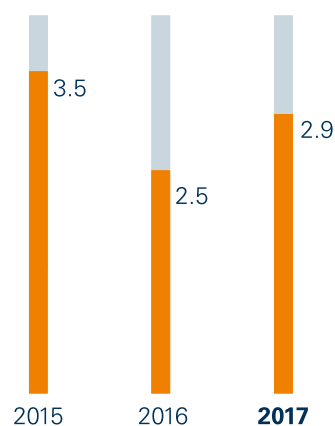
<sup>1</sup> Does not include the number of employees at discontinued operations (1,396 persons in 2017 and 1,727 persons in 2016).

Health and safety	2017	2016	2015
No. of accidents leading to days lost	45	65	125
Frequency	1.30	1.72	3.08

Women in management posts (%)



Voluntary rotation index



Commitment to society and integrity	2017	2016	2016
Economic value distributed (Euros million)	22,402	21,478	24,372
No. of notifications received by the Ethics Committee	141	178	135

#### Notes to financial and operating information

The consolidated income statement and operating figures for 2016 have been re-stated due to the discontinuation of the following operations: gas distribution in Italy and Colombia, electricity distribution in Moldova, gas supply in Italy and electricity generation in Kenya in application of IFRS 5.

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# Letter from the Chairman

## Dear Shareholders,

It is my pleasure to present the Integrated Corporate Report for the 2017 fiscal year, in which we make an assessment of our performance in economic, social, environmental and corporate governance matters.

First of all, and before touching upon the most relevant events of the year, allow me to mention a major milestone for the company. Gas Natural Fenosa is 175 years old, and throughout these years, we have helped to improve our environment and, modestly, the lives of our customers, thanks to permanent innovation in services, our business model and business leadership in the markets where we operate. We have become an energy multinational that has advanced together with society. Sometimes we have even been a catalyst for this progress, enabling access to energy to numerous users around the world.

Regarding the 2017 fiscal year, I would like to highlight the demanding macroeconomic context and energy market in which we have developed our activity. Despite this, Gas Natural Fenosa has improved its net profit; following a roadmap with clear international ambitions based, among other aspects, on a commitment to distribution networks, generation using renewable energy sources and strengthening the liquefied natural gas business.

During the year, the group obtained new gas distribution permits in Mexico and started supplying gas in Peru. It also started operating its first photovoltaic parks in Brazil and was awarded new wind and photovoltaic parks in Spain.

Regarding optimisation of the asset portfolio, we should mention the sale of the gas distribution business in Italy and Colombia, divestment of gas commercialization in Italy; and in Spain, the sale of 20% of the gas distribution business, included in the current Nedgia, a company still managed by the group.

Our balance has a solid financial structure. At 31 December 2017, our debt ratio was in line with that of 2016.

The Board of Directors' proposed a distribution of earnings from 2017 fiscal year that allocated €1.001 billion to dividends. Under the proposal, shareholders receive a dividend payment of one euro per share, with a yield of more than 5%, taking the price at December 31, 2017 as a reference.

In the meantime, regarding the corporate responsibility policy, I would like to stress that our commitment to the community remains firm, especially to vulnerable people and groups. In 2017 we launched initiatives that strengthened our leadership in this area, such as the Energy Vulnerability Plan, which drives ongoing actions to improve management and relationships with those people at risk. The result is that 30,000 customers unable to pay their energy bills still have energy in their homes.

However, the Vulnerability Plan is just one part of a far greater commitment that is defined in our sustainability plan, with 39 lines of action and 178 specific projects. Through this we promote excellence in service, digitalisation and innovation, reduction of greenhouse-effect emissions and air quality, natural capital and circular economy.

This initiative also encompasses development and training for our workforce, management of a responsible supply chain, commitment to integrity and transparency through the Code of Ethics and Human Rights and Anti-corruption policies.

All this, together with our responsible way of managing business, has positioned us in the sustainability indexes. As well as being the world leader in the Gas Utilities sector of the Dow Jones Sustainability Index, we also appear in other important indicators such as the FTSE4 Good, and have obtained good and excellent ratings from rating agencies such as MSCI, Oekom and Sustainalytics.

In 2017, we also made our début in the green bond market. The objective being to finance renewable energy projects in accordance with Green Bond Principles standards, with the favourable opinion of rating agency Vigeo, which certifies that the issue is consistent with a company's good performance in social, environmental and corporate governance matters.

I would like to make a very special mention to the good work of my predecessors, Isidro Fainé and Rafael Villaseca, for whom I have affection and professional respect and who, as chairman and CEO, successfully led the activity of Gas Natural Fenosa during 2017.

With these results, our commitment to society and a success story of 175 years, I sincerely believe that we can look to the future with hope and excitement. Never forgetting that all this is the result of the talent and hard work of all the employees of our company, our customers' confidence and the support from you, our shareholders, to whom we are firmly committed to providing attractive remuneration, year after year.

You are invited to learn more about our business and about our commitment to you, the shareholders, and to all society, in this annual report.



**Francisco Reynés Massanet**  
Chairman & CEO



# 1910

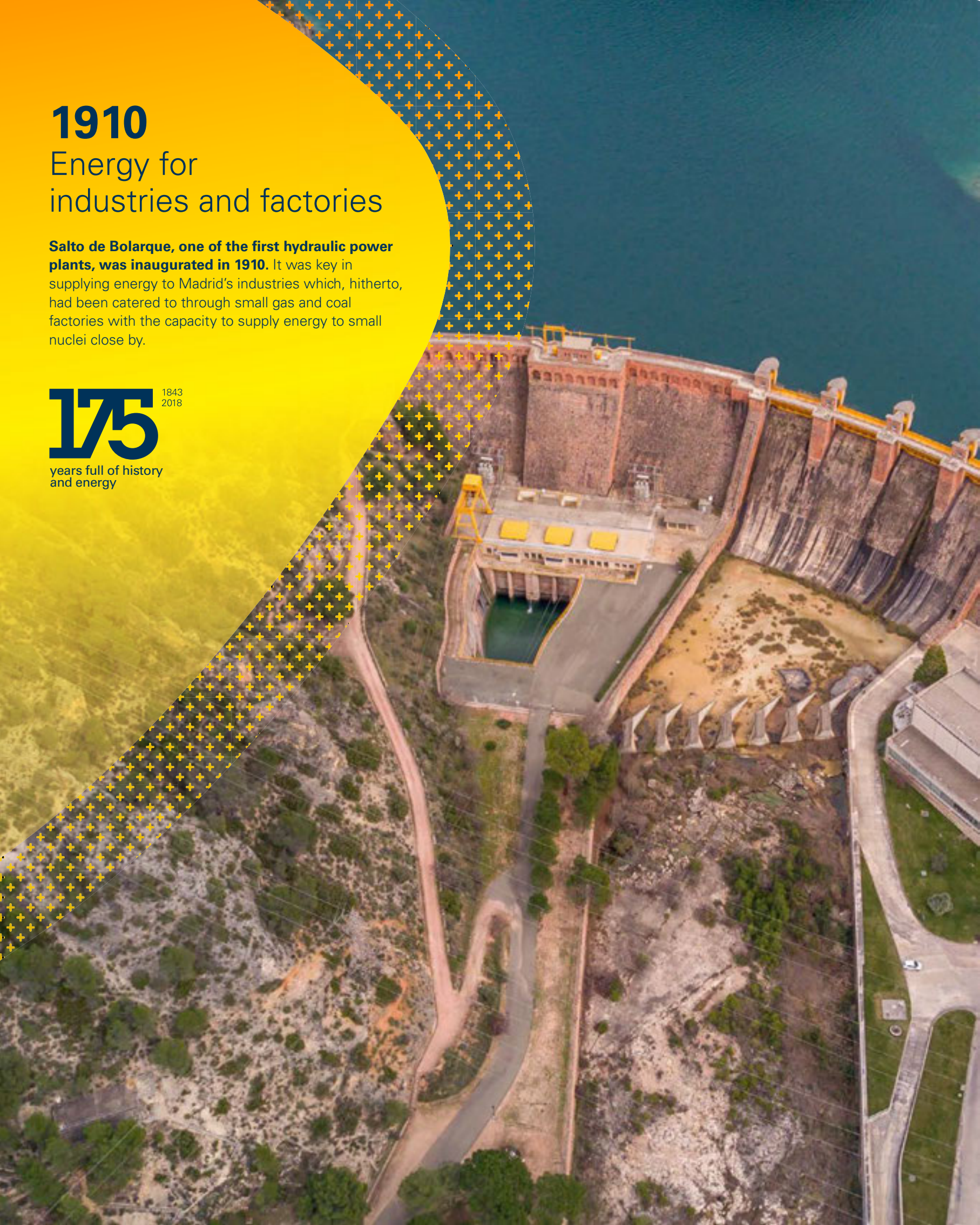
## Energy for industries and factories

**Salto de Bolarque, one of the first hydraulic power plants, was inaugurated in 1910.** It was key in supplying energy to Madrid's industries which, hitherto, had been catered to through small gas and coal factories with the capacity to supply energy to small nuclei close by.

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2017 Integrated Annual Report

# About the Integrated Annual Report



## About the Integrated Annual Report

This report has been prepared in accordance with the information reporting (IR) framework published by the International Integrated Reporting Council (IIRC). Furthermore, in relation to non-financial aspects, Global Reporting Initiative (GRI) Standards were taken into account.

The objective of this report is to offer a completed overview of financial and non-financial aspects which govern the group's performance, in order to improve understanding of its business model and value creation, of the strategy and risks to which it is exposed.

In 2017, the materiality analysis was updated, bringing it into line with the company's commitments and strategy in corporate responsibility and, for the first time, an analysis of the Sustainable Development Goals was included.

Material aspects identified at corporate level are those that:

- > Are most critical for the continuity of the company's operations.
- > May trigger a more significant change in terms of economic, environmental and social impact.
- > Are considered to be most relevant for the company's stakeholders.

Materiality of the main aspects identified has been assessed and prioritised the most relevant contents for inclusion in the Directors' Report, as detailed below:

---

<p>&gt; <b>Identification of significant aspects.</b></p>	<p>Based on internal and external analyses, a list was drawn up of aspects that may substantially affect Gas Natural Fenosa's capacity to create value in the short, medium and long term. The following were taken into account:</p> <p><b>Stakeholder's expectations:</b> the main aspects defined by GRI Standards and sector-specific GRI supplements "Electric Utilities" and "Oil&amp;Gas", on the basis of the materiality study conducted by Gas Natural Fenosa.</p> <p><b>Investor's expectations:</b> feedback from investors and ESG<sup>1</sup> analysts received during the various roadshows held in 2017.</p> <p><b>Analysis of best practices:</b> based on a selection of companies of acknowledged performance in terms of integrated disclosures.</p>
<p>&gt; <b>Assessment of the materiality of the aspects identified.</b></p>	<p>Classification of the various aspects identified in line with their significance for Gas Natural Fenosa according to their potential impact (positive or negative) on its capacity to generate value.</p> <p>According to the degree of significance, those aspects to be considered as part of the contents of the Directors' Report are obtained.</p>
<p>&gt; <b>Prioritising contents.</b></p>	<p>Once determined, the contents of the report are prioritised based on their materiality so as to focus the report on the most significant aspects.</p>

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<sup>1</sup> Environmental, Social and Governance.

Gas Natural Fenosa has identified ten material aspects of maximum significance. It has also identified the rest of matters of interest:

### Matters of maximum significance

	Matters identified	Nature of the matter
<b>1</b>	Access to energy.	Social.
<b>2</b>	Emissions and climate change.	Environmental.
<b>3</b>	Workplace health and safety.	Social.
<b>4</b>	Energy efficiency and energy consumption.	Environmental.
<b>5</b>	Social action and development of local communities.	Social.
<b>6</b>	Assessment of the supply chain.	Social and environmental.
<b>7</b>	Employability and employment.	Social.
<b>8</b>	Biodiversity.	Environmental.
<b>9</b>	Customer service and satisfaction	Social.
<b>10</b>	Human rights assessment.	Social.



For further details about the process and the materiality focus, please see the 2017 Corporate Responsibility Report.

## Scope

The financial and non-financial information on Gas Natural Fenosa presented in this report is consolidated and refers to all the activities undertaken in 2017 as a global gas and electricity operator, although there are certain specific aspects:

- In the sphere of human resources, the information reported corresponds to the countries in which Gas Natural Fenosa is present and has companies incorporated with their own staff and in which the company manages its human resources policies centrally, except on the number of employees and the average men/women that takes into account all the employees of the group according to consolidation perimeter.
- With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management or have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Financial Statements, titled "Gas Natural Fenosa Companies," contains a complete list of companies belonging to the Gas Natural Fenosa group at 31 December 2017.

Moreover, any changes in the consolidation scope are described in Annex II of the Consolidated Financial Statements.

As a result of the divestments of the gas distribution and supply business in Italy, gas distribution and supply in Colombia, electricity distribution in Moldova and electricity generation in Kenya, described in Note 9 "Non-current assets and disposal groups of assets held for sale and discontinued operations" to the Consolidated Annual Financial Statements, the consolidated income statement for 2016 has been restated for purposes of comparison with the information relating to 2017, in compliance with IFRS 5.

As regards non-financial information, since Gas Natural Fenosa managed these businesses during 2017, despite the divestment process, the figures relating to these businesses are included unless when it is specified that they are year-end figures in which case they are not included. Regarding, 2016 information it has not been re-stated.

## Verification

The information included in the Integrated Annual Report comes from the annual reports listed below, all audited or verified externally.

## Facilitate reading of report



This icon indicates internal references of the document.



This icon indicates other specific reports where related information of interest can be found. Each one is identified according the acronyms stated.

## Reporting on the corporate website

- > The company.
- > Activities.
- > Shareholders and investors.
- > Sustainability.
- > Our people.
- > Customers and new registrations.

## Other reports

Readers also have access to other reports, which are all available at [www.gasnaturalfenosa.com](http://www.gasnaturalfenosa.com). Each of them contains additional information of use in order to have a full understanding of the company's actions:

## Public reporting

### Integrated Annual Report

Drawn up according to the framework <IR> of the International Integrated Reporting Council (IIRC).

## Annual Reports



### Financial Report

Drawn up according to IFRS and audited externally. The Consolidated Directors' Report includes the statement of non-financial information whose information has been subject to an independent external review process.



### Corporate Responsibility Report

Drawn up according to the Global Reporting Initiative (GRI) standards and verified externally.



### Corporate Governance Report

Drawn up in accordance with the National Securities Market Commission (CNMV).



### Audit Committee Report

Drawn up according to the standards set out in the Audit Committee.



### Report on Remuneration of Members of the Board of Directors

Drawn up according to Article 541 of the Securities Market Act.

## Other reports



Biodiversity Report.  
Carbon Footprint Report.  
Quarterly earnings reports.



We would like to know your opinion and suggestions to ensure that the information we give concerns the matters really important to you. Write to us at:  
[reporting.integrado@gasnatural.com](mailto:reporting.integrado@gasnatural.com).

## Feedback



# 1927

## Focused on the domestic market

From 1920 onwards, electricity started to light up the streets, and gas turned towards the domestic market.

At that time advertising had a very important mission: to convince consumers of the benefits of this new source of energy. Popular advertising would show the company comparing a coal kitchen, dirty and full of smoke, with a modern gas kitchen, clean, organised and pristine.

**Posters from back then display all the elegance and contemporaneous of the new times.**

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## Business model and value creation

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## Business model

Gas Natural Fenosa is an integrated energy group supplying gas and electricity to almost 18 million customers. It focuses on the gas distribution and supply and on generating, distributing and supplying electricity. It also operates other business lines, such as energy services, which enhance the diversification of activities and revenues, staying at the forefront of new market trends, meeting customers' specific needs and offering them an integrated service not confined to selling energy.

Gas Natural Fenosa's business model is implemented through a number of companies in Spain, elsewhere in Europe, and in Latin America and Africa, and is underpinned by the following main businesses:

Networks – Gas distribution	<b>41% of ebitda: Spain and Latin America</b>
Networks – Electricity distribution	<b>26% of ebitda: Spain and Latin America</b>
Gas	<b>20% of ebitda: Infrastructure and supply</b>
Electricity	<b>15% of ebitda: Spain and International</b>

Note: -2% other activities.

Gas Natural Fenosa's mission is:

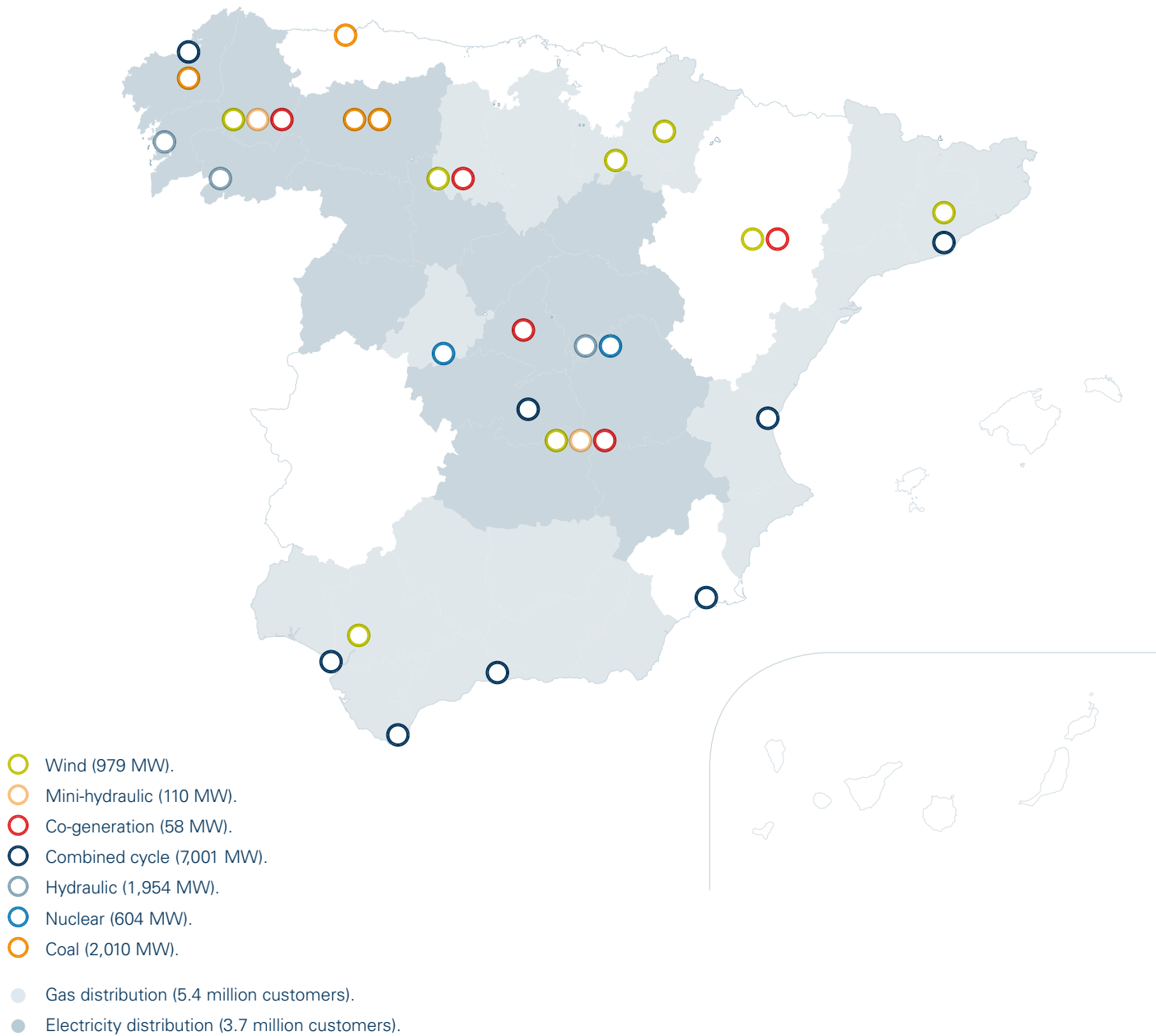
To meet the needs of	With vision	Based on our values
<b>Our shareholders</b>	Offering increasing sustainable profitability.	
<b>Our customers</b>	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment.	<ul style="list-style-type: none"> <li>&gt; Commitment to results.</li> <li>&gt; Customer-oriented.</li> <li>&gt; Sustainability.</li> </ul>
<b>Our employees</b>	Offering opportunities for professional and personal development.	<ul style="list-style-type: none"> <li>&gt; Interest in people.</li> <li>&gt; Social responsibility.</li> </ul>
<b>Society</b>	Contributing positively through a commitment to global citizenship.	<ul style="list-style-type: none"> <li>&gt; Integrity.</li> </ul>

Gas Natural Fenosa has a differentiated business model, with 85% of EBITDA from regulated or quasi-regulated activities and 49% from international projects.

Throughout the value chain, Gas Natural Fenosa's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring a regular supply of gas and electricity, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

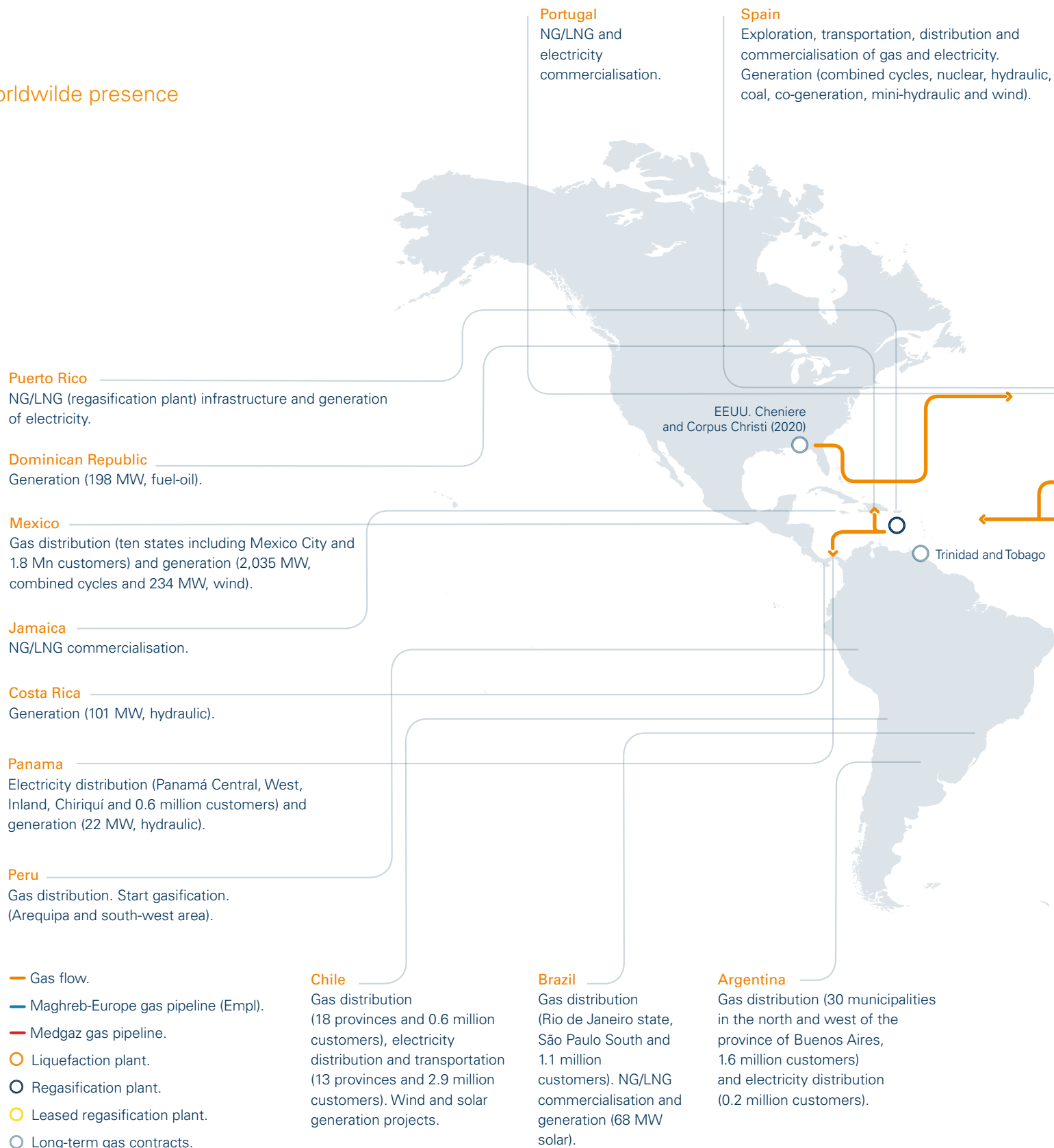
## Gas Natural Fenosa in Spain

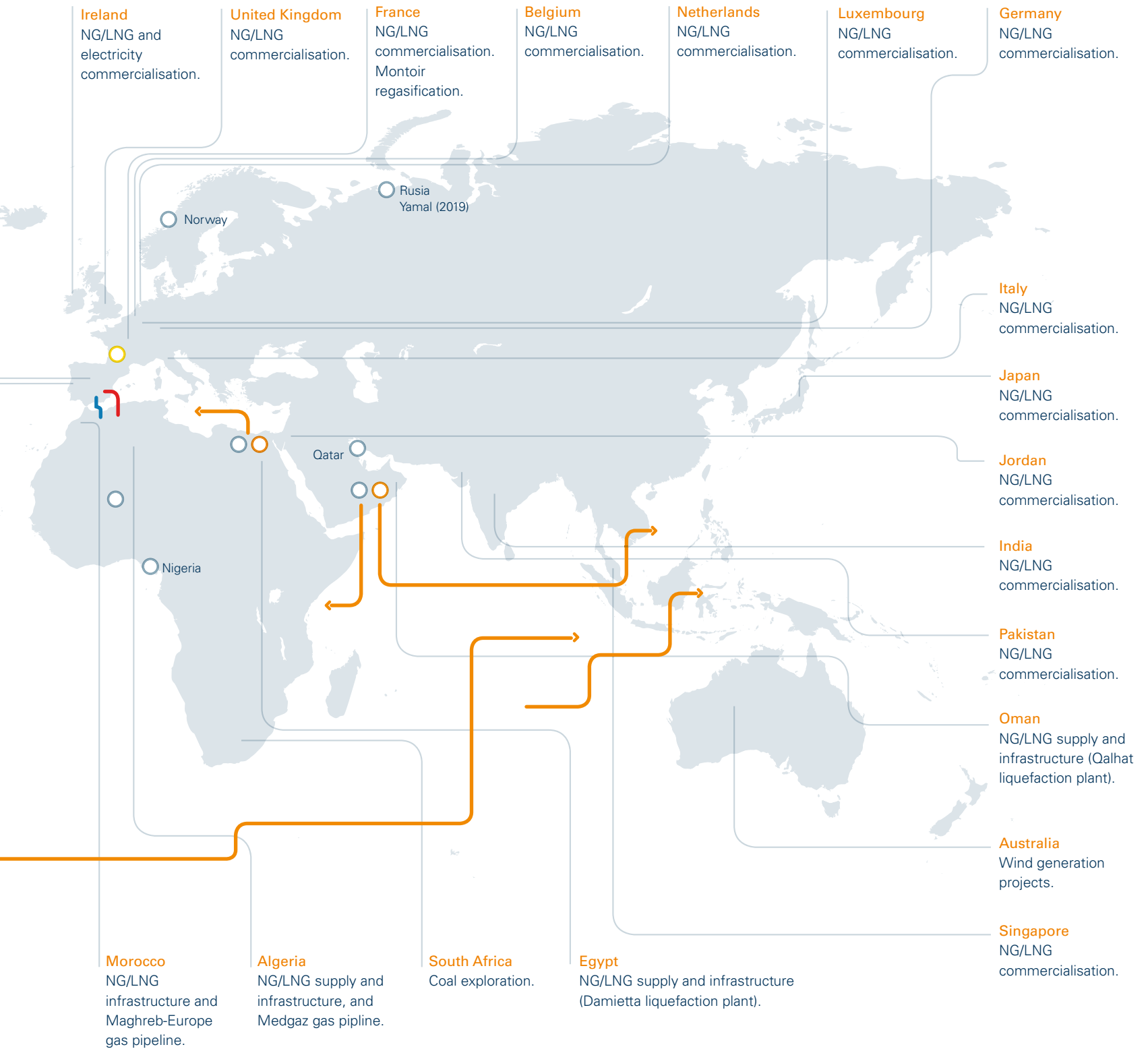
- > Exploration, transportation, distribution and commercialisation of gas and electricity.
- > Generation (combined cycles, hydraulic, nuclear, coal, wind, mini-hydraulic and co-generation).





## Worldwide presence





NB: Does not include the power distribution business in Colombia as the stake in Electricaribe ceased to be consolidated as at 31/12/2016 nor in the gas distribution in Italy and Colombia, electricity distribution in Moldova and electricity generation in Kenia business because they have been reclassified to discontinued operations.

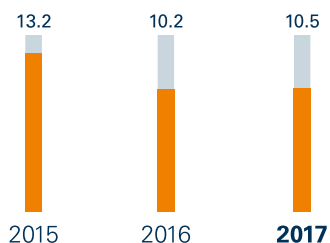
## Business lines

### Leadership in the gas business

	Networks	Gas	
	Gas distribution	Infrastructures	Procurement
	10.5 million distribution connections. 116,181 km of network.	Six LNG carriers. Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz.	~ 30 bcm supply portfolio.
<b>Our positioning</b>	<p><b>Spain</b> Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.</p> <p><b>Latin American</b> Latin America's top distributor, catering for more than 5.1 million customers. Presence in Argentina, Brazil, Chile, Mexico and Peru and in six of the ten largest Latin American cities.</p>	<p>Six LNG carriers (0.9 Mm<sup>3</sup>) Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline. Interest in one regasification plant (Ecoeléctrica) and two liquefaction plants (Damietta and Qalhat). Proprietary storage capacity of 0.5 bcm and leased capacity of 1 bcm.</p>	<p>Business model based on the diversification and flexibility that have made Gas Natural Fenosa a global operator with a strong international profile.</p> <p>Gas Natural Fenosa has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>
<b>Our strength</b>	Gas Natural Fenosa has an outstanding position in the markets where it operates, affording it an platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	Gas Natural Fenosa has an integrated gas infrastructure aimed to afford the business considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.  Its storage capacity is seeking to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.	Its diversified procurements portfolio enables it to tap value-added markets.

#### Indicators

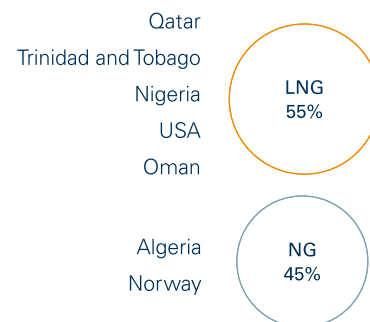
Changes in gas supply points (millions)



**940,440** | m<sup>3</sup>  
Fleet capacity

**107,960** | GWh  
Transported quantities (Empl+Medgaz)

Gas source and mix



---

**Supply**

---

360 TWh of gas supplied.

---

Unique access to markets: almost 11 million customers and LNG sales in numerous countries worldwide.

A global operator with the flexibility to tap markets offering attractive margins.

40% market share in Spain.

Competitive supply to combined cycle plants (CCGT).

---

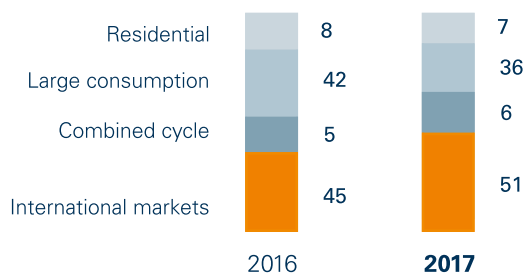
Gas Natural Fenosa has a diversified portfolio of end customers, and supplies gas both in Spain and internationally.

Its positioning in international markets is seeking to obtain higher margins through trading.

Gas Natural Fenosa is a leader in dual fuel supply and it offers a broad range of value-added services.

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Supply to customers (%)

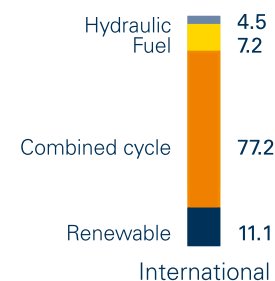
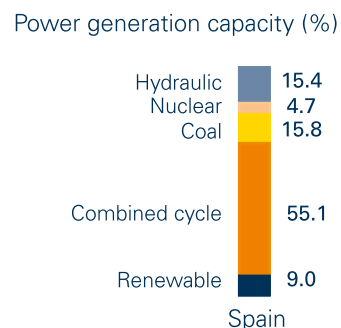
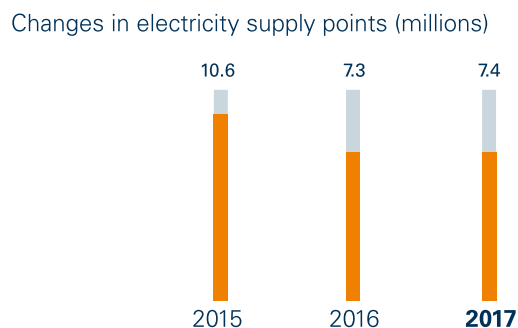




### Standard-bearer in the electricity business

	Networks	Electricity
	<b>Electricity distribution</b>	<b>Generation</b>
	7.4 million supply connections. 214,399 km of network.	15.5 GW of power generation capacity.
<b>Our positioning</b>	<b>Spain</b> The third-largest operator in the Spanish market, where it distributes electricity to 3.7 million customers.  <b>Latin America</b> Presence in Argentina, Chile and Panama (3.7 million customers).	<b>Spain</b> Capacity of 12.8 GW, with a significant presence in five technologies: 7 GW CCGT, 2 GW hydroelectric, 2.1 GW coal, 1.1 GW renewable and 0.6 GW nuclear power.  Gas Natural Fenosa has a market share of 17.1% in non-renewable generation and 2.1% in renewable generation.  <b>International</b> Capacity of 2.7 GW: 2.1 GW CCGT (Mexico), 0.2 GW oil-fired (Dominican Republic), 0.1 GW hydroelectric power (Costa Rica and Panama) and 0.3 GW renewables (Mexico and Brazil).
	<b>Our strength</b> Gas Natural Fenosa is a leader in the markets where it operates.  Gas Natural Fenosa is one efficient operator in terms of operation and maintenance costs in the electricity distribution business.	The company has considerable know-how in the generation technologies that operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.  The company's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation.

**Indicators**



---

**Supply**

---

35.2 TWh supplied.

---

Leader in the mainstream consumer and residential segments, with a total market share of 14.1% in Spain.

One of the main traders in the Spanish market.

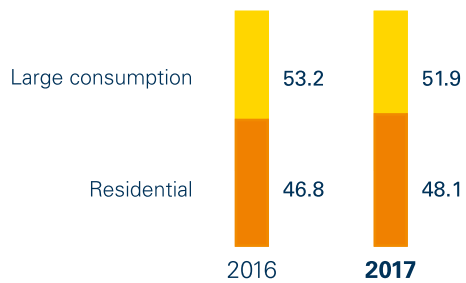
A dual supply and a broad range of value-added services.

---

Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

---

Supply to customers (%)



## Value creation and sustainable management

The long-term commitment to value creation and sustainable management is specified in the Corporate Responsibility Policy, which provides the common framework for action that guides the company's socially responsible conduct; it was approved

and updated by the Board of Directors in December 2015, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.

This policy undertakes eight commitments to the company's stakeholders:

### Gas Natural Fenosa and its commitments to its stakeholders



**1**  
Commitment to results



**2**  
Service excellence



**3**  
Responsible environmental management



**4**  
Interest in people



**5**  
Health and safety



**6**  
Responsible supply chain



**7**  
Social commitment



**8**  
Integrity and transparency

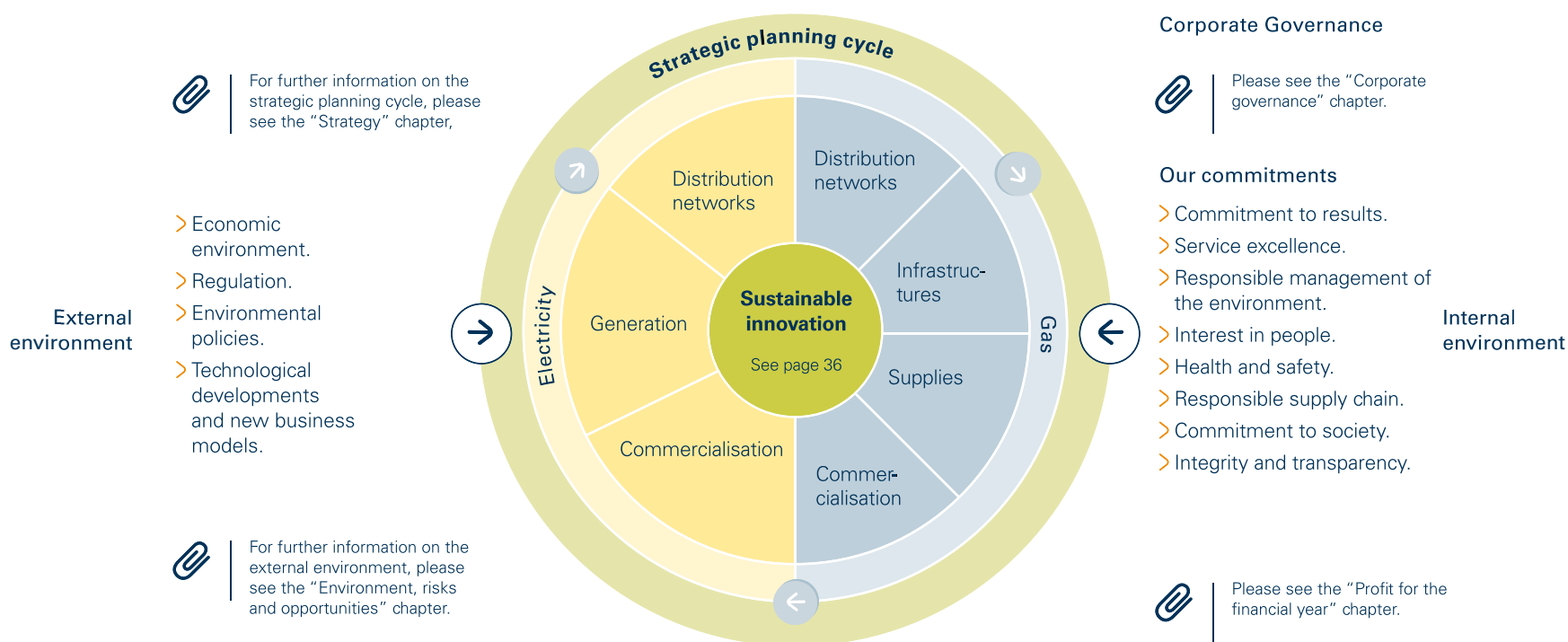
These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

Following approval of the new Corporate Responsibility Policy and based on the recommendations of the CNMV's Code of Good Governance in connection with corporate responsibility, the Board

of Directors approved the 2016-2020 Sustainability Plan in February 2017 which translates the commitments undertaken into specific actions and allows its compliance to be monitored by the Board of Directors and the Remuneration Committee. The action lines relating to each commitment have been fully aligned with the Strategic Plan and with the individual plans for each of the Group's business areas and departments.

Gas Natural Fenosa has all the essential kinds of capital with which to develop its business model, which is based on the responsible and sustainable management of all the resources it uses.

	Financial	Human	Manufactured	Environmental	Social
<b>Our capitals</b>	<ul style="list-style-type: none"> <li>&gt; Sustainable cash generation. Operating cash flow = €2,923 Mn.</li> <li>&gt; Strict financial discipline. Borrowing = 45.3%.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Professional development and talent management.</li> <li>&gt; Diversity and equal opportunities.</li> <li>&gt; Extending principles to the supplier chain.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Investment and maintenance in gas and electricity distribution networks.</li> <li>&gt; Sustainable innovation.</li> <li>&gt; Operation and development of electricity production capacity.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Environmentally-friendly products and services.</li> <li>&gt; Energy efficiency.</li> <li>&gt; Undertaking to reduce emissions.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Relations and dialogue with stakeholders.</li> <li>&gt; Guarantee of supply.</li> </ul>



<b>Our results</b>	<ul style="list-style-type: none"> <li>&gt; Dividends policy. Pay-out: 73.6%.</li> <li>&gt; Meeting financial targets. Ebitda: €3,915 Mn. Net profit: €1,360 Mn.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Corporate University and training plans. Staff trained: 93.7%.</li> <li>&gt; Retaining talent. Voluntary rotation: 2.9.</li> <li>&gt; Health and safety. Accident frequency index: 1.3.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Gas distribution: 460,014 GWh.</li> <li>&gt; Electricity distribution: 53,670 GWh.</li> <li>&gt; Gas supply: 360,031 GWh.</li> <li>&gt; Net production: 46,389 GWh.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Direct GHG emissions: 20.5.</li> <li>&gt; CO<sub>2</sub> emissions / generation: 431.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Economic value distributed: 22,402 € Mn.</li> <li>&gt; Social investment: 12.9 € Mn.</li> </ul>
<b>Our stakeholders</b>	> Shareholders.	> Employees.	> Customers.	> Customers. > Society.	> Society.





## Sustainable innovation

### Risks and management approach

Gas Natural Fenosa, in order to address the new challenges and opportunities posed by the business environment, has promoted the implementation of a model of innovation that seeks to respond to the technological changes that the sector is facing and a strong innovative culture at the company with intrapreneurship programmes and tools to encourage innovation.

### Innovation overview

Below we detail the 5 major blocks into which the company has structured its innovation activities:

- > **Social Innovation.** The company has been working to mitigate situations of energy vulnerability since 2014 with prevention actions, through agreements with local and regional governments, and activities to raise awareness with participation on forums and chat groups

about poverty. These actions intensified during 2017 through the Vulnerability Plan.

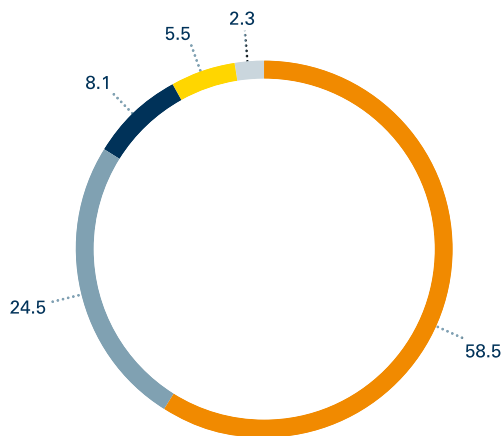
- > **Marketing Innovation.** This particular line encompasses all of the company's efforts to find out the actual and specific needs of each one of its customers, and to make sure that they have at their disposal cutting-edge products that help them in their day-to-day life. One of the major initiatives within this kind of innovation is the Customer Experience (CEX) project through which the company introduces a new methodology in which the customer is the starting point and the centre of activity.
- > **Organisational Innovation.** In this framework we consider those actions targeted at covering the needs that arise with regard to new business models, those that have entailed a new organisation in the work and those that have been for the purpose of minimising risks and increasing quality and safety in the organisation's practices.
- > **Innovation in Product.** Here, we can highlight the Smart Platform for the Sizing and Design of Multigeneration Facilities, project for the purpose of designing, developing and introducing facilities for the distributed generation of heating and cooling electricity that operates in the cloud by receiving data such as the customer's consumption. With this initiative we aim to promote the energy rehabilitation of buildings and to characterise the energy demand of these buildings to calculate the baseline of consumption of the building and to forecast savings. In this sphere we should also highlight development of the Sustainable Logistics Train (SLT) in the

quest for a feasible and economic solution for the sustainable management of the so-called “last mile” logistic, where the dissemination of services for customers is often in places where there is restricted traffic access.

- > **Process Innovation.** We can point to the Integrated Control Centre (ICC) of hydraulic facilities, headquartered in A Batundeira (Velle - Ourense), which allows centralised and remote control management of the exploitation, operation and maintenance of all the company’s power plants and dams in Spain.

The overall figure in 2017 for investment in innovation totalled 99 million euros, divided as follows:

Investment in innovation (millions of euros)



- Innovation in product.
- Processes innovation.
- Marketing innovation.
- Organization innovation.
- Social innovation.

## Innovation Plan

The Innovation Plan is structured by five multidisciplinary working networks and eight technological innovation areas.

### Liquefied Natural Gas (LNG)

Gas Natural Fenosa develops innovation projects in three areas of action: optimization of the LNG logistics chain (Small Scale), development of LNG as a cleaner and more efficient transport fuel (Bunkering) and development of the LNG Measure.

One key project is the DirectLink LNG – Floating Universal Transfer System (UTS), developed during 2016 and 2017. This is an integral patented solution for the transfer and bunkering of LNG from ship to shore, an alternative to the costly traditional infrastructures (port and jetties) and with minimum environmental impact.

### Generation

#### Renewables and storage

Gas Natural Fenosa develops innovation projects in four areas of action:

- > **Renewable energy:** a commitment to a balanced energy mix so that the emission-free generation technologies and the low-emission technologies represent a significant volume of the total installed capacity.

- > **Wind energy:** with initiatives to monitor the condition of the assets, through measurement systems, smart models and data maintaining and optimizing the performance of the facilities through the implementation of improvements or tests.

- > **Hydraulic energy:** a commitment to the introduction of new technologies both in areas of environmental control as well as in the establishment of mobility systems and remote monitoring, without overlooking improved performance of its hydraulic facilities.

- > **Storage:** focusing on an even greater increase in quality and reliability of supply, on developing joint solutions with customers and also on allowing a greater and easier integration of renewable-source electricity into the grid.

Highlights the project Windex, developed in 2017, which involves application of sensor systems and development of information-processing tools to increase the useful and structural life of wind farms in a safe way.

### Reduction of emissions and energy efficiency

The company is carrying out a range of technological developments at its facilities. In addition, the company continues to work to improve the efficiency of its coal and combined-cycle plants.

Highlights the project Optimisation of fuel through lasers, developed during 2017 which helps to significantly reduce  $\text{NO}_x$  at the Meirama Thermal Power Plant.

### Grids

The company's commitment is two-fold of acting.

- > **Revitalisation of gas networks:** where challenges focus on achieving greater automation of the grid (remote action, reduction of cut-offs and interruptions, improved operational efficiency and maintenance and increased energy performance) and greater interaction with the customer (energy efficiency and active management of demand).
- > **Electricity grids 4.0:** focusing on digitalisation of the electricity distribution grids, moving forward in the management of operation and maintenance of the grid, and integrating the customer into the information flows, whilst simultaneously improving the levels of safety at work and the quality of supply.

### Customer

Gas Natural Fenosa has two action lines open in the field of innovation associated to the customer.

- > **Smart Client:** focusing on providing products and services with high value-added for different types of end customers. This Innovation area promotes initiatives based mainly on three core actions: GEDIS and Self-consumption, Integration of new solutions and Data Analytics.

- > **Energy efficiency and mobility.**

One of the most important projects is the Remote Building Analytics Platform, based on the development of an energy management tool (virtual audit) for customers of the SMEs market. Data from smart meters are fed into the tool and these data allow us to define specific segmentation of customers for the purpose of proposing energy efficiency measures and actions en masse.

### Automation and management of information

It is a cross-sectional area that aims to bring together projects already being developed in the company to gain synergies and enhance results.

Highlights the project Energy Harvesting UP4, which consists in testing the concept at laboratory level of a device based on a sheet of piezoelectric material to generate small amounts of electricity. The device is put into a gas tube and energy is produced through the flow interaction structure. The aim is to capture energy to feed sensors that will be installed in the gas network.







# 1969

## Natural gas arrives in Spain

Until that time, the gas that was distributed was a manufactured gas that was produced in factories and which was more polluting. To introduce natural gas, it provided the impetus for the construction of a regasification plant in Barcelona port, a commercialisation network in the area and the first Spanish methane tanker: Laietà. In February 1969, liquefied natural gas from Libya began to be received.

This advance was the trigger for the growth of gas distribution networks in Spain.

# 175

1843  
2018

years full of history  
and energy







2017 Integrated Annual Report

## Market context, risks and opportunities

Market context. [Page 42](#)

Risk management model. [Page 45](#)

Main risks. [Page 48](#)

Main opportunities. [Page 50](#)

## Market context

### Moderate economic growth

Two-speed global economic growth is a reality:

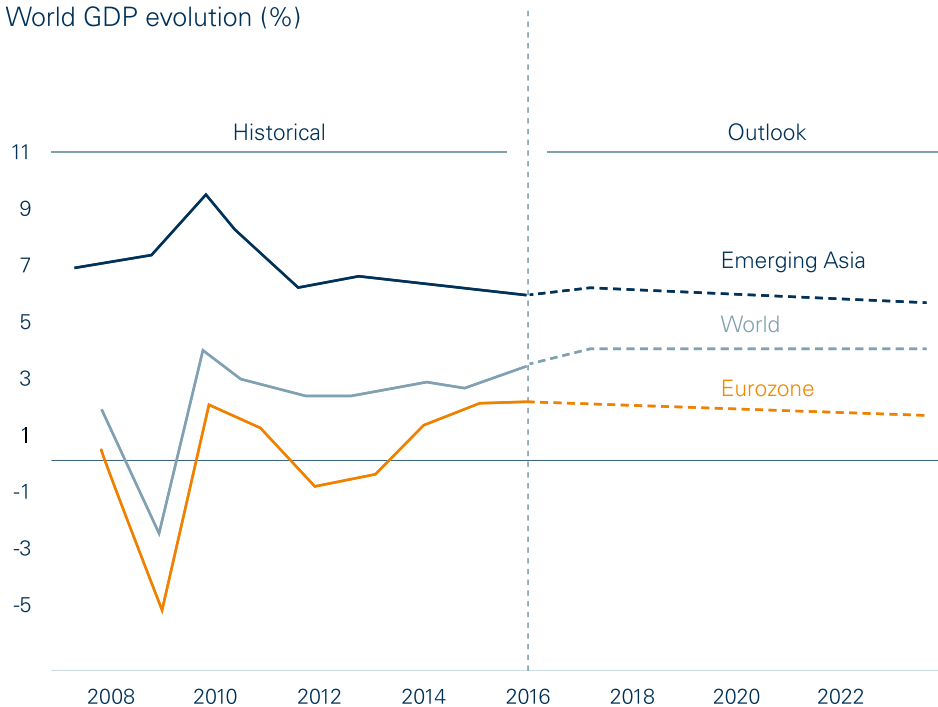
- > Developed economies are slowing down: The Eurozone is expected to see continued economic recovery. The Spanish economy is gaining traction in a more favourable external context.

Although economic growth in Spain is currently above the EU average, it will tend to converge after 2020.

- > Uneven growth in emerging economies: The epicentre of global economic growth continues to shift towards Asia, although doubts about China have undermined the region's strength somewhat. Latin America has put the deceleration of the

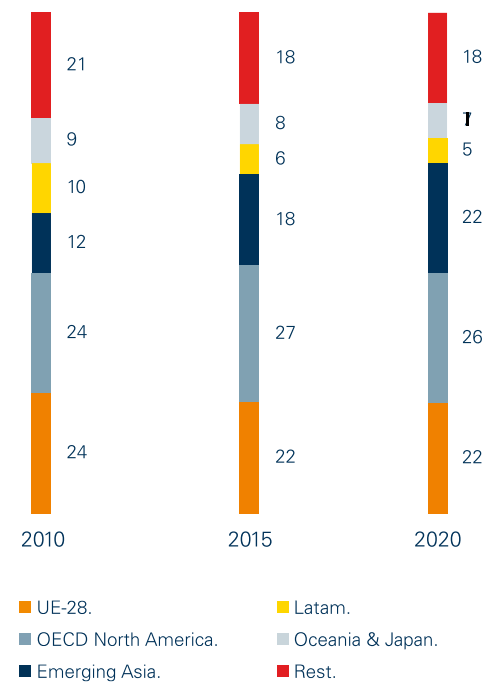
last few years behind it, but must now implement changes in its production models to gain competitiveness in relation to Asia and continue to grow. Moreover, some of the larger emerging economies (like Brazil, India and Russia) are growing below their potential due to low commodity prices, the difficulties in accelerating investment in this context.

World GDP evolution (%)



Source: IMF and Caixabank Research.

% World GDP by región



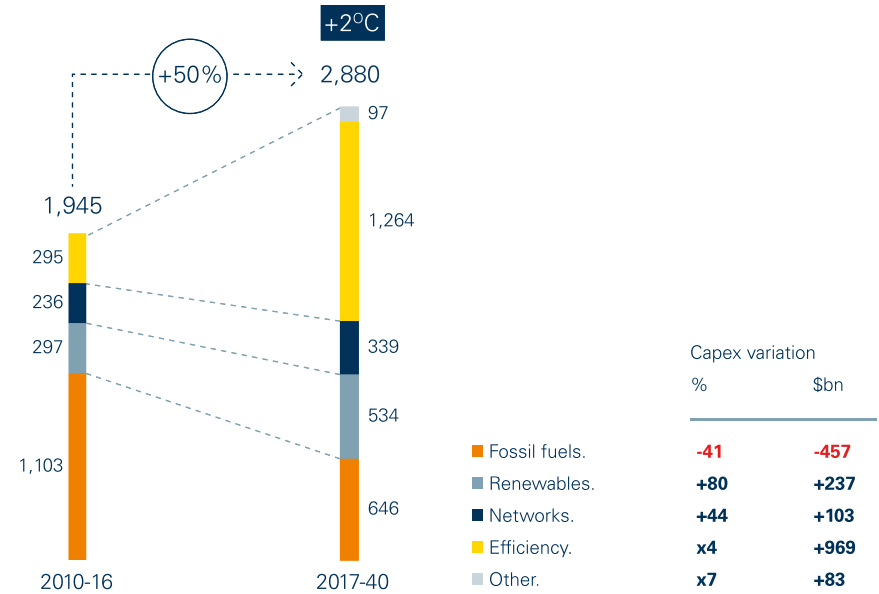
**Growth in demand for energy is shaped by environmental policies and the uncertainty about commodity prices**

**Impact of climate policies on demand**

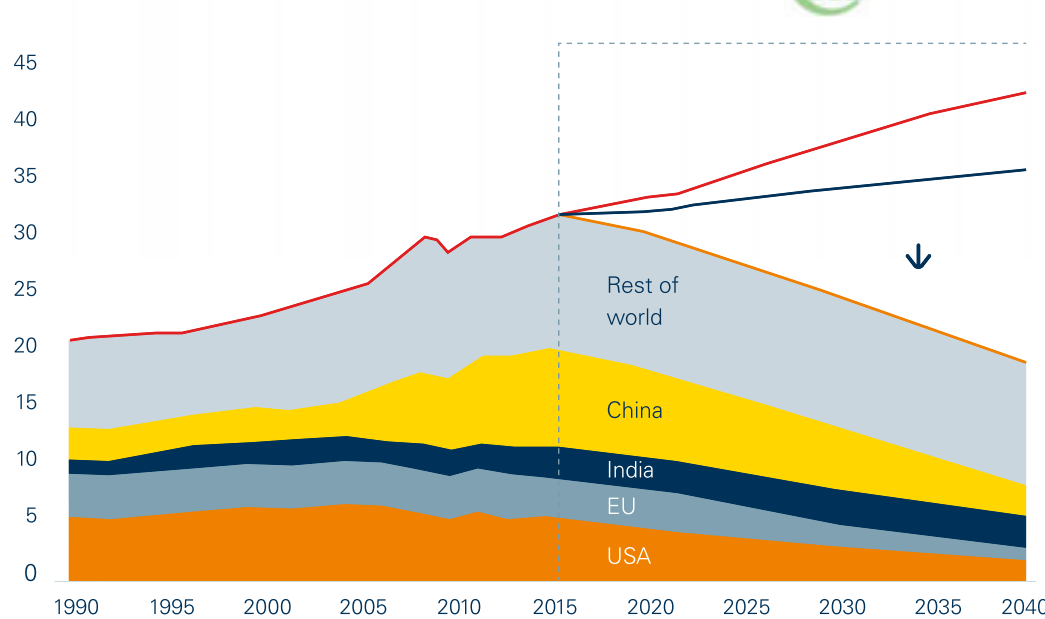
The Paris Agreement (Conference of parties COP '21) seeks to minimise the impact of climate change, implying a reduction in emissions that is only possible if there is a long-term transformation in energy.

This energy transformation may be an opportunity, since it will require increased investment, but it would reshape the appeal of businesses and investments alike.

Annual investment capex in the 2°C scenario vs. historical annual capex (capex/annual \$bn)



CO<sub>2</sub> emissions evolution and IEA scenarios (Gton CO<sub>2</sub>)



**Polluting**  
(Current Policies Scenario)  
Emissions trend with current policies.

**New policies**  
(New Policies Scenario)  
emissions trend achieving.  
(COP 21 Paris Agreement).

**2°C goal**  
(Sustainable Development)  
Emissions path in order to achieve the 2°C goal.

Global temperature increase (2100)

→ 2,7°C

→ 2°C

Fuente: IEA World Energy Outlook 2017.



### Demand for energy by region

From a regional standpoint, developed countries will see greater decoupling between energy demand and economic performance, while energy growth will centre on developing countries.

Environmental goals and industrial offshoring make developed economies less energy-intensive (flat or decreasing demand for energy).

Growth in energy consumption continues to shift towards developing countries:

- More urbanisation, industrialisation and growth of the middle class all increase per capita energy consumption in those regions.

- Renewable generation is now a competitive alternative without government assistance in many developing economies, limiting the scope for growth in thermal generation in countries where coal predominates.

### Future fuel mix

Although there is no single path to achieving climate goals, the most ambitious scenarios represent significant challenges for fossil fuels.

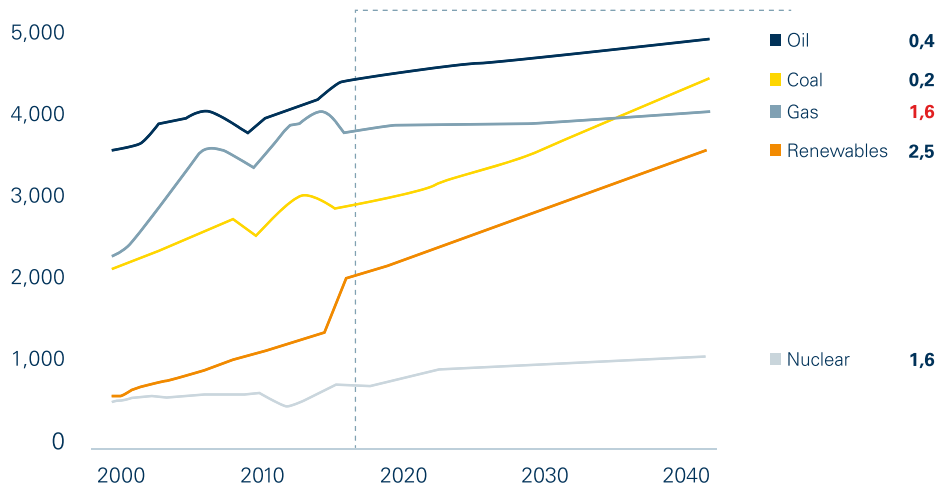
Thanks to the lower investment costs, renewables are consolidating their leadership and will be the fastest-growing primary energy source in the medium and long term.

Natural gas will continue to be the fastest-growing fossil fuel in any of the decarbonisation scenarios, replacing coal in many consumer segments.

Both oil and, in particular, coal, would suffer the most in a transition towards the 2°C target. However, oil will remain the largest single energy source by volume as there are no clear alternatives for many of its final uses (e.g. transport and petrochemicals).

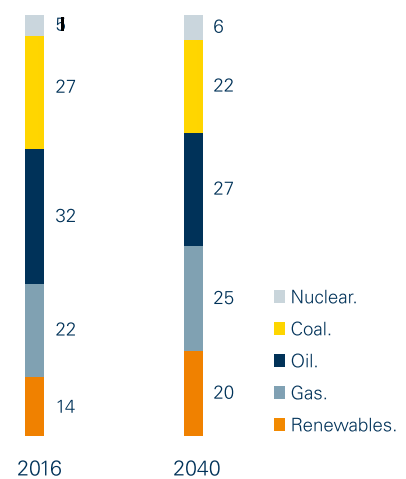
In final energy consumption, electricity will grow at twice the pace of any other fuel. On the one hand, economic development in emerging countries requires greater use of electricity (motors, cooling systems, information technologies, etc.). And, on the other hand, greater electrification in households and transport, coupled with digitalisation, will contribute to this growth of electricity as a final energy.

Primary energy world demand WEO 2017 (NPS scenario)



Fuente: IEA World Energy Outlook 2017 (escenario Sustainable Development).

Primary Energy share WEO 2017 (NPS scenario) (%)



## Energy prices

The end of the commodity supercycle, along with the revolution in shale gas and tight oil, have led to surplus energy production capacity, increasing the uncertainty regarding energy commodity prices:

- increasing the volatility of energy prices
- limiting investment in infrastructure that could trigger price tensions in the future

Furthermore, greater penetration of renewable generation at zero marginal cost will impact prices in wholesale electricity markets. Hence, in the next few years, new market mechanisms will have to be set up to generate price incentives for both new and existing capacity.

### **Technological advances affect a number of phases of the energy value chain, impacting its business models in some cases**

- Technology applied to hydrocarbon exploration and production (deepwater, horizontal drilling, fracking, etc.) allow vast reserves to be harnessed for production at competitive prices, potentially reactivating demand in some segments and regions.
- Floating storage and regasification units (FSRUs) offer considerable potential for gas, by developing markets very quickly (< 1 year)—these markets being precisely those that have contributed most to growth in demand for LNG in the last few years.

- Lower costs in renewable generation consolidate the latter's position as the main target for new investment in electric power generation worldwide.
- Distributed solar power generation still requires subsidies, but it is an increasingly attractive solution in certain regions, reconfiguring the traditional centralised generation model.
- The development of batteries, as i) a generation asset, ii) network backup or iii) storage at the point of consumption are, for now, a technology in the pilot phase which is set to be further developed in the next few years.
- The development of electric vehicles requires subsidies for introduction on a mass scale, but the reduction in costs and emissions caps in some cities may trigger widespread penetration in less than a decade, boosting electricity consumption and changing the electricity load curve.
- Digitalisation in the energy sector, such as the development of applications and services that transform the relationship with customers due to greater connectivity, will enable demand management to be optimised (smart devices) and the portfolio of products and services to be expanded.

## Risk management model

Gas Natural Fenosa's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders. This requires establishing the risk tolerance by setting limits for the main risk categories. In this way, the company can anticipate the consequences of certain risks and be perceived in the market as a sound, stable company, with all the benefits that entails.

Gas Natural Fenosa has a framework integrating the vision of governance, risks and compliance so as to provide a 360° view of the group's processes, existing controls and the associated risks.

### **Corporate governance**

Preventive risk management, which includes issues beyond the mere economic sphere of the company's activities, is a core feature of Gas Natural Fenosa's corporate governance. Within the framework of its risk management and control policy, the company analyses and approves its risk profile each year and establishes the necessary measures to mitigate risks. Additionally, Audit Committee monitors the operation of risk management and control systems.

### Risk management

Gas Natural Fenosa constantly analyses its overall risk profile by identifying, characterising and measuring the risks with the greatest potential impact on the company's financial statements. In this way, it determines the maximum accepted level of risk exposure and the admissible limits. These limits are assigned to each risk category as well as in overall terms; the result is the target overall risk profile.

### Internal audit and Compliance

The Internal Audit units are responsible for performing the assurance and control function. To this end, the Internal Audit function has a risk-based approach, which provides independent assurance not linked to management about the effectiveness of the internal control system and of risk measurement and management in all areas of the group.

### Risk management bodies

Guaranteeing the predictability and sustainability of the company's operational and financial performance is a key aspects of risk management at Gas Natural Fenosa, and is supported by a number of bodies with clearly identified areas of responsibility.

#### Audit Committee

Supervises the company's internal control and risk management systems.

#### Risk Committee

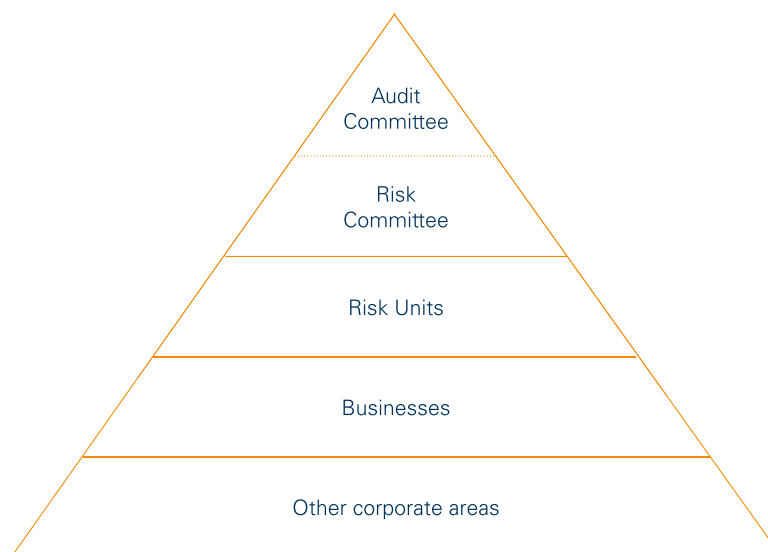
Entrusted with determining and reviewing the company's target risk profile. It also exercises oversight to ensure that the entire organisation understands and accepts its responsibility for identifying, assessing and managing the main risks.

### Risk Units

In charge of monitoring and reporting risks and ensuring that they fall within the limits defined in the target risk profile by the Risks Committee.

### Businesses

In charge of managing risk in all their areas of action. They identify trends and positions that may entail risk and report them to the Risk Units. They also apply the guidelines and criteria established by the Risk Units.



### Other corporate areas

In charge of tracking and managing certain risks which are specific in nature or need to be managed in a specific way. Notable examples are the Environment and Quality Assurance Unit, which handles environmental and climate change risk, and the Reputation and Sustainability Unit, which manages reputational risk. Both operate in coordination with the Risk Units.

### Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.


The system addresses basically three categories of risk:

- > **Market risk**, understood as the uncertainty related to commodity prices, exchange rates and interest rates, which may impact the company's balance sheet, procurement costs or ability to raise funding in the capital markets. It is measured using two yardsticks: in the short term, focused on the income statement, and in the long term, focused on enterprise value, including the capacity to generate cash flow and its stability, variations in the funding structure, and volatility in the applicable discount rates.

- > **Credit risk**, i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.

- > **Operating risk**, i.e. the possibility of financial losses as a result of failures in processes, internal systems or other factors. It enables risk to be measured

objectively, which is decisive for raising awareness in the company and in improving management of exposure, all of which have an essential impact on the reinsurance market's perception of Gas Natural Fenosa's operational excellence.



The risk management model of Gas Natural Fenosa seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders.



For further information on the risk management model, please see the 2017 Annual Corporate Governance Report.



## Main risks

Risk type	Description	Management	Metric	Trend	
<b>Market risks</b>					
Commodity prices	Gas	Volatility in the international markets that determine gas prices.	Physical and financial hedges. Portfolio management	Stochastic. ↑	Decoupling of long-term contracts from hub prices.
	Electricity	Volatility in the Spanish and Portuguese electricity markets.	Physical and financial hedges. Optimisation of the power generating fleet.	Stochastic. ↑	Penetration by renewables with zero marginal cost and intermittent production.
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic.	↔	Uncertainty about growth prospects in Latin America.
Interest rates	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic.	↓	Increase financial strength in a context of agile deleveraging.
<b>Credit risk</b>					
Credit	Uncertainty about performance of bad debt ratios as a result of the economic cycle.	Analysis of customer solvency to define specific contractual conditions. Debt collection process.	Stochastic.	↔	Spain is expected to recover slowly, in line with the process of macroeconomic normalisation.

Risk type	Description	Management	Metric	Trend	
<b>Operational risks</b>					
<b>Regulatory</b>	Exposure to regulatory review of the criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios.	↔	Different business units at different stages of maturity.
<b>Volume of gas</b>	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Stochastic.	↔	Temporarily slack demand in Spain.
<b>Volume of electricity</b>	Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output.	Optimisation of the balance between supply and generation.	Stochastic.	↑	Slack demand in Spain, impacting the thermal gap due to renewables' growing share.
<b>Operational: insurable risks</b>	Accidents, damage and non-availability of Gas Natural Fenosa assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic.	↓	Development of specific oversight units.
<b>Operational: image and reputation</b>	Impaired perception of Gas Natural Fenosa by stakeholders.	Identification and tracking of potential reputational events. Transparency.	Scenarios.	↔	Stabilisation of RepTrak index score.
<b>Operational: environment</b>	Harm to the natural and/or social environment. Development of environmental regulations.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios.	↓	Implementation of an Integrated Management System that is audited and certified each year by Aenor.

Risk type	Description	Management	Metric	Trend
<b>Operational risks</b>				
<b>Operational: climate change</b>	Changes in environmental factors as a result of climate change. Regulation aimed at combating it.	Corporate positioning vis-à-vis climate change.	Scenarios/ Stochastic.	↑ Uncertainty about policy developments to encourage energy efficiency.
<b>Operational: geopolitical exposure</b>	Company-owned assets or supply contracts in geographical areas whose political equilibrium is delicate.	Diversification by country and region. Specific insurance policies.	Scenarios/ Stochastic.	↔ Stagnation of the situation in the Middle East/North Africa.

**Metrics used:**

- **Stochastic:** production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- **Scenarios:** analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.



Financial risks (interest rate, exchange rate, commodity price, credit and liquidity risk) are detailed in Note 17 to the Annual Financial Report.

## Main Opportunities

Gas Natural Fenosa’s main opportunities are as follows:

- **Generation mix.** Gas Natural Fenosa’s generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity markets.
- **Portfolio of natural gas and LNG procurements.** Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Group’s various businesses in a flexible, diversified way by optimising for different energy scenarios. Specifically, because of its LNG carrier fleet, Gas Natural Fenosa is one of the world’s leading LNG operators and a key player in the Atlantic and Mediterranean.
- **Balanced structural position** in businesses and regions, many of them with stable flows that are independent of commodity prices, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.
- **International generation.** Increase the renewable energy generating capacity at an international level given the cost-competitiveness of renewable energies and Gas Natural Fenosa’s presence in growth markets.
- **Technological development and innovation.** Gas Natural Fenosa focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.





# 1995

## International expansion: new horizons and opportunities

In the 1990s, Gas Natural Fenosa commenced one of the most significant stages of its recent history; the leap into foreign markets. It began its international expansion with the acquisition of assets in Argentina. Five years later, it addressed new activities in Brazil, Colombia and Mexico. The experience was so positive that a few months later the company had more customers in its international arena than in the national one.

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## Strategy

Strategic bases. [Page 54](#)

2016-2018 Strategic Plan pillars. [Page 56](#)

2018 Outlook. [Page 57](#)



## Strategic bases

In order to achieve its goals, Gas Natural Fenosa defines medium-term strategies that are updated regularly to adapt to the current and future situation, taking account of the specific features of the company's various lines of business.

The strategic planning cycle is defined as a recurring process that starts from a reflection on strategy, is materialised in each business and corporate unit's business plans and is integrated into the group's integrated business plan.

The strategic planning cycle is defined as a recurrent process that starts with a strategic reflection and is set out in the company's integrated business plan.

## Strategic planning cycle

### > Reflection on strategy

Formal adoption of the group's medium-term vision.

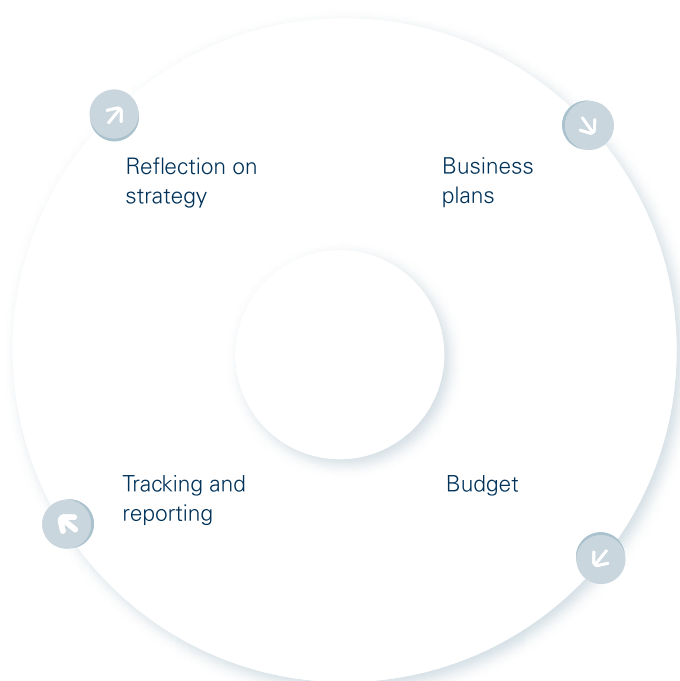
Top-down approach.

### > Business plans

Formal statement of goals for the business and corporate units.

Bottom-up approach. Integrated business plan.

Formal statement of goals for the group, integrating the business plans.



### > Tracking and reporting

Single source of management information for the group and the business and corporate units.

Strategic information management to support decision-making.

### > Budget

Operations budget.

Capex budget.



Coordination of the strategic planning, annual budgeting and continuous tracking processes facilitates agile and effective decision-making.

The company's strategic vision for 2016-2020 adopted a number of commitments for 2018 and aspirations for 2020 and defined the outlook for the business areas and financial goals for the group in that period. Gas Natural Fenosa plans to present is 2018-2020 Strategic Plan, with updated targets for the group.

The key components of Gas Natural Fenosa's Strategic Plan are:



Framed by tracking of the business environment, the strategic plan establishes:

- > Business management model and objectives.
- > Execution of a new efficiency plan.
- > Continuous management of the business portfolio and its strategic fit.

The strategic plan is materialised in the form of business plans.



## 2016-2018 Strategic Plan pillars

The Strategic Vision 2016-2018 was grounded in three growth areas (networks, power generation and gas supply), the goal being to enable Gas Natural Fenosa to continue expanding in the future:

> **Networks.** In the area of gas, investment in gas networks in Chile and Mexico, entry into the gas distribution business in the Arequipa (Peru) region, new licences and additional growth as a result of conversion of the new liquefied

petroleum gas (LPG) connection points in Spain; in the area of electricity, investment in smart grids in Spain, investments to meet additional demand in Chile and Panama, electricity subtransmission in Chile driven by new renewable energy projects.

> **Electricity generation.** Improve generating fleet efficiency and performance by adding 3,500 MW overall; 2,500 MW in renewables (Spain and other countries) and 500-1,000 MW in CCGTs that will contribute to developing the downstream LNG business. Growth and development of the international power generation business via GPG.

> **Gas supply.** New gas procurement contracts totalling about 11 bcm in the two Cheniere projects (Sabine Pass and Corpus Christi) and the Yamal LNG project in Russia; additionally, existing gas supply contracts will be adapted and renegotiated to reflect benchmark market conditions. The LNG carrier fleet will be expanded by four vessels (two of which were added in 2016) and a mobile regasification unit. Because of their larger size, they represent almost 1 million cubic metres of additional capacity. EBITDA is expected to increase by around 10%.

The 2017 results demonstrate good progress in fulfilling the basic pillars of the 2016–2018 Strategic Plan:

Pillars	Main targets	Fulfilment
<b>1</b> Cash generation sustains future dividends.	> Minimum dividend of 1 euro/share (minimum pay-out of 70%).	✓
<b>2</b> Strict financial discipline.	> Retention of credit ratings from S&P (BBB) and Moody's (Baa2). > Reduction in debt cost by 80 basis points to 3.5%. > Adjusted net debt/Ebitda ~3.2x <sup>1</sup> . > Discipline in capital allocation: ROACE 2017~ 7%.	✓
<b>3</b> Efficiency Plan.	> Accumulated 2017 savings of 150 million euros (vs initial target of 135 million euros). > Launch of new 2018–2020 Efficiency Plan.	✓
<b>4</b> Asset portfolio management.	> Sale of GNDB (20%), Italy, Colombia. > Investment in value generation in renewables projects in Spain, Brazil, Australia and Chile.	✓
<b>2017 net profit</b>	<b>Target net profit of 1.3–1.4 billion euros met.</b>	✓

<sup>1</sup> Adjusted by (i) proceeds of 1.5 billion euros for the sale of 20% of the gas distribution business in Spain (ii) proceeds of ~739 million euros for the sale of the gas distribution and commercialisation business in Italy, and (iii) proceeds of ~334 million euros for the pending sale of 41.9% of the gas distribution business in Colombia expected in the first half of 2018.

## 2018 Outlook

The 2018 outlook for the business is explained in the following:

Activitis	Outlook 2018	Main levers
Grids	↑	<ul style="list-style-type: none"> <li>&gt; The third stage of the 3 stages of the integral tariff review (full tariff) in Argentina will come into effect in April 2018, with an estimated positive impact on Ebitda of +100 million euros vs 2017.</li> <li>&gt; Continued organic growth in Mexico, supported by new distribution concessions awarded in Tabasco, Campeche and Yucatán (Quintana underway).</li> <li>&gt; Continued organic growth in Chile in the natural gas business supported by the net increase of +30,000 supply points in current regions and growing demand for heating.</li> <li>&gt; Continued organic growth in Chile in the electricity business supported by the net increase of +80,000 supply points in current regions and improving macroeconomic situation.</li> <li>&gt; Continued growth in gas distribution in Spain compensating for the negative impact on remuneration from gas meters, with an estimated negative impact of in line with the new meter rental prices published by law~40 million euros in line with the new meter rental prices published by law.</li> </ul>
Generación internacional	↑	<ul style="list-style-type: none"> <li>&gt; Guaranteed growth with the launch of FV Brasil (second half of 2017) and a wind farm in Australia (second half of 2018).</li> </ul>
<b>Regulated activities:</b> Continued organic growth in grids and guaranteed growth in international power generation.		
Comercialización de gas	↑	<ul style="list-style-type: none"> <li>&gt; Stable volumes with &gt;85% increase in volume of already contracted and guaranteed sales for 2018.</li> <li>&gt; Positive estimates in the ordinary review of 2018 supply contracts (~60% of total Gas Natural Fenosa supply contracts) already established in a market context.</li> <li>&gt; Positive trends in international LNG have a favourable bearing on the negotiation of contracts with our end customers.</li> <li>&gt; Progress in new business initiatives directed towards a profitable, medium-sized customer base and attractive market segments (floating regasification plants, small-scale solutions, bunkering).</li> </ul>
Electricity in Spain	↑	<ul style="list-style-type: none"> <li>&gt; Hydroelectricity generation levels expected to return to normal ~3.0 TWh.</li> <li>&gt; Gradual recovery of 2018 OMIP prices to 52 euros/MWh at the end of December 2017, used as the benchmark for new contracts and renewals, reflecting higher generation costs.</li> <li>&gt; Reduced margins in Schedule 1 Voluntary Price for the Small Consumer (PVPC) owing to increased regulatory requirements and greater impact of the social allowance in 2018.</li> </ul>
<b>Deregulated activities:</b>		
<ul style="list-style-type: none"> <li>&gt; Positive outlook in commercialisation of gas explained through the ordinary revision of the gas supply contracts and higher international LNG prices.</li> <li>&gt; Spanish electricity is expected to recover backed by the standardisation of hydraulic production and recovery of commercialisation prices.</li> </ul>		

The financial Outlook for 2018 is explained in the following:

Activities	Outlook 2018	Main levers
2018–2020 Efficiency Plan	↑	<ul style="list-style-type: none"> <li>&gt; Accelerated implementation of 2018–2020 Efficiency Plan ~110 million euro restructuring costs forwarded from 2018 to 2017.</li> <li>&gt; Estimated accumulated savings of ~105 million euros net of restructuring costs for 2018.</li> </ul>
Cost of debt	↑	<ul style="list-style-type: none"> <li>&gt; Progressive positive impact of liability management efforts in financial results.</li> <li>&gt; Greater reduction in current debt cost by 3.5% estimated in 2017.</li> </ul>
Tax rate	●	<ul style="list-style-type: none"> <li>&gt; Held at 21.5% (recurring tax rate).</li> </ul>
Effect of currency conversion	↓	<ul style="list-style-type: none"> <li>&gt; Unfavourable outlook for exchange rates (USD, CLP, BRL, MXN, ARG).</li> </ul>
Capital gains (Italy)	↑	<ul style="list-style-type: none"> <li>&gt; Expected capitals gains after tax of ~190 million at year end (1S18).</li> </ul>
Significant positive contribution of operating efficiencies and debt/tax efficiencies, only compensated by relatively unfavourable outlook for exchange rates.		

The Strategic Plan 2018-2020 will update the strategies to be implemented to ensure that Gas Natural Fenosa maintains the trend of organic growth in 2018 and subsequent years.





# 2002

## Guaranteeing security of supply

San Roque, Cádiz, with 400MW of power, was the first combined-cycle power plant in Spain. Energy mix: energies from different supply sources: nuclear power plants, combined-cycle power plants, hydraulic power plants, and now renewable energies. Guarantee of supply and immediate availability of energy. The company has always been committed to a balanced and competitive energy mix.

The combined-cycle power plants have been and are fundamental in guaranteeing the security of supply in our country.

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## Corporate Governance

Corporate Governance Model. [Page 62](#)

Shareholder's Meeting. [Page 62](#)

Board of Directors. [Page 63](#)

Management Committee. [Page 66](#)

Remuneration policy. [Page 67](#)



## Corporate Governance Model

Gas Natural Fenosa is governed in accordance with the principles of efficiency and transparency in line with the main existing recommendations and standards, and it adopts advanced corporate governance practices for this purpose.

The corporate governance terms of reference mainly comprise:

- > Articles of Association (updated in 2017).
- > Regulations of the Board of Directors and its committees (updated in 2016).
- > Regulations of the General Meeting of Shareholders (updated in 2015).
- > Internal Code of Conduct in connection with the Securities Markets.
- > Human Rights Policy.
- > Code of Ethics (updated in 2015).

On 21 September 2016, the shareholders of Gas Natural Fenosa, Criteria Caixa, S.A.U. (Criteria) and Repsol, S.A. (Repsol) announced the sale to GIP III Canary 1 S.à.r.l. (GIP) of 20% (10% each by Criteria and Repsol) of Gas Natural SDG, S.A., as established in the sale agreement signed on 12 September 2016. As a result of that sale in 2016, the composition of Gas Natural

Fenosa's Board of Directors and committees was modified and a condition was introduced into the Regulation of the Board of Directors that a majority of two-thirds of directors would be required to approve certain reserved matters.

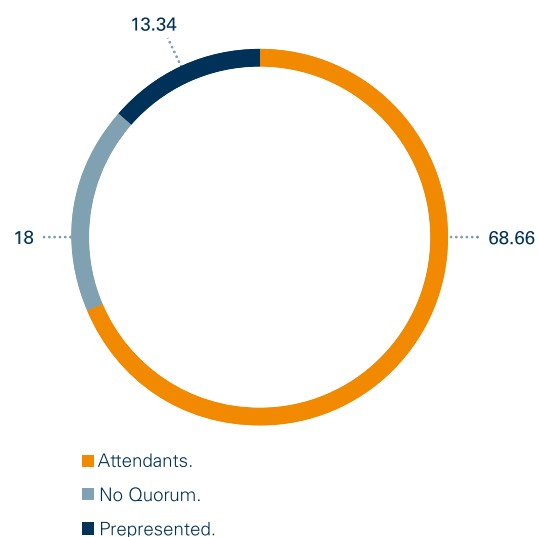
During 2017 the General Meeting approved by co-optation the following Directors:

- > Mr. Alejandro García-Bragado (proprietary Criteria).
- > Mr. Marcelino Armenter (proprietary Criteria).
- > Mr. William Woodburn (proprietary GIP).
- > Mr. Rajaram Rao (proprietary GIP).
- > Mr. Mario Armero (proprietary GIP).
- > Ms. Helena Herrero (independent).

## Shareholder's Meeting

Shareholders who, either individually or collectively with others, hold 100 shares may attend the meeting provided that they are shareholders of record at least five days in advance.

Attendance at the 2017 Shareholders' Meeting (%): **(82%)**.



More information on governance standards is available at web [www.gasnaturalfenosa.com](http://www.gasnaturalfenosa.com).



## Board of Directors

Gas Natural Fenosa structures the functioning of its highest management body, the Board of Directors, through its functioning in Plenary and in Commissions, in response to the requirements of the Capital Companies Law. Therefore, the Board of Directors of Gas Natural Fenosa has an Audit Committee and the Appointments and Remuneration Committee, which exercise the functions entrusted to them by the Law.

Additionally, the Board of Directors has an Executive Committee, which deals with resolving the most operational matters over which the Board has competence.

During 2017, the Board of Directors debated, took cognizance and made decisions about the following matters, among others, within the scope of its powers:

- Monthly, half-year and annual monitoring and supervision of business development.
- Approval of accounts and other actions required by accounting regulations and/or stock market.
- Strategic discussion aimed at preparing the new Strategic Plan 2018-2020.
- Budget, financing plan, investment plan and other actions in terms of activity programming and financial discipline.
- Efficiency plan.
- Company's registered offices transfer.
- Examination of the main risks of the Company and its control systems.
- Corporate operations, among which are the divestments made in Italy, Colombia and in the gas distribution business in Spain.
- Actions in matters of corporate governance: in addition to the usual (Annual Corporate Governance Report, Annual Remuneration Report, etc), this year there has been external advice in the process of evaluating the functioning of the Board of Directors and its Committees, in accordance with the best corporate governance practices.
- General Meeting, including proposal for appointment of new directors and proposal for dividend distribution.
- Social Corporate Responsibility.

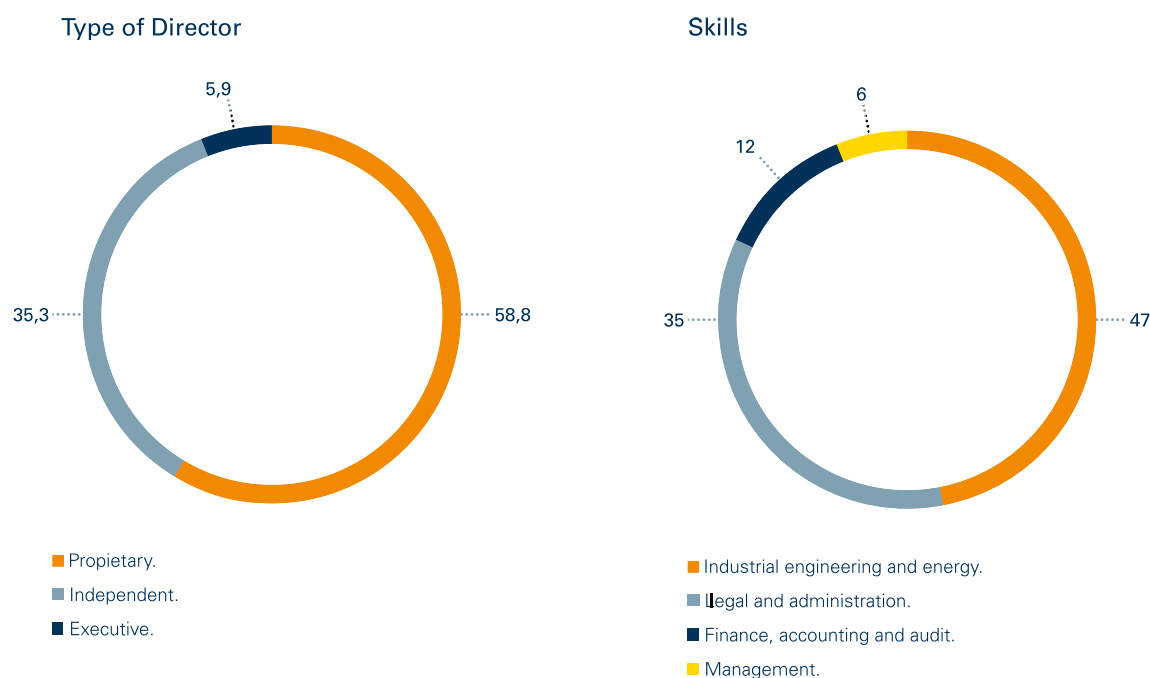


## Composition of the Board of Directors and its committees (at 31 December 2017)

<b>Board of Directors</b>		Executive Committee	Audit Committee	Appointments and Remuneration Committee	Category of director	Seniority on Board
Chairman	<b>Mr. Isidro Fainé Casas</b>	Chairman			Proprietary	18/05/2015
First Deputy Chairman	<b>Mr. Josu Jon Imaz San Miguel</b>	Board member			Proprietary	21/09/2016
Second Deputy Chairman	<b>Mr. William Alan Woodburn</b>	Board member		Board member	Proprietary	30/09/2016
Managing Director	<b>Mr. Rafael Villaseca Marco</b>	Board member			Executive Director	28/01/2005
Director	<b>Mr. Ramón Adell Ramón</b>	Board member	Chairman		Independent	18/06/2010
Director	<b>Mr. Enrique Alcántara-García Irazoqui</b>		Board member		Proprietary	27/06/1991
Director	<b>Mr. Xabier Añoveros Trias de Bes</b>		Board member		Independent	20/04/2012
Director	<b>Mr. Marcelino Armenter Vidal</b>	Board member			Proprietary	21/09/2016
Director	<b>Mr. Mario Armero Montes</b>				Proprietary	21/09/2016
Director	<b>Mr. Francisco Belil Creixell</b>	Board member		Chairman	Independent	14/05/2015
Director	<b>Ms. Benita María Ferrero-Waldner</b>	Board member			Independent	14/05/2015
Director	<b>Mr. Alejandro García-Bragado Dalmau</b>			Board member	Proprietary	21/09/2016
Director	<b>Ms. Cristina Garmendia Mendizábal</b>		Board member	Board member	Independent	14/05/2015
Director	<b>Ms. Helena Herrero Starkie</b>		Board member		Independent	04/05/2016
Director	<b>Mr. Miguel Martínez San Martín</b>	Board member		Board member	Proprietary	14/05/2015
Director	<b>Mr. Rajaram Rao</b>	Board member	Board member		Proprietary	21/09/2016
Director	<b>Mr. Luis Suárez de Lezo Mantilla</b>		Board member		Proprietary	26/02/2010
Non-director Secretary	<b>Mr. Manuel García Cobaleda</b>	Non-director Secretary	Non-director Secretary	Non-director Secretary	N/A	29/10/2010

There were no director removals or appointments in 2017.

Board of Directors profile (%)



Board of Directors activities and performance

Number of meetings of the Board of Directors and its committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
2017	15	3	10	5
2016	15	6	7	8

On 6 February 2018, the Board of Directors of Gas Natural Fenosa appointed Mr Francisco Reynés Massanet as Executive Chairman, as Mr Rafael Villaseca Marco had resigned his position as the company’s CEO. Mr Isidro Fainé Casas also resigned his position as Chairman and was appointed Honorary Chairman of Gas Natural Fenosa.

## Management Committee

In terms of management structure dependent on the Executive Chairman there is a Management Committee composed of:



Francisco Reynés Massanet  
Chairman & CEO



Carlos J. Álvarez Fernández  
Chief Financial Officer



Sergio Aranda Moreno  
General Manager  
Latin America



Antonio Basolas Tena  
General Manager  
Strategy and Development



José Mª Egea Krauel  
General Manager  
Energy Planning



Manuel Fernández Álvarez  
General Manager  
Wholesale Energy Business



Antonio Gallart Gabás  
Chairman of Compañía General de  
Electricidad, S.A.



Manuel García Cobaleda  
General Counsel and Secretary  
of the Board of Directors



Jordi Garcia Tabernero  
General Manager  
Communication and Institutional  
Relations



Daniel López Jordà  
General Manager  
Retail Energy Business



Antoni Peris Mingot  
General Manager  
Regulated Business



Rosa María Sanz García  
General Manager  
People and Resources

## Remuneration policy

### Board of Directors

The annual report on director remuneration was presented as a separate item for a consultative vote at the Shareholders' Meeting in 2017.

Directors' remuneration for their membership of the Board and its committees consists solely of fixed amounts determined on the basis of the positions they hold.

Based on a favourable report from the Appointments and Remuneration Committee, the Board of Directors resolved to maintain in 2017, without any changes, the remuneration for membership of the Board of Directors and Executive Committee (in force since 2007) and for membership of the Appointments and Remuneration Committee and the Audit Committee (in force since 2015).

### Remuneration for membership of the Board of Directors and its committees (Euros/year)

Chairman of the Board of Directors	550,000
Director	126,500
Chairman of the Executive Committee	550,000
Member of the Executive Committee	126,500
Member of the Appointments and Remuneration Committee	25,000
Member of the Audit Committee	40,000

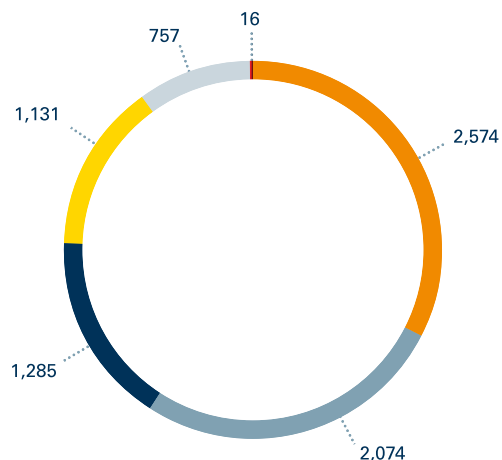
Remuneration of members of the Board of Directors for 2018 was determined by the Board of Directors at its session held on 6 February 2018, following a report from the Appointments and Remuneration Committee, and the previous amounts remained unchanged.

Item	Objective	Criteria
Fixed remuneration	Remunerate the level of responsibility attached to these functions.	Ensure that the remuneration is competitive vis-à-vis comparable companies.
Annual variable remuneration	Link remuneration with the company's performance in the short term.	Calculated on the basis of attainment of the objectives for the year: economic (EBITDA, net profit, working capital/revenues), efficiency (achievement of synergies), business growth (net increase in no. of gas connection points and sales of LNG in other countries) and quality, security and safety (accident rate, environmental ratios and customer satisfaction).
Multi-year variable remuneration.	Strengthen the commitment to achieving the goals set out in the strategic plans.	It is calculated by applying the degree of attainment of the economic goals related to optimisation and financial discipline (ebitda, net debt/ebitda, market capitalisation and enterprise value/ebitda), each weighted 25%.  The 2015-2017, 2016-2018 and 2017-2019 remuneration programmes are currently in force.
Other items.	Safeguard the company's benefits.	Health and life insurance.  Energy rebate.

The remuneration is supplemented by pension plans and a group health insurance policy.



Total remuneration earned by the Board of Directors in 2017, by type (Euros thousand).



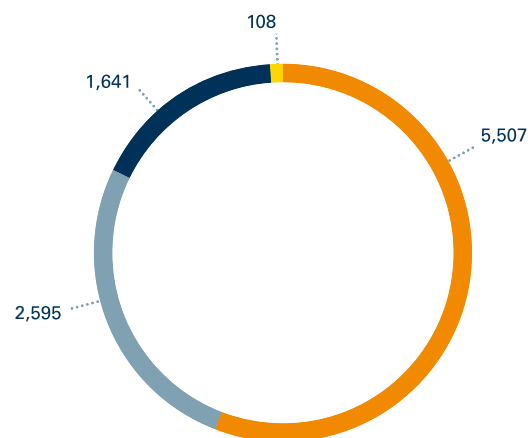
- For sitting on the Board.
- For sitting on the Board committees.
- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-annual variable remuneration.
- Other items.

### Management Committee

The general remuneration policy for members of the Management Committee is determined by the Board of Directors on the basis of a proposal by the Appointments and Remuneration Committee.

The remuneration model contains the same components as above for the CEO's executive functions, although it has specific individual objectives in addition to the group objectives.

Total remuneration earned by the Management Committee and head of Internal Audit<sup>1</sup> in 2017, by type (Euros thousand)



- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-annual variable remuneration.
- Other items.

<sup>1</sup>In accordance with CNMV Circular 5/2013, for the purposes of remuneration, senior management includes executives who report directly to the company's chief executive and also the head of internal audit.



For further information about the remuneration policy, please refer to the 2017 Annual Report on the remuneration of the members of the Board of Directors as well as the 2017 Annual Corporate Governance Report.





# 2014

## Set-up of Global Power Generation

Global Power Generation (GPG) was set up by Gas Natural Fenosa (75%) and KIA (25%, through its subsidiary Wren House Infrastructure), as a vehicle to channel its international electricity generation activity, one of the key vectors of growth defined by the group. Since its creation, GPG has developed and managed generation assets, with an overarching focus on using technologies in which the group's experience guarantees success and, through its latest acquisitions, reinforces the commitment to renewable generation.

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## Profit for the year

Commitment to results. [Page 72](#)

Service excellence. [Page 81](#)

Responsible environmental management. [Page 84](#)

Interest in people. [Page 88](#)

Health and safety. [Page 93](#)

Responsible supply chain. [Page 98](#)

Social commitment. [Page 102](#)

Integrity and transparency. [Page 107](#)





## Commitment to results

What resources are relevant to this commitment?

- > Financial.
- > Human.
- > Social.

How do we measure our performance?

- > Ebitda.
- > Net profit.
- > Investments.
- > Indebtedness.
- > *Pay out.*



What this means for Gas Natural Fenosa

In a challenging environment, Gas Natural Fenosa acts with the goal to maintain a solid financial and business profile. Gas Natural Fenosa's business model looks for a balance between regulated contracted activities and unregulated ones while applying a strict financial policy.

What is our commitment?

- > To protect our existing businesses while laying the foundations for future growth.
- > To continue with the financial track of Gas Natural Fenosa.

What are our main milestones in 2017?

- > Gas Natural Fenosa Renovables was awarded 667 MW of wind energy and 250 MW of photovoltaic power in the auctions carried out by the Government of Spain.
- > Signing of an agreement to sell a minority stake of 20% in the company that owns the natural gas distribution assets in Spain, for 1.5 billion euros.
- > Putting into commercial operation of the first photovoltaic production project in Brazil, of 68 MW.
- > Agreement with 2i Rete Gas and Edison for the sale of their companies and assets in Italy.
- > Agreement for the sale of its stake in gas distribution in Colombia to the Canadian fund Brookfield.
- > Operations to optimise the debt structure including the first issue of green bonds of 800 million euros to fund renewable projects, with an annual coupon of 0.875%.

## Results (millions of euros)

	2017	2016	2015
Revenue	23,306	21,908	26,015
Ebitda	3,915	4,664	5,264
Operating profit	2,112	2,764	3,261
Attributable net profit	1,360	1,347	1,502

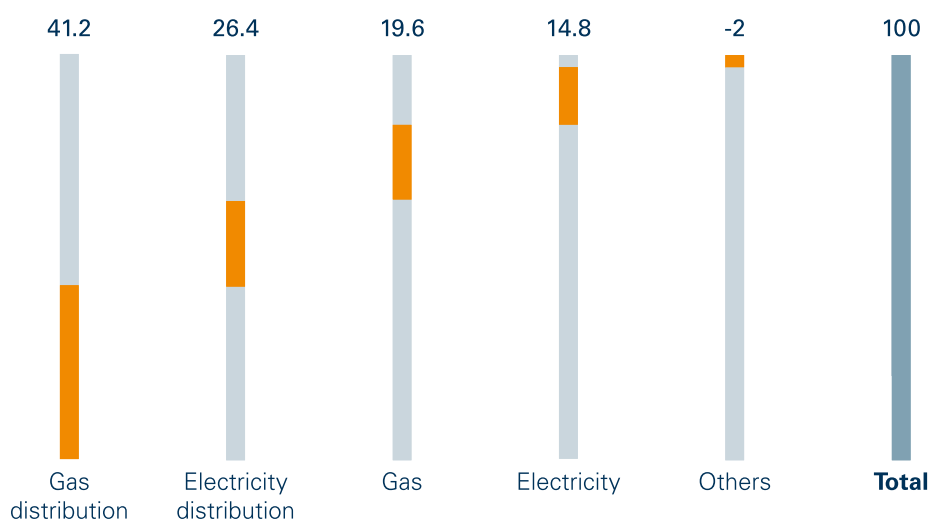
## Analysis of 2017 consolidated results

Net profit for 2017 amounted to 1,360 billion euros, an increase of 1.0% in comparison with 2016.

Consolidated Ebitda for 2017 was down by 749 million euros and reached 3,915 billion euros, with a decrease of 16.1% year-on-year once the gas distribution business in Italy and Columbia had been re-expressed, along with the electricity distribution business in Moldova, the gas commercialisation business in Italy and the electricity generation business in Kenya. However, the 2017 financial year, firstly, does not include the trading figures of Electricaribe and, secondly, records an increase of non-recurrent personnel expenses basically through the launch of the new Efficiency Plan 2018-2020 for 110 million euros, meaning that, in uniform terms, the decrease would only be 8.8%.

The evolution of converting currencies to euros in the consolidation process had a negative impact on Ebitda in 2017 of 15 million euros versus 2016, and this was mainly due to the depreciation of the dollar, the Argentinian peso and the Mexican peso.

Contribution to Ebitda by activity (%)

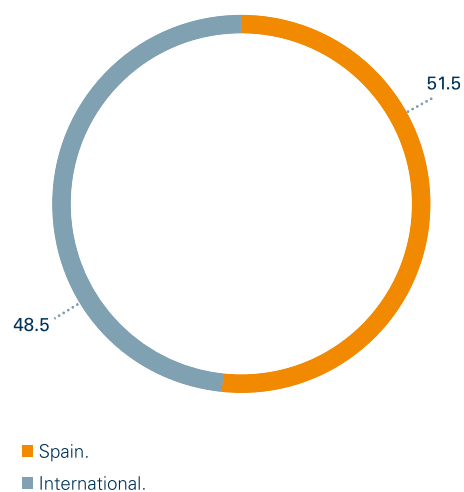


The graph below shows the different contributions to Ebitda by business lines and their diversification, and we can highlight the contribution of the gas distribution activity with 41.2% of the consolidated total. This is followed by electricity distribution, with 26.4%; gas activity with 19.6%, and electricity activity with 14.8%.

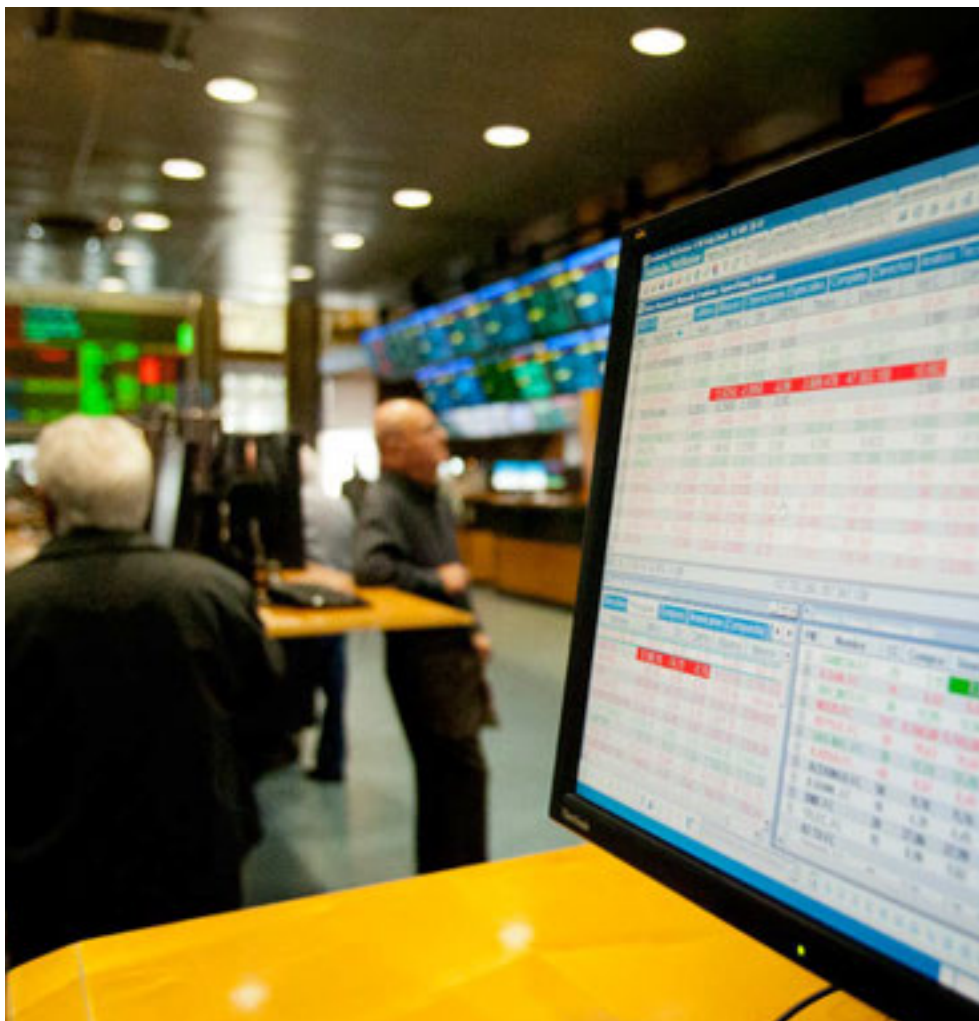


For further information on the performance of the Group's different business activities, please refer to the 2017 Consolidated Financial Report.

## Contribution to Ebitda by geographical area



Ebitda from international activities of Gas Natural Fenosa fell by 4.8% and accounts for 48.5% of the consolidated total, compared with 42.8% in the previous year. In addition, Ebitda from operations in Spain fell by 24.5%, and accounted for a lower relative proportion of 51.5% in the total consolidated amount.



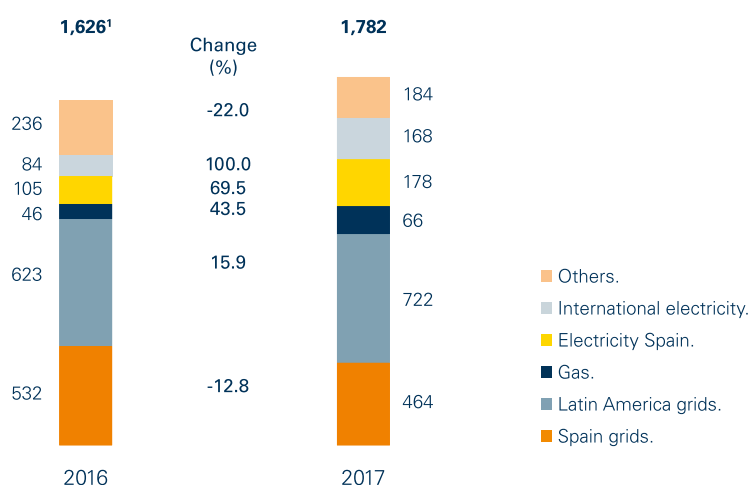
## Investments (millions of euros)

	2017	2016	2015
Tangible and intangible investments	1,782	2,517	1,767
Financial investment	44	384	315
<b>Total net investments</b>	<b>1,826</b>	<b>2,901</b>	<b>2,082</b>
Divestments and others	(229)	(676)	(660)
<b>Total investments</b>	<b>1,597</b>	<b>2,225</b>	<b>1,422</b>

Material and intangible investments in 2017 reached 1,782 billion euros, with a fall of 29.2% year-on-year, because in 2016 there was the procurement of two new methane tankers under a lease agreement for 425 million euros and the acquisition of new LPG supply points for 426 million euros.

The overall growth of investments is 9.5%, excluding in 2016 the aforementioned effects (the acquisition of methane tankers and LPG points), as well as the investments in Electricaribe (40 million euros).

The material and intangible investments in growth total 929 million euros (52% of the total).



<sup>1</sup>Proforma without considering the investments in Electricaribe (40 million euros), the acquisition of methane tankers (425 million euros) and the acquisition of LPG points (426 million euros).

## Financial debt (millions of euros)

	2017	2016	2015
Net financial debt (at 31/12)	15,154	15,423	15,648
Net financial debt/Ebitda	3.9x	3.3x	3.0x
Ebitda/Cost of net financial debt	6.4x	6.3x	6.4x
Debt (%)	45.3	44.8	45.8

At 31 December 2017, net financial debt totalled 15,154 billion euros, equivalent to a debt ratio of 45.3% (15,423 billion euros at 31 December 2016).

The Net debt/Ebitda and Ebitda/Cost of net financial debt ratios were 3.9x and 6.4x, respectively, at 31 December 2017.

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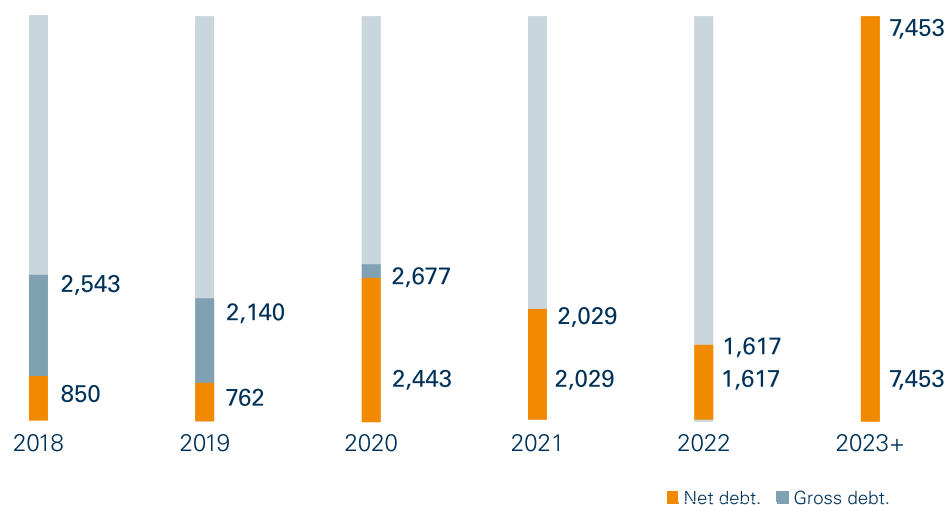


The above chart shows the net and gross debt maturity schedules of Gas Natural Fenosa at 31 December 2017. The gross debts totals 18,459 billion euros.

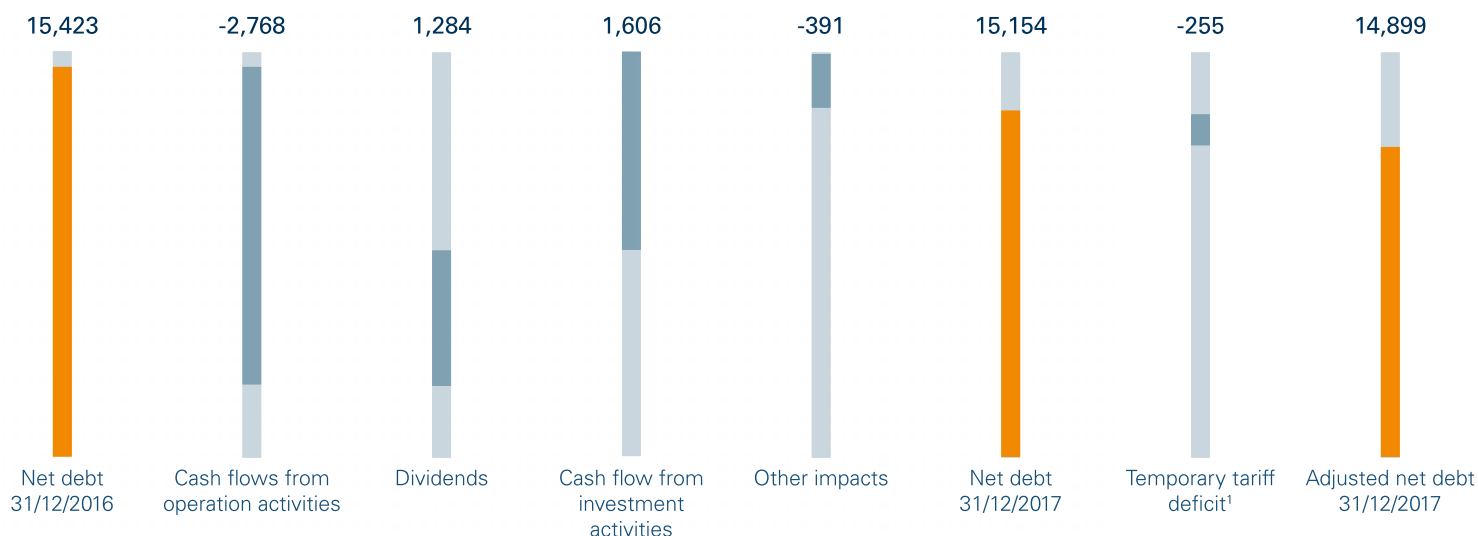
89.4% of the maturities of net financial debt have a maturity equal to or later than 2020. Net debt has an approximate average length of 5.8 years.

5.6% of the net financial debt matures in the short term and the remaining 94.4% matures in the long term.

Maturity of financial debt (millions of euros)



The following graph shows the evolution of net debt for 2017 (millions of euros)



<sup>1</sup>Includes 91 million euros of electricity tariff deficit and 164 million euros of gas tariff deficit.

Other impacts includes the conversion differences and others. In addition, it includes the net debt impact for the transfer of the gas distribution business in Italy and Colombia, the electricity distribution in Moldova and electricity production in Kenya to non-current assets and liabilities held for sale for an amount of 318 million euros.

At 31 December 2017, cash and other cash equivalents together with available bank financing totalled 10,550 billion euros, which gave a level of liquidity that covers maturities of more than 24 months.

In addition, the financial instruments available on the capitals market at 31 December 2017 totalled 6,254 billion euros and included the Euro Medium Term Notes programme (EMTN) for the amount of 3,795 billion euros, the Euro Commercial Paper Programme (ECP) for the amount of 1,000 million euros; and the Stock Market Certificates programme on the Mexican Securities Exchange and the Commercial Securities in Panama, the Commercial Securities in Argentina and the bond lines in Chile, which jointly accounted for 1,459 billion euros.

#### Stock market information and shareholder remuneration

As regards the company's stock market performance, the Gas Natural Fenosa shares closed 2017 at a price of 19.25 euros and stock market capitalisation of 19,263 billion euros, which represents a 7.5% increase versus the previous year end, very similar to the rise experienced by the Ibex 35, the main Spanish stock market index, of 7.4%.

#### Short- and long-term credit rating of Gas Natural Fenosa

Agency	Short term	Long term
Fitch	F2	BBB+
Moody's	P-2	Baa2
Standard & Poor's	A-2	BBB

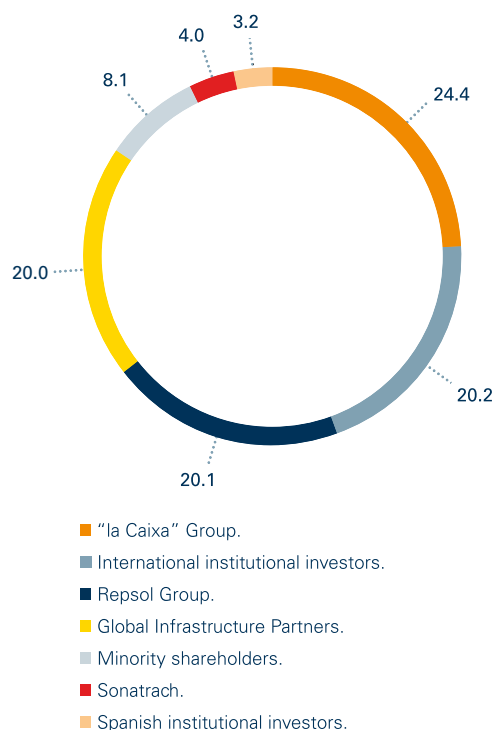
As regards the company's stock market performance, Gas Natural Fenosa's shares closed 2017 at a price of 19.25 euros and stock market capitalisation of 19,263 billion euros, which represents a 7.5% increase versus the previous year end.

	2017	2016	2015
Number of shareholders (thousands)	79	82	73
Average number of shares <sup>1</sup> (thousands)	1,000,478	1,000,468	1,000,689
Share price at 31/12 (euros)	19.25	17.91	18.82
Stock market capitalisation at 31/12 (millions of euros)	19,263	17,922	18,828
Earnings per share (euros)	1.36	1.35	1.57
Pay out (%)	73.6	74.3	66.6
Total dividend <sup>2</sup> (millions of euros)	1,001	1,001	1,001
Dividend per share	1.00	1.00	1.00
Share price-profit ratio	14.2	13.3	12.5

<sup>1</sup> Calculated considering the average weighted number of own shares during the financial year.

<sup>2</sup> Considering total amount equivalent for dividends. In 2017, it includes a final dividend of 671 million euros pending approval by the General Shareholders' Meeting.

Shareholders and investors of Gas Natural Fenosa (% at 31 December 2017)



On 22 February 2018, Repsol announced the sale of its 20.1% to Rioja Bidco Shareholdings, S.L.U. ("Rioja"), a company controlled by funds advised by CVC.

### Commitment and ongoing relationship with shareholders

The proposal for distribution of 2017 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 73.6% and a dividend yield of 5.2%, taking the share price listing at 31 December 2017 of 19.25 euros/share as the benchmark. On 27 September, an interim dividend charged to profits for the 2017 year was paid, equivalent to 0.330 euros/share.

### 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, it 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, under a criterion of uniformity, simultaneousness and diligence.

In April 2017, coinciding with the General Meeting of Shareholders, the company launched Energy in Action, the shareholders' club of Gas Natural Fenosa, and a meeting point for its minority investors. The aim of the club, which has its own exclusive online space, is to maintain an active relationship with shareholders, offering them services of interest to them along with specialised information.

The Shareholder Assistance Office provides a continuous reporting service to minority shareholders through a freephone number. In 2017, the company continued to hold informative meetings, two of which were held in Madrid and a further two in Barcelona. Furthermore, representatives from the company's 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, 589 meetings were organised, of which 487 were held with variable-income investors, as well as with fixed-income investors and socially-responsible investors.

### Communication channel indicators

	2017	2016	2015
Meetings with shareholders and analysts	589	520	432



**Presence in socially responsible investment indices and ratings**

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

Indices and ratings featuring the presence of Gas Natural Fenosa in 2017





For the last 13 years, Gas Natural Fenosa has had a constant presence on the Dow Jones Sustainability Index (DJSI). In 2017, the company was once again selected as leader in the Gas Utilities sector, maintaining its presence in DJSI World, where it is the only company from its sector that forms part of this index. It also forms part of the DJSI Europe. Despite the leadership, the company has lost ground with regard to its overall assessment, as well as for each one of the yardsticks, although it has obtained the highest score in the sector.

The company has obtained the highest scores of the Gas Utilities sector in aspects such as codes of conduct, security of information and cyber-security, innovation management, market opportunities, supply chain management, climate strategy, environmental information, corporate

citizenship and philanthropy, development of human capital, human rights, social reporting and attracting and retaining talent.

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

In 2017, Gas Natural Fenosa maintained its presence on other sustainability indices and ratings such as Oekom, Sustainalytics, STOXX ESG Leaders Indices and Euronext Vigeo, of which the company forms part of the Europe 120 and Eurozone 120 variants, ranking it as one of the 120 leading sustainability companies of Europe and the Eurozone.

The company also forms part of the MSCI Global Climate Index, which includes leading companies in the mitigation of factors that contribute towards climate change in the short and long term and of the MSCI ESG leaders index, which includes leading companies in integrating social, environmental and good governance aspects into the company's activity.

Gas Natural Fenosa was also included on the Carbon Disclosure Project A-List.

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.

	2017	2016	2015
Evolution of Gas Natural Fenosa's classification on the DJSI	86	91	89

The company has obtained the highest scores of the Gas Utilities sector in aspects such as codes of conduct, security of information and cyber-security, innovation management, market opportunities, supply chain management, climate strategy, environmental information, corporate citizenship and philanthropy, development of human capital, human rights, social reporting and attracting and retaining talent.



## Service excellence

What resources are relevant for this undertaking?

- > Financial.
- > Manufactured.
- > Human.
- > Social.

How do we measure our performance?

- > Overall satisfaction with service quality.



What does it mean for Gas Natural Fenosa?

Gas Natural Fenosa directs its efforts to provide its customers with a service and experience that, in addition to complying with legal requirements, is in accordance with your needs and fulfills the commitments voluntarily assumed by the group.

What is our commitment?

- > To work 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.

What are our main milestones in 2017?

- > Continuing to make progress in the Customer Experience and Advocacy projects and in group complaints.
- > Execute the joint project with Repsol of LNG stations at the main points of the Spanish transport network.
- > Customising management to high-value SME customers.
- > 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.

## Analysis of the 2017 results

### Quality and reliability of the service

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.

In 2017, the main investment projects undertaken in Latin America were the renewal of the gas network in Argentina (24.6 km), Mexico (46.1 km, mainly in Monterrey) and in Brazil (40 km in Rio de

Janeiro); the renewal of connections in Argentina (12,481 connections in Buenos Aires), Mexico (5,190 connections) and Brazil (1,643 connections).

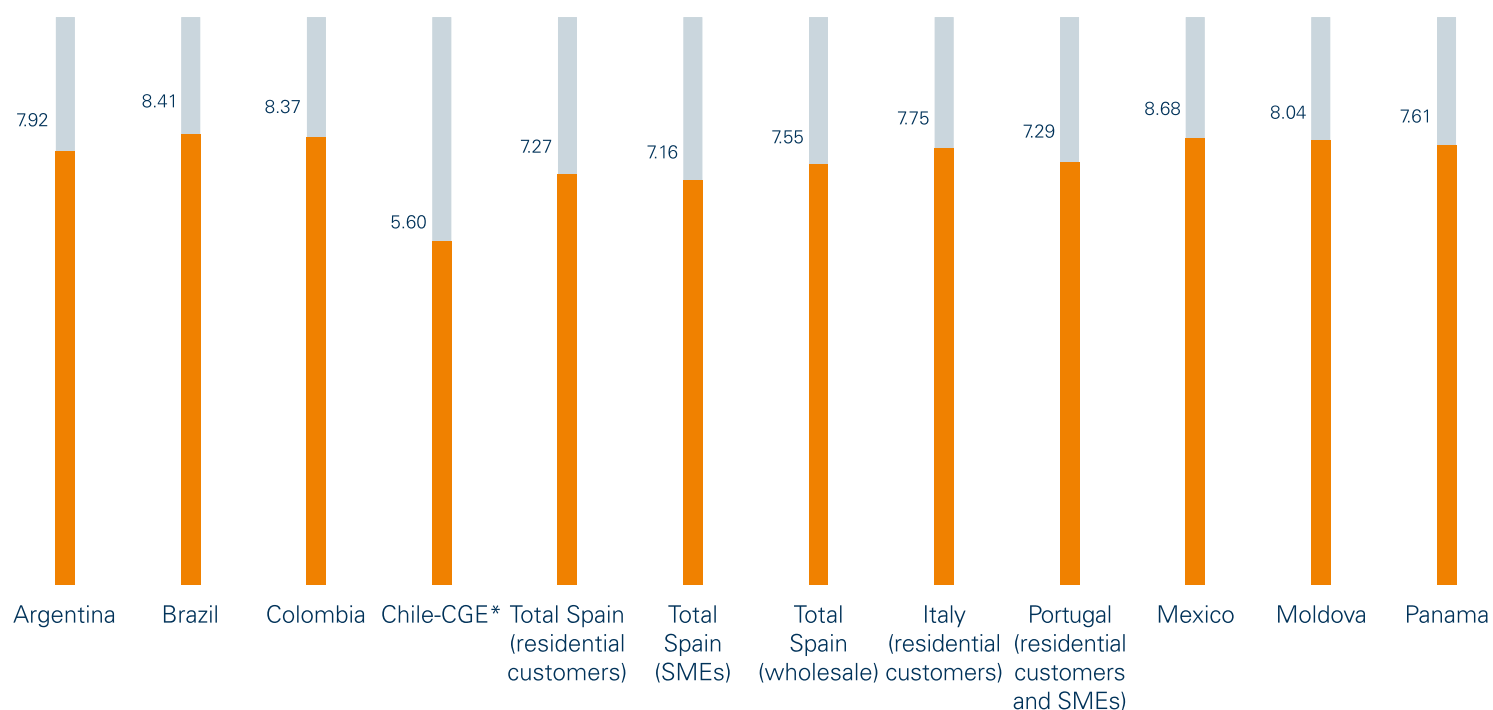
### Products and services adapted to customers' requirements and priorities

Gas Natural Fenosa's commercial strategy pays special attention to current customer satisfaction, as well as optimisation of the commercial supply. The loyalty schemes are targeted at contributing towards the customer's welfare, while also company looks for generating security and trust in management.

Gas Natural Fenosa offers value added products and services on top of the gas and electricity supply in order to maximize its commercial offer and retain the customers. 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 2017, we have consolidated the catalogue of products and services for residential and SME customers with new energy tariffs and types of maintenance that include smart devices.

### Customer's satisfaction and experience



Gas Natural Fenosa has a model to measure customers' experience, through which it constantly monitors its satisfaction and recommendation level. During 2017, we have extended the Customer Experience Management (CEM) tool as an instrument to measure and manage the customer experience by adding new functionalities. Following the customer's interaction with the company, the former receives a short questionnaire to find out their level of satisfaction and recommendation, and they are asked to grade their experience.

The measurement model rests on two complementary pillars:

- 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.

In the retail sector, Gas Natural Fenosa continues to spearhead satisfaction in Spain for a further year.

### Communication and transparency with customers

Gas Natural Fenosa has adapted communication with customers through the use of new technologies, which encourages ongoing contact.

Also, Gas Natural Fenosa is aware that the bill continues to be the main channel of communication with its customers. That is

why includes information of interest to the customer, helping to explain the content of the bill and how regulatory changes affect this.

In 2017, Gas Natural Fenosa has worked on the introduction of billing methods and on the development of estimation alternatives, introducing a range of improvements in the billing process:

- Receiving the bill before the bank debit and on time.
- The possibility of paying non-direct debit bills 24 hours a day, 365 days a year.
- Launch of the card payment in Portugal.
- Launch of the "Understand your Bill" service for Energy Class and Premium customers.

### Customer service

Gas Natural Fenosa has is looking to develop a more personal and customized model. This model has been developed in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal and 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.

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 2017, over 104,000 gas and electricity customers enjoyed preferential treatment and advice on their energy supply and management of their contracts.

### Privacy and security of the customer's data

Gas Natural Fenosa has defined an Information Security Policy that ensures proper processing of this data throughout its life cycle, from collection and processing through to removal or safeguarding this data once the relationship has terminated.

A total of 730 complaints concerning customer privacy were individually analyzed, investigated and resolved in 2017, as part of the process defined by the company.

According to the external report of data audit, Gas Natural Fenosa satisfactorily complies with the security measures required in the Implementing norms of the Personal Data Protection Act.

During 2017 we have undertaken the analysis project to adapt Gas Natural Fenosa to the new General Regulations governing Personal Data Protection (RGPD) at European level. This project includes some adaptation actions that were carried out in 2017 and a proposal for action scheduled for 2018.



For more information on commitment with customers, see the "Service Excellence" section of the 2017 Corporate Responsibility Report.



## Responsible management of the environment

What resources are relevant for this undertaking?

- > Financial.
- > Manufactured.
- > Environmental.
- > Social.



How do we measure our performance?

- > Direct greenhouse gas emissions.
- > Emission factor for electricity generation.
- > Installed capacity free of emissions.
- > Net production free of emissions.
- > Activity with ISO 14001 environmental certification.

What does it mean for Gas Natural Fenosa?

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.

What is our commitment?

- > Contributing to 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 technologies.
- > 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.

What are our main milestones in 2017?

- > Definition of the new Environmental Strategy to 2020 based on the environmental pillars of climate and air quality, water, natural capital and circular economy.
- > Growth in low or zero-emission renewable power in alignment with climate and air quality strategy.
- > Consolidation of risk and opportunity analysis in relation with climate.
- > Progress in the certification of new environmental management systems in compliance with ISO 14001, with adaptation to the 2015 revision of the standard.
- > Upholding our scores to remain in leadership band A of the Carbon Disclosure Program (CDP) questionnaire in relation with climate and water.
- > Defining positioning and roll-out of lines of action in relation with circular economy.

## Analysis of the 2017 results

	Unit	2017	2016
Direct greenhouse gas emissions	MtCO <sub>2</sub> e	20.5	19.5
Emission factor for electricity generation <sup>1</sup>	tCO <sub>2</sub> /GWh	431	411
Installed capacity free of emissions <sup>2</sup>	%	22.4	22.1
Net production free of emissions <sup>2</sup>	%	9.7	16.4
Activity with ISO 14001 environmental certification <sup>3</sup>	%	87.7	86.3

<sup>1</sup> Factor for power generation facilities operated by Gas Natural Fenosa and in which has a controlling interest (Corporate Responsibility Report perimeter).

<sup>2</sup> By historic traceability, including nuclear power generation.

<sup>3</sup> Taking into account only the Ebitda of companies with environmental impact. The ebitda of the certificated activity with ISO 14001 represents the 78.8% of total ebitda.

### Integrated environmental management

In 2017, Gas Natural Fenosa activities that have a significant environmental impact was covered by the environmental management model set out in the ISO 14001 standard. It should be pointed out that the system was successfully switched over to the 2015 version of the standard over the course of the year. Variations are due to the increase in certified businesses and disinvestments made by the group which had been certified according to this standard. In 2017, environmental certification was extended to electricity and gas distribution companies in Chile.

Environmental planning is included in the Quality, Environment, Security and Health Plan. This plan consists of strategies and lines of action which define the working guidelines for each period. There were 257 environmental management-related objectives defined in 2017 with satisfactory fulfilment of the plan.

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in our activities. In this sense, a total of 3,826 hours of training were received by 1,572 participants in 2017, with plan objectives being met by 140% and 133%, respectively.

### Environmental Strategy to 2020

The Environmental Strategy is based on four environmental and two transversal pillars. The environmental pillars are defined according to the key vectors of the company's environmental management system:

- Climate and Air: Reducing emissions through our operations and promoting the use of sustainable energy.
- Water: Promoting the efficient and responsible use of water.
- Natural Capital: Minimising the impacts on ecosystems and promoting natural capital.
- Circular Economy: Optimising resource consumption and enhancing resource recirculation.

The transversal pillars are necessary for integrating environmental sustainability into the decision-making process within the group's businesses. In turn, these pillars have been transposed into 22 lines of action (16 environmental and 6 transversal). Each line of action is divided into a series of actions that sets out the guidelines to enable each business to define objectives (specific actions).

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

### Climate and air

The climate and air quality pillar aims to reduce emissions through our operations and to promote the use of sustainable energy. The lines of action associated with this pillar are:

- > Reducing emissions through the operations.
- > Reducing emissions by means of energy efficiency.
- > Developing sustainable services and products.
- > Integrating internal climate change management.
- > Determining impact and performance.

Thermal power stations operation increased significantly in 2017 compared to 2016 as a consequence of the lower availability of renewable resources in Spain. The lack of rains and wind hindered normal operations of zero-emissions installations, making it necessary to bring in manageable and CO<sub>2</sub>-emitting energies to satisfy demand. As a result, emission values were recorded that were significantly higher than those of 2016, a year with more favorable weather conditions, although not as high as those recorded in 2015.

Gas Natural Fenosa is firmly committed to sustained growth in its renewable energy generation installations. Given the circumstances described, power generated from renewable energy sources was lower than the previous year's figure. Despite 2017 being a dry year with less wind, lower environmental impact was appreciated when compared to years with similar weather

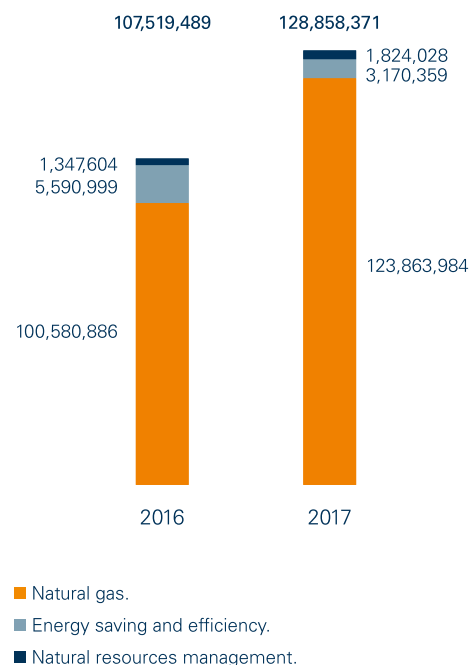
patterns, such as 2012. Mention should be made of the new developments in renewable technologies taking place in Brazil and those earmarked for 2018 in the Canary Islands.

Gas Natural Fenosa takes an active role in the global business initiatives and climate action and in the most relevant international forums, such as the United Nations Conference of the Parties.

In 2017, there was an increase in absolute emissions of SO<sub>2</sub>, NO<sub>x</sub> and total suspended particles (TSP) into the atmosphere, due to increased operations of the thermal power stations, caused by the decrease in renewables production (hydroelectricity and wind power) in Spain.

Likewise, there was significant progress made in 2017 in relation to the development of renewable gas and the promotion of sustainable, low-emission mobility.

Initiatives to reduce GHG emissions (tCO<sub>2</sub>e)



For further information on the commitment to mitigating climate change, please see the 2017 Carbon Footprint Report.

Gas Natural Fenosa takes an active role in the global business initiatives and climate action and in the most relevant international forums, such as the United Nations Conference of the Parties.

## Water

For the purpose of promoting the efficient and responsible use of water, the lines of action associated with this pillar are:

- > Optimising water consumption and reducing water discharge.
- > Fostering the sustainable use of water among our stakeholders.
- > Including water in the decision-making process.
- > Determining impact and performance.

In general terms, there was a significant increase in the volume of water consumed in 2017, mainly owing to increased demand created by activity at coal-fired and combined-cycle power stations.

## Natural capital

The aim of this pillar is to minimise the impacts on ecosystems and to promote natural capital. In this sense, the associated lines of action are:

- > Reducing and compensating for our impacts and enhancing the value of natural environments.
- > Determining our impact on natural capital.
- > Determining impact and performance.

The company continues 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.



The company conducted a large number of actions to preserve biodiversity, some of these in response to the requirements set out by the environmental authorities and others of a voluntary nature.

## Circular economy

Gas Natural Fenosa focuses its efforts in the field of circular economy on optimising resource consumption and enhancing resource recirculation. For this purpose, the following lines of action have been developed:

- > Optimising the consumption of raw materials.

- > Reducing the production of waste and encouraging its transformation into by-products.
- > Contributing to the development of circular economy regulation.
- > Determining impact and performance.

In 2017, generation of the most significant non-hazardous waste increased compared to 2016. Owing to reasons previously explained, mention must be made of increased ash and slag production.



A specific report on biodiversity is published and provides greater detail of contents. The interactive version of this report can be seen at <http://www.informe biodiversidad.gasnaturalfenosa.com>.



For more information on the responsible environmental management, please see the "Responsible management of the environment" section of the 2017 Corporate Responsibility Report.





## Interest in People

### What resources are relevant for this undertaking?

- > Financial.
- > Human.
- > Social.

### How do we measure our performance?

- > Total number of employees.
- > Average age and length of service.
- > Voluntary rotation index.
- > Total training hours.
- > Corporate University participants.
- > Percentage of staff taking part.
- > Training hours per employee.
- > Investment in training per person.
- > People with disabilities integration index.
- > Diversity men/women.
- > Women in management posts.

### What does it mean for Gas Natural Fenosa?

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.

### What is our commitment?

- > To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination 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.

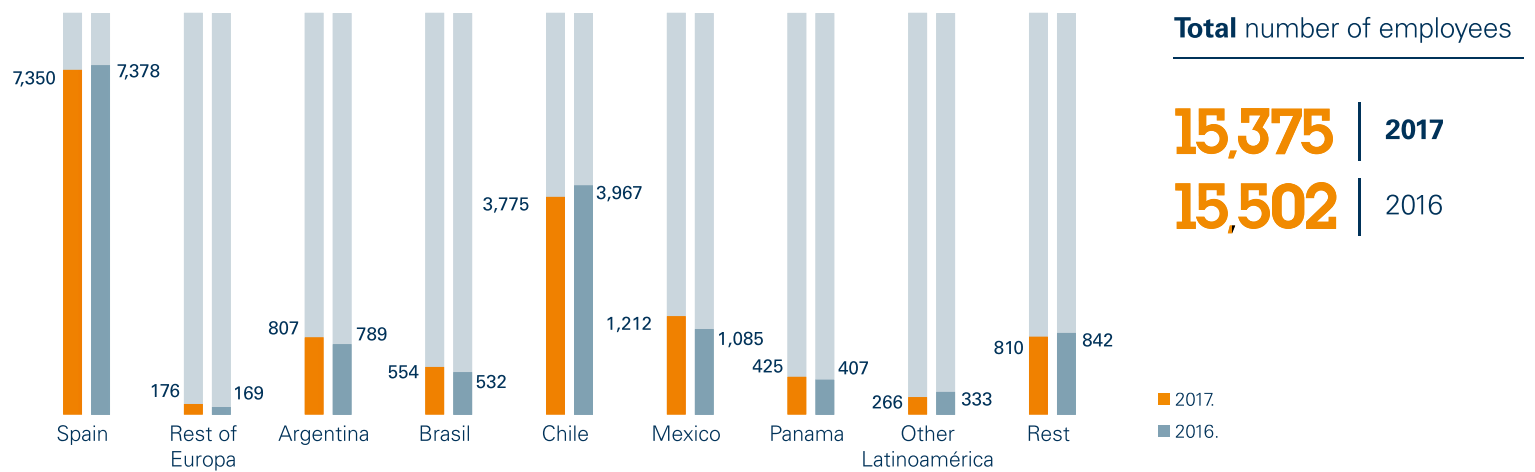
### What are our main milestones in 2017?

- > Consolidation of the Strategic Workforce Planning model for planning and management of workforces.
- > Cultural transformation and development of PIP services to accompany the implementation of an innovation culture.
- > Talent management, diversity, leadership and internationalization.
- > Consolidation of the operational model of human resources management.



## Analysis of the 2017 results

Geographic distribution number of employees at the end of the year



Note: Does not include the number of people corresponding to discontinued operations amounting to 1,396 people in 2017 (1,727 people in 2016) nor the number of employees of the companies recorded under the equity method amounting to 819 people in 2017 (848 people in 2016).

### People management strategy

During 2017, the strategy of managing people at Gas Natural Fenosa focused on levers of cultural transformation, employee experience, strategic planning of people and new models of organizational performance.

Gas Natural Fenosa pretends to offer its employees stable, quality employment together with a solid, structured and attractive professional career, where 96% of the positions have open-ended contracts.

In this regard, we can highlight the fact that 84% of employees declare they have a high level of commitment to the company (Workplace Climate Survey 2017).



### Areas and levers of the people management strategy

#### Organizational performance

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##### Smart simplicity

- > New organizational models.
- > Evolution of people management processes.

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##### Extended workforce

- > Subcontracting borders.
- > Model of relationship Gas Natural Fenosa-Suppliers.
- > Occupational risk management.

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##### Human Resources Operating Model

- > HR analytics.
- > CSC productivity.

#### Cultural development

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##### Cultural transformation

- > Target culture.
- > Evolution of people management processes.
- > Role-modeling.

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##### Employee experience

- > Employee journey.
- > Employer branding.

#### Leadership and talent

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##### Strategic planning of people

- > We take care of the experience.
- > Diversity.
- > Internationalization of the group profile.
- > Strategic workforce planning.

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##### Leadership

- > Employee journey.
- > Employer branding.
- > Meritocracy.

Employee rotation amounts to 6.4 in 2017 and 7.1 in 2016.

In 2017, the talent management cycle has been applied to all professionals that hold executive positions, and it has been integrated into the new talent management digital platform "Evolution", based on SAP technology. In-class training sessions have taken place in all countries directed to guarantee experience in using the new platform and the understanding of the annual talent cycle.

Through the global talent management model, the company assesses professional skills, individual development plans, talent segmentation and internal mobility and promotion. The model is implemented in all countries, with the aim of offering development opportunities for all professionals through customized learning actions, mobility, project assignment or by joining coaching and mentoring programs.

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.

	2017	2016
Voluntary rotation index	2.9	2.5

## Average age and length of service

	Años
Average age	44.1
Average length of service	14.7


For Gas Natural Fenosa it is essential to promote diversity and equal opportunities in 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.

In 2017, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan (IDP) which brings together specific initiatives for people management, classified into three areas: gender, disabilities and age.

## Diversity and equality (%)

	2017	2016
People with disabilities integration index in Spain	2.57	2.42
Diversity men/women	71/29	71/29
Women in management posts	26.2	25.7

Gas Natural Fenosa continues to promote an appropriate work-life balance through a significant number of flexible employment measures, services and benefits adapted to employees' needs.

 For Gas Natural Fenosa it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue.



## Training

The Corporate University 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.

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.

## Compensation and remuneration

Gas Natural Fenosa's remuneration policy seeks to respond to 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.

The remuneration package of Gas Natural Fenosa employees is supplemented with a social benefits system, which includes a joint promotion pension plan, the main vehicle of funding post-employment commitments.

	2017	2016
Total training hours	613,623	889,626
Corporate University participants	97,604	138,872
Percentage of staff taking part	93.7	87.4
Training hours per employee	38.4	51.0
Investment in training per person (€)	897	803

Note 1: There is a decrease in average hours per employee, and in general in all training indicators, for the consolidation of data from Chile, with a smaller training volume than the rest of the group and by reducing the number of transversal programs.

Note 2: Corporate University remained closed for three months for the implementation of the new corporate systems, therefore the final indicator of hours of training performed has been affected by this event.

## Internal communication with employees

The purpose of internal communication has the aim to contribute towards compliance with the company's strategic objectives based on growth, safety, leadership, innovation and the client as the focal point, supported through the different business areas and with the aim of contributing to increase the pride and the sense of belonging.

Gas Natural Fenosa has a range of channels to disseminate these messages, such as the corporate Intranet and the magazine Natural, which is distributed internationally. During 2017 we have been working on creating a new corporate channel for the informative contents which hitherto were disclosed on the Intranet, which will be called Naturalnews and the launch of which

is scheduled for the beginning of 2018.

This is a move towards communication that is more digital, with a friendly design, accessible through mobile devices, multi-language, interactive with new informative content to increase employees' satisfaction and encourage their participation and collaboration.

More than 950 news items were published in 2017 on Naturalnet along with some 40 videos with major participation by employees. The magazine Natural has also been redesigned to make it more attractive and supportive.

Yammer, the company's corporate social network, is growing more consolidated and already has almost 9,000 registered users at international level.



For more information on commitment with employees, please see the "Interest in people" section of the 2017 Corporate Responsibility Report.



## Health and safety

### What resources are relevant for this undertaking?

- > Financial.
- > Manufactured.
- > Human.
- > Social.

### How do we measure our performance?

- > Accidents requiring medical leave.
- > Days lost.
- > Mortalities.
- > Frequency rate.
- > Severity rate.
- > Incidence rate.

### What does it mean for Gas Natural Fenosa?

The activities of Gas Natural Fenosa are planned and developed taking into account the health, safety and well-being of people as a critical aspect of great relevance. Health and safety at work is a strategic and unwavering commitment at Gas Natural Fenosa, as reflected in its Code of Ethics, in the Corporate Responsibility Policy and the Human Rights Policy.

### What is our commitment?

- > 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.
- > Ensure that any potential risk situations 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 the prevention of occupational risks and actions to protect and promote health and well-being into business management.
- > 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.

### What are our main milestones in 2017?

- > The introduction of the awareness program on health and safety "Journey to Safety for Collaborating Companies".
- > The implementation of the methodology for calculating accident indicators for collaborating companies.
- > The implementation of the new management model of health and safety training in the global scope of the company.
- > The introduction of preventive medicine at the company.
- > The consolidation of the healthy business model in countries already certified, and achieving new certifications.

## Analysis of the 2017 results

### Accident indicators of employees and collaborating companies

	2017					
	Employees			Collaborating companies		
	Total	Men	Women	Total	Men	Women
Accidents requiring medical leave	<b>45</b>	40	5	<b>491</b>	459	32
Days lost	<b>1,708</b>	1,605	103	<b>12,674</b>	11,789	885
Mortalities	-	-	-	<b>2</b>	2	-
Frequency rate	<b>1.3</b>	1.65	0.49	<b>4.41</b>	4.87	1.88
Severity rate	<b>0.05</b>	0.07	0.01	<b>0.11</b>	0.13	0.05
Incidence rate	<b>2.65</b>	3.34	0.99	<b>7.41</b>	8.19	3.15

An overall decrease is recorded in all the indicators that strengthen the “Health and Safety Commitment” of the group:

- > 31% decrease in accidents requiring medical leave and 24% decrease in frequency rate from 2016.
- > 30% decrease in days lost and 17% decrease in the severity rate from 2016.
- > 24% decrease in the incidence rate.

It is important to note that since the start of the Commitment, a 77% accumulate decrease has been recorded in the frequency rate (5.60 to 1.30), as well as since 2015 there have been no mortalities of own employees.

Health and safety are essential elements in the company’s business strategy and represent one of its key commitments.



**Health and Safety Strategy**

Health and safety are key parts of the company’s business strategy, which is referred to as the “Health and Safety Commitment”; one of the major undertakings established in the Corporate Responsibility Policy. It seeks to achieve a common culture in which all levels of the company, spearheaded by the Board of Directors, will acquire a firm commitment to continuous improvement in this area.

The health and safety strategy has revolved around four pillars, leading to the development of different strategic objectives and goals to be achieved. The four pillars are:

**Pillars of the Health and Safety Strategy**




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Health and safety as a strategic lever to align and capture efficiencies.

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Turning Gas Natural Fenosa into a worldwide benchmark in health and safety issues.

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Drastically reducing the accident rate at collaborating companies.

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Implementing the commitment in all countries where the company will have a presence.

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Safety continues to represent the largest area of training at the company, with 159,475 hours, and extending the culture to collaborating companies is guaranteed through the 36,730 work inspections and supervisions that have been introduced as a mechanism to support compliance with the operational discipline.

**Risk prevention**

To ensure safety in the activities of Gas Natural Fenosa, measures aimed at preventing accidents and incidents have been introduced that are supported on these principles:

- 01 **Nothing is more important than health and safety**
- 02 **All accidents are avoidable**
- 03 **Safety is a responsibility of the management**
- 04 **Safety is a responsibility of the individual**
- 05 **All jobs should be planned and carried out with safety in mind**

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.
- > Yearly checks of the health and safety conditions.
- > Monitoring of preventive measures to be introduced as a result of the risk assessment and regular checks every quarter.

In addition, Gas Natural Fenosa develops other mechanisms designed to ensure that the safety level of collaborating companies is the same as for its own staff. In recent years an impact plan has been introduced for all collaborating companies of Gas Natural Fenosa. Among other things, this plan that encompasses site inspections, the introduction of training itineraries, the application of preventive safety observations, the creation of check-lists prior to commencement of works and the planning of coordination meetings. In addition, each collaborating company must have an action plan that ensures minimum safety standards.

**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 introduced 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.

**Training and awareness**

Gas Natural Fenosa has looked for a cultural change achieved at the company in recent years in health and safety issues is largely through the efforts made in providing quality training, both for our own employees as well as collaborating companies. In terms of training actions, we would like to highlight the virtual reality workshops.

**Certifications**

Throughout 2017, there were a total of 42 internal audits conducted by qualified auditors and 32 external audits of the management system pursuant to OHSAS 18001. Additionally, this year, we introduced an internal audit system that allow to analyze the degree of implementation of the Health and Safety Commitment in each of the company’s business.

**Safety in facilities and processes**

Industrial risk management is included in the preventive activity of Gas Natural Fenosa. In risk management, its main objectives are the detection and minimization 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.

In addition, in 2017, safety audits were carried out 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.

**Health**

Gas Natural Fenosa is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit contributes to achieving this goal.

Master Health Plan defines the strategic guidelines and establishes the general framework for action of Gas Natural Fenosa in the field of healthcare, ergonomics and psycho/sociology.

Master Health Plan targets

Standardized actions.	Ensuring the health of workers, developing standardized 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.



For more information, please see the “Health and safety” section of the 2017 Corporate Responsibility Report.

## Responsible supply chain

What resources are relevant for this undertaking?

- > Financial.
- > Manufactured.
- > Human.
- > Social.

How do we measure our performance?

- > Total number of suppliers.
- > Total purchase volume awarded.
- > Assessment of suppliers ESG.
- > Number of critical supplies.
- > Official-approval suspended suppliers.



What does it mean for Gas Natural Fenosa?

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Gas Natural Fenosa, and the company therefore pretends to promote long-term relations, based on trust, that are stable, sound and of mutual benefit, under the principles of risk efficiency and management.

What is our commitment?

- > 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.
- > Ensuring fairness, independence and transparency in the procurement process.
- > Promoting the development of suppliers by identifying opportunities for collaboration and innovation and encouraging a climate of transparent communication, to guarantee that partner companies satisfy the group's standards of Corporate Social Responsibility, quality, safety and service.

What are our main milestones in 2017?

- > Finalisation of the implementation of the supplier classification process in the entire group.
- > Finalisation of the extension and implementation of the Bravo platform at the main subsidiaries.

## Analysis of the 2017 results

The company therefore promotes long-term relations based on trust, under the principles transparency, objectivity and risk management.

	2017	2016
Total number of suppliers	9,877	12,072
Total purchase volume awarded (millions of euros)	3,428	3,599
Assessment of suppliers ESG <sup>1</sup>	4,758	1,556
Number of critical supplies	2,457	1,556
Official-approval suspended suppliers	7	15

<sup>1</sup> Environmental, Social and Governance.

### Management of the supply chain

The management of the supply chain is based on application of unified and universal contractual conditions for the entire scope of 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 and 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 2017 took an active part in the CPOnet Congress. It is also a member of the Procurement Leadership Council, an initiative led by the Corporate Executive Board.

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 purchase category 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 Quality, Health and Safety, Environmental, Social and Governance and Operational risk factors, to searching to ensure that suppliers comply with the requirements requested.

**3. Contractual compliance and documentary management:** 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.





**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.

**5. Development of suppliers:** Introduce strategic relations that facilitate opportunities for partnership and improvement in products and services supplied.

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. 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 governance (ESG):** 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.

> **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 risk:** Possibility of infringements and breaches by providers of laws, rules and practices that apply to them.



For more information on the management of the supply chain, please see the “Responsible supply chain” section of the 2017 Corporate Responsibility Report.

**Assessment of suppliers**

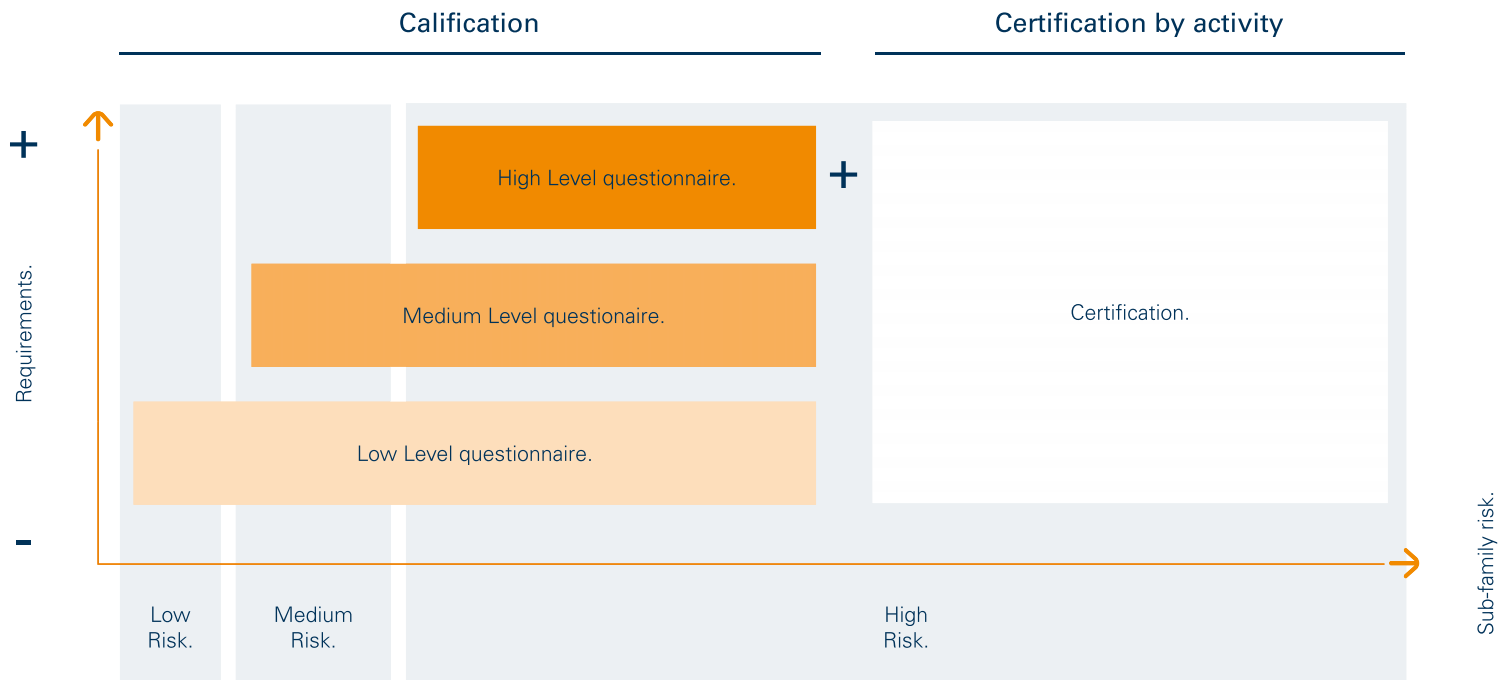
Supplier assessment at Gas Natural Fenosa comprises the business classification of the supplier and the approval process of the supplier for the supply. Both processes are based on the procurement sub-family risk map.

Regarding the process of supplier classification, during 2017 extended the new supplier classification model introduced in

Spain, Brazil, Colombia, Italy and Chile to the subsidiaries in Argentina, Mexico and Panama, set to come into operation at the beginning of 2018.

Audits are carried out in the process of approval and monitoring of active suppliers. The audits, in situ or remote, check compliance with the specific requirements defined for the service or material of categories classified as high level in any of the risk factors.

For service providers, surveys are conducted with units of Gas Natural Fenosa to measure their satisfaction with suppliers. In 2017, 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. Surveys were conducted in Argentina, Brazil, Colombia, Spain, Italy, Mexico, Moldova and Panama.



## Social commitment

What resources are relevant for this undertaking?

- > Financial.
- > Manufactured.
- > Human.
- > Social.

How do we measure our performance?

- > Economic value distributed.
- > Social action investment.



### What does it mean for Gas Natural Fenosa?

Gas Natural Fenosa is committed to the economic and social development of those regions where it performs its activities, searching to provide expertise, management capacity and creativity, as well as spending part of its profits on social investment. The company tries, through fluid and ongoing dialogue with society, 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.

### What is our commitment?

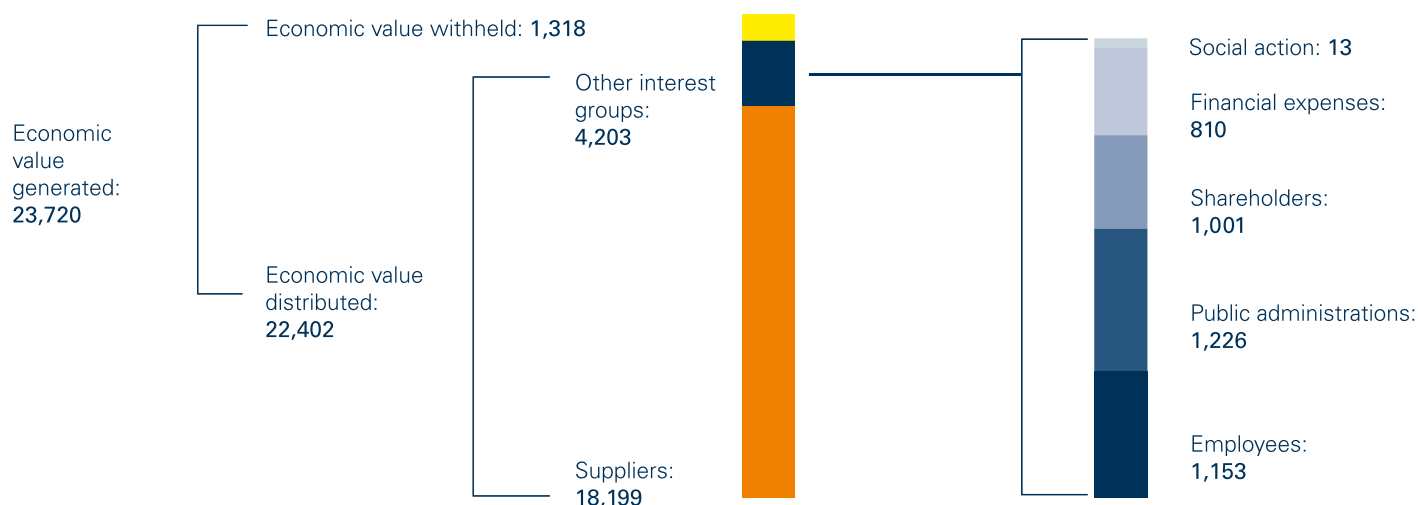
- > Guarantee fluid and two-way dialogue and to encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- > Assess the social impact that the company's activity could cause, to avoid or mitigate 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.

### What are our main milestones in 2017?

- > The introduction, in partnership with the Gas Natural Fenosa Foundation, of the pilot program targeted at groups that are vulnerable to energy poverty.
- > Consolidate the activity of the Gas Natural Fenosa Foundation in Chile.
- > Review and update of the General Regulations on Sponsorship and Donations.
- > Launch of the fourth edition of CINERGÍA.

## Analysis of the 2017 results

### Economic Value Distributed. Detail by group of interest (euros millions)



#### Economic contributions

Economic contributions to social investment programs are another important part of the Gas Natural Fenosa commitment. In 2017, they totalled 12.9 million euros.

**12.9** | Million euros  
Social action investment

#### Creation of wealth and well-being where the company operates

Gas Natural Fenosa develops its commitment to society through four main lines of action that are aligned with the company's core activities.

#### 1. 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 very important to reach the people that live in these areas. This is why it actively works in developing its distribution networks.

The project carried out at Cuartel V in Argentina or in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people. Among the initiatives introduced by the company, we can highlight the integral gas supply model in Argentina, providing vulnerable customers with access to energy in Brazil, Mexico and Spain.

In addition, the company has developed a Vulnerability Plan for the protection of vulnerable customers, in Spain, to prevent supply cut-off to customers that the municipal social services have reported as vulnerable.

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.



## Types of Latin America Operational Centre projects

<p>Inclusive business</p>	<p>Projects that promote the inclusion of the most disadvantaged social sectors through inclusive programmes. For this project type, we continued with the programme called Energy of Flavour, launched in 2016, which aims to promote social inclusion of disadvantaged groups through training linked to gastronomy.</p> <p>The programme was once again successfully carried out in Argentina, Brazil and Colombia, and Mexico and Panama began to develop it for the first time.</p>
<p>Responsible consumption</p>	<p>Encompasses 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.</p> <p>On discovering that the majority of Latin America countries were performing corporate volunteer actions related to caring for the environment and the planting of trees, the COIL Social Investment designed the Sowing the Future programme.</p> <p>As regards the Responsible Consumption programme, 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 for both children and adults.</p>
<p>Talent promotion</p>	<p>This pillar promotes projects that foster the studies and access to employment for the children and relatives of collaborators: "Training for Leadership", "Planning your Future", "Natural Vocation" and "Summer Internship".</p>

### 2. Social action

In 2011, when the Latin America Operational Centre was created, pillars were established and social investment programmes designed for unified development in all countries where the company has a presence.

### 3. Relationship with communities

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 in 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 the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.

- > Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

#### 4. Patronage and sponsorship

Gas Natural Fenosa provides one-off economic support to specific sponsorship projects and donations.

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.

- > Social action focused on underprivileged groups.
- > 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.

- > Promotion of music, theatre and films. In 2017 we launched the fourth edition of Cinergía, to bring energy saving closer through the cinema and to encourage talent in the Spanish film industry.

#### Corporate volunteers and employee participation

Through corporate volunteering, Gas Natural Fenosa aims to promote social cohesion, values and a spirit of solidarity. To achieve this programme objectives have been defined 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 2017, employees have spent more than 7,025 hours volunteering, featuring participation by 1,755 employees worldwide. Worldwide, a total of 27 environmental volunteer actions, 46 social volunteer actions were carried out along with 1 energy volunteer action, in which employees contributed their time and their personal and professional skills.

This programme is of a global nature and involves seven countries where Gas Natural Fenosa has a presence: Argentina, Brazil, Spain, Mexico, Moldova, Panama and the Dominican Republic.

Through corporate volunteering, Gas Natural Fenosa aims to promote social cohesion, values and a spirit of solidarity.

### Gas Natural Fenosa Foundation

The Gas Natural Fenosa Foundation with a presence in those countries where the company is active, is tasked with the dissemination, training, information and raising society's awareness in issues of energy and the environment, as well as the development of business and academic programmes. It also develops Social Action programmes with a particular focus on actions targeted at relieving energy vulnerability. In the cultural sphere, it performs actions targeted at both preservation and dissemination of the historic heritage of the gas and electricity sector, through the Gas Museum and the Bolarque Museum, as well as dissemination and artistic stimulation of society, through the multidisciplinary space of the Museum of Contemporary Art, in A Coruña.

During 2017, the foundation held 19 seminars on energy and environment in Spain, with 2,265 participants. It has also forged ahead with the "First Export Programme", with a total of 13 seminars in a number of different autonomous regions across Spain, which were attended by 1,475 people. It also offered customised assessment to 13 companies.

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 51,000 students and has had more than 150,000 users.

As regards the Energytruck, in its second year it has already visited 208 Spanish municipalities and has travelled more than 51,200 km nationwide.



The international activities of the foundation were developed in nine countries: Argentina, Algeria, Brazil, Chile, Colombia, Costa Rica, Mexico, Morocco and South Africa.

15 programmes were developed, which benefited more than 50,500 people and more than 1,600 companies and institutions.



For more information about the Foundation, please see [www.fundaciongasnaturalfenosa.org](http://www.fundaciongasnaturalfenosa.org).



For more information, please see the "Social commitment" section of the 2017 Corporate Responsibility Report.



## Integrity and transparency

What resources are relevant for this undertaking?

- > Financial.
- > Human.
- > Social.

How do we measure our performance?

- > Number of employees trained in Human Rights.
- > Correspondence received concerning the code of ethics.
- > Fiscal contribution.

What does it mean for Gas Natural Fenosa?

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.

What is our commitment?

- > 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.

What are our main milestones in 2017?

- > Disseminate and communicate our Corporate Hospitality Policy.
- > Finalize the process of declaration of the Anticorruption Policy.
- > Update the Human Rights Policy text to concepts and terminology of the UN Guiding Principles on Business & Human Rights.



## Analysis of the 2017 results

The Code of Ethics of Gas Natural approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behavior 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.

Gas Natural Fenosa has an Anticorruption Policy, 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 number of communications received per 200 employees in 2017 amounted to 1.67 (1.92 in 2016).

In 2017, 2% of the notifications received were related to alleged fraud, none of which had any significant impact.

29% of the notifications were related to "Respect for people" chapter of the Code of Ethics, and they were all solved appropriately. None of them were related to discrimination.

Correspondence received concerning the code of ethics	2017	2016
Queries	37	58
Notifications	104	120
<b>Total</b>	<b>141</b>	<b>178</b>

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 2017, 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, 3 misdemeanours, 4 serious offences and 17 very serious offences, of which 13 have resulted in dismissals through breach of the Code of Ethics, were handled.

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.

The company set up local committees in Argentina, Brazil, Colombia, Chile, Italy, Mexico, Moldova, Panama and South Africa.

In 2017, the Code of Ethics Committee held five working meetings, and the local committees held 29.

### Protocol of Investigation and Response to irregular conduct and fraud

The protocol defines the action procedure and system to ensure that any notification from any employee, supplier or external partner of Gas Natural Fenosa concerning allegedly irregular or fraudulent conduct can be formulated and reported in a safe and confidential way in compliance with prevailing legislation, as well as the system for establishing all of the procedures required to enable an efficient investigation into irregular conduct and fraud reported.

The Gas Natural Fenosa 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.

### Crime Prevention Model

The company has a Crime Prevention Model that is updated every year, and which incorporates the control structure that already exists at Gas Natural Fenosa to efficiently prevent the occurrence of criminal offences set out in Organic Law 5/2010 on reform of the Penal Code.

From an organisational standpoint, the Board of Directors has assigned 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.

Each year, the model is assessed by an independent third party. In 2017, it issued a satisfactory report on its design and effectiveness.

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.

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.

The policy establishes fourteen 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.

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 2017 there were 7,010 investigation and antifraud cases of action that took place in Argentina, Brazil, Colombia, Spain, Mexico, Moldova and Panama.

## Tax policies

### Tax strategy and Policy for controlling and managing tax risks

At a meeting on 9 January 2018 the Board of Directors adopted the Tax strategy and Policy for controlling and managing tax risks, which sets out the basic principles guiding Gas Natural Fenosa's tax function and the main lines of action to mitigate tax risks and guide proper oversight of same.

The basic principles underlying the tax strategy of Gas Natural Fenosa are as follows:

- Responsibility in fulfilling tax obligations.
- Low tax risk profile.
- Adoption of tax treatments for economic reasons.
- Transparency in tax information.
- Cooperation with the tax authorities.

The main lines of the Policy for controlling and managing tax risks are as follows:

- Clearly defined tax-related governance.
- Tax risk oversight procedures derived from Compliance.

- > Procedures for assessing and exercising oversight over grey areas.
- > Supervision of the Tax Control Framework
- > Regular reports to the Board of Directors on the tax situation.

All of Gas Natural Fenosa’s tax policies are aligned with:

- > Gas Natural Fenosa’s Corporate Responsibility Policy, which establishes that one of the commitments and principles of action is to “adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies.”
- > Gas Natural Fenosa’s Code of Ethics, which establishes that “all employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions.”
- > Code of Best Tax Practices, adopted on 20 July 2010 in plenary session by the Foro de Grandes Empresas, a body established by the Spanish Internal Revenue Service with the country’s largest companies, including Gas Natural SDG, S.A. That Code contains recommendations from the tax authorities, which have been adopted voluntarily by Gas Natural Fenosa, with the aim of improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering reciprocal

cooperation based on good faith and legitimate trust, and the application of responsible tax policies.

To align that Gas Natural Fenosa’s tax practices with those principles, the group has a General Standard governing the Tax Control Framework that has been designed in accordance with the guidelines of the Organization for Economic Cooperation and Development (OECD) for multinational companies, as well as for the design and implementation of a Tax Control Framework.

Gas Natural Fenosa also has a Risk Map that specifically identifies tax risks and disputes about the interpretation or application of tax law.

#### Tax havens

The creation or acquisition of interests in entities domiciled in countries or territories that are designated as tax havens must be reported to the Board of Directors through the Audit Committee.

In accordance with the Spanish regulations that 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 only two holdings in companies incorporated in such territories, which were in process of redomiciliation or liquidation:

Recipient	Distributor	Amount (euros thousand)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	49,504



Information about the most important fiscal actions is set out in the “Tax situation” section of Note 21 of the Consolidated Annual Accounts.

- > A 95% stake in Buenergía Gas & Power, Ltd., domiciled in the Cayman Islands. This is a company that indirectly owns a stake in just one industrial holding: Ecoeléctrica, L.P., the company that generates electricity using a combined cycle plant in Puerto Rico; the latter is taxed in Puerto Rico and Gas Natural Fenosa does not obtain any tax advantage from this arrangement. On 2 february 2018 the change of registered office to Puerto Rico has been completed, which is in public registry process.

- > The 52.2% stake in Gasoducto del Pacifico (Cayman), Ltd., domiciled in the Cayman Islands. This is a dormant company that was acquired by the group as a result of the acquisition of the CGE group and does not provide any tax advantage to Gas Natural Fenosa. The company was fully liquidated on 12 January 2018, and it will be dissolved once it is struck off the public record within three months from that date.

The only intercompany transactions with those companies in the year 2017 are dividends received, as follows:

### Tax contribution

Gas Natural Fenosa gives priority to fulfilling its obligation to pay the taxes that are due in each territory in accordance with the applicable regulations.

Gas Natural Fenosa's total tax contribution amounted to Euros 3,272 million in 2017 (Euros 3,419 million in 2016). The following table shows the breakdown of the taxes actually paid by Gas Natural Fenosa in each country, segmented into those that

represent an actual expense for the group ("own taxes") and those that the company withholds from or charges to other taxpayers (third-party taxes):

	Own taxes						Third-party taxes								Total	
	Income tax <sup>1</sup>		Others <sup>2</sup>		Total		IVA		Tax on hydrocarbons		Others <sup>3</sup>		Total		2017	2016
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016		
Spain	112	199	537	512	649	711	845	1,007	342	352	228	229	1,415	1,588	2,064	2,299
Argentina	15	10	67	42	82	52	19	13	-	-	34	22	53	35	135	87
Brazil	51	38	67	49	118	87	74	58	-	-	7	9	81	67	199	154
Colombia	60	75	57	78	117	153	-	7	-	-	11	14	11	21	128	174
Chile	101	42	11	11	112	53	81	117	-	-	22	18	103	135	215	188
Mexico	66	31	4	3	70	34	57	39	-	-	19	11	76	50	146	84
Panama	10	89	9	7	19	96	-	-	-	-	4	3	4	3	23	99
Rest of LatAm	8	12	1	1	9	13	4	2	-	-	4	3	8	5	17	18
<b>Total LatAm</b>	<b>311</b>	<b>297</b>	<b>216</b>	<b>191</b>	<b>527</b>	<b>488</b>	<b>235</b>	<b>236</b>	<b>-</b>	<b>-</b>	<b>101</b>	<b>80</b>	<b>336</b>	<b>316</b>	<b>863</b>	<b>804</b>
Italy	4	19	7	7	11	26	27	27	35	42	5	5	67	74	78	100
Rest	11	10	28	23	39	33	143	128	76	49	9	6	228	183	267	216
<b>Total</b>	<b>438</b>	<b>525</b>	<b>788</b>	<b>733</b>	<b>1,226</b>	<b>1,258</b>	<b>1,250</b>	<b>1,398</b>	<b>453</b>	<b>443</b>	<b>343</b>	<b>320</b>	<b>2,046</b>	<b>2,161</b>	<b>3,272</b>	<b>3,419</b>

<sup>1</sup> Income tax actually paid in the year that figures in the Cash Flow Statement in the Consolidated Annual Accounts. Does not include accrued amounts. The reconciliation between reported "income tax" and that which would result from applying the nominal tax rate in force in the parent company's home country (Spain) to "Profit before taxes" is detailed in Note 21 ("Tax situation") to the consolidated financial statements.

<sup>2</sup> Includes energy taxes in Spain amounting to Euros 260 million in 2017 (Euros 244 million in 2016), local taxes, employer social security contributions and other specific taxes in each country.

<sup>3</sup> Includes basically employee withholdings and employee social security contributions.

 The total fiscal contribution of Gas Natural Fenosa amounted to 3,272 million euros in 2017.





### Human Rights Policy

Since 2011, Gas Natural Fenosa has a Human Rights Policy approved by the Management Committee. 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.

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.

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 2017, the course had been completed by 10,132 people.

Number of persons trained on Human Rights 2017 vs 2016

**10,132** | **10,180**

### 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.



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For further information, please see the "Integrity and transparency" section of the 2017 Corporate Responsibility Report.



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