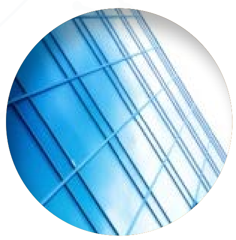
2016 Integrated Annual Report

gasNatural fenosa

Done and said

360°



360°

Each time this journey commences it does so with energy and renewed hopes to improve, innovate and evolve

Gas Natural Fenosa 360° is a journey through each chapter that makes up the Integrated Annual Report, by virtue of an overview of the company with no interruption or gaps. Just as energy is everywhere, the values of Gas Natural Fenosa are to be found in each of the facets that make up the same.

A 360° trip indicates a point of departure and arrival, but also, increasingly, a new beginning. Our main effort is targeted at really getting to know the needs of our customers, and this would not be possible without the commitment and good work of each person who forms part of the company.

2016 Integrated Annual Report

Letter from the Chairman

The Chairman of Gas Natural Fenosa shares his vision on the performance and goals of the group. Page 16

2013-2015 Strategic Vision

We analyse compliance with the update of the 2013-2015 Strategic Vision. Page 47

Value Creation and Sustainable Management

What differentiates us along the value chain and how we manage our business. Page 26

Results for the Year

We evaluate the evolution of our performance in each of our corporate responsibility commitments. Page 78

gasNatural fenosa

Done and said

We are the driving force of our own energy.

Given our dedication to always being one step ahead, this year we have incorporated photographs using 360° technology and which offer a unique experience.

The icon shown below indicates a 360° display. By scanning the QR code, which is to be found in the same section, you will access the panoramic photograph gallery.

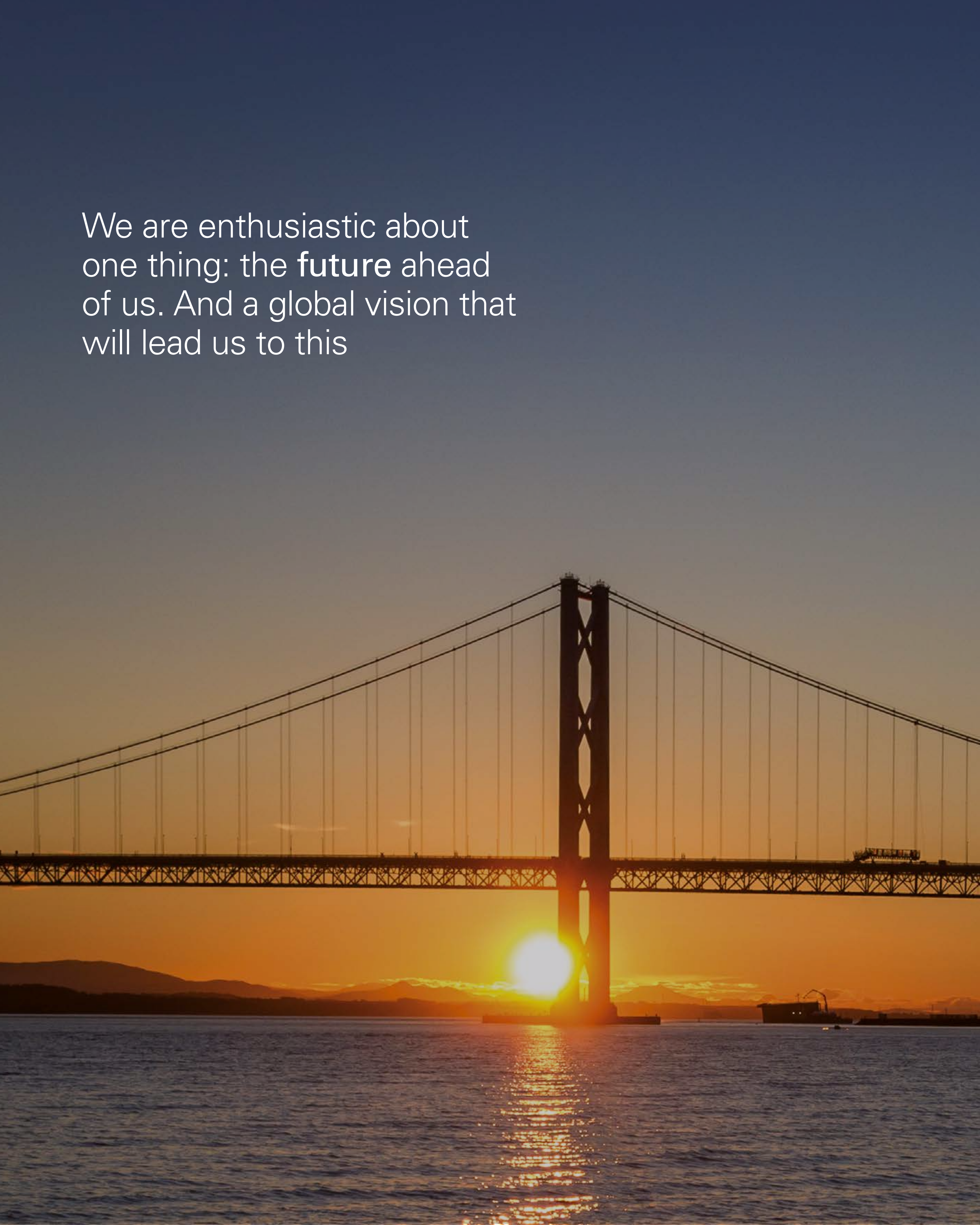
We build the future from the present.

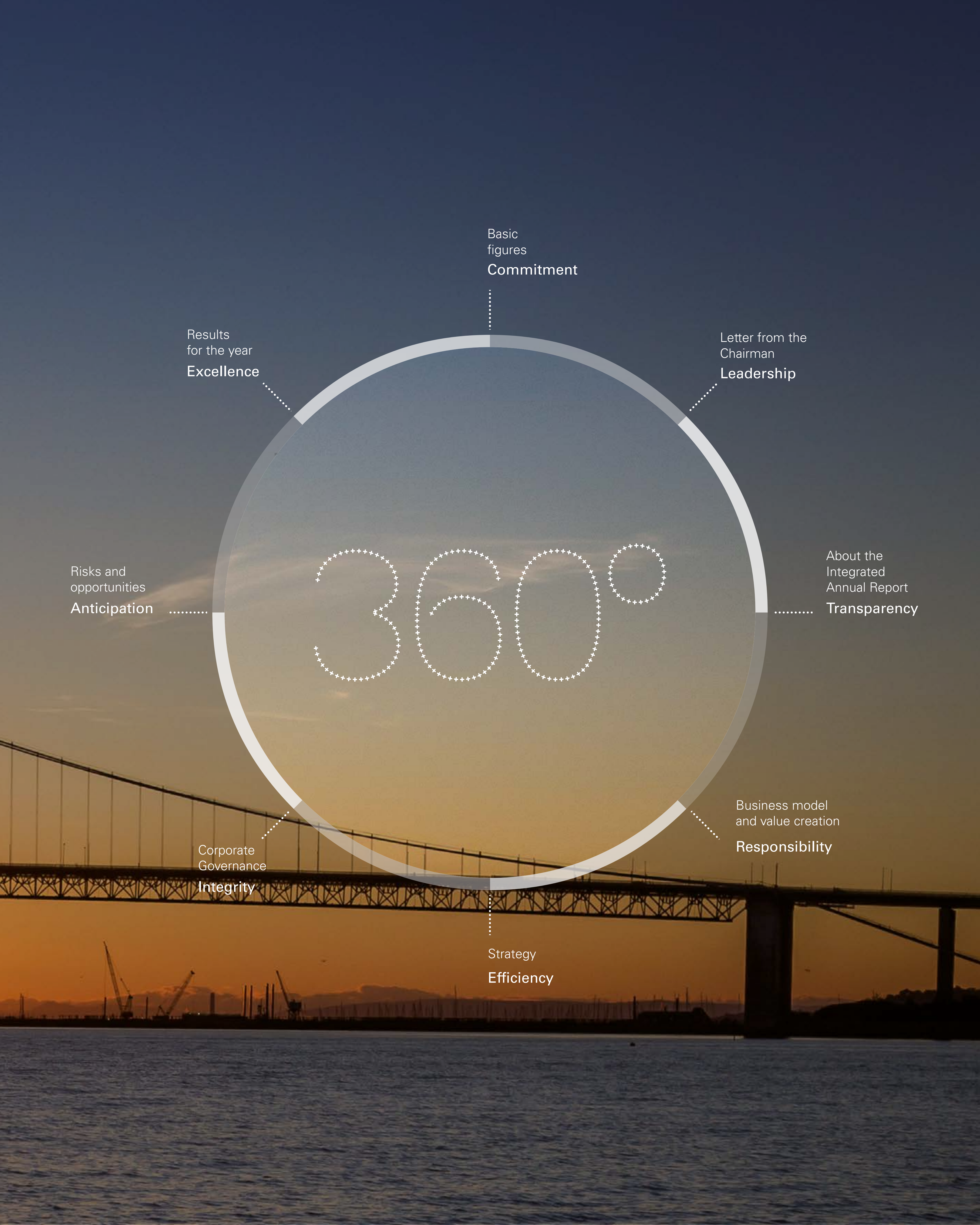
www.360.gasnaturalfenosa.com

2016 Integrated Annual Report

Summary

We are enthusiastic about one thing: the **future** ahead of us. And a global vision that will lead us to this

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360°

360°

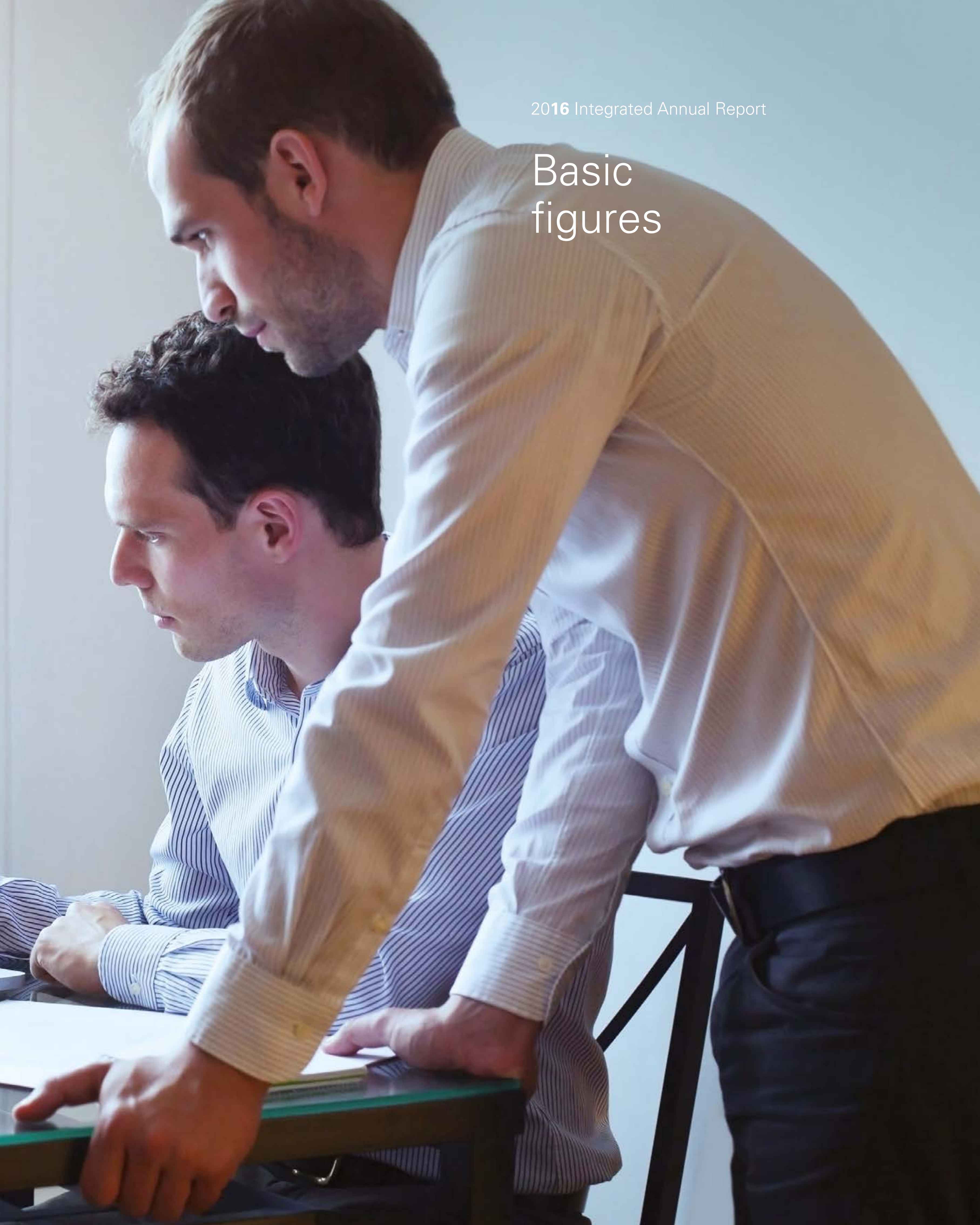
Commitment

At Gas Natural Fenosa we are committed to people and each day we strive to provide each of them with the very best response.

With employees, we are interested in training and safety; with customers, in offering them the very best services; with our shareholders, in creating value and sustainable remuneration and, of course, with the environment, in reducing emissions.

2016 Integrated Annual Report

Basic figures



Gas Natural Fenosa was recognised as Industry Leader and Gold Class, in the 2016 Sustainability Yearbook drawn up by RobecoSAM

Main milestones 2016

January to March

- Gas Natural Fenosa was recognised as world leader in sustainability in the gas sector, based on the 2016 Sustainability Yearbook, published every year by RobecoSAM.
- Gas Natural Fenosa was certified as Top Employers in Spain for the superb conditions it offers its employees.
- Gas Natural Fenosa was recognised by the US entity WorldatWork for its strategy in the field of human development in organisations.
- The Board of Directors approved a new dividend policy for 2016-2018 and will seek approval from the General Meeting to pay a dividend charged to the profit for 2015 of 1,000.7 million euros, 10.1% up on the previous year. This involved the payment of a total dividend of one euro per share.

April to June

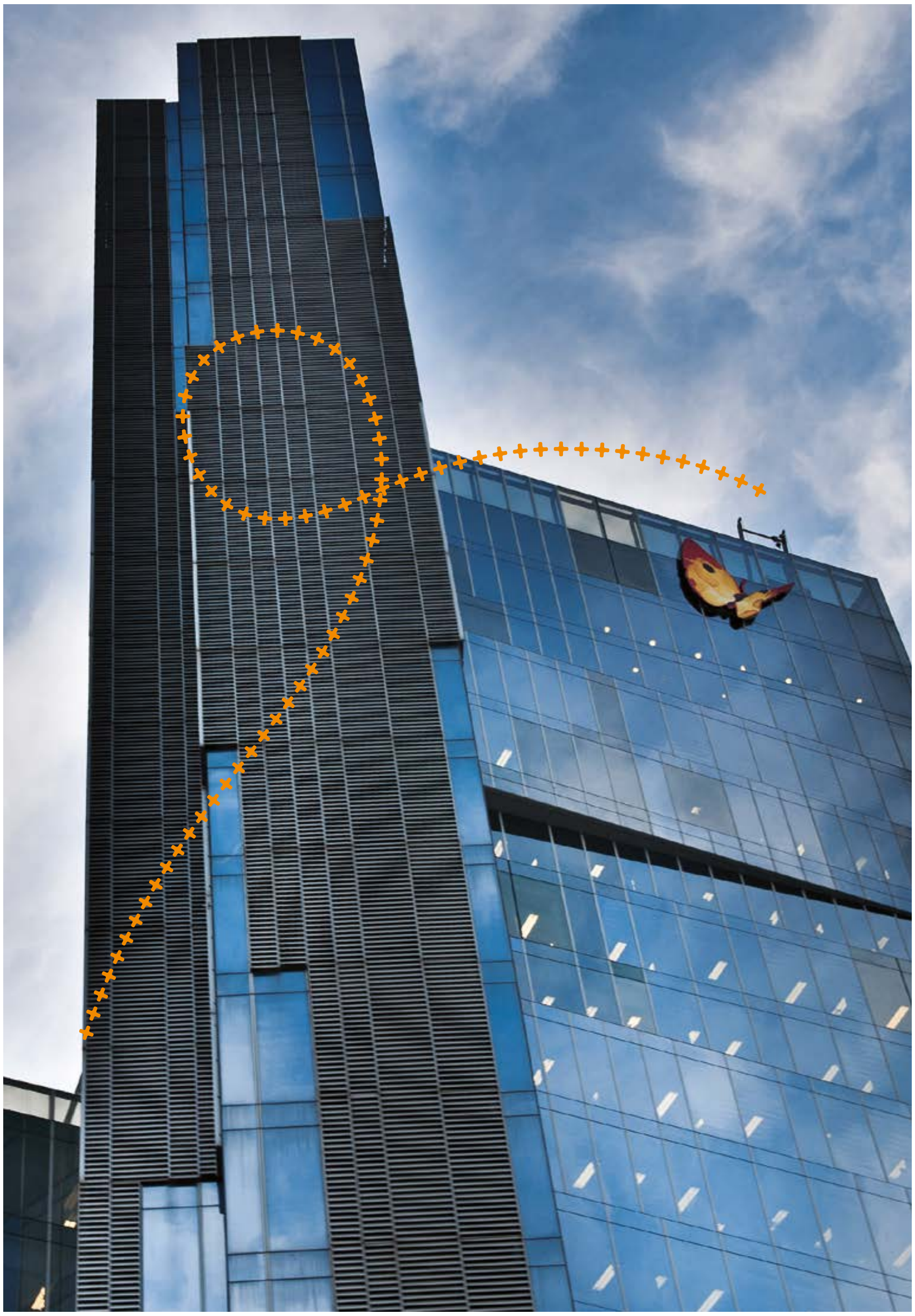
- Gas Natural Fenosa closed a bond issue for an amount of 600 million euros over 10 years.
- Gas Natural Fenosa published its Strategic Vision for the 2016-2020 period.
- Gas Natural Fenosa was once again ranked among the 120 most sustainable companies in the world and Europe according to the Vigeo rating agency.
- Gas Natural Fenosa received the DEC Award for Best Customer Experience Strategy for its Customer Experience programme, an award handed over by the Association for the Development of Customer Experience (DEC).

July to September

- Gas Natural Fenosa, through its subsidiary GPG, was awarded the first two power generation projects in Chile: the 204 MW Cabo Leones II wind farm and a 120 MW solar photovoltaic plant, in which it will eventually supply 858 GWh of electricity a year. Furthermore, GPG was awarded its first wind farm in Australia, with power of 91 MW.
- Gas Natural Fenosa completed the segregation of the businesses of Gasco, S.A. through the sale of the shares of Gasco, S.A. that Gas Natural Fenosa owned through its subsidiaries and the acquisition of an additional stake of 37.875% in Gas Natural Chile, S.A., which engages in the business of natural gas, giving it a controlling interest of 94.50%.
- Global Infrastructure Partners (GIP) formalised its entry onto the energy company's Board with three representatives, after agreeing to purchase 20% from Criteria Caixa and Repsol.
- The Board of Directors of appointed Isidre Fainé as Chairman, replacing Salvador Gabarró who was subsequently appointed Honorary Chairman.
- For the twelfth consecutive year, Gas Natural Fenosa was included on the Dow Jones Sustainability World Index (DJSI World), which includes the worldwide companies with the best sustainability practices.

October to December

- The company closed the sale of its stake in the Quintero LNG plant, Chile, to Enagás for 182 million euros.
- Gas Natural Fenosa was ranked in the Top Ten best companies to work for in Spain, according to Merco Talento.
- In Brazil, Gas Natural Fenosa acquired two photovoltaic projects ready for construction with a combined capacity of 60 MW.
- The Superintendency of Domiciliary Public Utilities of the Republic of Colombia took over Electricaribe, which was therefore no longer consolidated on the group's balance sheet, and its investment was recorded as an available-for-sale financial asset.



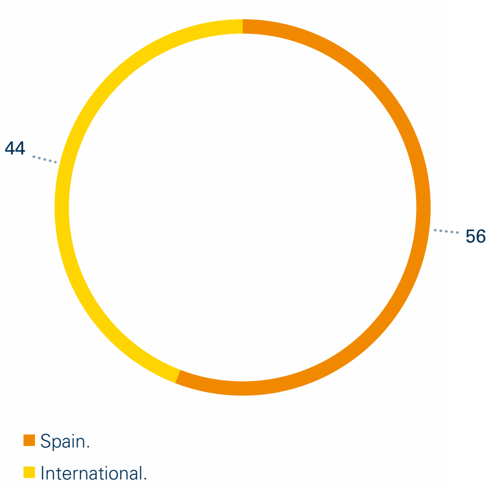
Financial performance (million euros)

	2016	2015	2014
Net turnover	23,184	26,015	24,697
Ebitda[1]	4,970	5,264	4,845
Attributable net profit	1,347	1,502	1,462
Net investments	2,225	1,422	3,754
Net financial debt	15,423	15,648	16,942

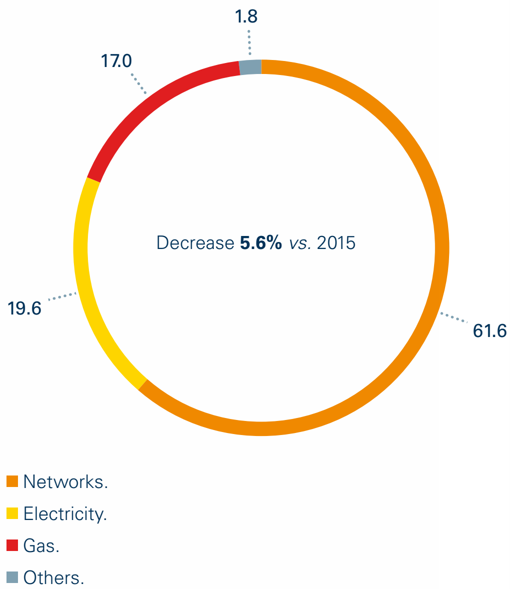
[1] Ebitda: Operating profit+Amortisation and depreciation+Operating provisions-Other results.

The 2016 net result target was achieved despite the macroeconomic and energy setting

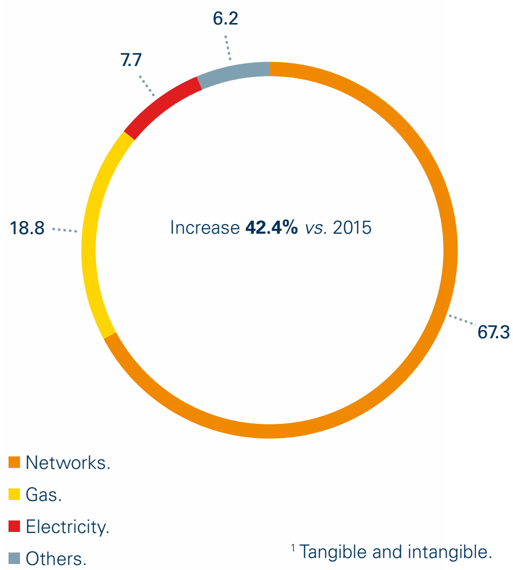
Ebitda by geographical area 2016 (%)



Ebitda by business 2016 (%)



Investments[1] by business 2016 (%)

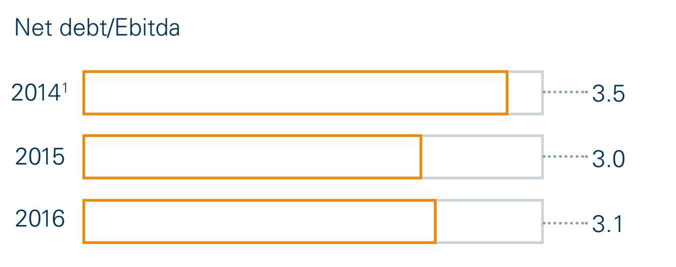


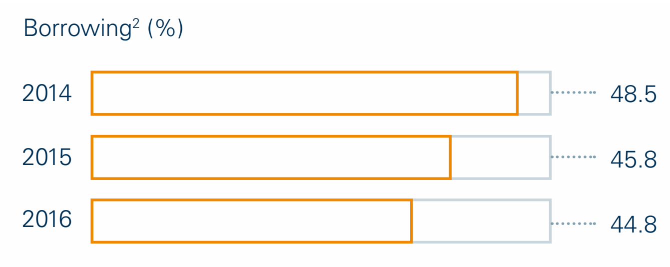
[1] Tangible and intangible.

Note on comparative information 2014:

In December 2015, the liquefied natural gas business in Chile was rated as a discontinued operation. As a consequence of application of the IFRS 5, the figures of the Consolidated Statement of Income for 2014 have been restated.

Continuous improvement of borrowing





[1] The estimated pro-forma ratio for 2014, considering that the takeover of CGE had been performed with effects from 1 January 2014 would amount to 3.2x.
[2] Net financial debt/(Net financial debt + Net worth).

With 360° technology you will be able to visit the combined cycle power plant at Barcelona Port.

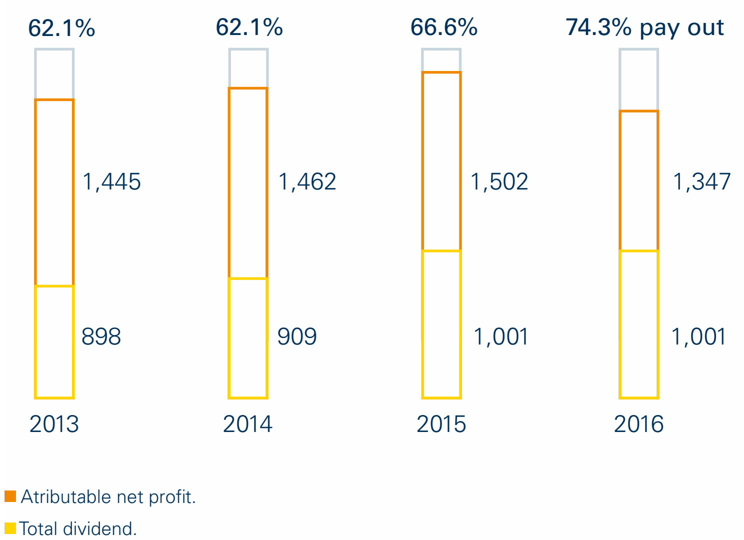
Stock market information and shareholder remuneration

	2016	2015	2014
Average number of shares (thousand)	1,000,468	1,000,689	1,000,689
Closing price (euros)	17.91	18.82	20.81
Stock market capitalisation at 31/12 (millions of euros)	17,922	18,828	20,824
Earnings per share (euros)	1.35	1.57	1.46
Pay out (%)	74.3	66.6	62.1
Total dividend[1] (million euros)	1,001	1,001	909
Dividend per share	1.00	1.00	0.91

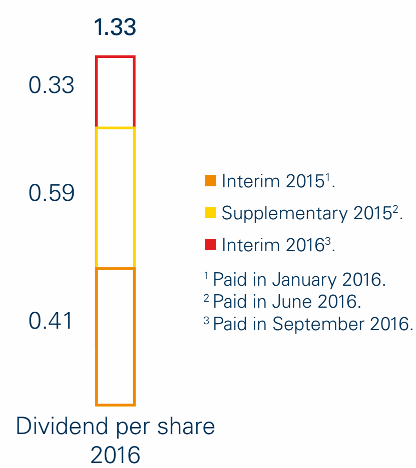
[1] Considering total amount equivalent for dividends. In 2016, it includes a final dividend of 671 million euros pending approval by the General Shareholders' Meeting.

Compliance with an attractive and sustainable shareholder remuneration commitment

Evolution of dividends (million euros)



Interim dividend paid out for 2016



Compliance with the new dividends policy for 2016-2018

(70% pay out and minimum €1/share)

Note on comparative information 2014:

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Business operating performance

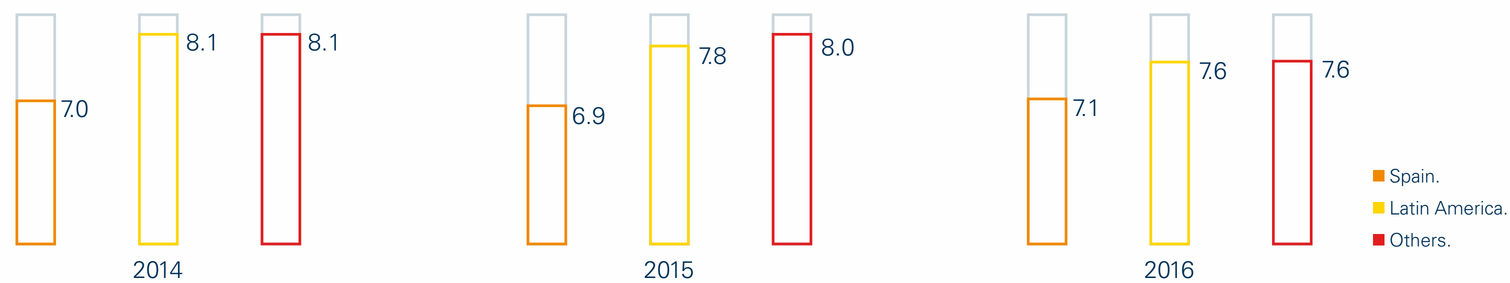
Distribution	2016	2015	2014
Gas distribution (GWh)	458,265	473,831	427,462
Electricity distribution (GWh)	68,258	68,731	52,809
Gas supply points (in thousands)	13,546	13,172	12,816
Electricity supply points (in thousands)	8,202	10,622	10,415
Gas distribution network (km)	142,187	138,217	133,741
Length of electricity distribution and transportation lines (km)	250,886	302,705	228,808

Gas	2016	2015	2014
Gas supply in Spain (GWh)	178,916	185,851	190,069
Gas supply in other countries (GWh)	146,468	130,417	120,560
Total gas supply (GWh)	**325,384**	**316,268**	**310,629**

Electricity	2016	2015	2014
Installed capacity in Spain (MW)	12,716	12,769	12,122
International installed capacity (MW)	2,702	2,702	2,663
Total installed capacity (MW)	**15,418**	**15,471**	**14,785**
Net production Spain (GWh)	28,504	31,568	30,542
International net production (GWh)	18,048	17,980	17,740
Total net production (GWh)	**46,552**	**49,548**	**48,282**

Operations focused on service excellence and continuous improvement

Customer satisfaction (scale of 1 to 10)



Environmental and social performance

Environment	2016	2015	2014
Emission factor (tCO_2/GWh)	411	445	406
Generation of hazardous waste (t)	9,400	8,079	7,171
Installed capacity free of emissions (%)	22.1	22.0	20.7
Net production free of emissions (%)	16.4	11.8	14.0

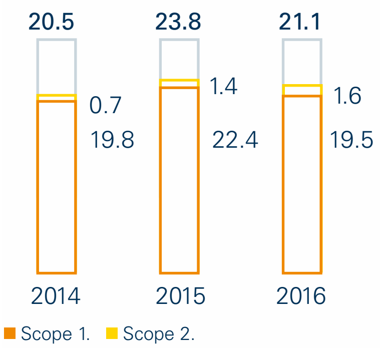
Interest in people	2016	2015	2014
No. of employees	17,229	19,939	21,961
Men/women (%)	71/29	73/27	73/27

Health and Safety	2016	2015	2014
No. of accidents with sick leave	65	125	118
Frequency rate	1.72	3.08	3.93

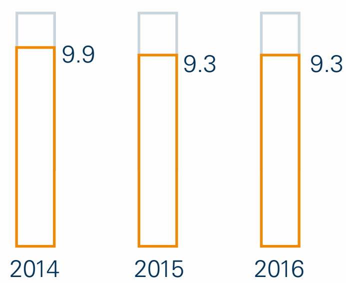
Commitment to society and integrity	2016	2015	2014
Distributed economic value (million euros)	21,748	24,372	23,463
Correspondence received by the Code of Ethics Committee (no.)	178	135	89

Committed to the environment and reducing emissions

GHG* emissions
(millions of tonnes CO_2e)



Methane emissions in gas distribution**
(tCO_2e/km network)

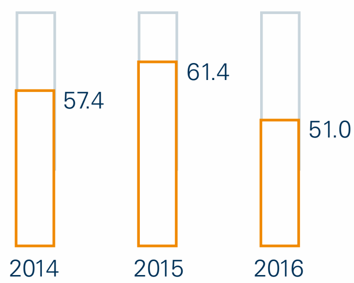


*GHG: greenhouse gases, measured as CO_2e.

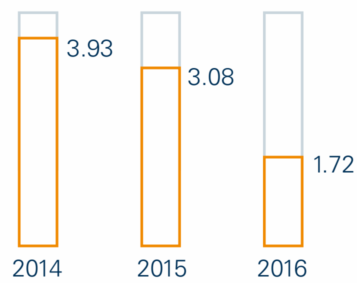
**Methane is a GHG and is therefore measured in CO_2e.

Committed to training and safety

Training hours per employee



Frequency rate



Note on comparative information 2014:

In December 2015, the liquefied natural gas business in Chile was rated as a discontinued operation. As a consequence of application of the IFRS 5, the figures of the Consolidated Statement of Income for 2014 have been restated.

360°

Leadership

Gas Natural Fenosa commences a new stage, with an unswerving commitment to work in order to consolidate the company's leadership in the energy market.

To achieve this we have a solid and profitable business model, a sustained growth trajectory and an internationalisation plan that will further strengthen our leadership position worldwide.

Letter from the Chairman

Dear shareholders,

It is my pleasure to present the company's integrated report in which we evaluate our economic, social, environmental and corporate governance performance for 2016.

We have come a long way since Gas Natural Fenosa was first founded in 1843. Thanks to the support of all our shareholders, the tireless work of our professionals and the trust of our customers, we have been able to position ourselves as a global gas and electricity utility company with a solid business model that has allowed us to develop our industrial and commercial activity in over thirty countries.

All of the above endows us with a differentiating value with regard to our competition and has been essential for us to enjoy profits – despite the difficult economic and energy situation in 2016 – of 1.347 billion euros with an Ebitda of 4.970 billion, thus reaching the established goals of our 2016-2020 Strategic Vision.

The achievements in these recent years have turned Gas Natural Fenosa into an attractive company for the market and, in 2016, led to the arrival of a new and important partner. The North American fund, Global Infrastructure Partners (GIP), acquired 20% of the shareholding that derived from an equal number of shares from the company's two main partners, Criteria Caixa and Repsol. GIP's investment is in line with its strategy of investing in leading international companies, in its markets, that offer stable profitability for its shareholders and a consolidated, firm and sustainable project for growth.

This deal, in addition to being an endorsement of the company's trajectory and its positioning for capturing future growth, has involved changes in corporate governance. GIP now has three Directors on the Board of Directors, and two Deputy Chairmen have been appointed; one put forward by Repsol and the other by GIP.

It has also led to a change in the Board's Regulations by expanding the number of committee members and reinforcing certain decision-making quorums, thereby strengthening the role of the Independent Directors.

On an operational level, this year we have continued to advance along the three lines of action set out in our 2016-2020 Strategic Vision: improving and expanding the distribution network business; new capacity to generate, mainly renewables; and boosting the liquefied natural gas business. And all of this, with a special emphasis on international business.

I thus believe that the significant move taken by our company Global Power Generation (GPG) to award new renewable energy projects to Brazil, Australia and Chile – three countries where our group still did not have generation assets – is of particular relevance. I would also like to highlight the acquisition of the Irish gas and electricity supplier Vayu, allowing us to advance and grow in European markets.

In addition, 2016 has been a very important year in the sphere of Corporate Responsibility. We have developed and approved the implementation of a Sustainability Master Plan, whose ultimate goal is to ensure that our company continues to do business in a sustainable way, both from an economic as well as from a social and environmental standpoint.

Once again, we have maintained our adherence to and support of the Bettercoal initiative, established by the main European utility companies to promote ethical, social and environmental criteria in the coal supply chain. We have been recognised as world leaders for our action against climate change and have been included on the prestigious Carbon Disclosure Project (CDP) Climate A List; we have renewed our position on the Dow Jones Sustainability Index (DJSI), which includes the world's top companies with the best practices in sustainability, for the twelfth consecutive year; we have been on the FTSE4Good sustainability index since its inception; and we have renewed our presence on the Euronext Vigeo indices as one of the 120 most sustainable companies in the world.

In the area of people management, we are now members of the Code of Principles on Generational Diversity of the *Generación y Talento* Watchdog; we have been recognised by the US entity WorldatWork for our strategy in the field of human development; and we have obtained the EFR Global Certificate accrediting us as a Family Responsible Company.

I would also like to highlight the role of the Gas Natural Foundation, a very important asset to our company and one which we have re-energised by incorporating social issues into its traditional area of action in energy efficiency and responsible environmental management; by this, I refer specifically to matters related to energy vulnerability.

We are a great company, a leader in the energy sector with a solid business model and very well positioned to take advantage of the new opportunities emerging in our market. We are fully committed to society and offer our services daily to improve the well-being of every citizen.

Therefore, on behalf of the Board of Directors, I would like once again to thank you for your trust in Gas Natural Fenosa and invite you to take a more in-depth look at all our activities and our commitment to society.

I. Fainé

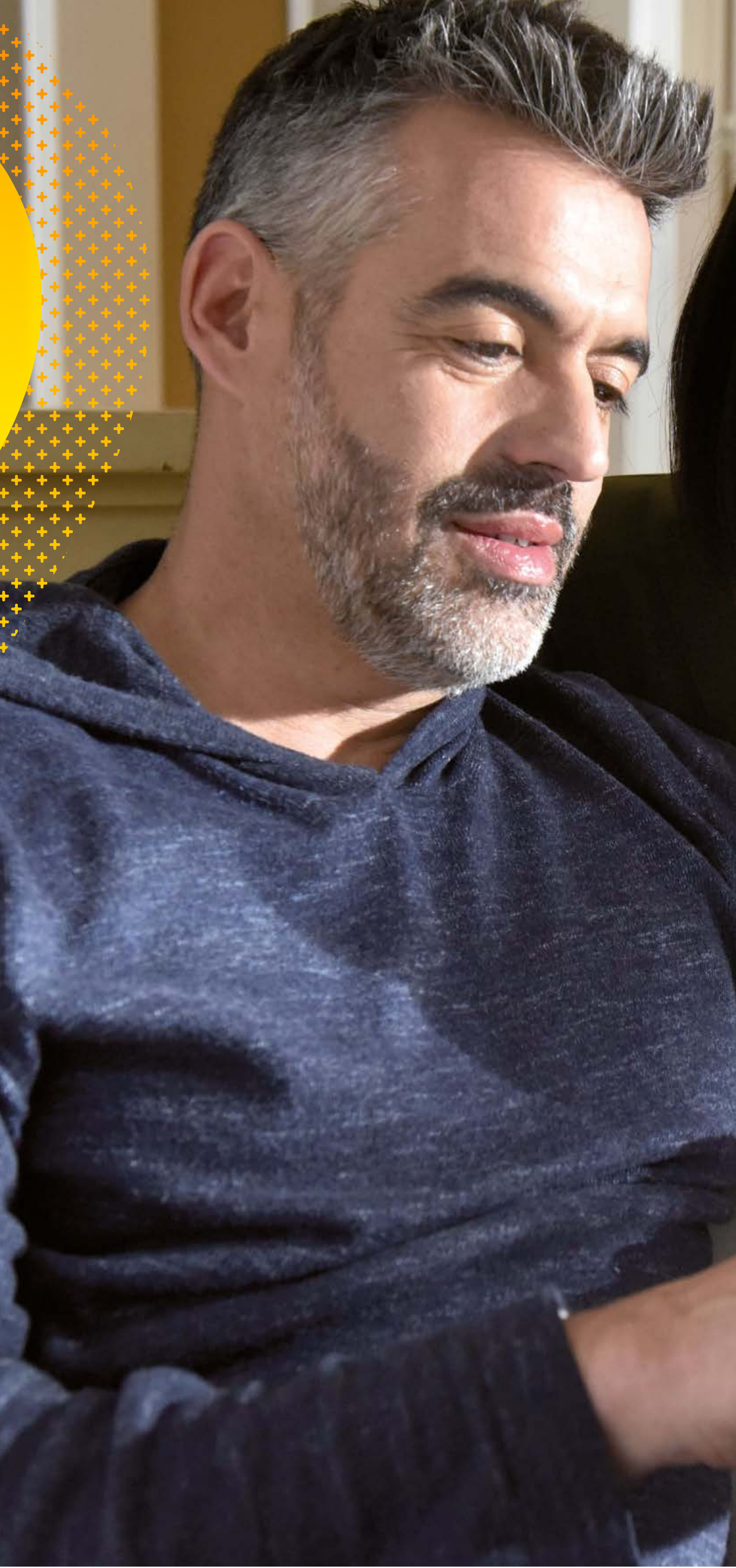
Isidro Fainé Casas
Chairman of the Board of Directors

360°

Transparency

In each communication with our audiences we strive to be extremely transparent and pass on all aspects that are of interest to them.

To this end, when compiling this report we wanted to offer as clear a vision as possible of the financial and non-financial aspects governing the group's performance, facilitating the understanding of its business model.




2016 Integrated Annual Report
About the Integrated Annual Report

About the Integrated Annual Report

This Integrated Annual Report has been drawn up in accordance with the <IR> reporting framework published by the International Integrated Reporting Council (IIRC). For non-financial areas, we have taken into account Global Reporting Initiative (GRI) standards, known as the GRI Standards.

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.

A multidisciplinary working committee has been established to draw up the report to ensure that the framework principles (strategic approach, future orientation, connectivity, relation with stakeholders materiality, concision, reliability, integrity, consistency and comparability) are correctly applied, and to guarantee that they are aligned with other types of information published by the company.

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

In the committee's work sessions, we assessed the materiality of the relevant aspects identified and prioritised the most significant contents to be incorporated into the 2016 Integrated Annual Report, following the framework introduced through the <IR>, as shown below.

Determining contents according to the materiality approach of the <IR> framework of the IIRC

Identification of relevant aspects.	Based on an internal and external analysis, we have defined a list of aspects that could appreciably affect the capability of Gas Natural Fenosa to create value in the short, medium and long term. We have therefore consider: **Stakeholders' expectations:** main aspects defined by the GRI Standards and GRI sector supplements "Electric Utilities" and "Oil&Gas", taking the materiality study compiled by Gas Natural Fenosa as the basis. **Investors' expectations:** feedback from investors and ESG[1] analysts received during the different roadshows held in 2016. **Analysis of good practices:** based on a selection of companies with a good reputation for progress made in the integrated report.
Evaluation of materiality of identified aspects.	Assigning to the identified aspects the degree of importance implied for Gas Natural Fenosa depending on their positive or negative impact in its capability to generate value. According to the degree of importance, the aspects which are going to be considered as part of the contents of the Integrated Annual Report are obtained.
Prioritisation of contents.	Once the contents of the report are determined, they are prioritised based on their magnitude in order for the report to be focused on contents which are most relevant.

[1] Environmental, Social and Governance.

CRR

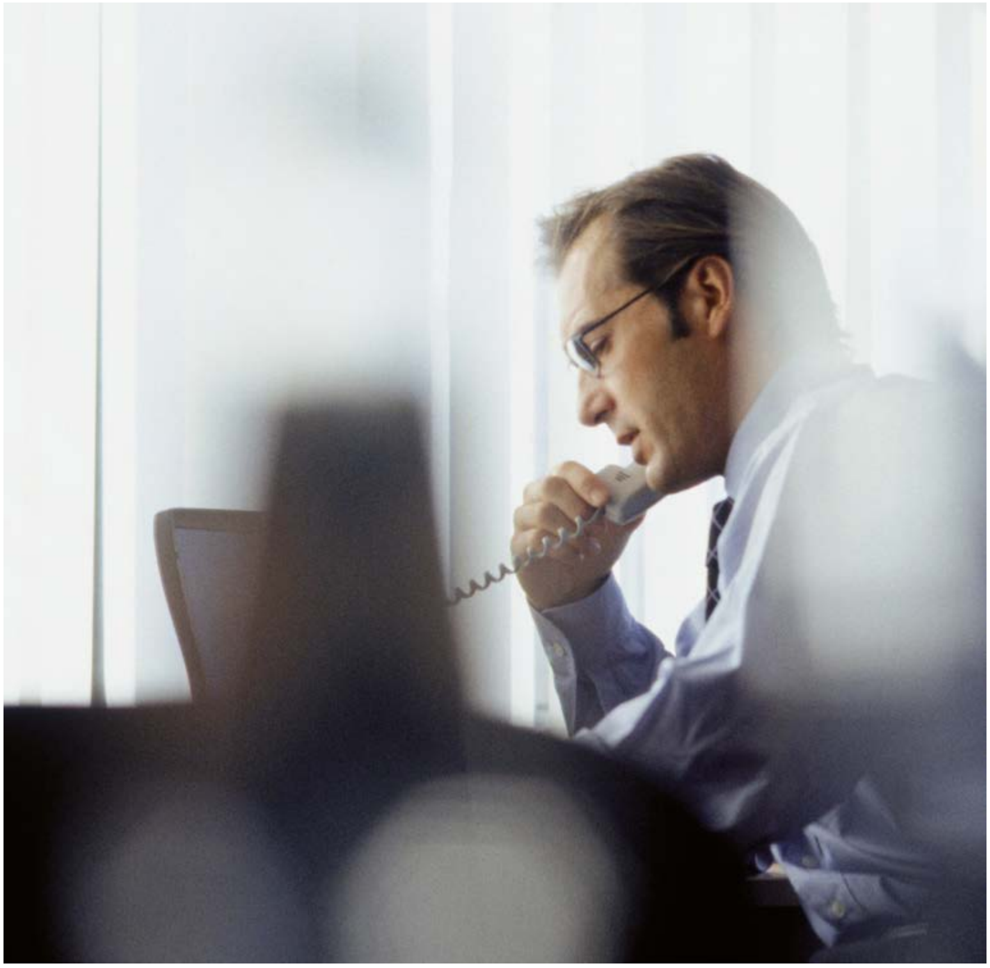
For further details about the process and the materiality focus, please see the 2016 Corporate Responsibility Report.

Scope

This report contains the consolidated financial and non-financial data of Gas Natural Fenosa, referring to all the activities carried out during 2016 as a global gas and electricity operator, although they show peculiarities in some chapters:

- In the field of human resources, the reported information refers to the countries in which Gas Natural Fenosa operates and where it has established companies with hired staff assigned to these countries and where the company performs centralised management of its human resources policies.
- The information included in the environment section refers solely to those companies or activities in which the participation is equal to, or greater than, 50%, that have the capacity to influence environmental management or which have a significant capacity to impact environmental data, considering the global data.

The information perimeters are defined in the Consolidated Annual Accounts and in the Corporate Responsibility Report.



The complete list of companies making up Gas Natural Fenosa at 31 December 2016 appears in Annex I of the Consolidated Annual Accounts "Companies of Gas Natural Fenosa".

Furthermore, the changes in the scope of consolidation are described in Annex II to the Consolidated Annual Accounts.

Although the Integrated Annual Report has not been subjected to a process of independent external verification, a representative portion of the information it contains, and which concerns the 2016 financial year and previous years, 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 of these reports is identified in accordance with the icons shown.

This icon indicates that you can view a 360° photograph on the website version.

Reporting on the corporate website

- The company.
- Activities.
- Shareholders and Investors.
- Reputation and Corporate Responsibility.
- Our people.
- Customers and new registrations.

Other reports

Readers also have access to other reports, which are all available at www.gasnaturalfenosa.com. Each of them contains additional information of, useful for full understanding of the company's actions:

Public reporting

Integrated Report

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

Annual Reports

FR **Financial Report**
Drawn up according to IFRS and audited externally.

CRR **Corporate Responsibility Report**
Drawn up according to the Global Reporting Initiative (GRI) guide, and verified externally.

CGR **Corporate Governance Report**
Drawn up in accordance with the National Securities Market Commission (CNMV).

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

RRBD **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**

Feedback

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**

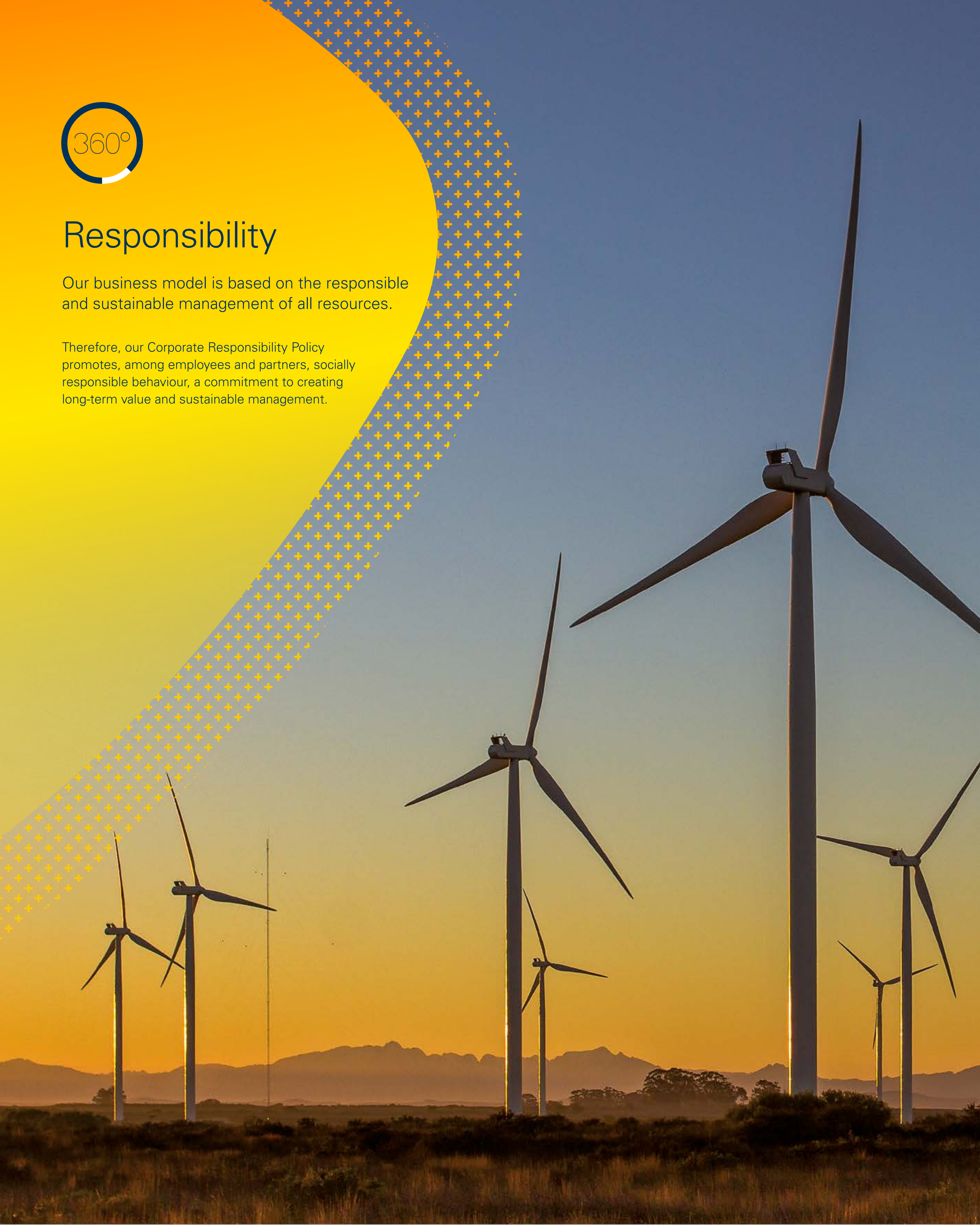
With 360° technology you will be able to visit the Bolarque (Guadalajara) power plant of Bolarque (Guadalajara).

360°

Responsibility

Our business model is based on the responsible and sustainable management of all resources.

Therefore, our Corporate Responsibility Policy promotes, among employees and partners, socially responsible behaviour, a commitment to creating long-term value and sustainable management.



Business model and value creation

Value creation and sustainable management

Gas Natural Fenosa is a leading multinational group in the energy sector and a pioneer in gas and electricity integration. It strives to understand and satisfy its customers' needs, providing them with the leading products and services. Its primary goal is to provide society with energy in order to increase its development and well-being, building on the cornerstones of innovation, energy efficiency and sustainability.

Gas Natural Fenosa commands essential resources in order to develop its business model, which is based on responsible and sustainable management of all the resources it uses.

The commitment to long-term value creation and sustainable management is set out in the Corporate Responsibility Policy which establishes the common framework of action targeted at the company's socially responsible conduct.

Our mission is to cater to the needs of…

	With an overview of…
Our customers	Being leaders with constant growth and an international presence, and offering environmentally friendly products and services.
Our shareholders	Offering a growing and sustainable return.
Our employees	Providing employees with professional and personal opportunities.
Society	Making a positive contribution through a global citizenship commitment.

Based on our values…

- Customer orientation.
- Commitment to results.
- Sustainability.
- Interest in people.
- Social responsibility.
- Integrity.

For the purpose of following best international practices and responding to the recommendations of the Good Governance Code of Listed Companies, in 2015 the Corporate Responsibility Policy was updated, and said modification was approved by the Board of Directors in December 2015.

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

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

This policy takes the form of eight undertakings with its stakeholders which are used as a framework for action: commitment to results, service excellence, responsible environmental management, interest in people, health and safety, responsible supply chain, commitment to society, and integrity and transparency. These transversal commitments are present in any of the company's business processes, based on economic, social and environmental wealth.

Corporate responsibility, as a way of managing the impacts of the company's activities, allows the group to create global value and also to formalise its commitment towards society and turn it into a competitive advantage and a critical element in ensuring the company's sustainability.

Throughout the value chain, the business model used by Gas Natural Fenosa stands out as a leading model in the gas sector and a benchmark in the electricity sector, guaranteeing a regular supply of gas and electricity - which is essential to offer a quality service and in order to fulfil the company's social purpose - providing a broad range of value-added services and fostering sustainable development as a driving force.

With 360° technology you will be able to visit the Customer Service Centre of María de Molina, Madrid.

The business model used by Gas Natural Fenosa is underpinned by:

Risk management model	This seeks to ensure predictability in all relevant aspects of the company's performance for its stakeholders.
Corporate governance system	This is based on the most advanced global practices.
Commitment to strategy	Clear, realistic and sustainable strategy based on the strength of the business model.

A sustainable management of all resources...

Our resources

Financial
Investments: €2,225 M.
Financing: €15,423 M net financial debt.
Assets: €19,005 M net worth.

Natural
Procurement contracts: ~30 bcm.
Consumption of fuels and energy materials.

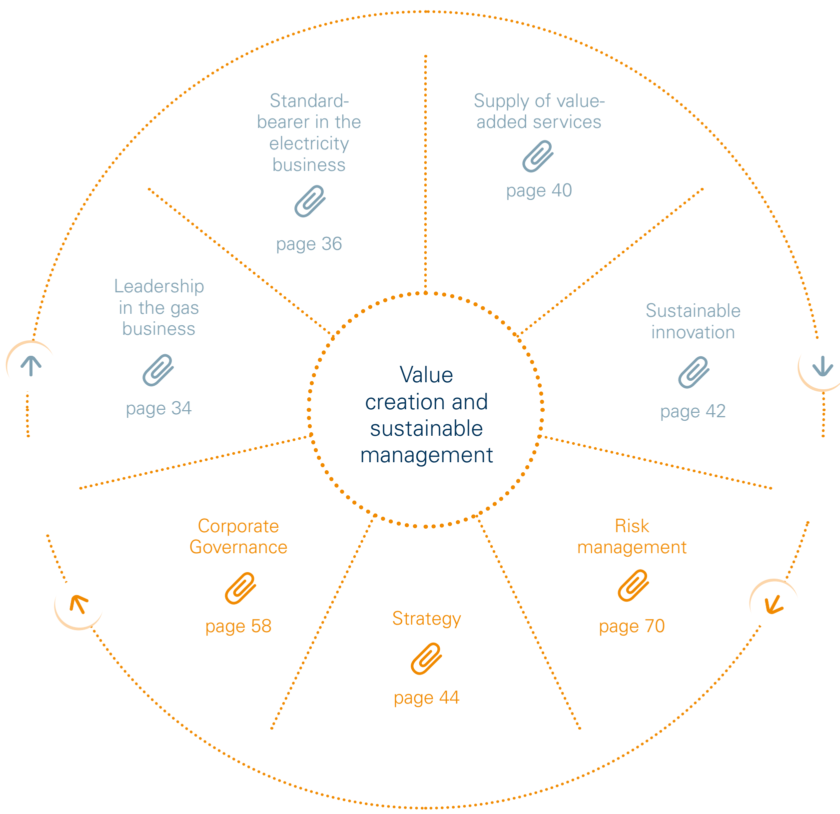
Industrial
Generation capacity: 15.4 GW.
Gas distribution infrastructures.
Electricity distribution infrastructures.
Nine methane tankers, two gas pipelines and liquefaction and regasification plants.

Human
Employees: 17,229.
Talent management.
Corporate University and training.
Health and safety.
Code of Ethics.

Intellectual
Development and improvement of products and services. Experience and operational excellence.
Efficiency in processes and ongoing improvement.
Technological innovation and investment in R&D&I.

Social
Social investment: €10 M.
Relations and dialogue with stakeholders.

What differentiates us throughout the value chain?



How do we manage our business?

Under a common framework: our corporate responsibility commitments

Evolution of the results of 2016
Page 78

Commitment to results
Solidity and financial discipline.
Shareholder remuneration.
Growth capacity.
Page 80

Service excellence
Continuous improvement in products and services.
Simple and efficient operations.
Innovation.
Page 90

Responsible management of the environment
Sustainable development.
Responsible and efficient use of energy.
Mitigation and adaptation of climate change.
Page 96

Interest in people
Talent management.
Professional development.
Diversity and equal opportunities.
Page 101

Health and safety
Zero tolerance for accidents.
Leadership and health and safety culture.
Page 105

...that enables the creation of global value

Our results

Financial
Ebitda: €4,970 M.
Borrowing: 44.8%.
Pay out: 74.2%.

Natural
Direct GHG[1] emissions: 19.5 $MtCO_2$.
CO_2 emissions / generation: 411 tCO_2/GWh.

Industrial
Net production: 46,552 GWh
Gas distribution: 458,265 GWh
Electricity distribution: 68,258 GWh
Gas supply: 325,384 GWh.

Human
Voluntary rotation: 2.5%
Workforce trained: 87.4%
Accident frequency index: 1.72%
Communications to the Code of Ethics: 178.

Intellectual
Excellence and quality service.
Customer satisfaction.
Extending Gas Natural Fenosa's operational principles throughout the value chain.

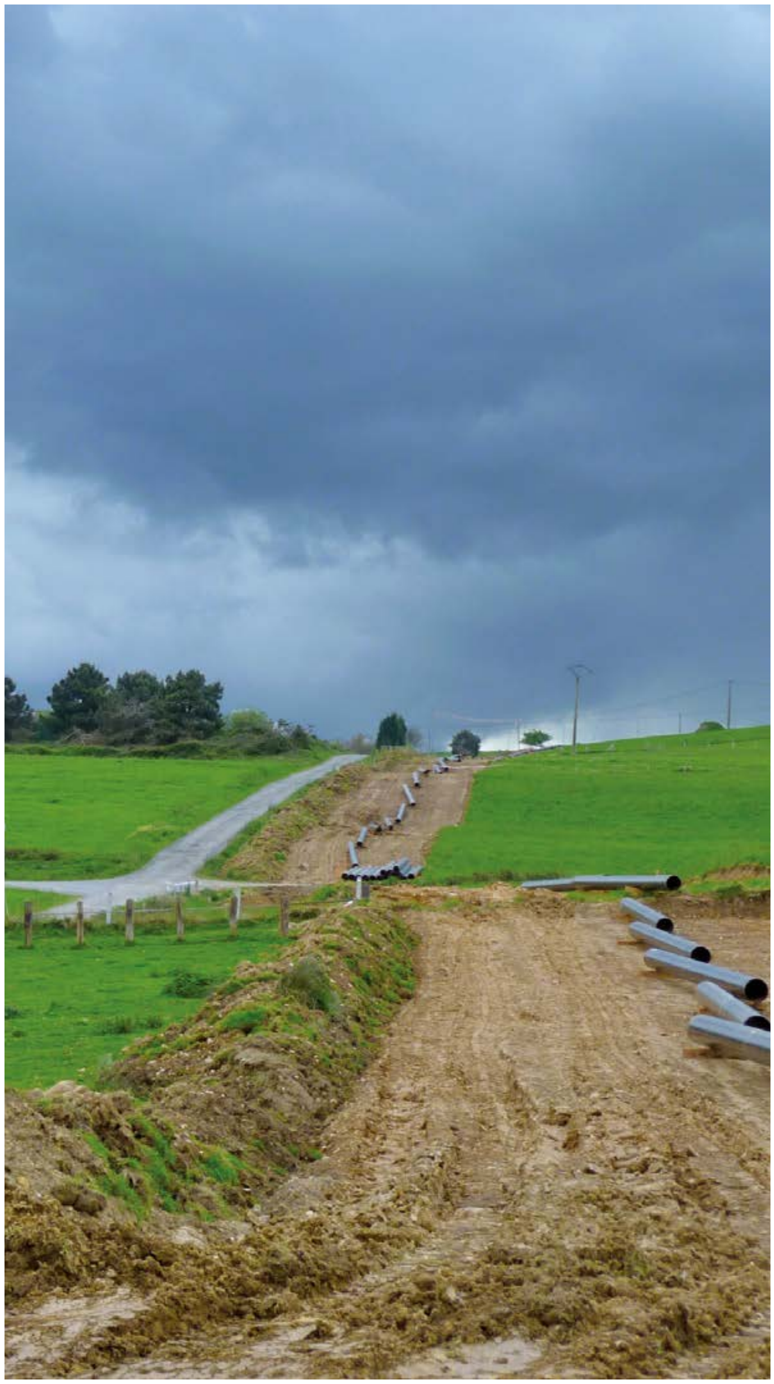
Social
Economical value distributed: €21,748 M.
Presence in over 30 countries.
Respect for human rights.
International awards.

[1] Greenhouse gases.

Chain of responsible supply
Extension of the company's principles.
Page 110

Social commitment
Economic and social development.
Community investment programmes.
Relationship with communities.
Page 114

Integrity and transparency
Code of Ethics.
Human rights.
Transparency.
Page 118



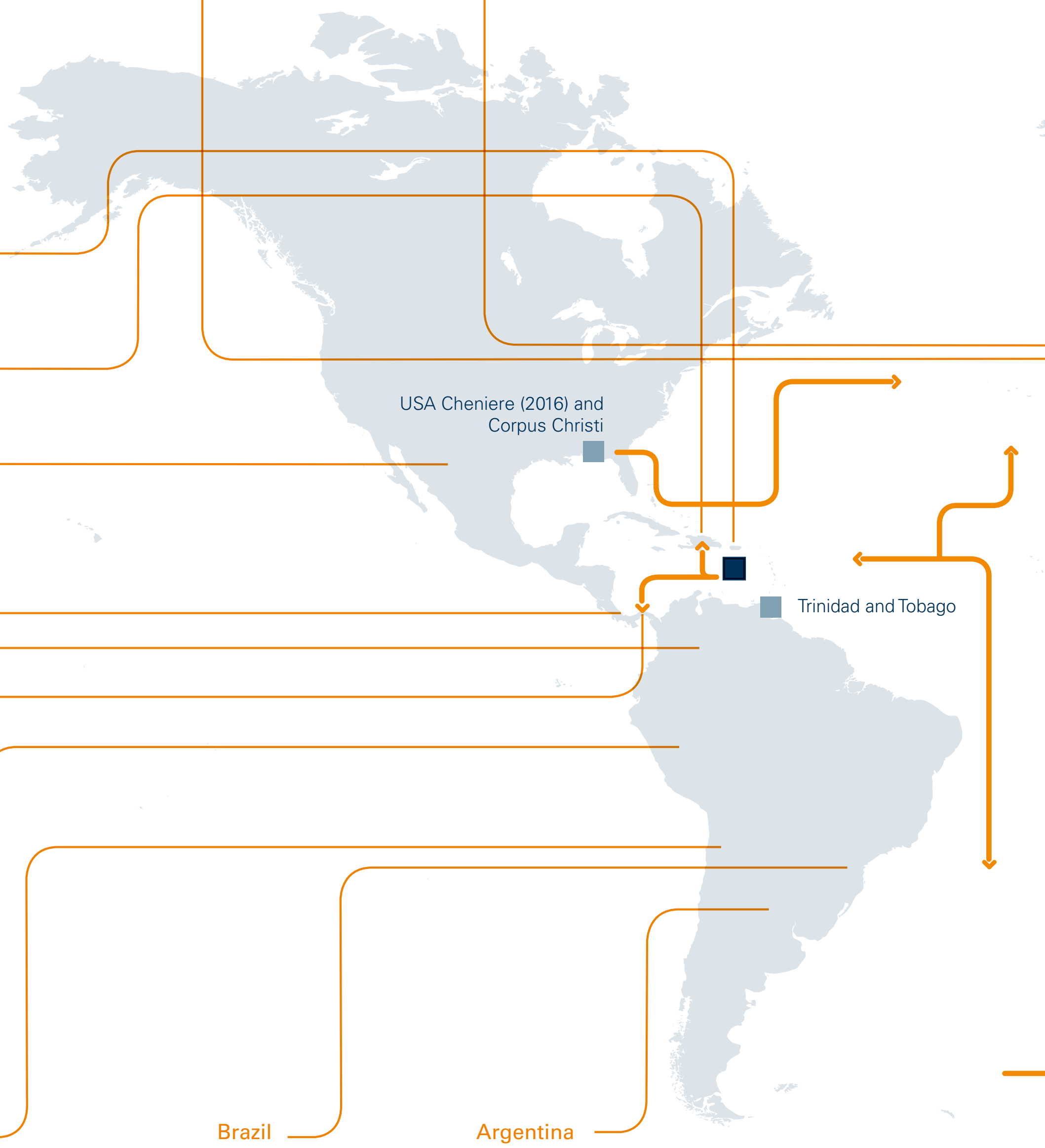
CRR
For further information on the group's corporate responsibility commitments, please see the 2016 Corporate Responsibility Report.

A business model present all over the world

Gas Natural Fenosa operates in over 30 countries with almost 22 million customers, and more than 50% of its employees work outside Spain. Its international presence puts it in an ideal position to capitalise on the growth of new regions which are in the process of economic growth, making it one of the world's most important operators.

Portugal
NG/LNG and electricity commercialisation.

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



Puerto Rico
NG/LNG (regasification plant) infrastructure and generation of electricity.

Dominican Republic
Generation (198 MW, fuel-oil).

Mexico
Gas distribution (ten states including Mexico City and 1.7 Mn customers) and generation (2,035 MW, combined cycles and 234 MW, wind).

Costa Rica
Generation (101 MW, hydraulic).

Panama
Electricity distribution (Panamá Central, West, Inland, Chiriquí and 0.6 million customers) and generation (22 MW, hydraulic).

Colombia
Gas distribution (Bogota, Soacha and 2.9 million customers).

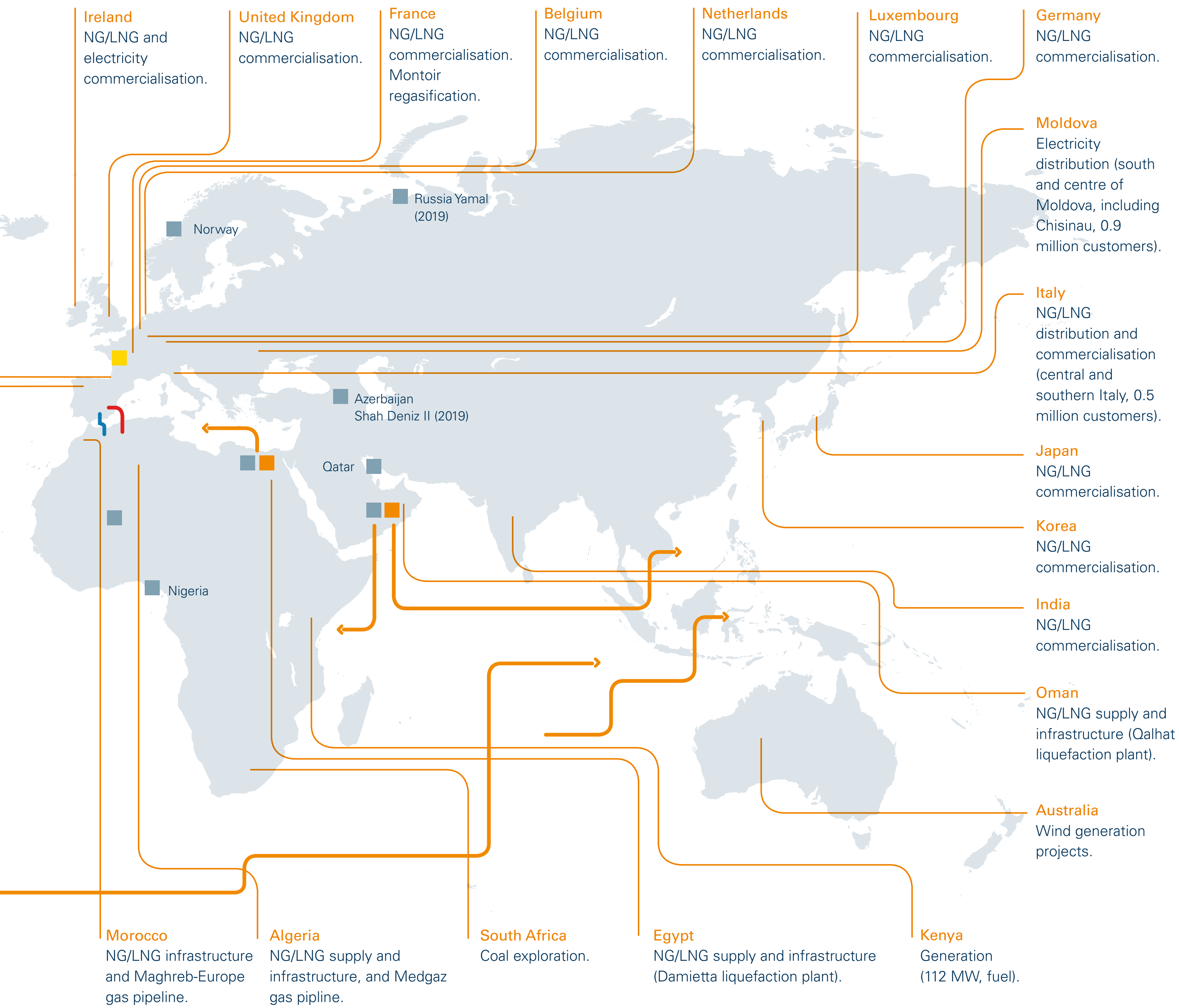
Peru
Gas distribution. Start gasification. (Arequipa and south-west area).

Chile
Gas distribution (18 provinces and 0.6 million customers), electricity distribution and transportation (13 provinces and 2.8 million customers).

Brazil
Gas distribution (Rio de Janeiro state, São Paulo South and 1 million customers). NG/LNG commercialisation. Wind generation projects.

Argentina
Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.6 million customers) and electricity distribution (0.2 million customers).

- Gas flow.
- Liquefaction plant.
- Regasification plant.
- Leased regasification plant.
- Long-term gas contracts.
- Maghreb-Europe gas pipeline (Empl).
- Medgaz gas pipeline.

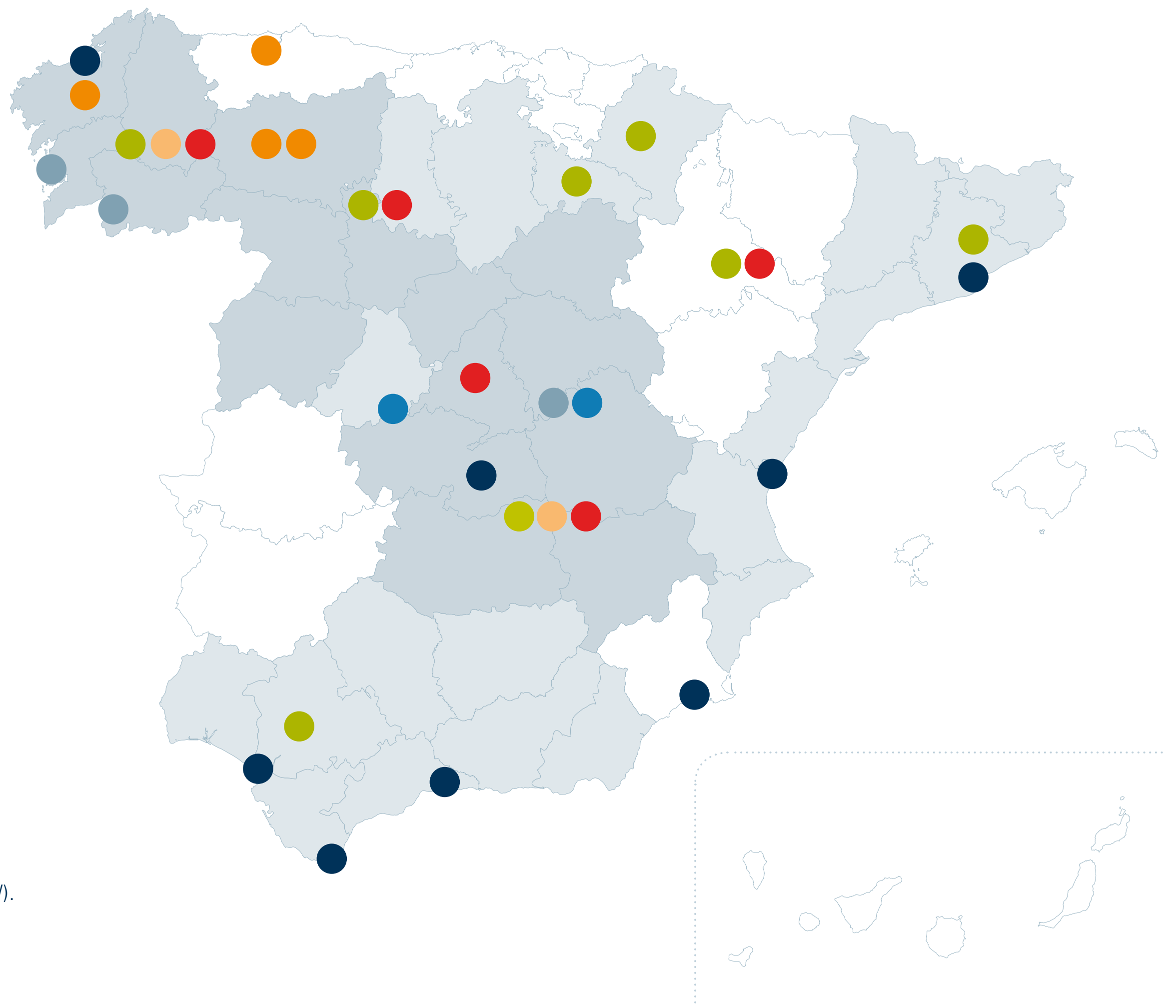


IF For further information on the group's corporate structure by business activities, please see Annex I of the 2016 Consolidated Annual Accounts.

NB: Gas Natural Fenosa's activity in Australia, Brazil and Chile (generation) refers to specific projects concerning the aforementioned activities, and not that the company has an operating infrastructure. Does not include the power distribution business in Colombia as the stake in Electricaribe ceased to be consolidated as at 31/12/2016

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).



- Wind (979 MW).
- Mini-hydraulic (110 MW).
- Co-generation (58 MW).
- Combined cycle (7,001 MW).
- Hydraulic (1,954 MW).
- Nuclear (604 MW).
- Coal (2,010 MW).

- Gas distribution (5.3 million customers).
- Electricity distribution (3.7 million customers).

A competitive and integrated business model

Gas Natural Fenosa is an integrated energy group, with a balanced business mix, which supplies gas and electricity to nearly 22 million customers. Its core businesses are the complete gas life cycle, and the generation, distribution and commercialisation of electricity. It also carries out other lines of business, such as energy services, which encourage diversification of activities and revenue, anticipating market trends in order to deal with the specific needs of customers and be able to offer them a comprehensive service that does not focus solely on the sale of energy.

Gas Natural Fenosa has a differentiated business model which places it in a solid position to capture future growth in the energy sector:

- Gas Natural Fenosa has been successful in developing new business models in the energy sector.
- It is the leader in the geographical areas in which it operates and throughout the value chain.
- The businesses in which the company operates have an attractive growth potential.

With 360° technology you will be able to visit the Mariné service station, Santa Perpetua de Moguda (Barcelona).

The business model used by Gas Natural Fenosa is carried out through a broad range of companies largely in Spain, the rest of Europe, Latin America and Africa, and is underpinned by the following major business activities:

Networks - Electricity distribution	**27% Ebitda**: Spain, Moldova and Latin America.
Networks - Gas distribution	**35% Ebitda:** Spain, Italy and Latin America.
Electricity	**19% Ebitda:** Spain and Global Power Generation.
Gas	**17% Ebitda:** infras-tructures, supply and commerciali-sation, and Unión Fenosa Gas.

NB: 2% other activities.

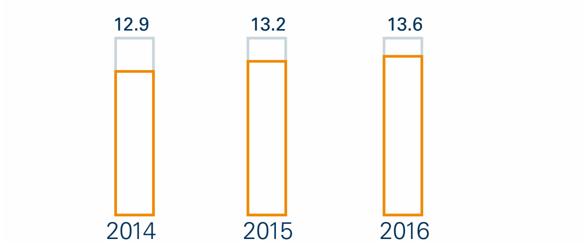
Gas Natural Fenosa has a unique business model, with 75% of Ebitda coming from regulated or quasi-regulated activities, and 44% from the international arena

Leadership in the gas business

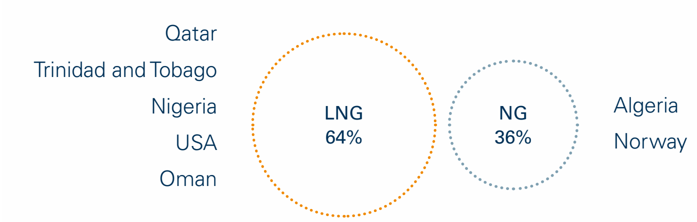
Its presence throughout the gas value chain gives Gas Natural Fenosa a competitive advantage, making it a leading group in this sector

	Gas distribution business **Distribution**	Gas business **Supply**
	• 13.6 million supply points. • 142,187 km of network.	• ~30 bcm[1] supply portfolio.
Our positioning	**Spain and rest of Europe** **Leader in Spain:** distribution of natural gas to over 1,000 municipalities in nine autonomous regions and 5.3 million customers. **Solid presence in Italy:** distribution in 223 municipalities with 0.5 million customers. **Latin America** **Leading distribution company Latin America,** where it distributes to over 7.8 million customers. Presence in Argentina, Brazil, Colombia, Chile, Mexico and Peru, and in seven of the ten largest cities in Latin America.	Business model based on diversification and flexibility, which has turned Gas Natural Fenosa into a global operator with a major international profile. Gas Natural Fenosa has procurement contracts with suppliers all over the world in both gaseous state (NG) and liquefied natural gas (LNG).
Our strength	Gas Natural Fenosa has a leading position in the markets where it operates, which means an excellent platform for organic growth, by winning new customers in municipalities with gas, and expanding networks to areas without gas.	A portfolio of contracts for diversified supply, with contractual terms that mitigate the exposure to the commodities risk and highly flexible, allowing the company to capture markets with high value-added.
Market environment	Gas Natural Fenosa operates in countries where there are stable regulatory and tariff frameworks that are characterised through the absence of risks affecting the price of commodities, transport, local inflation and the legal framework that could affect the forecast cash flows.	There is a lot of uncertainty concerning the evolution of commodity prices, with a recovery forecast in the mid term. The position of Gas Natural Fenosa based on a long-term supply portfolio (20-25 years), comprising NG (36%) and LNG (64%), with flexibility and a diversified indexing, reduces the risk of exposure and allows the company to compete in international markets. Long-term contracts include price reviews that enable these to be adapted to market circumstances In addition, Gas Natural Fenosa apply policies to hedge against prices of raw materials aimed at minimising the impacts of such risk. See Risks chapter. Page 70
In the future	• Extensive possibilities for growth are expected in Latin America. • High potential for growth in Spain (new population hubs and transformation of LPG customers). • Development of new concessions: Spain (Menorca), Mexico (Sinaloa and North West) and Peru (Arequipa). • Acceleration of the gasification process in Chile.	New contracts from 2017 years and on: Cheniere I Sabine Pass (early quantities in 2016) and Cheniere II Corpus Christi (2020), Yamal (2018-19) and Shah Deniz (2019-21). These contracts increase the flexibility of the Gas Natural Fenosa portfolio, allowing us to be competitive in world markets.

Changes in gas supply points (millions)



Gas source and mix



[1] Billon cubic metres.

Infrastructures

- Nine methane tankers.
- Two Maghreb-Europe (Empl) and Medgaz gas pipelines.

Transport

Liquefied natural gas: nine methane tankers (1.4 Mm³).

Natural gas: management of the main gas pipeline supplying the Iberian Peninsula Maghreb-Europe (Empl) and 14.9% stake in Medgaz.

Liquefaction and regasification

Participation in two regasification plants (Saggas and Ecoeléctrica) and two liquefaction plants (Damietta and Qalhat).

Storage

Own storage capacity of 0.5 bcm and leased capacity of 1 bcm.

Gas Natural Fenosa has a single and integrated gas infrastructure which provides the business with high level of stability, making operations more flexible and allowing gas to be transported towards the best business opportunities.

Its storage capacity enables a steady supply to be ensured, avoiding the impact of seasonal changes or demand peaks.

Together with the supply portfolio, the fleet of methane tankers constitutes the base for growth of the gas business. In 2016 two new tankers were acquired under finance leases. We envisage the incorporation of four new tankers by 2018, which will enable the fleet to be enlarged by 2 million cubic metres.

Gas commercialisation

- 325 TWh of gas supplied.

Unique access to markets: over 13 million customers and sales in over 11 countries.

Global operator with flexibility of exploiting attractive markets.

44% market share in Spain.

Competitive supply to combined-cycle plants (CCP).

Gas Natural Fenosa has diversified customers, and operates in gas commercialisation, both in Spain and across the world.

Its positioning in international markets allows it to obtain additional margins through adequate trading activity.

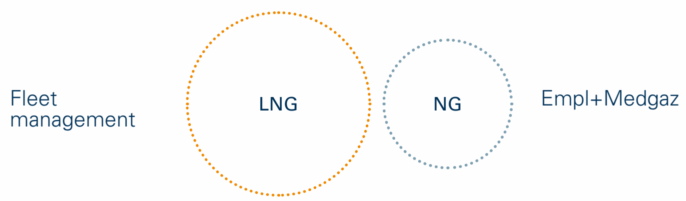
Gas Natural Fenosa is a leader in the dual fuel energy offer and broad range of value added services.

For further information on the market setting, please see the Strategy chapter.

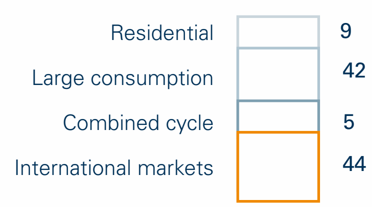
IF For further information about the regulatory framework, please refer to "NB 2" of the 2016 Consolidated Annual Accounts.

From being a company that exclusively marketed gas, it has successfully transformed itself into an integrated gas and electricity utility corporation. The integration of the LNG business with the downstream and generation sectors has the potential to increase margins over the long term by providing greater stability and lower volatility.

Transport infrastructure



Supply to customers (%)



Standard-bearer in the electricity business

Electricity grid business
Distribution

- 8.2 million supply points.
- 250,886 km of network.

Our positioning

Spain and rest of Europe

Third-ranking operator in the Spanish market, where it distributes electricity to 3.7 million customers.

Leader in Moldova, with 0.9 million customers.

Latin America

Presence in Argentina, Chile and Panama (3.6 million customers), where it is considered as the leading operator.

Our strength

Gas Natural Fenosa has a leading position in the markets where it operates.

Gas Natural Fenosa is one of the most efficient operators in terms of operation and maintenance costs in the electricity distribution business.

Market environment

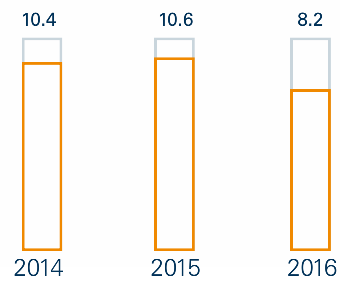
Gas Natural Fenosa operates in countries where there are stable regulatory and tariff frameworks that define the procedures and formalities required for the periodic review of tariffs and margins of distribution. The tariffs are reviewed every four or five years.

In November 2016, the Superintendency of Domiciliary Public Services of the Republic of Colombia took over Electricaribe, which was therefore no longer consolidated on the group's balance sheet as at 31/12/2016, and its investment was recorded as an available-for-sale financial asset.

In the future

Although demand for electricity is not expected to register significant growth in Europe, Gas Natural Fenosa is confident that there will be further opportunities to grow in electricity distribution worldwide.

Changes in electricity supply points (millions)



Reduction due to the effect of the deconsolidation of Electricaribe (Colombia).

Its management capacity and experience in electricity, coupled with its unique position offering integration in the gas business, makes the company a standard-bearer in this sector

Electricity business
Generation

- 15.5 GW of generation capacity.

Spain

12.8 GW capacity with an important presence in five technologies: 7 GW CCP, 2 GW hydraulic, 2.1 GW coal, 1.1 GW renewable and 0.6 GW nuclear.

Gas Natural Fenosa has a 17% market share in the non-renewable generation regime and 2.1% in the renewable regime.

International (Global Power Generation)

2.7 GW capacity: 2.1 GW CCP (Mexico), 0.3 GW fuel (Dominican Republic and Kenya), 0.1 GW hydroelectric (Costa Rica and Panama) and 0.2 GW renewable (Mexico).

The company has far-reaching knowledge in all generation technologies and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country. Its competitive and flexible gas supply allows the company to obtain higher margins against its competitors in managing its combined-cycle plants.

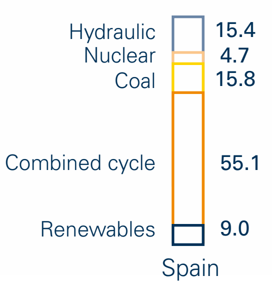
Gas Natural Fenosa controls and operates the most efficient set of combined-cycle plants in Spain, in ideal locations. A good positioning in Spain and Latin America, which will allow us to take advantage of investment opportunities in generation.

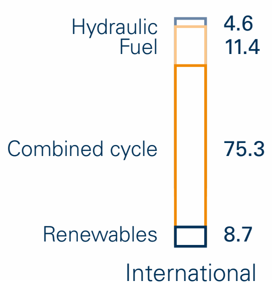
In Spain, generation activities are carried out within a regulatory framework established by Law 24/2013 of the Electricity Sector, which guarantees the system's financial stability.

Internationally, the group benefits from highly-regulated and fully-contracted business (energy generation buy-sell agreements).

Gas Natural Fenosa is building a portfolio of generation projects in countries in which it already opeartes focusing its investments on renewable energies.

Power generation capacity (%)





Electricity commercialisation

- 36.4 TWh commercialised.

Leading in large consumption and residential segments with a total market share of 14.7%.

One of the most important trading agents on the Spanish market.

Dual fuel energy offer and broad range of value added services.

Gas Natural Fenosa provides twin coverage for electricity generation: a competitive gas supply and an attractive commercialisation business.

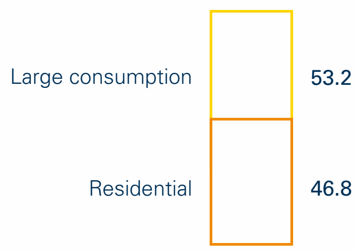
Its leading position in the combined commercialisation of natural gas and electricity allows it to offer important advantages such as a lower service costs, an integrated service to the customer and lower acquisition costs, without overlooking the higher customer loyalty which it achieves.

For further information on the market setting, please see the Strategy chapter.

IF For further information about the regulatory framework, please refer to "NB 2" of the 2016 Consolidated Annual Accounts.

Gas Natural Fenosa has been able to increase its customer base and its range of services. It boasts a unique position to capture new growth opportunities associated with technological innovation in the provision of new services and offering new products to customers.

Supply to customers (%)



Guarantee of supply

The Gas Natural Fenosa model

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

In the field of gas procurement, the Gas Natural Fenosa business model is based on having a balanced gas portfolio, with approximately 40% of the supply in the form of natural gas and 60% in liquefied natural gas (LNG). Natural gas provides a high level of flexibility in terms of volume, and LNG offers great flexibility from the standpoint of the destination where the gas is to be positioned.

Supply is diversified in different sources with a number of different producer countries, which include, *inter alia*, Algeria, Qatar, Nigeria, Norway, Trinidad and Tobago and a number of suppliers.

This diversification means that if any incident should arise in any of these countries, the group is able to guarantee that there would only be a relative impact on its procurement mix.

Gas Natural Fenosa's relations with suppliers are built around stable, long-term contracts, aimed at ensuring a regular supply.

The spot market is only used on one-off occasions, and basically to take advantage of market opportunities.

In order to maintain this supply portfolio, Gas Natural Fenosa continuously negotiates with its main suppliers, and regularly enters into new supply agreements, such as those recently signed with Azerbaijan, USA and Russia.

Gas Natural Fenosa also has agreements in place for the use of underground storage facilities in most countries in which it operates, to cope with short-term changes in demand or in supply issues. In Spain, Gas Natural Fenosa takes an active role in developing underground storage plants, and operates the Marismas storage facility.

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

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

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

In the Gas Natural Fenosa business model, it is essential to offer a regular supply of gas and electricity to its customers. Guaranteed supply is based on three pillars:

- Diversified, balanced, and flexible gas procurement portfolio, with stable and long-term contracts.
- Flexible electrical generation mix which can be used as backup and provides security to the national system.
- Reliability of both the gas and electricity distribution grids.

Natural gas and energy safety

The availability, the guarantee of supply and the price of energy represents one of the major challenges of the European Union and has a decisive effect on its competitiveness and quality of life.

In Europe, the guarantee of supply needs to be reinforced in three ways: interconnections, LNG integration and development of storage.

In this context, Spain needs to take advantage of its strategic situation, its energy infrastructures and its capability to import LNG, to make these available to Europe, in order to achieve a fluid, transparent and interconnected European domestic market.

According to the International Energy Agency, demand for natural gas will increase globally over the next few years, in particular in Asia and emerging countries, significantly increasing the importance of LNG.

The reason for this is that, firstly, it is a source of energy that provides flexibility and reliability of supply and, secondly, it is the most versatile fossil fuel, suitable for use in generation (where it acts as support to renewable energies), in transport, industry and for domestic use, and it is the fuel that produces fewest emissions.

Fostering these initiatives will help to increase diversification and to reduce the price of natural gas in the European Union, enabling us to make progress in respecting the environment in a balanced way.

Guaranteed supply is based on the following pillars: our gas supply portfolio, the generation mix and the reliability of the distribution grid

Supply of value-added services

Full, effective and efficient commercial supply

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

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

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

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 enabling the company to generate security and trust in management. The expectations generated by the customer need to be answered through increased customer service, innovation and any necessity that can offer value-added to the catalogue in all of its energy and product variants.

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

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

Operational efficiency in customer relations

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

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

Products and services adapted to customer's needs

Home	Business	Large customers
Natural gas and electricity.	Natural gas and electricity.	Products: gas, electricity and LNG.
Services.	Services.	Efficiency and sustainability.
Equipment.	Equipment.	Value-added service.
Energy saving and efficiency.	Energy saving and efficiency.	Customised management.
	Energy solutions.	

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

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

Innovative products and services

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

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

New channels of communication

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

Customer service

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

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

Customer service means

- Customer service channels and personal managers.
- Guarantee Office.
- Website and Virtual Office.
- Sales and customer service centres.

New products and services of Gas Natural Fenosa

Residential

- Energy saving service.
- Indexed tariffs in electricity.
- Fixed gas tariffs.
- 24-month stable tariff (gas and electricity).
- New financing model.
- Manitas electrical service.
- Manitas household service.
- Change from Flat Rate

Wholesale

- GNL bunkering.

CRR

For further information, please see the 2016 Corporate Responsibility Report

Use of new technologies

- Online channel.
- Website for procurement.
- Social networks.
- Paying without a bill.
- Electronic confirmation of procurement.
- Mobile private area.
- Mi EnergiApp.
- YoLeoGas.
- Smart meters.

Sustainable innovation

Innovation is one of the engines of development at Gas Natural Fenosa, and this is why senior management of Gas Natural Fenosa are pursuing the introduction of a model of innovation, as part of the update of the Group's 2016-2020 Strategic Vision.

This model comprises the innovation overview and focus, the project management methodology and a strong innovative culture at the company to guarantee the most appropriate response to the changing dynamics of the environment.

The innovation plan is structured around five multidisciplinary working areas: generation, networks, customers, liquefied natural gas (LNG) and automation and information management.

- **Generation:**
  - Renewable energy: The company has a balanced generation mix. It is also capable of giving an appropriate response to the demand for energy in the societies in which it operates, always committed to the most environmentally-friendly technologies. Its key objectives include: developing new technologies that increase the percentage of renewable energy of its portfolio and to integrate this into the electricity grid, and optimising the use of renewable facilities already in service, for example, by extending their useful life or making better use of the wind resource.
  - Hydraulic energy: Gas Natural Fenosa carries out its main innovation activities in the area of hydropower at the International Centre of Excellence in Hydraulics (CIEH). The mission of this centre is to promote and channel R&D&I initiatives in the sphere of using conventional and marine hydraulic energy that can be transferred, either at the development or operational stages, to the company's facilities worldwide.
  - Storage: Innovation activities in the area of energy storage have focused primarily on electrical energy storage in batteries, both at large installations that facilitate better functioning of the power grid, as well as on a small scale with a view to distributed use.
  - Thermoelectric power generation: Gas Natural Fenosa is working in this field of innovation along two main lines: power plant performance improvement and reduction of emissions in power generation.
- **Networks:** In gas networks, the main challenge for the company is to achieve better optimisation in safety and durability of the network as well as increased automation and better customer interaction. In electricity grids, the company continues to make huge efforts on optimising the electricity distribution grid, with a particular focus on occupational safety, environmental aspects and improving the quality of supply. These efforts seek to transform the electricity grids into increasingly smart grids.
- **Customers:** In the recently created Smart Client area of innovation the company is focusing on providing products and services with high value-added for different types of end customers.
- **Liquefied natural gas (LNG):** The overall objective of this line is to strengthen transport infrastructure, storage and distribution of LNG, at all levels, to promote its use as an alternative fuel to oil derivatives and as a solution in the propulsion of tankers that are more environmentally friendly.
- **Automation and information management:** Is a cross-sectional area that aims to bring together projects already being developed to gain synergies and enhance results.

CRR

For more information, please see the "Sustainable innovation" section of the 2016 Corporate Responsibility Report.

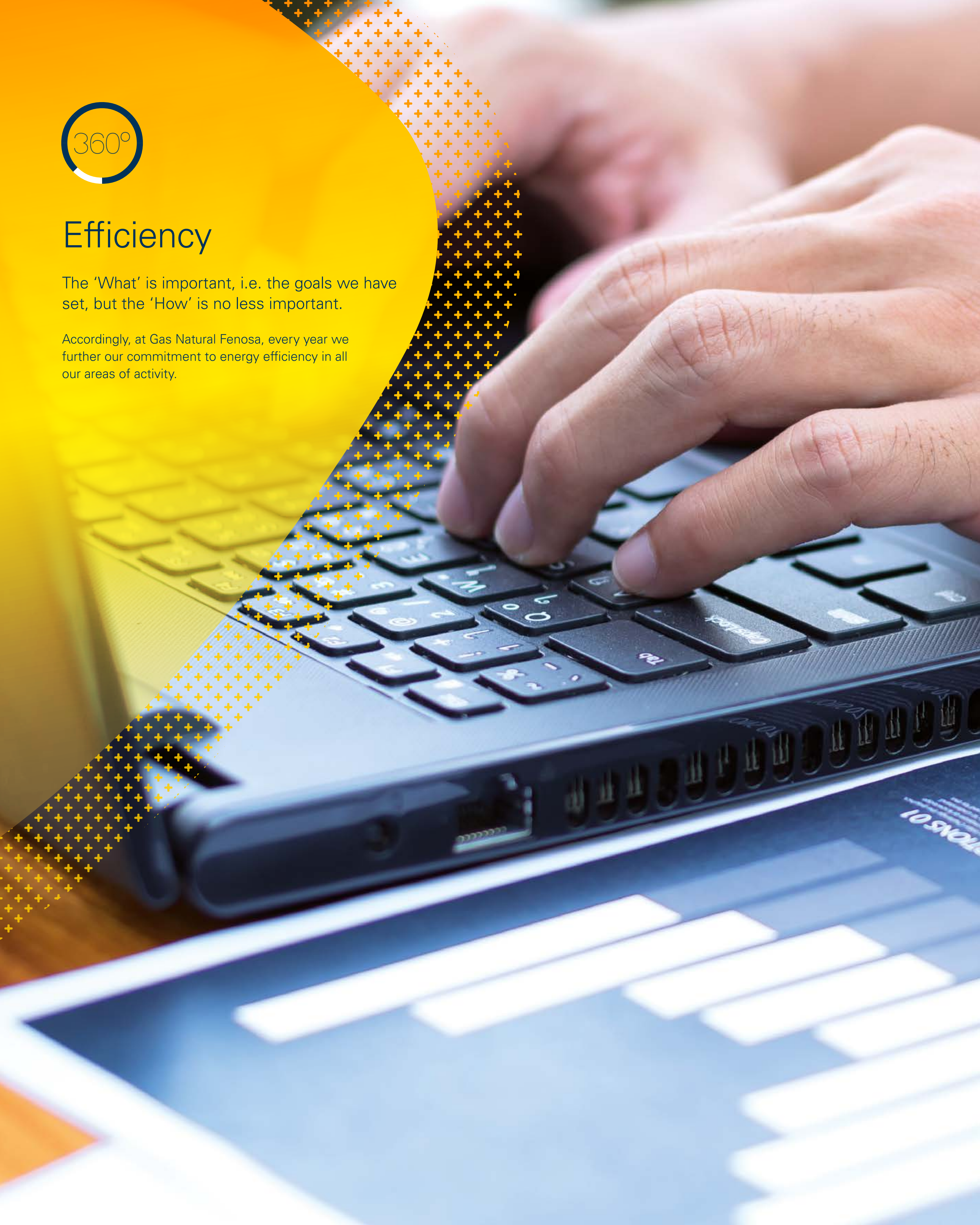
With 360° technology you will be able to visit the Canredondo (Guadalajara) windfarm.

360°

Efficiency

The 'What' is important, i.e. the goals we have set, but the 'How' is no less important.

Accordingly, at Gas Natural Fenosa, every year we further our commitment to energy efficiency in all our areas of activity.



Strategy

Strategic bases

The strategic planning cycle

With a view to achieving the set targets, Gas Natural Fenosa defines strategic guidelines in the medium term, which are regularly updated, and which are adapted to the current and future situation, taking into account the special features of the company's different business activities.

The strategic planning cycle is defined as a recurrent process that starts with a strategic reflection, is set out in the business plans of each business and corporate unit, and forms part of the group's integrated business plan.

The coordination of the processes of strategic planning, annual budgeting and ongoing monitoring facilitates speedy and efficient decision-taking.

The strategic planning cycle

Strategic Reflection

- Formalisation of the group's vision with a medium-term horizon.
- Top-down approach.

Monitoring and Reporting

- Single information source for management of the group and the Business Units and Corporate Functions.
- Strategic management of information to support decision-taking.

Business Plans

- Formalisation of the targets of the Business and Corporate Units.
- Bottom-up approach.

Integrated Business Plan

- Formalisation of the group's targets by integrating the Business Plans.

Budget

- Operating Budget.
- Investment Budget.

2016-2020 Strategic Vision

On 11 May 2016 Gas Natural Fenosa presented the strategic vision for the 2016-2020 period, in which the prospects are established by business areas and financial targets of the group for that period.

Global macroeconomic and energy environment

The three major trends in the energy sector, which will define its future are:

1. Growth driven by emerging markets.

As regards the first trend, global energy demand will continue to grow, with some slowdown, although it will become disassociated from economic growth. The growth will mainly focus on emerging markets. These markets will have annual cumulative growth with demand for primary energy close to 2% and will be responsible for growth in the global energy demand.

2. Evolution of the generation mix towards renewables and gas.

Regarding the second trend, we expect a slowdown of consumption of oil and coal, coupled with an acceleration of renewable energies and gas.

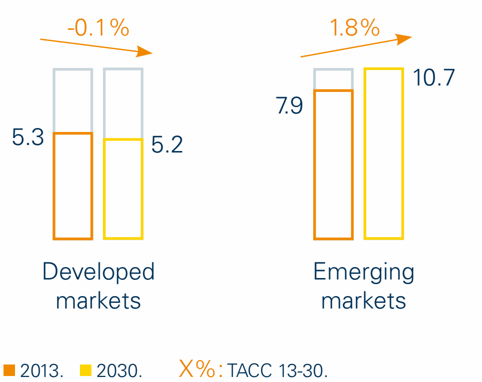
Opportunities associated to growth of renewables and gas, the energy of the future, will be one of the cornerstones of Gas Natural Fenosa.

In the gas sector, liquefied natural gas will have more business opportunities by providing greater security of supply and reduced time-to-market.

The growth of liquefied natural gas will focus primarily on two markets:

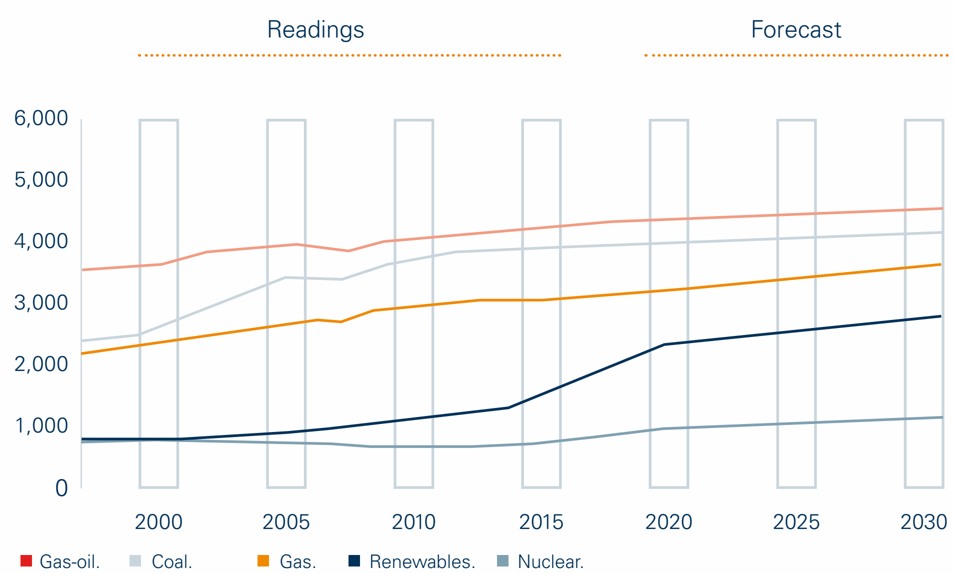
- On the Asian market, mainly in countries that do not have their own production, of high consumption and high industrial and demographic capacity.
- In Europe because its own production in decline will be replaced by increased imports of liquefied natural gas.

Primary energy[1] global demand trend (thousand million TOE)



[1] Source: IMF WEO 2015 New policies scenario forecasts.

Primary energy demand forecast (MTOE)



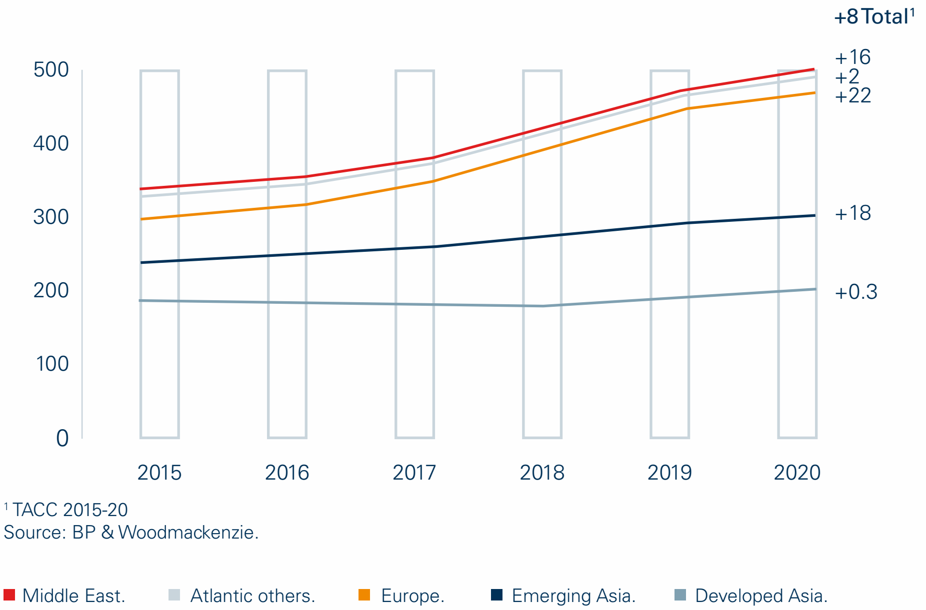
[1] Source: IMF WEO 2015 New policies scenario.

With all this we expect an annual increase in demand of 8% between 2015 and 2020, mainly backed by increased demand in Europe and in Asian emerging markets.

In addition, emerging countries will require significant investments in generation to meet expected increases in demand. Initiatives against climate change and the end of the useful life of existing capacity will boost investment in developed markets. Renewable energy will become increasingly competitive in countries with good wind and solar resources, and gas will be a partner in all development of renewable energies worldwide.

As for investments in electricity grids, new generation capacity will necessarily drive the need for new investments in electricity grids. In addition, these will be forced upwards by the new technologies that apply, smart grid, and greater penetration of renewable energies which will require increased development of investments in transmission and distribution.

LNG demand trend by market (Bcma) (%)



[1] TACC 2015-20
Source: BP & Woodmackenzie.

3. Emergence of new business models in the energy sector.

The new business models, which will be based on innovation and digitization and the development of smart grids and applications. These models will be supplementary to the sales of gas and electricity and without doubt will represent an opportunity to strengthen customer relations and establish new business models and relationships.

Opportunities associated to growth of renewables and gas, the energy of the future, will be one of the cornerstones of Gas Natural Fenosa

Financial outlook 2016-2020

The 2016-2020 Plan is based on four pillars:

1. Cash generation sustains future dividends.

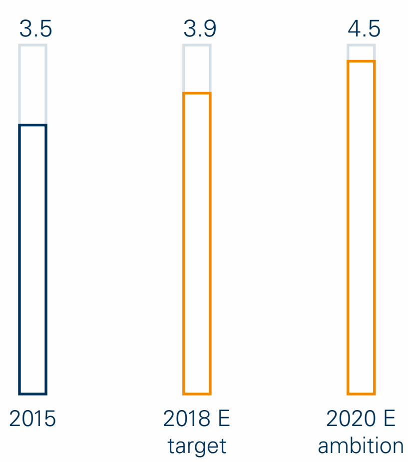
2. Strict financial discipline.

3. Efficiency Plan.

4. Portfolio management.

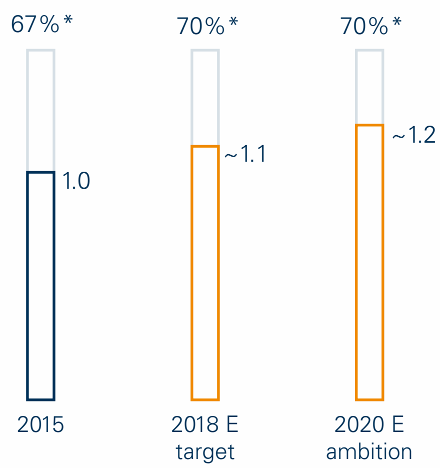
Cash generation sustains the dividend and capex while leverage ratios continue to reduce:

Free cash flow[1] (thousand million euros)



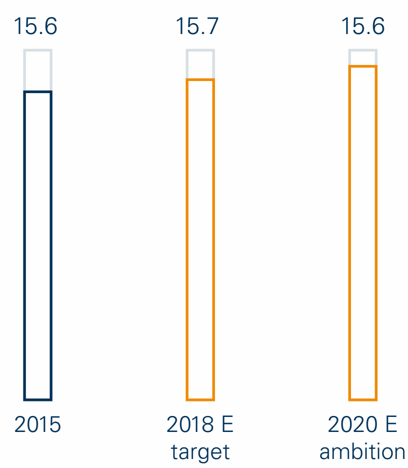
[1] Free cash flow = Ebitda - changes in working capital - taxes & financial levies - net financial expenses – others.

Dividends (thousand million euros)



*Pay out

Net debt performance (thousand million euros)



The following financial policy targets are established:

Liquidity.	Coverage of financial needs for 24 months.
Average life of debt and maturities.	Average life of debt of 5 years with maximum maturity by years of between 2.5 and 3 billion euros.
Financing sources.	Diversification in products and markets with a preference for capital markets and institutional financing on the long end of the curve.
Interest rates.	Stable and predictable cost of borrowing for the purpose of reducing the cost of net debt ~ 4.3% in 2020.
Exchange rates.	Eliminate the currency risk by using local currency funding or structural subordination with a maximum of 25% external financing to subsidiaries with regard to total debt.

A new efficiency plan is being developed whose overall effect will materialize in 2018 and which will represent cost optimism of ~220 million euros.

We continued with the ongoing analysis of the strategic fit and profitability of the business portfolio with the intention of proactively managing the portfolio and maximising value creation for shareholders.

2018 financial targets and ambition for 2020

(thousand million euros)	2015	2018 E target	2020 E ambition
Ebitda	5.3	~5.4	>6.0
Net profit	1.5	~1.6	~1.8
Dividends (pay out 70%)	1.0	~1.1	~1.2
Net debt	15.6	~15.7	~15.6
Net debt/Ebitda	3.x	~3.0x	~3.0x

Outlook by business areas

Networks

Positioning

Europe		Customers (millions)	Market: Market share (%)	Market: Position
Gas	Spain	5.3	69	#1
	Italy	0.5	2	insignificant
Electricity	Spain	3.7	13	#3
	Moldova	0.9	74	#1

Latin America		Customers (millions)	Market: Market share (%)	Market: Position
Gas	Argentina	1.6	19	#2
	Brazil	1.0	33	#1
	Chile	0.6	87	#1
	Colombia	2.9	36	#1
	Mexico	1.7	60	#1
Electricity	Chile[1]	3.0	41	#1
	Panama	0.6	60	#1

[1] Includes Argentina.

Key market trends

- Strong potential for gasification with a favourable regulatory framework in Spain.
- Strong growth in distribution in Latin America.
- The installation of smart meters is the main vector of electricity distribution transformation.

Regulatory aspects

	Review of tariffs					Regulated returns	
	2016	2017	2018	2019	2020	Electricity distribution	Gas distribution
Argentina			Gas				Pending review of the tariff system.
Brazil	Gas São Paulo		Gas Rio de Janeiro				9.6% real before tax .
Chile	Electricity transmission, Electricity distribution				Electricity transmission	10% real before tax.	11% real cap[2] pre-tax.
Colombia		Gas					16.1% nominal before tax[1].
Spain					Electricity distribution[3]	6.5% nominal before tax.	
Italy				Gas			6.1% real before tax.
Mexico							13-14% real before tax.
Moldova		Electricity distribution				14.6% nominal before tax in local currency.	
Panama				Electricity distribution		9.7% real before tax.	

Gas. Electricity distribution. Electricity transmission.

[1] Waiting to be revised to 13.51%.
[2] Under review.
[3] The distribution tariff in Spain is expected to be reviewed on 01/01/2021.

Business keys

Gas distribution	Europe	Continue with the gasification of the new cities that are more attractive in terms of regulatory incentives.
		Execute the distr acquisition of LPG channelled into Spain with relevant market potential.
		Develop new concessions.
	Latin America	Capture the potential for organic growth in Latin America.
		Capture opportunities to consolidate new concessions.
		Grow in Puerto Rico, Peru and obtain new concessions in Chile and Mexico.
Electricity distribution	Europe	Regulatory management and obtaining operational efficiencies.
		Automate the grid and integrate new technologies into the electricity network.
	Latin America	Development of grids to meet the growing demand for electricity in Chile and Panama.
		Regulatory management and obtaining operational efficiencies.

Operational targets for 2018 and ambition for 2020

- 14.6 million supply points in 2018 and 15.8 in 2020 in gas distribution.
- Ebitda of 3.3 billion euros in 2018, and ambition for 2020 of 3.4 billion euros.
- 2016-2018 annual average net Capex of 1.6 billion euros.

Portfolio management depends on the return, the risk and the creation of shareholder value

Gas

Positioning

Gas Natural Fenosa gas procurement in 2015	Gas Natural Fenosa gas markets in 2015
Gas pipelines: Algeria and Norway	**Spain:** ~16 bcma
LNG Atlantic: Trinidad and Nigeria	**Europe:** ~4.5 bcma
LNG Middle East: Qatar and Oman	LNG Rest of the world 6.5 bcma

Key market trends

Solid foundations for expected growth in demand for gas and LNG:

- Increased energy needs in emerging markets.
- Significant increase in unconventional gas resources.
- Less CO_2 emission *vs* any other fossil fuel.
- Expansion of global LNG trade: increased security of supply and reduced time to market.

Key market trends

- Highly diversified and flexible existing Gas Natural Fenosa gas contracts portfolio and new future volumes.
- Increase flexibility of the fleet with the addition of 4 new methane tankers.
- Implement LNG positions in end markets.
- Adapt and renegotiate contracts for the supply of gas.
- Maintain the growth strategy in Europe.
- Strengthen and make use of the competitive advantages in logistics.
- Resolve the current situation of Unión Fenosa Gas in Egypt.

Operational targets for 2018 and ambition for 2020

- Gas sales of 32 bcm in 2018 and 32 bcm in 2020.
- Ebitda of 900 million euros in 2018, and 1,000 million euros in 2020.
- 2016-2018 annual average net Capex of 400 million euros.

Existing supply contracts

Origin	Maturity date	ACQ[1]	
Algeria Sagane I	2021	6	NG
Algeria Sagane II	2020	3	NG
Algeria Medgaz	2030	1	NG
Norway	2030	2	NG
Trinidad & Tobago	2018-2030	4	LNG
Qatar	2025	2	LNG
Nigeria	2021-2023	4	LNG
Unión Fenosa Gas	2030	4	LNG

Future supply contracts

Origin	Starting date	Duration	ACQ[1]	
Cheniere I (USA)	2017	20-30 years	5	LNG
Cheniere II (USA)	2020	20-30 years	2.0	LNG
Yamad (Russia)	2018-2019	23 years	3.2	LNG
Shah Deniz (Azerbaidjan)	2019-2021	23-27 years	1	NG

[1] ACQ: Annual contracted quantity (in bcm/year)

The abundant supply, reduced environmental impact and greater flexibility makes natural gas the fastest growing fossil fuel worldwide

Electricity

Positioning

Spain	Technology	Installed capacity (MW)	Production (GWh)
Conventional	Nuclear	604	4,463
	Coal-fired	2,010	5,687
	CCP	7,001	11,963
Renewables	Hydroelectricity	1,954	3,933
	Renewables	1,147	2,458

International	Technology	Installed capacity (MW)	Production (GWh)
Mexico	CCP	2,035	15,648
	Wind	234	793
Costa Rica	Hydroelectricity	101	398
Panama	Hydroelectricity	22	98
Dominican Republic	Fuel-oil	198	920
Kenya	Fuel-oil	112	191

Regulatory aspects

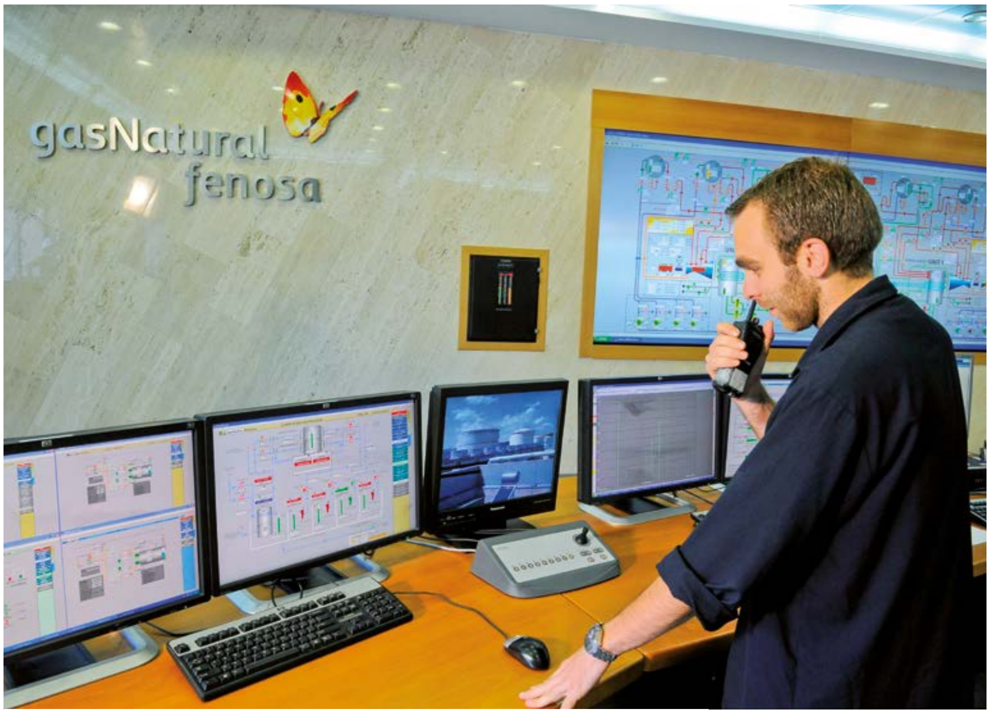
Generation and commercialisation Europe	Regulatory management of the evolution of the electricity wholesale market.
	Develop the wind energy portfolio in the Canary Islands, where there is already an incentives mechanism, awaiting introduction in the rest of Spain.
	Adapt the Meirama coal plant to meet the new Industrial Emissions Directive.

Key market trends

- Combined cycle plants (CCP) play a key role in supporting the system and provide firm capacity.
- The next Spanish government will have to introduce incentives for renewable energies to meet the 20-20-20 targets.
- Increased generation capacity in the international arena.
- Improvement in cost competitiveness of renewables.
- The development time for wind and solar projects is shorter than other technologies such as gas or hydraulic.

Business keys

- Gas Natural Fenosa has the opportunity to rebalance the mix of its generation portfolio in Spain in the 2016-2020 period.
- International generation targets:
    - Accelerate value creation by using a technological mix with a short development time and in which Gas Natural Fenosa has sufficient know-how.
    - Focus on growth markets, taking advantage of the current and future presence of Gas Natural Fenosa.
    - Limiting exposure to risk by seeking predictability of cash flows.
- Improving the efficiency and performance of the generation portfolio.



With 360° technology you will be able to visit the control room of the combined cycle power plant at Barcelona Port.

Operational targets for 2018 and ambition for 2020

- Installed capacity:
    - Spain: 13 GW in 2018 and 13.6 GW in 2020.
    - International: 2.8 GW in 2018 and 5.4 GW in 2020.
- Ebitda:
    - Spain: 500 million euros in 2018 and 700 million euros in 2020.
    - International: 300 million euros in 2018 and 600 million euros in 2020.
- Annual average net Capex 2016-2018:
    - Spain: 300 million euros.
    - International: 300 million euros.

Integrity

It is essential that we ensure that we conduct ourselves in a manner consistent with the values shared at our company in everything we do.

To this end, through the Board of Directors, we analyse and approve the company's risk profile on a yearly basis. This includes ethical, social and environmental issues.

2016 Integrated Annual Report

Corporate Governance

Corporate Governance Model

Governance at Gas Natural Fenosa is based on the principles of efficacy and transparency established in accordance with the main existing recommendations and standards, and for this purpose, the company is committed to advanced corporate governance practices.

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

Internal control is another fundamental pillar in the good governance model of the company. To this end, the company frequently reviews its internal audit and compliance procedures and uses its internal code of conduct to set out those practices that should lead to greater knowledge of the company's way of working.

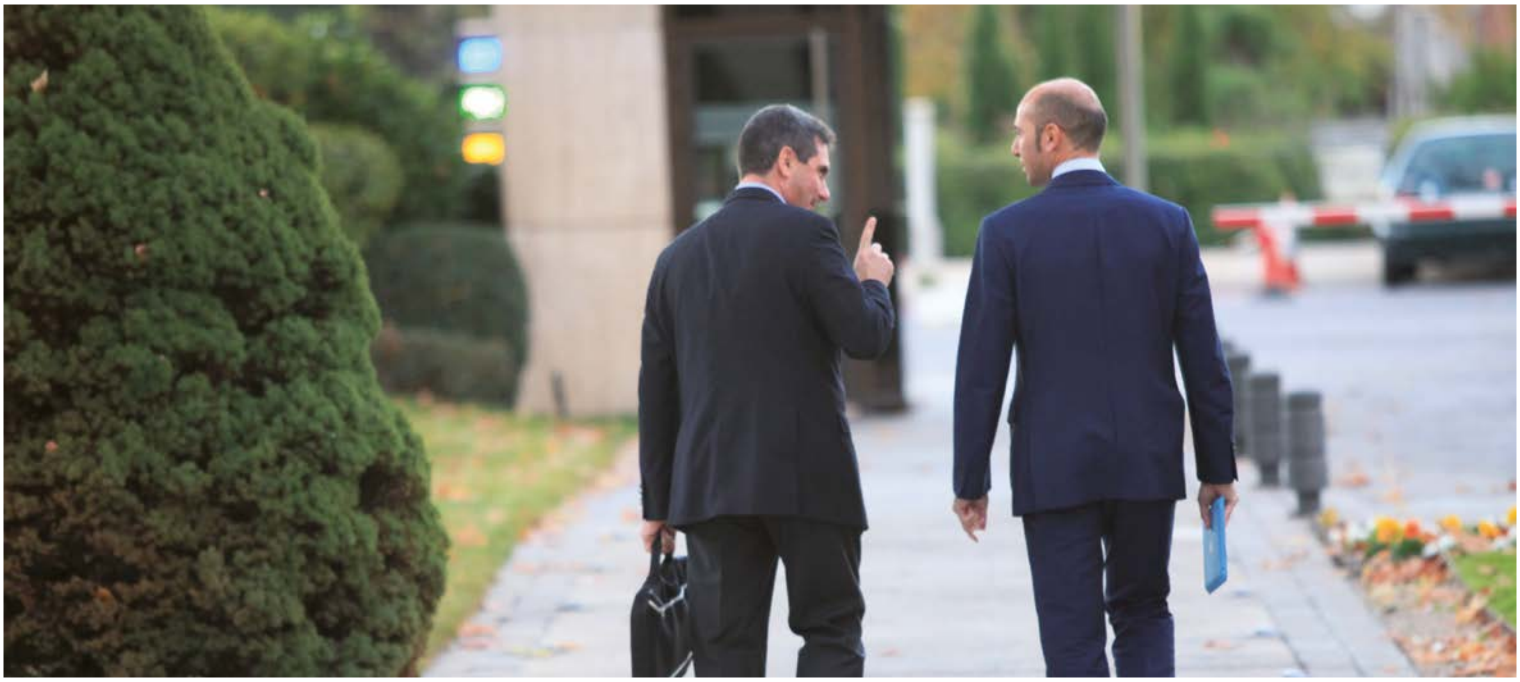
The set of governance rules is made up of the following

- Articles of Association.
  Updated in 2015
- Regulations of the General Meeting of Shareholders.
  Updated in 2015
- Regulations of the Board of Directors and of its committees.
  Updated in 2015
- Internal Code of Conduct in areas related to Securities Markets.
- Code of Ethics.
  Updated in 2015
- Corporate Responsibility Policy.
  Updated in 2015
- Human Rights Policy.
- Anticorruption Policy.
  Updated in 2015

More information on governance standards is available at www.gasnaturalfenosa.com

CGR

For further information about the practices of the Board of Directors, please refer to the 2016 Annual Corporate Governance Report.



Similarly, through the reports issued, the supreme governing body periodically assesses the quality and efficacy in procedures.

The company develops its corporate governance standards, and keeps them updated, with the aim of implementing recommendations and the best governance practices.

Law 31/2014 of 3 December, amending the Corporate Enterprises Act to improve corporate governance, was published in the Official State Gazette of 4 December 2014.

According to the preliminary recitals of the aforesaid law, good corporate governance is an essential factor for generating value for companies, improving economic efficiency and enhancing investor confidence.

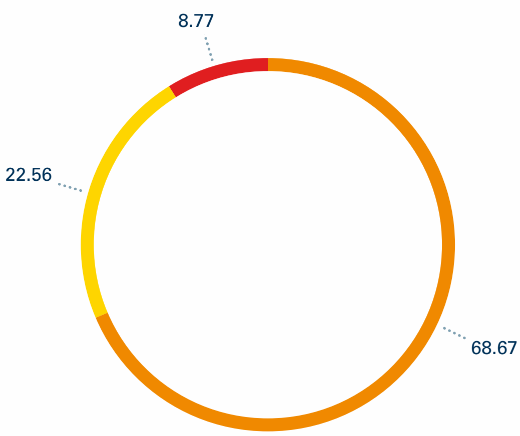
To adapt to the amendments introduced by this law and the new Recommendations of the Code of Good Governance of Listed Companies of February 2015, the company updated its Regulations and Articles of Association.

On 21 September 2016 the shareholders of Gas Natural Fenosa, Criteria Caixa, S.A.U. (Criteria) and Repsol, S.A. (Repsol) notified the sale to GIP III Canary 1, S.à.r.l. (GIP) of shares representing 20% (10% in the case of Criteria and 10% in the case of Repsol) of the share capital of Gas Natural SDG, S.A., pursuant to the provisions set out in the sale and purchase agreement signed on 12 September 2016. As a result of this sale in 2016, the composition of the Board of Directors of Gas Natural Fenosa and its Committees has changed and the Board Regulations now provide for a majority of two thirds of Directors in order to approve certain reserved matters.

General Meeting of Shareholders

Shareholders who as individuals or in the form of groups with others, and who own at least 100 shares, will be entitled to attend the Shareholders' Meetings, provided they register five days before it is held.

Quorum for attending the Shareholder's Meeting (%)



2016 quorum: **77.44%.**

- Present.
- No quorum.
- Present.

Board of Directors

Summary of the duties and powers of the Board of Directors and its Committees

Board of Directors

This is the body which represents the company and, with the exception of the powers reserved for the General Shareholders' Meeting, it is the highest decision-making body of Gas Natural Fenosa. In particular, it has the following powers:

- Determining strategic focuses and economic targets.
- Overseeing and verifying that members of the top-tier management comply with the strategy and targets.
- Ensuring the future viability of the company and its competitiveness.
- Approving the codes of conduct.

Executive Committee: delegated body of the Board of Directors.

Audit Committee: oversees the systems and effectiveness of internal control and of the risk management systems of the company; the drawing up of financial information and the internal audit services.

Appointments and Remuneration Committee: proposes the remuneration criteria for Board members and the general management remuneration policy. It also reviews the structure and composition of the Board, supervises the recruitment process of new members and establishes the guidelines for appointment of executives.

The Board of Directors performed as expected in 2016, exercising its powers in full and without any interference, fully respecting both current legality as well as the organisation and performance of the Regulations.

In the exercise of its powers, in 2016 the Board of Directors debated, analysed, acknowledged and adopted resolutions concerning, inter alia, the following matters:

- Monthly financial information.
- Tax situation – 2015 financial year.
- Proposal for allocation of the 2015 profits and remuneration to the shareholder.
- Annual Financial Report for 2015.
- Compilation of the Annual Accounts and Management Report (individual and consolidated), for the 2015 financial year.
- 2015 Annual Corporate Governance Report.
- 2015 Report on remuneration of Directors.
- Report on the regular assessment of the Board of Directors and its committees in 2015.
- 2016 budget.
- Appointment of external auditors (individual and consolidated).
- 2016-2020 Strategic Plan.
- 2016 Financing Plan.
- Related-party transactions.
- 2015 Corporate Responsibility Report.
- Announcement of the General Meeting of Shareholders: text of the announcement, the resolutions proposed by the Board and the supplementary documentation.
- Remuneration Policy for Directors.
- Intermediate management declaration: first quarter 2016.
- Half Yearly Financial Report comprising the Condensed Interim Consolidated Financial Statements, the Consolidated Management Report and selected financial reporting.
- Proposal for interim dividend for the 2016 financial year.
- Recording of the agreements between Repsol, S.A., Criteria Caixa, S.A.U. and GIP III Canary 1 S.à.r.l.
- Amendments of the Organisation and Operation Regulations of the Board of Directors of Gas Natural SDG, S.A. and its Committees.
- Stock market performance.
- Appointment of Honorary Chairman.
- Intermediate management declaration: third quarter 2016.
- 2017 Financial Calendar.
- Corporate restructuring in Chile.
- Energy poverty.

In September 2016, as a result of taking a stake in the shareholding body of GIP, the composition of the Board of Directors of Gas Natural Fenosa and its Committees changed

Composition of the Board of Directors and Committees (at 31 December 2016)

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

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

During 2016 Mr Salvador Gabarró Serra, Mr Antonio Brufau Niubó, Mr Demetrio Carceller Arce, Mr Emiliano López Achurra, Mr Heribert Padrol Munté, Mr Juan Rosell Lastortras and Mr Miguel Valls Maseda stepped down as Directors.

Furthermore, the following new appointments took place:

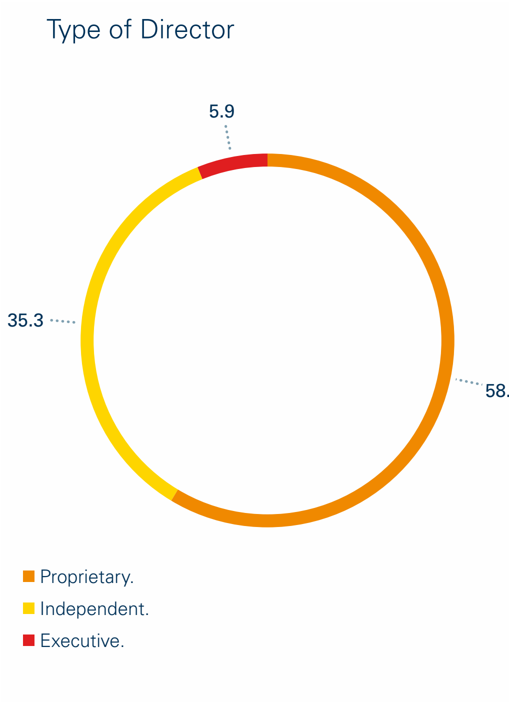
- Mr Josu Jon Imaz San Miguel.
- Mr William Alan Woodburn.
- Mr Marcelino Armenter Vidal.
- Mr Mario Armero Montes.
- Mr Alejandro García-Bragado Dalmau.
- Mrs Helena Herrero Starkie.
- Mr Rajaram Rao.

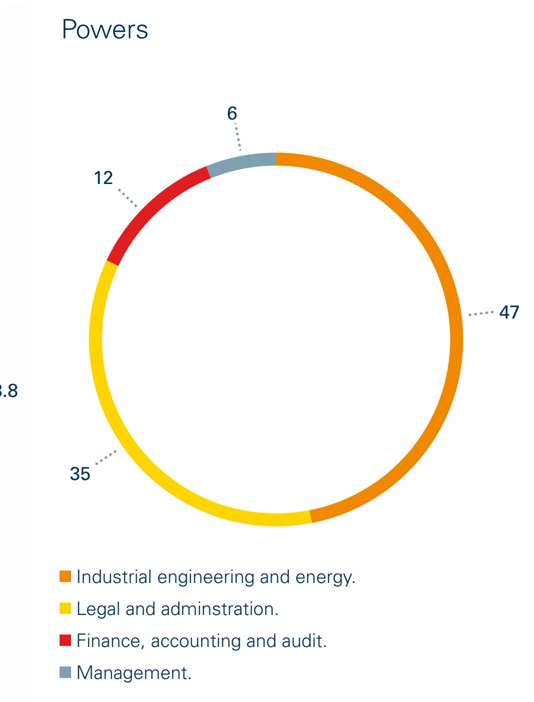
The personal and professional qualities of the Directors appointed or re-elected are set out in the documents made available to shareholders at the Ordinary General Meeting held on 4 May 2016 and 20 April 2017, the titles of which are: "Identity, curriculum and Director category of the person whose ratification, appointment or re-election as Director is submitted for approval by the General Meeting" and "Reports from the Appointments and Remuneration Committee and of the Board of Directors with regard to the ratification, appointment or re-election of Directors submitted for approval by the General Meeting".

These reports are available on the company's website, in the Shareholders and Investors section, subsection General Meeting of Shareholders 2016 and 2017.

On 21 September 2016, Mr Isidro Fainé Casas was appointed Chairman of Gas Natural Fenosa, replacing Mr Salvador Gabarró Serra who was subsequently appointed Honorary Chairman without remuneration. Both Chairmen attended all meetings of the Board of Directors during their mandates

Profile of the Board of Directors (%)





Activities and performance of the Board of Directors

Number of meetings of the Board of Directors and of its committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
2016	15	6	7	8
2015	12	5	9	4

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

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
Attendance quorum (%)	95.69	98.21	96.55	100

Management Committee

The Management Committee coordinates the business and corporate areas. Its principal functions include researching and proposing the objectives, the Strategic Plan and the annual budget, as well as escalating the proposals for actions that may affect the securing of the company's strategy to the highest authorities.

All of the members of the Management Committee also participate in the drafting of the Corporate Risk Map through technical meetings at which they contribute their views on the principal uncertainties and possible effects on the business.

The Management Committee is made up as follows:

Mr Rafael Villaseca Marco
Chief Executive Office

Mr Carlos J. Álvarez Fernández
Chief Financial Officer

Mr Sergio Aranda Moreno
Managing Director of Latin America

Mr Antonio Basolas Tena
Managing Director of Strategy & Development

Mr José Mª Egea Krauel
Managing Director of Energy Planning

Mr Manuel Fernández Álvarez
Managing Director of Wholesale Energy Business

Mrs Rosa María Sanz García
Managing Director of People and Resources

Mr Manuel García Cobaleda
Managing Director of Legal Services and Secretary of the Board

Mr Jordi Garcia Tabernero
Managing Director of Communications and Institutional Relations

Mr Daniel López Jordà
Managing Director of Retail Energy Business

Mr Antoni Peris Mingot
General Manager of Regulated Business

Remuneration policy

Board of Directors

The Annual Report on the remuneration of Directors was submitted as a separate consultative point at the General Shareholders' Meeting held in 2016.

Remuneration to Board Members, for their membership of the Board and the committees, is exclusively made up of fixed allocations which are determined in accordance with positions assigned.

The Board of Directors, once it received a favourable report by the Appointments and Remuneration Committee, decided to maintain the same remuneration to Board Members for their membership to the Board of Directors and the Executive Committee (which have been applicable since 2007), for the 2016 year, without any changes. The remuneration as member of the Appointments and Remuneration Committee and as member of the Audit Committee (which have been applicable since 2015) were also maintained without changes.

Remuneration for membership of the Board of Directors and of its committees (euros/per 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

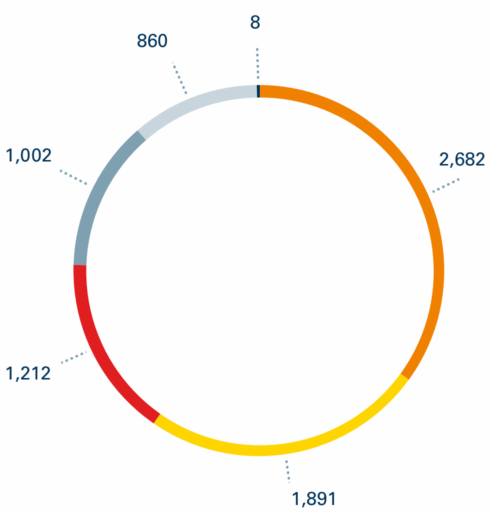
The remuneration policy for the Chief Executive Officer, for his executive duties, is based on the following aspects:

Item	Target	Criteria
Fixed remuneration.	Remuneration at the level of responsibility of these duties.	The group ensures that the remuneration is competitive with regard to that applied by its peers.
Annual variable remuneration.	Linking remuneration with the company's short-term results.	It is calculated taking into account the yearly targets: economic (Ebitda, net income, operational working capital/turnover), efficiency (synergies obtained), business growth (net increase in gas supply points and LNG sales abroad) and quality, safety and occupational hazards (accident rate and customer satisfaction).
Pluri-annual variable remuneration.	Strengthening the commitment towards reaching the targets set out in the Strategic Plans.	It is calculated applying the degree to which economic targets for optimisation and financial discipline are achieved (Ebitda, net debt/Ebitda, stock market capitalisation and enterprise value/ Ebitda), each with a weighting of 25%. The 2015-2017, 2016-2018 and 2017-2019 remuneration programmes are in force.
Other items.	Guaranteeing the company's assistance and general services.	Healthcare and life insurance policies. Energy bonus.

On top of the remuneration there are also contributions to the pensions scheme and to the collective savings insurance.

On 7 March 2017, the Board of Directors agreed, at the behest the Appointments and Remuneration Committee, to approve that the fixed remuneration which will be received by the Chief Executive Officer in 2017, for executive duties other than collegiate supervision and decision-taking, will amount to 1,285 thousand euros.

Total remuneration of the Board of Directors earned in 2016 by type of remuneration (thousands of euros)



- For sitting on the Board.
- For sitting on the Board committees.
- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-annual variable remuneration.
- Otros conceptos.

Total: **7,655** thousand euros.

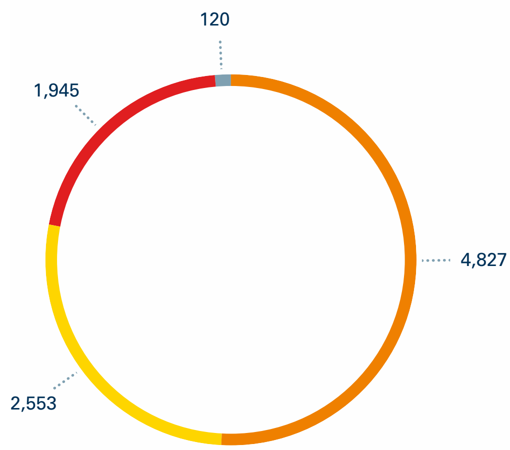
Management Committee

The remuneration of the members of the Management Committee is decided by the Board of Directors at the behest of the Appointments and Remuneration Committee.

The remuneration model has the same components as those indicated above as far as the Chief Executive Officer's executive duties are concerned.

The assessment of the degree of compliance with targets was approved by the Board of Directors on 7 February 2017.

Total remuneration of the Management Committee and of the Director of Internal Auditing[1] earned in 2016 by remuneration type (thousands of euros)



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

Total: **9,445** thousand euros.

[1] Pursuant to circular 5/2013 of the National Securities Market Commission (CNMV), remuneration of senior management must include the executives who report directly to the chief executive of the company and also to the Director of Internal Auditing.

IGC

For further information about the remuneration policy, please refer to the 2016 Annual Report on the remuneration of the members of the Board of Directors as well as the 2016 Annual Corporate Governance Report.

360°

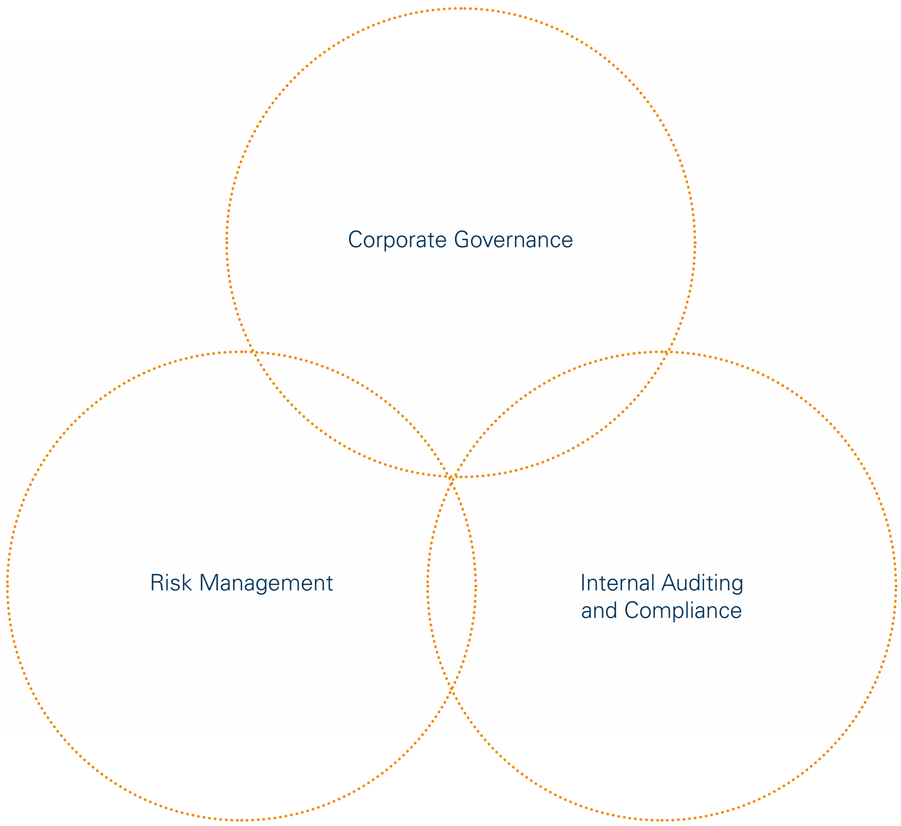
Anticipation

At Gas Natural Fenosa it is essential to have predictability regarding the company's performance in all aspects relevant to our stakeholders.

Accordingly, we have a risk management model that allows us to anticipate the consequences of certain situations, to be perceived in the market as a strong and stable company.

Risks and opportunities

Comprehensive risk management model



The risk management model of Gas Natural Fenosa seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders. This means establishing risk tolerance by setting limits for the most relevant risk categories. By doing this, the company can anticipate the consequences of certain risks materialising, and is perceived in the market as a solid and stable company, with all of the benefits that brings.

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

Corporate Governance

Preventive management of risks, which includes issues beyond the economic facet of its activities, is one of the essential parts of Good Corporate Governance at Gas Natural Fenosa. The company, through the Audit and the Risk Committees, performs a yearly analysis and approval of its risk profile, and establishes the means required to mitigate this kind of situation.

Risk Management

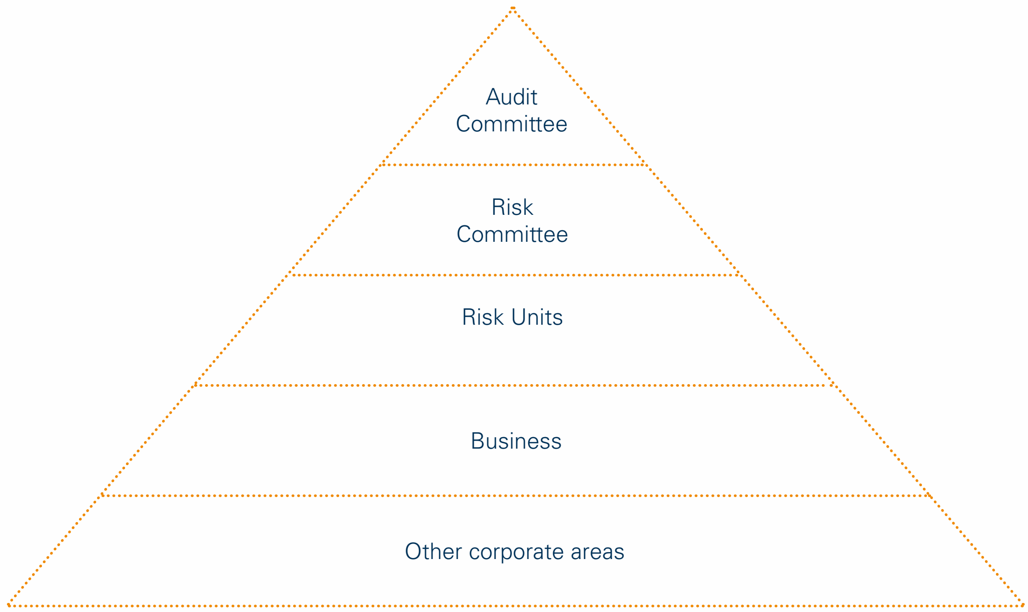
Gas Natural Fenosa continually analyses its global risk profile through identification, characterisation and measurement of the most important risks given their potential impact on the company's financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management. These limits are allocated for each risk category as well as in global terms, thus representing the global objective risk profile.

Internal Auditing and Compliance

The different Internal Audit units are responsible for developing the role of quality assurance and control. For this, the Internal Audit function has a risk-based approach that provides independent assurance unrelated to management on the effectiveness of the internal control system and of the risk assessment and management in all areas of the group.

Risk Management Bodies

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



Audit Committee

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

Risk Committee

Responsible for determining and reviewing the objective risk profile of the company. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and managing the most significant risks.

Risk Units

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

Business

Responsible for risk management and spheres of action. They identify trends and positions that could entail risk and report these to the Risk Units. They also apply the management criteria and guidelines given by these units.

Other corporate areas

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

Risk categories

Each business unit has specific information on the main types of risks that could affect it. The system seeks to assist these units with the decision making process, which in turn has a positive impact on the company, as it improves its profitability, behavioural predictability and efficiency.

Fundamentally, it covers three risk categories:

- **Market risk** is understood as the uncertainty related to commodity prices, exchange rates and interest rates, which can have an impact on the company's balance sheets, supply costs or financing capability in the capitals markets. The measurement has a twofold focus: short-term, focused on the income statement, and long-term focused on the company's value, including the capacity to generate resources on assets and the stability thereof, the variability of the financial structure demanded and the volatility of the discount factors applicable.
- **Credit risk** is understood as the financial solvency risk of the company's commercial portfolio. It also includes the short-term measurement of the returns obtained from the placement of surpluses in finance companies, geared towards selecting more efficient portfolios.
- **Operational risk** understood as the possible occurrence of financial losses caused through failures in processes, internal systems or other factors. Allows the risk to be objectified, which is critical for the company to measure and properly manage exposure, and of vital importance for the reinsurance market's perception in relation to operating efficiency in Gas Natural Fenosa.

IGC

For further information on the risk management model, please see the 2016 Annual Corporate Governance Report.

Main risks

Type of risk		Description	Management	Metric	Trend	
Market risks						
Raw material price	Gas	Volatility in international markets which determine gas prices.	Physical and financial hedges.	Stochastic process.	↑	Decouplings between long-term contracts and prices in hubs.
Raw material price	Electricity	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.	Stochastic process.	↑	Penetration of renewable energies with zero marginal cost and intermittent production.
Exchange rates		Volatility in international currency markets.	Geographical and macroeconomic diversification through inflation rates. Hedges through financing in local currency and derivatives.	Stochastic process.	↑	Uncertainty about growth prospects in Latin America.
Interest rate		Volatility in financing rates.	Financial hedges. Diversification in financing sources.	Stochastic process.	↓	Increase in financial strength, in a context of ready deleveraging.
Credit risk						
Credit		Potential increase in default, dependent on recovery in Spain.	Customer solvency analysis to define specific contractual conditions. Collection process. Systematisation of the economic capital calculation.	Stochastic process.	←→	Slow recovery is expected in Spain, as the situation normalises from a macroeconomic standpoint.

Type of risk		Description	Management	Metric		Trend
Operating risks						
Regulatory		Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.	Scenarios.	← →	Different business units with different maturity levels.
Volume	**of gas**	Gap between gas offer and demand.	Optimisation of contracts and assets at global level.	Stochastic process.	← →	Sluggish demand in Spain.
	of electricity	Reduction in available thermal gap.	Optimisation of commercialisation-generation gap.	Stochastic process.	↑	Stagnant demand in Spain, tensing the thermal gap in view of the increased participation of renewable energies.
Operational: insurable risks		Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk.	Stochastic process.	↓	Development of specific supervision units.
Operational: image and reputation		Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.	Stochastic process.	← →	Stabilisation of RepTrak index scores.
Operational: environment		Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.	Scenarios.	↓	Implementation of an Integrated Management System, certified and audited by Aenor.

Type of risk	Description	Management	Metric		Trend
Operating risks					
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Participation in Clean Development Mechanisms. Frequent communication with regulatory bodies.	Scenarios/ Stochastic.	↑	Uncertainty regarding the policies to be carried out focused on promoting energy efficiency.
Operational: geopolitical exposure	Presence of own assets or supply contracts in areas with political instability.	Diversification between countries and geographic areas. Specific insurance policies (expropriation, CBI).	Scenarios/ Stochastic.	←→	Stagnation in situation in Middle East/Northern Africa.

Metrics employed:
- **Stochastic process:** generation of evolution trends for the main figures, the risk taken being the maximum deviation against the scenario of reference in accordance with a predetermined level of confidence. The aforesaid figures are typically Ebitda, profits after tax, cash flow or value.
- **Scenarios:** impact analysis with regard to the scenario of reference of a limited number of possible incidents.

Main opportunities

Gas Natural Fenosa's main opportunities are:

- Generation mix and positioning: the generation pool of Gas Natural Fenosa, dominated by combined-cycle plants, has the necessary flexibility to be able to adapt to different market situations, creating a valuable asset for taking advantage of opportunities related to volatility in prices and volumes demanded in gas and electricity markets. Internationally, Gas Natural Fenosa is present in markets with excellent growth prospects, which allows it to have a portfolio of projects in those countries.
- Evolution of the CO_2 markets: the different mechanisms proposed by the European Commission geared towards increasing the cost of the emission rights have the object of discouraging the use of less environmentally-friendly technologies so as to offset the effect of climate change. In this situation, the pool of Gas Natural Fenosa would be more competitive vis-à-vis coal, while opportunities might also arise in the emissions market.
- NG/LNG procurement portfolio: the management of gas pipelines, participation in plants and the fleet of methane tankers enables the group to cover the needs of its different business activities in a flexible and diversified way, optimising for the different energy scenarios. Gas Natural Fenosa's fleet of methane tankers makes it one of the largest LNG operators worldwide and a standard-bearer in the Atlantic and Mediterranean basins.
- Balanced structural position in businesses and geographical areas, many of them with stable flows, independently of commodity prices, allowing the group to capture expected growths in energy demand and to fully harness new business opportunities in new markets.

Excellence

To provide an excellent service and offer an effective response, we focus on improving service quality and operational efficiency.

We therefore develop products and services adapted to our customers' needs, which represent a commitment to innovation whilst complementing traditional products.

Results for the year

Commitment to results

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Ebitda.
- Net profit.
- Investments.
- Debt.
- Pay out.

What does it mean for Gas Natural Fenosa?

In a challenging environment, Gas Natural Fenosa's priority is to maintain a solid financial and business profile to ensure the cash generation required to sustain growth and future dividends. The new 2016-2020 Strategic Vision presented in 2016 seeks to reform the visibility and predictability of the business model of Gas Natural Fenosa by maintaining the balance between regulated contracted activities (>70% of Ebitda and >80% of future capex) and the non-regulated ones, and keeping a strict financial policy.

What is our commitment?

- To protect the existing businesses where we operate, laying the foundations for future growth, resulting in higher levels of cash generation that increase the planned dividend and accelerate the investment plan maintaining the level of debt.
- To continue our solid financial history that corroborates the strength of Gas Natural Fenosa and the soundness of the business model.

What are our main milestones in 2016?

- A new dividend policy for the 2016-2018 period which will mean a payout of 70% with a minimum of 1 euro dividend per share, where necessary offering the possibility of a scrip dividend and bringing forward the interim dividend payment to September of this year, which will account for approximately 33% of the total dividend.
- The separation of the businesses of Gasco, S.A. is completed with the sale of the shares of Gasco, S.A. that Gas Natural Fenosa owned through its subsidiaries and the acquisition of an additional stake of 37.875% in Gas Natural Chile, S.A., which engages in the natural gas business, giving us a controlling stake of 94.50%.
- Awarding the first two electricity generation projects in Chile: the 204 MW Cabo Leones II wind farm and a 120 MW solar photovoltaic plant, which will eventually supply 858 GWh of electricity a year. In addition, awarding the first wind farm in Australia, with 91 MW of power.
- Global Infrastructure Partners (GIP) formalises its entry onto the energy company's Board with three representatives, after agreeing to buy 20% from Criteria Caixa and Repsol.
- Sale to Enagás of its stake in the LNG plant in Quintero, Chile, for 182 million euros.
- Acquisition in Brazil of two photovoltaic projects ready for construction with a combined capacity of 60 MW.
- New financing transactions such as the issuance, in April 2016, of bonds in the Euromarket through the EMTN programme, amounting to 600 million euros and maturing in April 2026, with an annual coupon of 1.25%.
- The Superintendency of Domiciliary Public Utilities of the Republic of Colombia took over Electricaribe, which was therefore no longer consolidated on the group's balance sheet, and its investment was recorded as an available-for-sale financial asset.

Analysis of the 2016 economic results

Consolidate and maintain the company's sustainable performance

Results (millions of euros)	2016-2020 Strategic Vision	2016	2015	2014[1]
Net turnover	–	23,184	26,015	24,697
Ebitda	~5,000	4,970	5,264	4,845
Operating profit	–	3,006	3,261	3,185
Attributable net profit	1,300-1,400	1,347	1,502	1,462

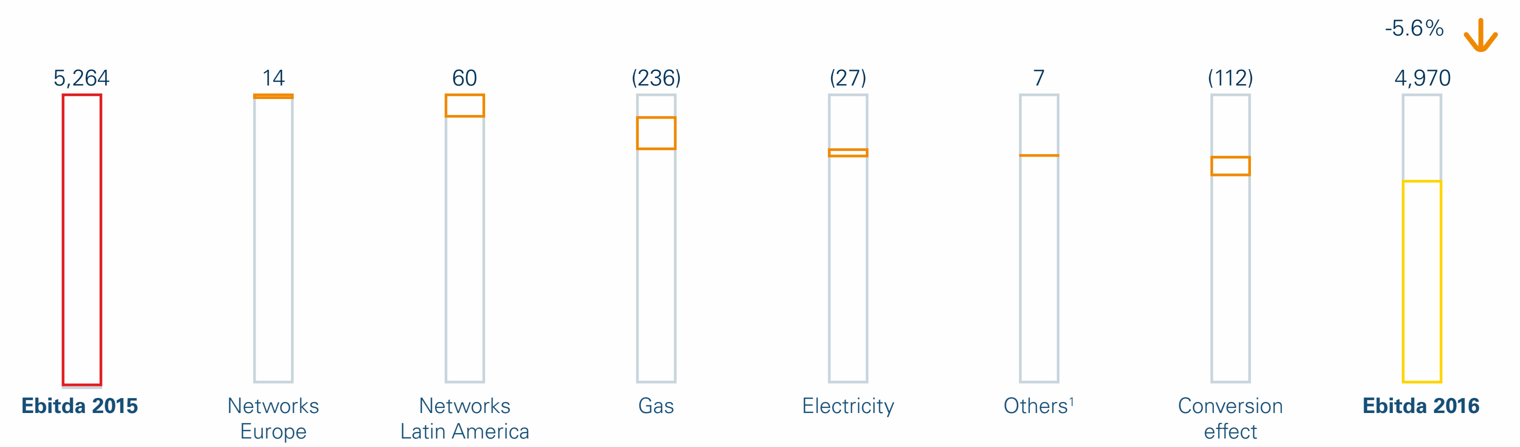
[1] The consolidated statement of income for 2014 has been re-expressed, reclassifying the liquefied petroleum gas (LPG) business in Chile as a discontinued operation in application of IFRS 5.

2016 net profit stood at 1.347 billion euros, down 10.3% compared to the same period the previous year, but in line with the net trading figure target for 2016.

Consolidated Ebitda in 2016 decreased by 294 million euros and totaled 4.970 billion euros, with a decrease of 5.6% compared to 2015, once the discontinuity of the liquefied petroleum gas business in Chile has been re-expressed.

The evolution of converting currencies to euros in the consolidation process had a negative impact on Ebitda in 2016 of 112 million euros versus 2015, and this was mainly due to the depreciation of the Colombian peso and the Mexican peso.

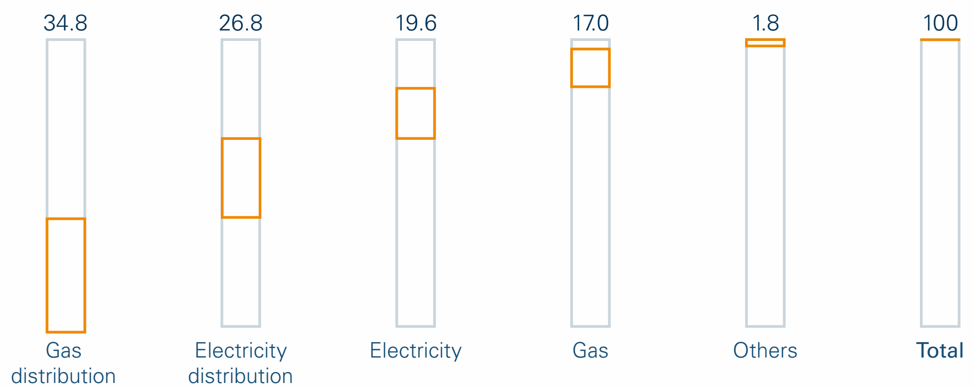
The following chart shows the evolution of Ebitda by business line (in millions of euros):



[1] Includes non-recurring impacts on the last quarter of 2016 (real estate sales) which offset other non-recurring impacts in 2015.

Ebitda stable in both regulated activities and in Spain. Reaching the target for 2016 according to the 2016-2020 Strategic Vision

Contribution to Ebitda by activity (%)



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For further information on the performance of the group's different business activities, please refer to the 2016 Consolidated Management Report.

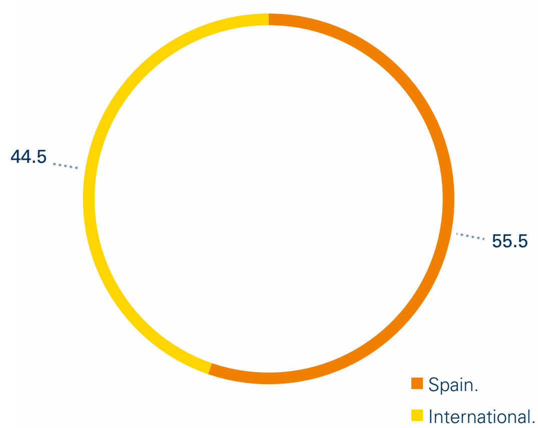
Using this code you can view the Gas Natural Distribución advertising campaign video "Cold War".

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 34.8% of the consolidated total. This is followed by electricity distribution, with 26.8%; electricity activity (mainly in Spain), with 19.6%, and the gas activity with 17.0%.

Other activities include the gross capital gain of 51 million euros (net capital gain of 35 million euros) from the sale of four buildings in Madrid amounting to 206 million euros.

Ebitda from international activities of Gas Natural Fenosa fell by 12.1% and accounted for 44.5% of the consolidated total, compared with 47.8% for the same period in 2015. In addition, Ebitda from operations in Spain was up 0.4%, and accounted for a higher relative proportion of 55.5% in the total consolidated amount.

Contribution to Ebitda by geographical area (%)



The following chart shows the evolution of Ebitda by business line (in millions of euros):

[1] Mainly gas sales and the effect of currency conversion.
[2] Difference between net profit 2016 vs. 2015 2015 (+23 million euros in 2015 and -26 million euros in 2016), excluding the tax reform in Colombia (-18 million euros)
[3] 50 million euros from the 20% of GNL Quintero; 4 million euros from GLP Chile; 1 million euros from the 21% of UF Gas Mugardos; 21 million euros from the 42.5% of UF Gas Sagunto.
[4] Tax effect of the merger of Transnet in Chile (€124 million); impairment UF Gas (-€94 million); tax reform effect in Colombia (-18 million euros).

The sale of assets, the financial results and lower tax rates reduce the impact of lower trading figures in gas sales and the impairment of Electricaribe.

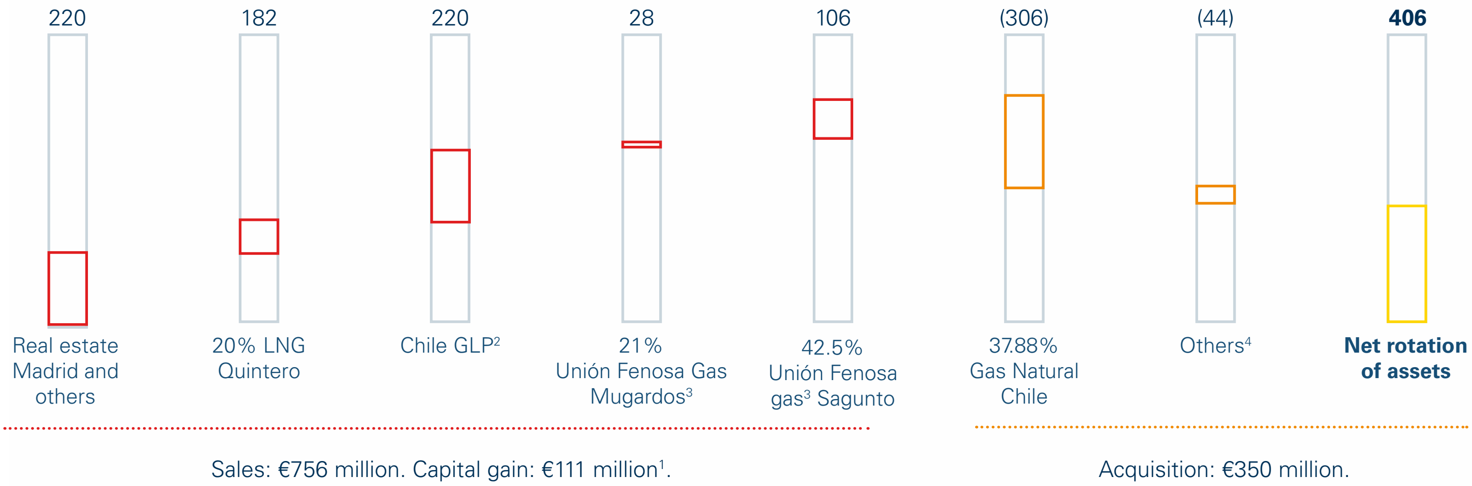
Investments (millions of euros)

	2016	2015	2014
Tangible and intangible investments	2,517	1,767	1,752
Financial investment	384	315	2,590
Total investments	**2,901**	**2,082**	**4,342**
Divestments and others	-676	-660	-588
Total net investments	**2,225**	**1,422**	**3,754**

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

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

In the evolution of investments we can highlight management of the asset portfolio in 2016 (millions of euros):



[1] 35 million euros Madrid real estate; 50 million euros 20% of GNL Quintero; 4 million euros Chile LPG, 1 million euros 21% UF Gas Mugardos, 21 million euros 42.5% UF Gas Sagunto.
[2] In 2015, deconsolidation of debt by 314 million euros and minority interests of 168 million euros.
[3] Consolidation by the equity method.
[4] Vayu Ltd and GPG projects.

Net financial debt (millions of euros)

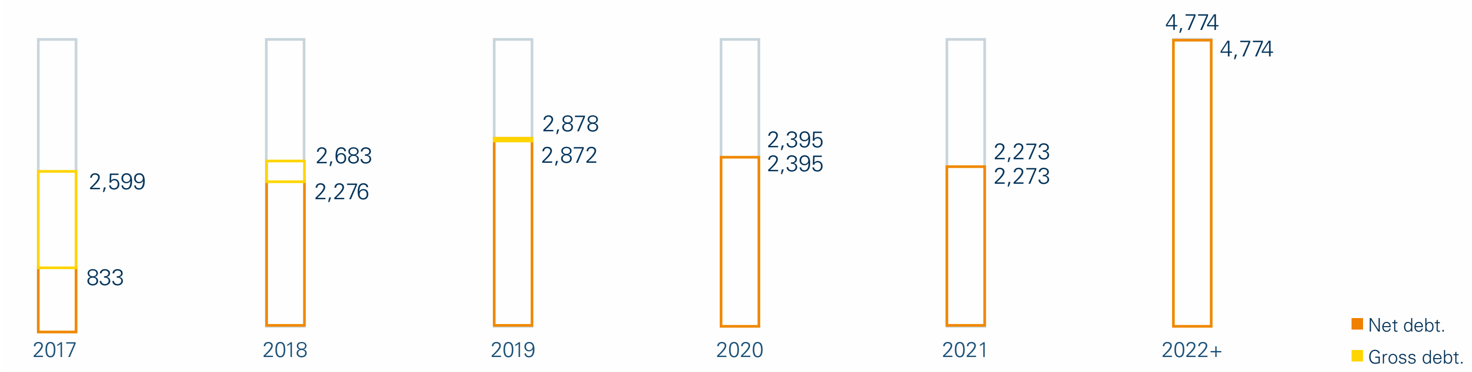
	2016	2015	2014
Net financial debt	15,423	15,648	16,942
Net financial debt/Ebitda	3.1x	3.0x	3.5x[2]
Ebitda/Cost of net financial debt	6.7x	6.4x	6.6x
Debt[1] (%)	44.8	45.8	48.5

[1] Net financial debt/(Net financial debt + Net worth).
[2] The estimated pro-forma ratio for 2014, considering that the takeover of CGE had been performed with effects from 1 January 2014 would amount to 3.2x.

At 31 December 2016, net financial debt totalled 15.423 billion euros, equivalent to a debt ratio of 44.8%.

The Net debt/Ebitda and Ebitda/Cost of net financial debt ratios at 31 December 2016 were 3.1x and 6.7x, respectively, keeping the fundamentals at similar levels to those of the previous year.

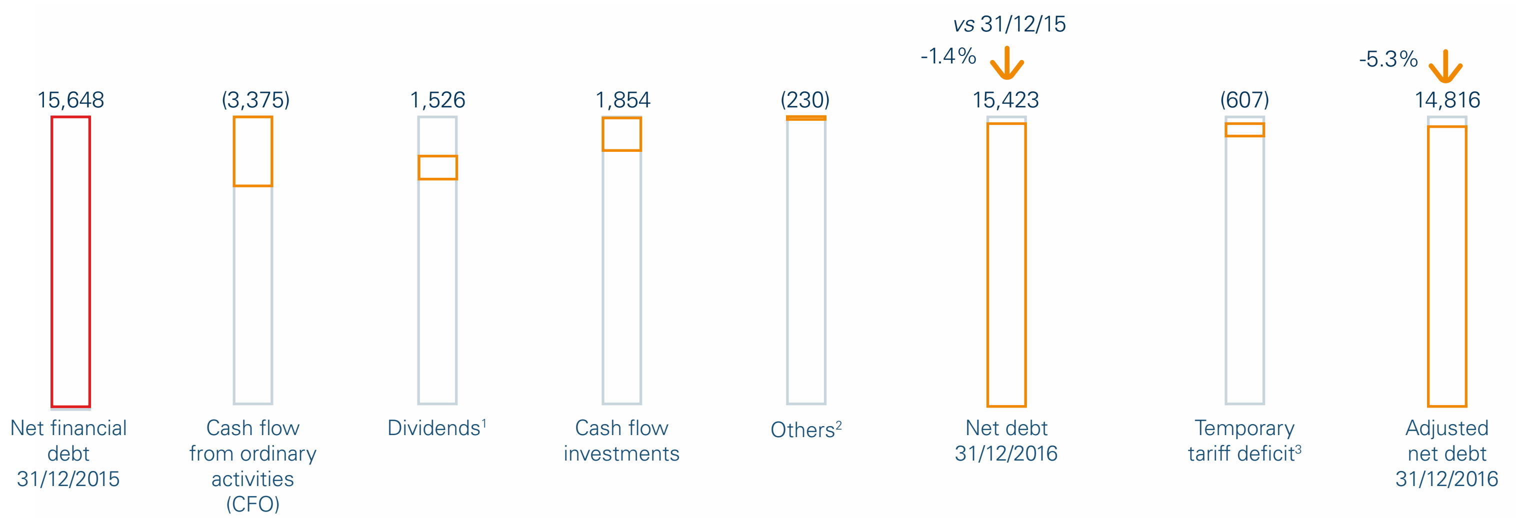
Maturity of the financial debt at 31 December 2016 (millions of euros)



The above chart shows the net and gross debt repayment schedules of Gas Natural Fenosa at 31 December 2016. The gross debt totalled 17.602 billion euros.

79.8% of the maturities of net financial debt have a maturity equal to or later than 2019. Net debt has an approximate average length of 5.2 years. 5.4% of the net financial debt matures in the short term and the remaining 94.6% matures in the long term.

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



[1] Dividend paid by Gas Natural SDG and subsidiaries to minority shareholders.
[2] This includes the currency conversion effect (208 million euros, mainly in 4Q16), changes in the consolidation perimeter (mainly ECA -534 million euros) and others.
[3] Gas (501 million euros: 333 million euros in 2014, 10 million euros in 2015 and 158 million euros in 2016), and electricity (106 million euros through withholdings by the CNMC).

Net debt at 31 December 2016 is slightly lower than that of 31 December 2015, continuing the process of optimising the cost of debt which stands at 4.3% compared to 4.5% the previous year.

At 31 December 2016, cash and other cash equivalents together with available bank financing totalled 10.061 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 2016 totalled 6.586 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 900 million euros; and the Stock Market Certificates programme on the Mexican Securities Exchange and the Commercial Securities in Panama, the Programme of Ordinary Bonds in Colombia and the bond lines in Chile, which jointly accounted for 1.891 billion euros.

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

Stock market information and shareholder remuneration

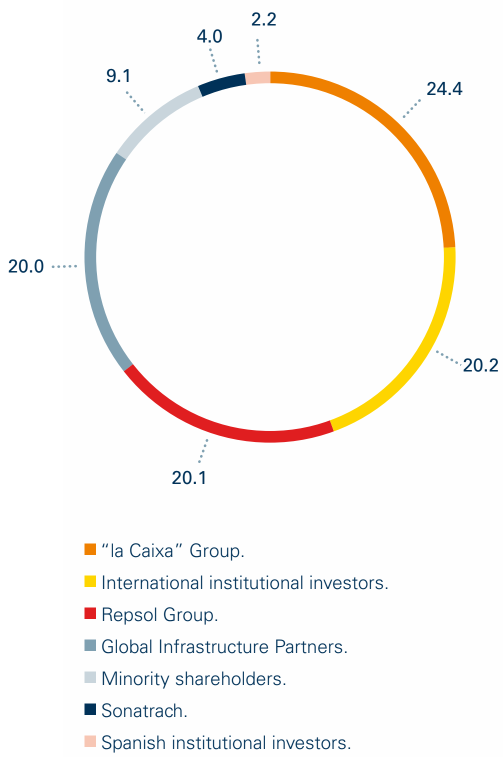
As regards the company's stock market performance, the Gas Natural Fenosa shares closed 2016 at a price of 17.91 euros and stock market capitalisation of 17.922 billion euros, which represents a 4.8% decrease versus the previous year end, in a climate in which the Ibex 35, the main Spanish stock market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

	2016	2015	2014
Number of shareholders (thousands)	82	73	73
Average number of shares	1,001,468,342	1,000,689,341	1,000,689,341
Closing price (euros)	17.91	18.82	20.81
Stock market capitalisation at 31/12 (millions of euros)	17,922	18,828	20,824
Earnings per share (euros)	1.35	1.57	1.46
Pay out (%)	74.3	66.6	62.1
Total dividend[1] (million euros)	1,001	1,001	909
Dividend per share	1.00	1.00	0.91
Price-earnings ratio (PER)	13.3x	12.5x	14.2x

[1] Considering total amount equivalent for dividends. In 2016, it includes a final dividend of 671 million euros pending approval by the General Shareholders' Meeting.

Maintaining an attractive return for shareholders with a yield of 5.6% for 2016 (7.1% yield for the dividend paid during 2016)

Shareholders and investors of Gas Natural Fenosa (% at 31 December 2016)



Commitment and ongoing relationship with shareholders

The proposal for distribution of profits from 2015, approved by the General Meeting of Shareholders on 4 May 2016, involves targeting 1.101 billion euros at dividends, up 10.1% on the previous year. The proposal entails an overall dividend of 1 euro per share and represents a payout of 66.6% and a dividend yield of 5.3%, taking the share price listing at 31 December 2015 of 18.82 euros/share as the benchmark.

The proposal for distribution of 2016 profits, which the Board of Directors will forward to the Ordinary General Meeting of Shareholders for approval, is to pay 1.001 billion euros in dividends, the same as the previous year. The proposal entails an overall dividend of 1 euro per share and represents a payout of 74.3% and a dividend yield of 5.6%, taking the share price listing at 31 December 2016 of 17.91 euros/share as the benchmark.

On 27 September, an interim dividend charged to profits for the 2016 year was paid, equivalent to 0.33 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, the company has its own communication channels that provide the best service.

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

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

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

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

	2016	2015	2014
Meetings with shareholders and analysts	520	432	397

Inclusion in socially responsible investment indices

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

Indices featuring the presence of Gas Natural Fenosa in 2016

For the last 12 years, Gas Natural Fenosa has had a constant presence on the Dow Jones Sustainability Index (DJSI). In 2016, the company improved its overall score compared to 2015, from 89 points to 91 points, enhancing the global score in the economic and environmental aspects, and maintaining the social dimension score.

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

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

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

	2016	2015	2014
Evolution of Gas Natural Fenosa's classification on the DJSI	91	89	86

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

Gas Natural Fenosa was also included on the Carbon Disclosure Project (CDP) 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.

Service excellence

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual
- Social.

How do we measure our performance?

- Overall satisfaction with service quality.
- Installed capacity equivalent interrupt time (ICEIT).
- Satisfaction index for continuity in gas supply.
- R&D investment.

What does it mean for Gas Natural Fenosa?

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

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

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.
- To foster active and two-way communication that allows us to understand the expectations and opinions of customers and facilitating the administrative needs of customers through simple and efficient operations.
- To diversify and extend the commercial offer to include products and high-value added services, offering innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.

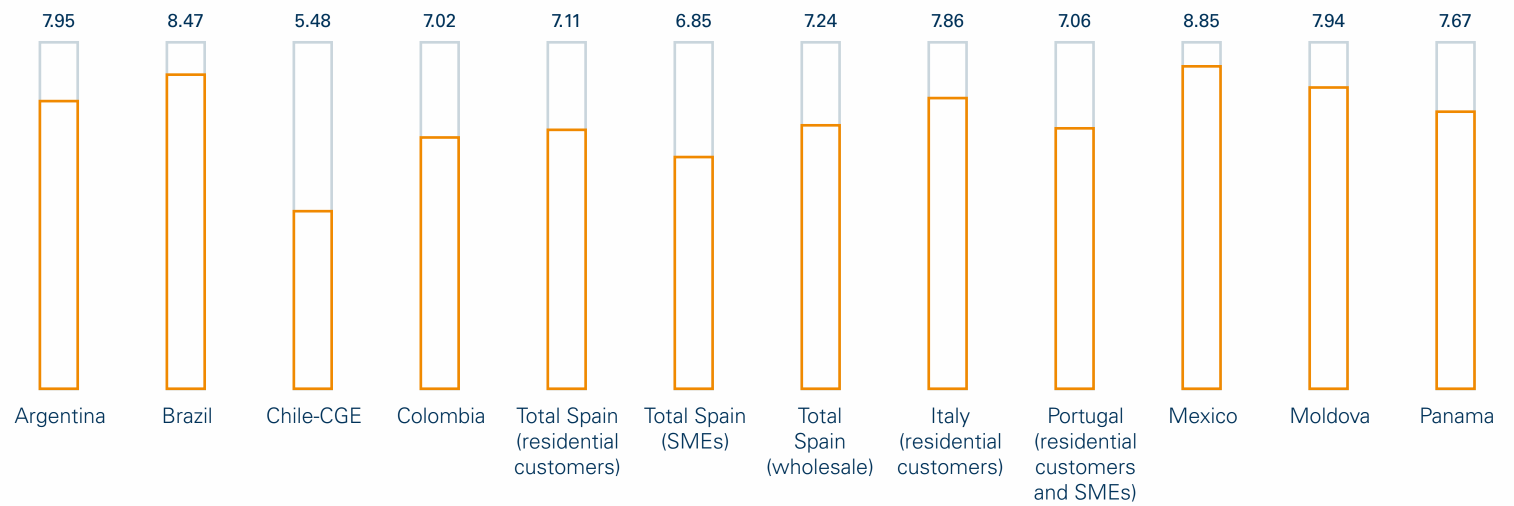
What are our main milestones in 2016?

- Consolidating the Customer Experience (CeX) and Advocacy projects. The Customer Experience (CeX) project, with a global scope, was launched for the purpose of achieving customer satisfaction as an inescapable and achievable target, through a process of improving the customer's experience as part of the company's culture.
- Completion of the commercial catalogue with new tariffs that enable us to offer the customer more choices and to find the tariff that best suits their needs.
- Launch of ECO electricity tariff with a stable price per kWh for one year, aimed at customers with greater sensitivity to environmental issues and who seek solutions to ensure that their consumption uses energy generated by renewable sources.
- Consolidation of the virtual offices in Latin America, through which approximately 1 million registered customers performed 3,500,000 transactions in 2016.

Analysis of the 2016 results

Working towards ongoing improvement of safety, reliability and competitiveness of all products and services

Overall satisfaction with service quality



Once again in 2016, Gas Natural Fenosa continued to spearhead satisfaction in the retail segment in Spain, where the global satisfaction index (on a scale of 0-10) was 7.10 in the residential sphere (6.43 was the average for our rivals) and 6.85 at SMEs (6.21 was the average for our rivals).
In the wholesale segment, the global satisfaction index stood at 7.24, while the average for our rivals was 6.81.

In 2015, the Customer Experience Management (CEM) tool was consolidated as a key component to measure the customer's experience. Following the customer's interaction with the company, this tool is used to send a short questionnaire to find out their level of satisfaction and recommendation, and they are asked to grade their experience.

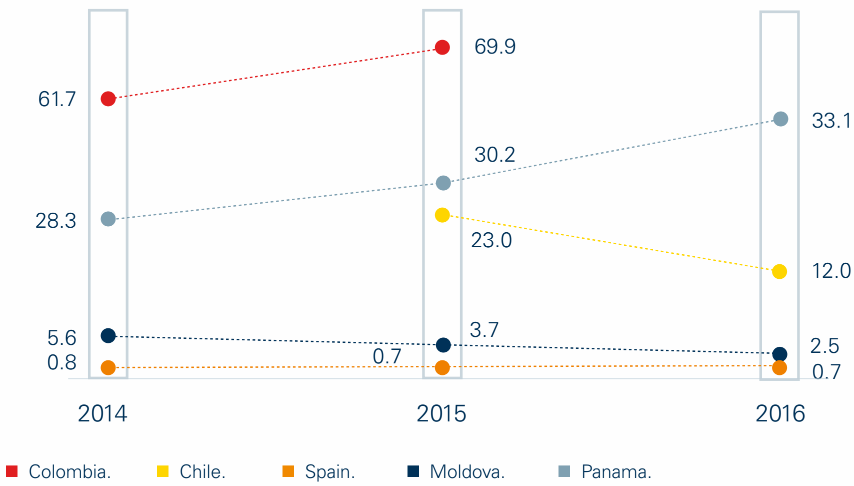
It also enables immediate corrective action, through the management of alerts, that activate whenever the minimum satisfaction and recommendation thresholds required to maintain the level of quality that the company imposes in its customer relations are not reached.

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

It is essential that customers' emotional experience be as satisfactory as possible. The aim is to move away from the linear outline in which the customer is at the end of the process, and make the customer the focus of the company.
Gas Natural Fenosa wishes to accompany customers during their lifetime, offering them an experience and contributing value added by providing personalised advice.

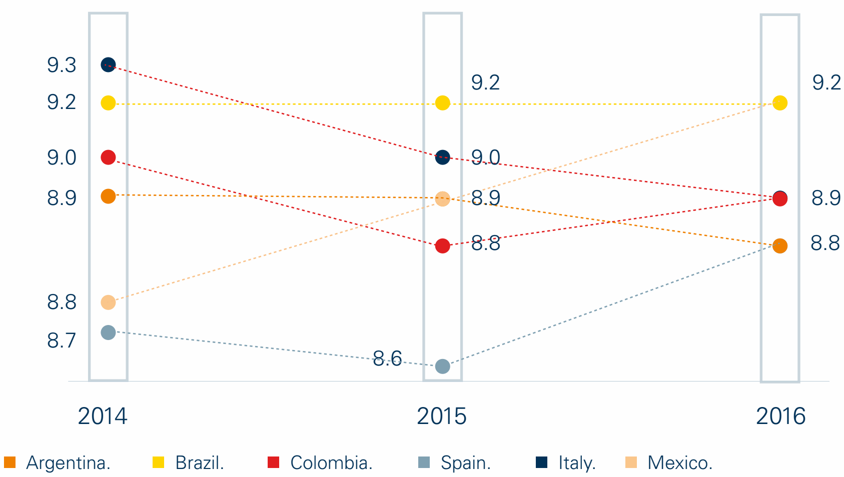
The company performs ongoing monitoring of perceived quality and endeavours to improve the indicators it uses in management of the service provided. Among other electricity and gas supply indicators, the ICEIT and the satisfaction with the continuity of gas supply index, respectively, demonstrate the quality in the service provided.

Installed capacity equivalent interrupt time (ICEIT) (hours)*



*Data referring to electricity distribution business.

Satisfaction index for continuity in gas supply (/10)*



*Data referring to gas distribution business.

Promoting active and two-way communication

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

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

As regards customer service, a total of 5.8 million customers used the company's online platform. A range of improvements were launched, prominent among which was the Gestiona project, which allowed us to optimise the Customers Area, simplifying actions with customers to the maximum extent possible.

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

In 2016, the company reached 60,000 users on social networks, doubling the figure for the previous year. The community managers have quadrupled the interactions handled in 2015, up to 45,000 interactions.

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

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

The model responds to the needs that customers have informed us of. It is flexible, simple, close at hand, expert and decisive in improving their experience with the company. It is based on a single organisational, training and technological model supported by a single service supplier, which has been introduced in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal.

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

As part of its commitment to the privacy and security of employee and customer 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 784 complaints concerning customer privacy were individually analysed, investigated and resolved in 2016, as part of the process defined by the company.

CRR

For more information on commitment with customers, please see the "Service Excellence" section of the 2016 Corporate Responsibility Report.

Diversifying and extending the commercial offer to include products and services with high value-added

Innovation is one of the engines of development at Gas Natural Fenosa, which devotes a significant portion of its resources and efforts to R&D&I, seeking to optimise of resources, develop new technologies and keep abreast of technological advances in the sectors in which it operates.

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

(millions of euros)	2016	2015	2014
Total investment	59.2	15.7	13.7

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

Work networks	Innovation Areas
Liquefied natural gas (LNG)	Development of the LNG chain
Generation	Renewables and Storage
	Reduction of emissions and efficiency in thermoelectric generation
Networks	Revitalising of gas networks
	Electricity grids 4.0
Customer	Smart Client
	Energy efficiency and Mobility
Automation and management of the information	Automation and management of the information

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

Gas Natural Licuado (GNL)

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

Generation

In the field of renewable generation the priority objectives are:

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

In the area of hydraulic energy, the company carries out its main innovation activities in the area of hydropower at the International Centre of Excellence in Hydraulics (CIEH). The mission of this centre is to promote and channel R&D&I initiatives in the sphere of using conventional and marine hydraulic energy that can be transferred, either at the development or operational stages, to the company's facilities worldwide.

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

In the field of reducing emissions and energy efficiency in thermoelectric generation, Gas Natural Fenosa is working in this field of innovation along two main lines:

- Improved performance of power plants: optimising the management of the water used in the processes, with projects such as membrane distillation and direct osmosis.
- Reduction of emissions in power generation: taking part in projects with Electric Power Research Institute (EPRI) for the capture and storage of CO_2 in post combustion, using Chilled Ammonia and amines to get experience in design, operation and maintenance, and actual costs.

Networks

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

As far as electricity grids 4.0 is concerned, the company continues to make huge efforts on optimising the electricity distribution grid, with a particular focus on occupational safety, environmental aspects and improving the quality of supply. These efforts seek to transform the electricity grids into increasingly smart grids.

Customer

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

This area introduces initiatives based mainly on three axes:

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

Regarding energy efficiency with customers, the company continues to develop projects to improve energy efficiency in managing its customers' energy, providing users with solutions to help them improve energy efficiency, implementing systems for energy monitoring and control in the residential and tertiary sectors and undertaking partnership agreements with third parties to facilitate the renewal of equipment with more efficient equipment.

In the area of mobility, Gas Natural Fenosa continues to be a pioneer in driving growth in the use of natural gas within the sphere of land and sea transportation. One of the projects being developed nationwide is a natural gas loading infrastructure for public use, for the purpose of bringing this technology to a wider public and thus becoming the leading Spanish company in providing gas mobility services.

Automation and management of information

The area of automation and information management is a cross-sectional area that aims to bring together projects already being developed to gain synergies and enhance results. The projects being developed include the inspection of assets by drones, the IoT sensorisation project, allowing more frequent monitoring of the company's assets with a higher quantity of signals.

Within the "pull" approach driving open innovation, some of the initiatives being developed are the monitoring activities and the technological observatory, supporting innovation for businesses through technology transfer and support, encouraging innovation by introducing initiatives that favour entrepreneurship and the development of innovative projects, in partnership with universities, research organisations, entrepreneurs and public administrations, and the creation, in 2016, of a Technology Centre to provide the company with resources for experimentation in controlled environments, providing cross-cutting support to any lines of innovation.

CRR

For more information on innovation, please see the "Sustainable innovation" section of the 2016 Corporate Responsibility Report.

Responsible management of the environment

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Social.

How do we measure our performance?

- Activity with ISO 14001 environmental certification.
- Total atmospheric emissions.
- Direct GHG emissions.
- Emission factor.
- Emissions prevented.
- Capacity and production free of emissions.

What does it mean for Gas Natural Fenosa?

In carrying out its business activities, Gas Natural Fenosa pays special attention to protecting the environment and to the efficient use of the natural resources it needs to satisfy demand for power. In this regard, it goes beyond regulatory compliance, and also involves suppliers and other stakeholders.

What is our commitment?

- To prevent pollution: through optimisation of environmental management, minimisation of environmental risks and active participation of employees.
- To minimise environmental impact: reduce emissions in combustion processes, the pollutant load from spills and waste generation.
- To mitigate climate change: to be a standard-bearer in management of climate change and an example in compliance with legal obligations.
- To protect biodiversity: minimise adverse effects on ecosystems and foster the conservation of biodiversity.
- To promote the efficient and responsible use of water, introducing activities targeted at greater awareness of this resource and improving water management.

What are our main milestones in 2016?

- Rolling out the second stage of the water management strategy.
- Making progress in the certification of new environmental management systems pursuant to the ISO 14001.
- Performing many and varied actions to preserve biodiversity, some of them in response to the requirements laid down by the environmental authorities
- Significantly reducing direct CO_2 emissions compared to 2015, as a result of lower production of coal generation in Spain in benefit to production with fewer emissions.
- Being included in the Leadership A band in the CDP questionnaire, which acknowledges the extremely high level of reporting and transparency of the company in issues of climate information and actions to reduce CO_2 emissions in its activities.

Analysis of the 2016 results

Preventing pollution

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

In 2016, the company retained all environmental certifications and extended the certified scope to Gas Natural Fenosa Engineering and the activities of CGE Chile: Elecda, Eliqsa, Emelari.

(% activity)	2016	2015	2014
Activity with ISO 14001 environmental certification	90.1	88.3	100

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

Environmental planning is included in the Quality, Environment, Security and Health Plan. This plan consists of Strategies and Action Lines which define the working guidelines for each period. In 2016, 203 environmental targets were defined targeted at achieving environmental sustainability, and we managed to comply with 83.66% of the plan.

Using this code you can see the video on the Cabo Vilano (A Coruña) wind farm.

In the case of facilities with considerable environmental risk, the UNE 150008 standard is used as a benchmark to make evaluations. Self-protection plans and their corresponding procedures are used to identify and establish the responses to potential accident and emergency situations, in order to prevent and reduce their environmental impact.

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in our activities. We have developed the 2016 Environmental Communication Plan with numerous internal and external actions that it channels through newsletters about climate change, social networks and press releases, among others.

Minimising the environmental impact

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

Total atmospheric emissions (thousands of tonnes)	2016	2015	2014
SO_2	18.2	24.7	22.3
NO_x	30.8	37.3	31.0
Particles	1.5	2.1	1.6

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

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

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

Mitigating climate change

Gas Natural Fenosa's strategy for climate change is based upon:

- Giving added value to carbon management.
- Identifying options and solutions to cope with the obligation to comply with restrictions on greenhouse gases at the lowest cost.
- Minimising risks arising from future restrictions in the emission of greenhouse gases in light of legislative and political developments.
- Developing business opportunities created due to the need to mitigate global warming.

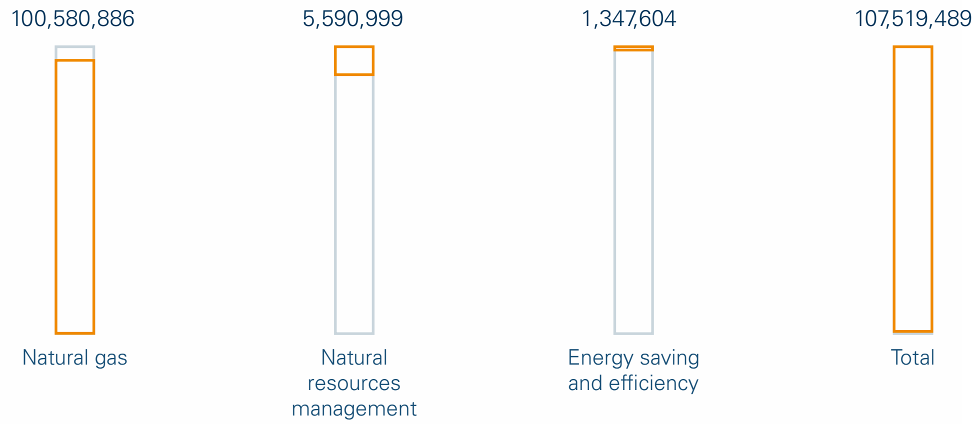
This strategy is based around four main pillars: improving eco-efficiency, carbon management, R&D&I and raising society's awareness.

As far as fossil fuel management is concerned, gas combined cycles are the most efficient technology for producing electricity based on fossil fuels and with lower associated CO_2 emissions, making it one of the best solutions for reducing greenhouse gases. During 2016, Gas Natural Fenosa prevented the emission of 100.6 $MtCO_2$ due to the low emission factor of combined-cycle plants compared to the thermal mix of electricity systems in Spain and Mexico.

As regards management of renewable resources, Gas Natural Fenosa remains committed to the introduction of mature renewable technologies. For 2016, electricity production from renewable sources (hydraulic and wind) was 7,628 GWh, up 30.7% from the previous year, due mainly to a more hydrologically active year. In energy saving and efficiency, the emphasis remains on actions in the company's own plants and the final use of energy in the customer's facilities, through which it has managed to avoid the emission of 1.35 $MtCO_2$.

	2016	2015	2014
Direct emissions of GHG ($MtCO_2e$)	19.5	22.4	19.8
Emission factor excluding nuclear (tCO_2/GWh)	411	445	406
Emissions prevented ($MtCO_2e$/year)	107.5	104.9	–
Emissions prevented by CDM projects ($MtCO_2e$/year)	1.1	1.4	1.0
Emissions by leaks in gas networks (tCO_2e/km grid)	9.3	9.3	9.9

Initiatives for reducing GHG emissions (tCO_2). Year 2016



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

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

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

For further information on the commitment to mitigating climate change, please see the 2016 Carbon Footprint Report.

Protecting biodiversity

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

The company is moving forward to extend the focus of its environmental management towards valuing natural capital, in other words, the reserves of renewable and non-renewable natural assets found in nature, in order to identify and assess the dependency and impact (both positive and negative) of its activities.

This new approach will allow us to assess the relationship of the company with the natural environment in a broader and more inclusive way, controlling and reducing any possible risks derived from such dependencies and negative impacts, and stimulating the increase of positive impacts that arise via this preventive and proactive approach.

The company performs many and varied actions to preserve biodiversity, some of them in response to the requirements laid down by the environmental authorities and others of a voluntary nature.

- Environmental studies: particularly in the field of electrical generation plants in order to analyse the ecological status of the terrestrial and aquatic medium of thermal and hydraulic plants.

- Natural environment initiatives, geared towards conserving species and natural spaces, either on a voluntary basis or in response to requirements laid down by environmental authorities deriving from the execution of projects, of operation of installations, or the cessation of their activity. Such actions are usually carried out close to the company's facilities.

- Education and awareness-raising actions: they are designed to raise environmental awareness among the company's employees, and other stakeholders, especially customers and consumers, and also schoolchildren.

- Agreements and alliances with third parties: a number of different collaboration agreements are established with third parties, particularly with nature or environmental conservation associations and also with public administrations, and which are aimed at providing the necessary technical knowledge to be able to ensure the efficiency of the actions performed.

Promoting efficient and responsible water usage

Gas Natural Fenosa has developed and set up measures geared towards broadening knowledge of water and to improve the way it is managed in its facilities. It has therefore developed a 2014-2016 Action Plan, through which it shall develop a number of different actions arranged in four areas of action:

- Efficient and global water management.

- Complete management of risk associated with water.

- Raising awareness internally and externally about efficient water management.

- Cooperating with leading water bodies.

In 2016, actions deriving from the "2014-2016 Water Action Plan" were developed. Of note was the development of the company's first Water Management Report which sets out both the company's environmental performance via its water footprint as well as actions to improve its management and reduce consumption.

This report is available in an interactive version (see http://www.informedelagua.gasnaturalfenosa.com).

Gas Natural Fenosa conducts different studies and projects on the issue of water among which those on the water balance of thermal power plants stand out; these have allowed the identification of recoverable water currents and the analysis of the technical viability of generating electricity at thermal power plants, all with the aim of reducing the consumption of water during its activities.

These actions can be consulted in detail through the initiatives map published at www.sostenibilidadybiodiversidad.gasnaturalfenosa.com

CRR

For more information on the responsible environmental management, please see the "Responsible management of the environment" section of the 2016 Corporate Responsibility Report.

Interest in people

What resources are relevant for this undertaking?

- Financial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Voluntary rotation index.
- Staff trained.
- Hours and investment in training.
- People with disabilities integration index.
- Gender mix.

What does it mean for Gas Natural Fenosa?

Interest in people is one of the inspiring principles of Gas Natural Fenosa and one on which its human resources strategy is constructed, a strategy in which we make constant progress every year. In 2016, the company continued the roll-out and showcasing of value to the employee, for the purpose of attracting external talent and driving internal recognition.

What is our commitment?

- To identify, attract and retain the best professional talent, guaranteeing the principles of fair treatment and non-discrimination on whatsoever grounds.
- To foster the professional development of persons through the talent management model.
- To promote a motivational work environment that encourages diversity and equality and which ensures the introduction of mechanisms that facilitate the balance between professional and personal life.
- To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

What are our main milestones in 2016?

- Strategic planning of persons through the launch of the Strategic Workforce Planning (SWP).
- Introduction of the "Employee experience" methodology into the company's processes.
- Launching the multidisciplinary People Innovation Platform (PIP), with the aim of facilitating the process of cultural transformation within the company.
- Consolidating the Integrated Diversity Plan with a focus on the levers of gender, age and disability.

Analysis of the 2016 results

At the close of 2016, 17,229 persons were directly involved in the company's activities, 50.5% of whom performed their activity in Europe, 44.2% in America and the remaining 5.3% in other continents.

28.1% of the workforce was made up by women and 71.9% by men, and had an average age of 43.8 years, with an average seniority of 14.5 years.

Identifying, attracting and retaining the best professional talent

	2016	2015	2014
Voluntary rotation index (%)[1]	2.5	3.5	3.3

[1]Voluntary layoffs/average staff.

Gas Natural Fenosa's Talent Management is committed to individual development and the evolution of its employees' professional careers, which helps define the learning of every professional in a controlled and consistent manner to ensure that their development is in line with corporate requirements.

In the Talent Management Model, a single Leadership Model is defined for all employees. The model is structured in a skills map divided by professional levels and three strategic areas (vision, people and management), and it represents the basis of the methodology and talent management practices and training at Gas Natural Fenosa.

	Overview	People			Management	
Professional levels	Strategy and innovation	People management	Cooperation	Decision	Execution	
Executives.	Global overview.	Inspiration for others.	Political acuity.	Correct decisions.	Obtaining results on the network.	
Diectors.	Strategic agility.	Motivating others.	Managing diversity.	Tolerating ambiguity.	Management by objectives.	
Middle managers.	Innovation management.	Creation of efficient teams.	Conflict management.	Establishing priorities.	Process management.	
Individual contributor.	Customer orientation.	Active listening.	Networking.	Agile decision-making.	Focus on results.	Organisation of work and safety.
Agile learning.						
Self-knowledge.						
Professional integrity.						

During 2016 we completed the second cycle of development with the 360° assessment of 450 senior managers of the company and conducted more than 7,000 assessments as well as the formalisation of their individual development plans.

Also in 2016 we introduced the second process of talent segmentation, positioning more than 4,700 professionals in contribution matrixes and combining the key information obtained from the assessment of their skills, their interests and the findings obtained in terms of reaching their targets.

In 2016, a total of 889,625 training hours were given with 138,872 participants. Among the main programmes, we can highlight the training spent on occupational health and welfare through its own innovative model.

The Corporate University training model 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. Furthermore, the contents are structured through training itineraries. These itineraries enable us to benefit from training synergies and to cover development needs in an organised, complete and sustainable way.

With 360° technology you will be able to visit the Puente Nuevo Campus facilities in El Tiemblo, Ávila.

Fostering the professional development of persons through the talent management

	2016	2015	2014
Staff trained (%)	87.4	95.1	97.1
Training hours per employee (h)	51.0	61.4	57.4
Investment in training per person (euros)	803.1	774.5	874.2
Degree of satisfaction with training (/10)	9.0	8.9	8.9

Promoting a motivational working environment that encourages diversity and equality

(%)	2016	2015	2014
People with disabilities integration index. Spain.	2.4	2.4	2.3
Gender mix	71/29	73/27	73/27
Women in management posts	25.7	25.1	24.0

Ethical behaviour, the promotion of respect for equality, occupational safety and prevention form a fundamental part of the Gas Natural Fenosa's commitment to its employees. These principles are assumed as part of the company's day-to-day management through the Code of Ethics, the Gender Equality Policy or the Protocol for the Prevention of Mobbing, Sexual Harassment and Sexual Discrimination, and additionally in Spain, the 1st Collective Agreement and the Equality Plan.

In 2016, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan (IDP) which brings together specific initiatives for the management of human resources, classified into three areas: gender, disabilities and age.

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

As part of Gas Natural Fenosa's commitment to applying the latest trends in people management, in 2016 it launched the Employee Experience project, using the same methodology introduced in Customer Experience.

The Employee Experience project aims to:

- Incorporate the vision of the employee in all processes and in all decisions.
- Foster a culture of employee orientation as a determining factor to improve the level of commitment, the sense of belonging and productivity.
- Ensure that the overview of the employee experience is uniform throughout the group and that we take advantage of lessons learned.

The aim of internal communication is to actively contribute towards achieving the objectives set out in the company's strategic plan, in close collaboration with the group's businesses and divisions, and to create feelings of belonging and motivation.

During 2016, awareness-raising campaigns were carried out in order to communicate the company's key projects. The company also forged ahead with organising activities and initiatives to promote participation and contribute innovative ideas, adding a new action in 2016, the "Mic: Microevents" to allow employees to meet up with spokespersons for some of the cross-disciplinary projects being introduced at the company

In 2016 we announced the continuity of the Safety Contacts competition. We also launched a new initiative, the Health and Safety Leadership Award, where the employees themselves nominate peers as leaders in this field. In 2016, in Spain alone, 40 direct communication actions were carried out as part of the Dialogue Programme, featuring participation from 2,200 persons. We have also launched other relevant campaigns such as the Cybersecurity Plan, the Corporate Volunteer Plan and the Brandcentre brand management platform.

CRR

For more information on commitment with employees, please see the "Interest in people" section of the 2016 Corporate Responsibility Report.

Health and Safety

What resources are relevant for this undertaking?

- Financial.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Accidents requiring sick leave.
- Days lost.
- Mortalities.
- Frequency, severity and incident rate.
- Absenteeism rate.

Using this code you can view the “Drones: technological innovation” video.

What does it mean for Gas Natural Fenosa?

Health and safety is an essential element in Gas Natural Fenosa’s business strategy. It is also a priority issue that occupies its daily agenda, as well as an aspect that is inwardly digested in all segments of the company that cannot conceive of any other way of thinking about or performing its work.

The principles of the company’s business culture are based on the motto “nothing is more important than health and safety”.

The challenges of Gas Natural Fenosa are geared towards the implementation of global strategies for health and safety as a means to improve working conditions.

What is our commitment?

- To maintain a solid culture of health and safety as a consequence of the implementation of the “Commitment to Health and Safety Plan”.
- To develop the four drivers, the levers which will shape the cultural transformation: leadership, employees, partner companies and installations and processes.

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What are our main milestones in 2016?

- Global Action Plan for collaborating companies.
- Global implementation of the documentary management tool Controlar.
- Implementing the Health and Safety Commitment Plan in Chile.
- Implementing cardio-protection through the gradual introduction of defibrillators at international level in the workplace and at all of the company’s medical services.
- Progressive implementation of the healthy business model in countries pending introduction.

Analysis of the 2016 results

Maintaining a solid culture of health and safety

The Health and Safety Commitment Plan, launched in 2012, is based on developing four drivers: leadership, employees, partner companies and installations and processes, which are the levers which will shape the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and to have greater cover.

The plan has achieved a qualitative change in the company's safety culture through a new focus based on safe individual conduct and the identification and anticipation of hazard situations by workers. After the breakthrough of the Health and Safety Commitment, and with the integration of health and safety as a value taken into consideration by all persons in the organisation, 2016 has been the turning point towards the consolidation of a stable and continuous health and safety commitment.

This progress enables Gas Natural Fenosa to consolidate its leadership in health and safety, and allow the company to extend this cultural change to the remaining fields of action.

In 2017, efforts will focus on the functioning and coordination of the different workgroups, "networks" and committees, ensuring the global implementation of this commitment.

Four fronts for action shape and consolidate cultural transformation

The Health and Safety Commitment Plan is based on developing four drivers: leadership, employees, partner companies and installations and processes, which are the levers that will shape the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and to have greater cover.

01 Nothing is more important than health and safety

02 All accidents can be avoided

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

1. Leadership

Gas Natural Fenosa has focused on the visible commitment of the entire organisation, aware that health and safety is key for its business leadership.

Leadership is considered as the driver of cultural change in the company. This means efforts have to be made at all organisational levels, and is promoted by the management, with a visible, solid and firm commitment in taking all business decisions, with safety paramount at all times.

2016 has seen consolidation of the health and safety management committees, and other forums of presentation, discussion and decision on proposals. And we have encouraged coordination actions, the introduction of plans, monitoring and supervision of health and safety activities in the different divisions of the company.

2. Health and safety culture among employees

In 2016 standards were prepared, reviewed and introduced; these standards are applicable in the geographical areas where the company operates, through the establishment of uniform and homogeneous criteria:

Leadership standards

- Standards of the month: 12 months, 12 standards.
- Classification of the health and safety risk of collaborating companies.

Technical standards for the critical nature of activities

- Works at voltage.
- Cutting, pruning and clearing.
- Transport, loading and unloading of liquefied natural gas.
- Trenching and excavation.
- Handling of cargo with self-loading cranes and self-propelled mobile cranes.
- Works at voltage for facilities of >1kV.
- Explosive atmospheres.

To ensure safety in the activities of Gas Natural Fenosa, measures aimed at preventing accidents and incidents have been introduced. Furthermore, we have also developed mechanisms to learn from events that occur and to avoid them in the future. These actions revolve around the main cultural axes of the company's health and safety, the cornerstone of its commitment.

In addition to uniform standards, the identification, risk assessment and planning of preventive activity are the base for efficient management of health and safety in the workplace.

The company 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.

Additionally to these risk assessments, Gas Natural Fenosa has other specific management mechanisms to achieve its target of reducing the number of accidents to a minimum. These are, among others: preventive safety observations, documented inspections, zero tolerance, safety breaks, personal action plans, lessons learned, safety contacts, etc.

During this year there have been initiatives especially aimed at increasing the participation of employees which, together with specific training in this area, have helped keep the commitment to health and safety alive. These include the 1st Health and Safety Leadership Award, which aims to motivate and recognise employees' exemplary behaviour in this area, with the workers themselves voting for their peers.

In 2016, the company gave a total of 220,252 training hours in health and safety for 53,650 employees as part of 3,518 training sessions. The average number of training hours per employee was 15.32.

Management of accidents and incidents is a key aspect in achieving the targets of eliminating or reducing situations of risk, and therefore the accident rates; in this regard, in 2016 there were 2,221 incidents reported, in other words events that have not caused personal injuries or environmental damages but which under other circumstances could have led to personal injuries or environmental damages.

In 2016, there were a total of 16,192 health and safety meetings and a total of 6,243 "Safety Breaks" were taken.

Occupational health forms part of Gas Natural Fenosa's commitment to offering its employees a healthy working environment and well-being. In 2016, we continued to develop prevention campaigns and health promotion in order to sensitise and mobilise workers to generate a culture of prevention of disease, promote healthy lifestyles and control risk factors to significantly reduce the incidence of various diseases. On the international stage, new health promotion and prevention campaigns were incorporated, in line with the group's corporate criteria.

Also in 2016 we introduced a healthcare protocol for international travel to prevent health risks in the destination country and to establish a procedure for communicating health alerts for that purpose.

During 2016, in the psychosocial field, specific campaigns on positive management of emotions were implemented, instrumented through conferences targeted at workers.

3. Involvement of collaborating companies

At Gas Natural Fenosa, the safety of its collaborators and the prevention of accidents affecting their workers is as important as that of its own workers. That's why the Health and Safety Commitment Plan has been extended to all suppliers, from the very outset.

Accident rates of contractors and subcontractors

	Employees			Contractors and subcontractors		
	2016	2015	2014	2016	2015	2014
Accidents requiring sick leave[1]	65	125	118	856	838	948
Days lost[2]	2,424	3,674	3,035	17,465	19,600	8,258
Mortalities[3]	–	1	1	5	7	6
Frequency rate[4]	1.72	3.08	3,.93	7.72	12.20	16.92
Severity rate[5]	0.06	0.09	0.10	0.16	0.29	0.15
Incident rate	3.48	6.33	8.32	13.99	25.71	35.71

[1] Accidents requiring medical leave: number of accidents in the workplace leading the employee to take sick leave.
[2] Days lost: days not worked due to sick leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.
[3] Mortalities: number of workers who died due to accidents at work.
[4] Frequency rate: number of accidents with sick leave occurring during the working day for every million hours worked.
[5] Severity rate: number of days lost as a result of occupational accidents for every 1,000 hours worked.

A range of initiatives has been introduced throughout the network of collaborating companies, such as leadership workshops to explain the scope of the project and the need to eradicate unsafe behaviour, asking collaborating companies to commit to obtaining the safety targets of Gas Natural Fenosa.

To achieve the involvement of collaborating companies, in 2016 we have carried out the Journey to the Safety of Collaborating Companies initiative. This methodology, based on simple and regular communication, seeks to convey general safety concepts and share experiences. For this, the key liaison party for collaborating companies includes “safety conversations” at work meetings, which are characterised by their frequency, intensity and brevity.

In 2016, additional backup activities were carried out with contractors in the area of hazard prevention, including the following:

- 7,987 activities relating to the coordination of preventive activities with contractors, most of which were coordination meetings.
- 962 meetings with health and safety coordinators in construction sites.
- 43,011 work supervision inspections by contract companies.

Gas Natural Fenosa considers health and safety to be a major key in the contractual relationship with its collaborating companies. From the time they are selected, partner companies’ commitment to health and safety is taken into account. When a contract is awarded, health and safety are issues which can lead some partner companies to be excluded and others to be preferred.

4. Safety in facilities and processes

The main objectives of risk management for industrial facilities are the detection and minimisation of hazards affecting activities, products and services that may have a significant effect on the company’s facilities or its environment, causing economic, environmental and social damages.

This management is based on a number of tools such as having a risks map for the facilities, carrying out safety audits, investigating incidents and accidents, the fire protection model, developing training based on the lessons learnt and dissemination and support activities.

Lastly, it it important to note that we also extend our commitment to health and safety to our customers through advice campaigns on the safe use of gas and electricity.

CRR

For more information, please see the “Health and safety” section of the 2016 Corporate Responsibility Report.

Responsible supply chain

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Total purchase volume awarded.
- Suppliers assessed.
- Hours of training and personnel trained by Gas Natural Fenosa that work for collaborating companies.

Using this code you can view the "Committed to training" video.

What does it mean for Gas Natural Fenosa?

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

What is our commitment?

- To extend the culture and operational principles of Gas Natural Fenosa to its value chain.
- To transfer knowledge to improve the quality of service levels.
- To foster practices that encourage traceability and fair trade of raw materials.
- To promote procurement of suppliers from the country or region where the company carries out its activities.

What are our main milestones in 2016?

- Extending and introducing the purchase family tree at the main subsidiaries.
- Extending and introducing the Bravo platform at the main subsidiaries.

Analysis of the 2016 results

Extending the culture and operational principles of Gas Natural Fenosa to its value chain

In the performance of its activity, Gas Natural Fenosa set up trade relations with a total of 12,072 suppliers in 2016.

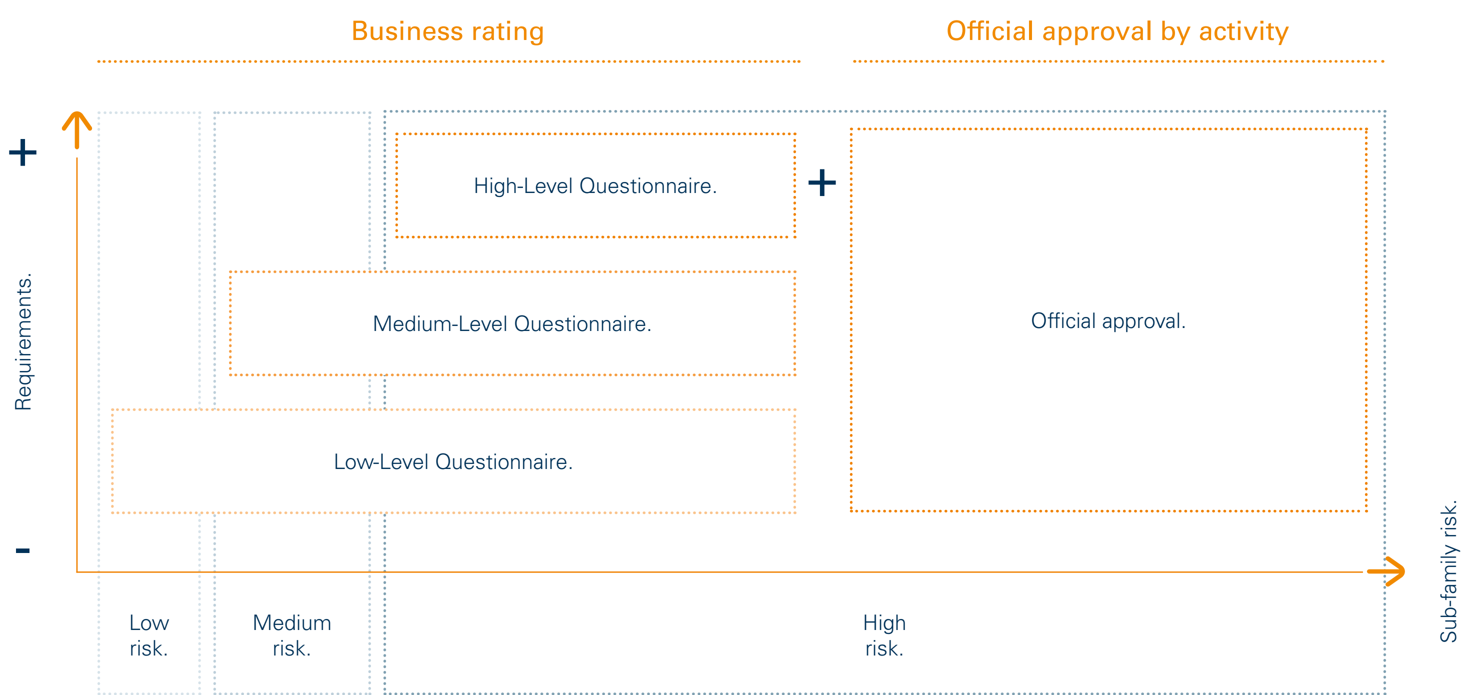
(millions of euros)	2016	2015	2014
Total procurement volume awarded[1]	3,599	3,009	2,956

[1] Does not include procurement of raw materials.

The purchasing model is fundamentally based on maintaining a long-term relationship with suppliers and awarding the supply to the offer that is most beneficial for the company; not only from an economic point of view, but also taking into consideration the performance of suppliers (which includes things like safety, quality, resource management, among others) and how these, as a whole, allow savings to be made with regard to the overall cost of the purchase.

Gas Natural Fenosa has a large group of suppliers, and this means it has to standardise selection processes to minimise procurement risks and ensure guaranteed supply. Accordingly, the company has established a General External Procurement Standard and the General Supplier Quality Standard, which sets out the general principles for procurement of works, goods and services, guaranteeing a uniform, efficient and quality procurement processes model.

Supplier assessment at Gas Natural Fenosa encompasses the supplier qualification process and the approval process. Both processes are set out in the risk map by subfamily.



In 2016, Gas Natural Fenosa assessed a total of 9,689 suppliers based on environmental, social and employment practices criteria. Moreover, in 2016 a total of 1,556 critical suppliers were subject to review of the approval. As a consequence of this process, 165 suppliers were awarded a category of provisional approval, identifying actions for development and corrective actions to be implemented to achieve compliance with the requirements and standards established by the company. Notably, 15 suppliers were suspended or had their approval withdrawn due to failing this process for different reasons.

Regarding the process of supplier classification, during 2016 the Purchasing Department extended the new supplier classification model introduced in Spain to its subsidiaries in Brazil, Chile, Colombia and Italy, and implementation in Argentina, Mexico and Panama is scheduled for 2017.

This new model assesses five risk factors that make up the basis of the risks map: health and safety, quality, ESG, operational and legal risk

The ESG risk comprises the environmental, social and governance risk, with the following aspects measured:

- Environment risks: we have taken into consideration the impact on the atmosphere, biodiversity, waters, soil, the countryside, waste and consumption of resources.
- Social risks: it includes aspects such as the well-being of communities, human rights, workers' rights, data protection, safety and quality of products and health and prevention of occupational risks.
- Governance risks: it includes aspects of fraud, corruption, competition, terrorism, professional ethics and regulatory compliance.

Furthermore, the company carries out a systematised verification of compliance with the legal requirements and basic structure of potential suppliers which makes up a business qualification that all suppliers must pass before they can commence commercial relations with Gas Natural Fenosa.

The risk levels of the map are allocated in accordance with the most restrictive risk factor of the five, awarding a single level of risk (high, medium or low) to each of the purchase subfamilies.

The classification is applied to self-assessment questionnaires that delve into more depth in accordance with the risk level. These questionnaires are filled in on the Achilles platform (supplier classification system). For high risk cases, it is necessary to provide documentary and audit evidence. In 2016, the corporate responsibility audit was introduced for those high-risk suppliers priority given to those with the largest invoices.

The high and medium level qualification process includes obtaining a grade that enables suitable suppliers to be assessed in accordance with objective and measurable criteria, for use in the different stages of the bid processes.

Transferring knowledge to improve service quality levels

Gas Natural Fenosa performs actions targeted at the development of suppliers based on the information collected in the supplier tree, the approval information and the results of measuring ESG performance.

Training the different parts of the value chain is essential in offering quality products and services to the company's customers. Thanks to training, suppliers improve their operational efficiency, are able to reduce their costs and increase the professionalism of their management.

The Extended University helps to establish a common planning and management model, to offer training to partner companies and to other agents which form part of the value chain.

Since 2012, the Extended University has been rolled out in nine countries: Argentina, Brazil, Chile, Colombia, Spain, Italy, Mexico, Moldova and Panama. 2016 has seen its definitive consolidation in all businesses and countries, implementing special programmes that have achieved excellent results.

In 2016, around 250,000 training hours were given to over 40,000 attendees who took part belonging to partner companies. It is important to note the high level of satisfaction shown by attendees, a score of 8.8 out of 10, obtained from the feedback on the more than 1,692 courses taught.

Besides, in 2016 the Atenea Channel, a platform that includes video clips on issues of regulations, safety, accident prevention and in-situ operations, and these can be consulted from any device, was consolidated. At the close of 2016, there have been more than 14,000 visits since it was launched. Also in 2016 we rolled out international implementation in Argentina, Brazil, Chile, Colombia, Italy, Mexico and Panama.

Among other things, this channel provides better access to training; increased and improved communication and collaboration between the business and its collaborators; more effective alignment with the company's strategy, and a reduction in the cost of training collaborators.

Fostering practices that encourage traceability and fair trade of raw materials

In 2015, Gas Natural Fenosa continued its involvement in the Bettercoal international initiative, an initiative made up of major European energy companies (Dong Energy, Drax, EDF, Enel, Engie, E.ON, Fortum, RWE and Vattenfall, among others) and which strives to attain the ongoing improvement of corporate responsibility in the coal supply chain. In 2015, the company became part of the Bettercoal Board.

The initiative, launched in 2012, seeks to include social, environmental and ethical practices into the coal supply chain, with the aim of producing changes that benefit employees, communities, businesses and the environment.

The adherence to an initiative such as Bettercoal provides the additional guarantee that purchases of coal by the company comply with certain criteria and conditions that are perfectly aligned with the undertakings set out in the human rights policy of Gas Natural Fenosa.

One of the first advances of Bettercoal was to develop a new code of practices based on already existing mining standards, which recognises the current best practices in the sector. The Bettercoal Code sets out the ethical, social and environmental principles on which members of the initiative will base their coal supply chain.

These principles will be the basis for performing in-situ assessments conducted by outsourced consultants. The findings of these assessments will be shared among members of Bettercoal.

The Bettercoal Code was developed with the help of an independent group representing the different stakeholders and comprised of experts from civil society, unions and the mining community. The code was subject to a global process of public consultation and included meetings with stakeholders in Colombia, Indonesia, Russia and South Africa, all of which are major producers of coal.

Likewise, in 2016, the company acquired 930,000 tonnes of coal (63% of the total acquired) under a formal agreement with suppliers, to cater to the requirements defined in the Bettercoal Code.

CRR

For more information on the management of the supply chain, please see the "Responsible supply chain" section of the "2016 Corporate Responsibility Report".

Social commitment

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Economic value distributed.
- Economic contribution to community investment programmes.
- Hours targeted at volunteer work.
- Corporate volunteer and environmental activities.

What does it mean for Gas Natural Fenosa?

Gas Natural Fenosa is firmly committed to positive integration in the society of the countries where it carries out its activities, assessing the social impact of its activity, and respecting the culture, rules and setting.

The company reaches this objective through collaboration with NGOs, the local community and other social players in every country in which we operate.

What is our commitment?

- To contribute towards the economic and social development of the countries in which we operates and facilitate access to energy.
- Social action: to consolidate the bond between the main lines of social action and Gas Natural Fenosa's strategy.
- To encourage community relations through social impact projects.
- Patronage and sponsorship: to support to projects and initiatives that create value for society, with a particular focus on culture, social causes and the environment.
- Corporate volunteers: to involve employees in a fairer and more sustainable society from a social and environmental standpoint.

What are our main milestones in 2016?

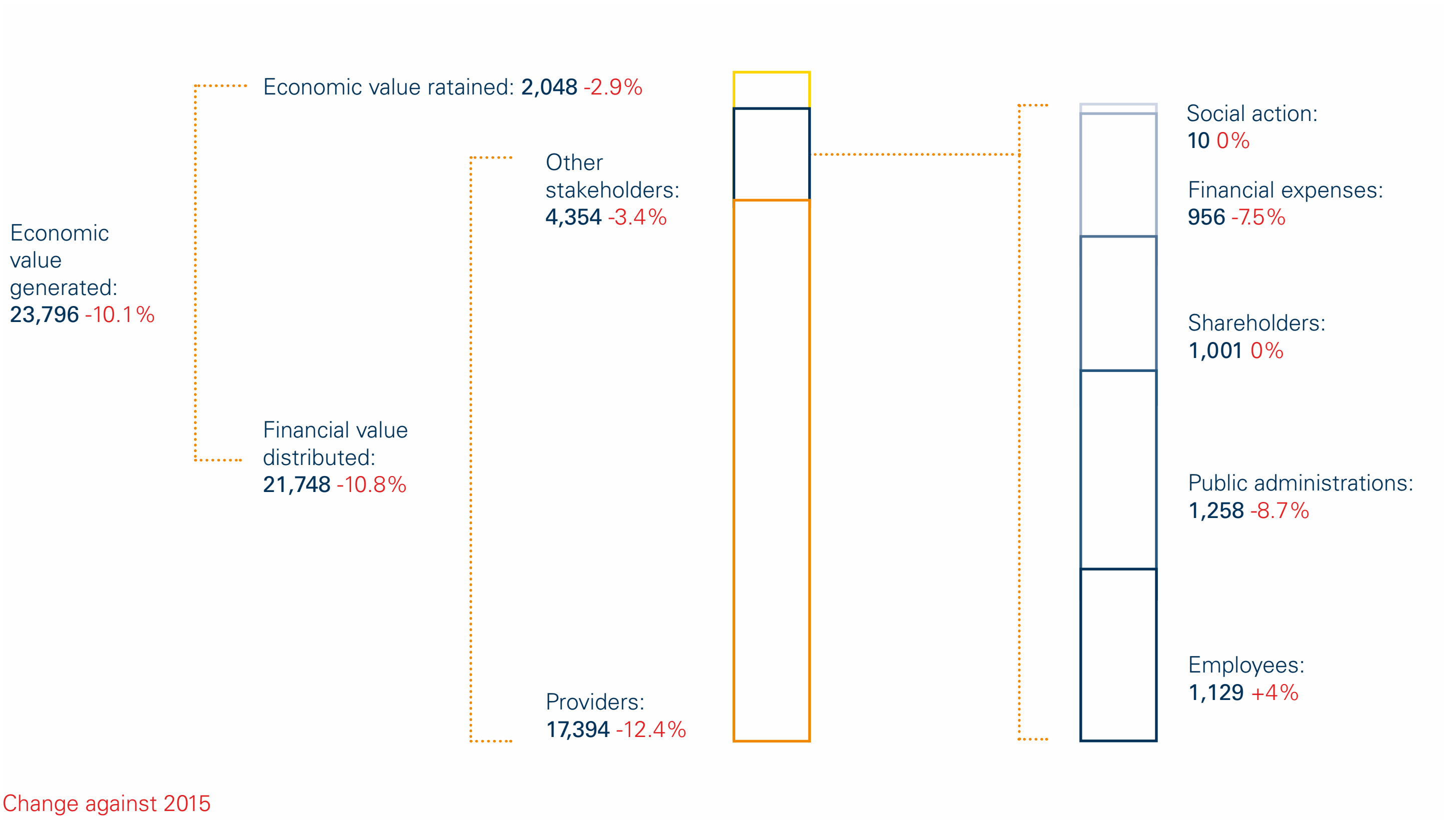
- Conducting the third edition of Cinergía for the purpose of reporting the savings from energy efficiency as well as its impact on the environment. Encouraging the promotion of new talent with the second edition of Cinergía Talent.
- Extending an action plan for social networks in order to generate content and activities of general interest in line with the support of culture, energy efficiency and savings.
- Taking part in certain investment projects to assess the social impact.

Analysis of the 2016 results

Contributing towards the economic and social development of the countries in which it operates and facilitating access to energy

(No.)	2016	2015	2014
Economic value distributed	21,748	24,372	23,463

Economic value distributed. Breakdown by stakeholders (millions of euros)



(millions of euros)	2016	2015	2014
Economic contributions	10	10	12

Facilitar el acceso a la energía

Gas Natural Fenosa makes the most of the resources that society and the environment place at its disposal, providing a basic service: the safe and reliable supply of energy.

Gas Natural Fenosa performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

In 2016, the natural gas network reached 550 new properties through the construction of 7,500 m of new network in Barrio 25 de Mayo, Partido de Moreno district. In global terms, since its inception, more than 28,000 people (a figure that accounts for over half the population) have benefited from this programme and have achieved access to cleaner energy thus increasing the value of properties, thanks to the overall construction of 134.5 km of gas network here.

In Chile, in the sphere of CGE, the subsidiary Edelmag signed three agreements designed to bring electricity to the most isolated sectors of the country, permitting 134 families to access reliable energy on a permanent and stable basis.

Lastly, in Spain, in 2016, Gas Natural Fenosa signed agreements with different regional and local administrations for the protection of vulnerable customers and in order to prevent supply cut-off to customers that the municipal social services have reported as vulnerable. In these cases, the company provides operational solutions for payment of its bills through the mechanisms that the authorities use in cases of social emergency.

In 2016, we reached agreements with the following administrations:

- Locally: A Coruña city council, Almassora town council, Barcelona city council, Metropolitan Area of Barcelona (AMB), Castellón, Logroño and Sevilla city councils, Vilagarcia de Arousa town council and Zaragoza city council.
- At the regional level: the autonomous communities of Cantabria, Castilla-La Mancha, Madrid, Castilla y Leon, Galicia, Madrid, Navarre and Valencia.

We also reached agreements with the Basque Country Red Cross.

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, allowing us to conduct comprehensive monitoring and development of energy vulnerability. The initiatives are both of an operational and social nature.

Social action

Gas Natural Fenosa believes that its community investment programmes have to focus on the geographical areas where it has a presence and must develop in tandem with the corporate activity. To meet this target, the Latin America Integrated Operational Centre (COIL) for Management of Community Investment Projects was created in 2011. Under the motto "Energy to Grow", it implements three kinds of projects.

- Inclusive Business programme: projects that promote the inclusion of the most disadvantaged social sectors through inclusive programmes. Within this typology, we created a new programme called Energy of Flavour, which aims to promote social inclusion of disadvantaged groups through training linked to gastronomy. The programme is implemented in Argentina, Brazil, Panama and Mexico.
- Responsible Use programme: targeted at customers and society, providing knowledge about energy in general; safety and efficient use, of both gas and electricity, and caring for the environment.
- Programmes for employee families: set of three programmes for children of company employees in Latin America.

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.

Patronage and sponsorship

To help develop society through the promotion of culture, art, science or other disciplines, Gas Natural Fenosa provides occasional financial support to specific sponsorship projects and donations.

Gas Natural Fenosa also maintains its commitment to collaborate with the world of film, music and theatre, by providing support to festivals, musical events and concerts.

With its support to the world of film, through sponsorship of the main festivals and cinemas in Spain, the company collaborates with one of the industries that has been most affected in recent years, in particular in the case of festivals, through significant cutbacks in the public funding they used to receive.

In this regard, in 2016 we launched the third edition of Cinergía, to bring energy saving closer through the cinema and to encourage talent in the Spanish film industry.

The Gas Natural Fenosa Museum of Contemporary Art (MAC) has consolidated itself as a cultural benchmark in Galicia, where it is based, and in Spain. The MAC has become an open workspace committed to art, culture, research, development, education, youth and social action.

Using this code you can view the video of the film sponsorship activity of Gas Natural Fenosa in 2016 - Cinergía.

Corporate volunteers

Through the corporate volunteering programme, Gas Natural Fenosa aims to promote social cohesion, values and the spirit of solidarity. To achieve this, we have defined the programme objectives in three areas simultaneously corporate, employees and the environment, and an integrated structure of committees that includes both the areas of People as well as Communication and the Environment of all countries that form part of the programme.

In 2016 we spent more than 6,153 hours on volunteer actions promoted by the company, and drove around 81 social and environmental voluntary work activities with the help of more than 892 participants.

For further information about the Foundation, please see www.fundaciongasnaturalfenosa.org

CRR

For more information on Social Commitment, please see the "Commitment to society" section of the 2016 Corporate Responsibility Report.

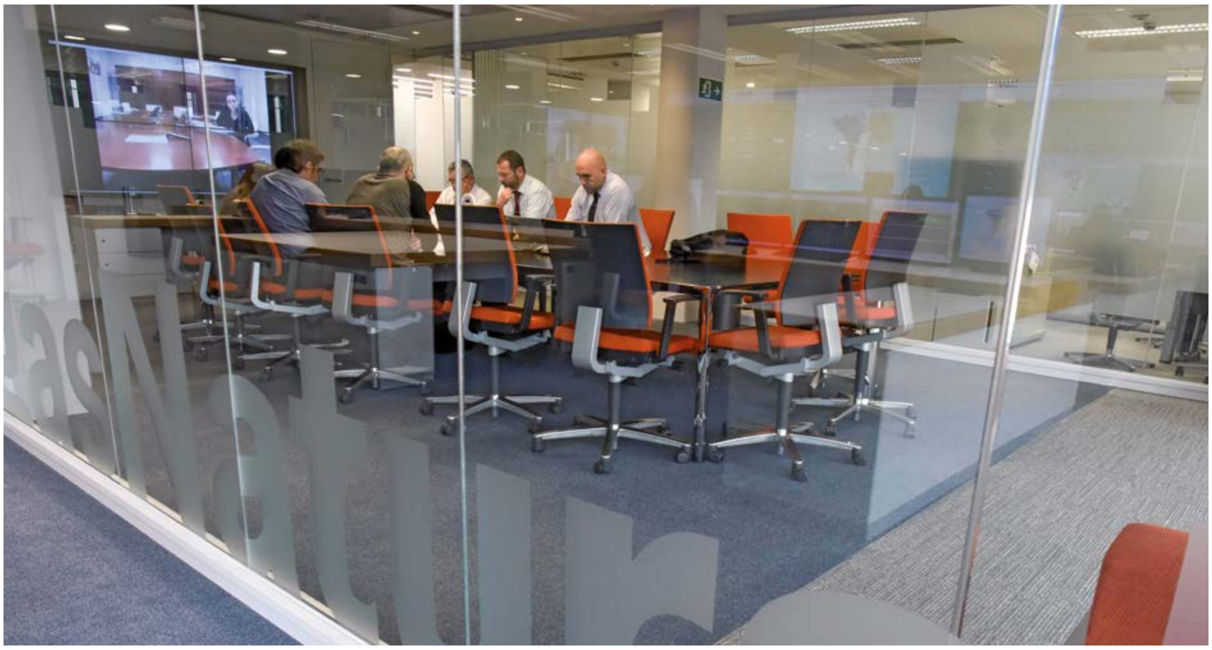
Integrity and transparency

What resources are relevant for this undertaking?

- Financial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Correspondence received by the Code of Ethics Committee.
- Number of persons trained on the Human Rights Policy.
- Fiscal contribution.



What does it mean for Gas Natural Fenosa?

Since the outset, the growth achieved by Gas Natural Fenosa has been based on ethical and honest principles.

These principles are the cornerstones of the company's Mission and Vision statement.

What is our commitment?

- To guarantee compliance with the Code of Ethics on every level, both internally and externally, and reject corruption, fraud and bribery.
- To effectuate and guarantee compliance with the Human Rights Policy.
- To act with fiscal responsibility in managing its businesses and to comply with its fiscal obligations.
- To compete fairly in the market, promoting information transparency and responsible communication.

What are our main milestones in 2016?

- Launch of a new regular declaration of compliance with the Code of Ethics and Anticorruption Policy.
- Disclosure and dissemination of the Code of Ethics for suppliers.
- Update the Human Rights Policy text and the concepts and terminology of the UN Guiding Principles on Business & Human Rights.

Analysis of the 2016 results

Guaranteeing compliance with the Code of Ethics on every level, both internally and externally

(Nº)	2016	2015	2014
Queries	58	37	33
Notifications	120	98	56
Correspondence received by the Code of Ethics Committee	178	135	89

The Code of Ethics, drawn up and approved by the Board of Directors, is Gas Natural Fenosa's basic instrument for integral, responsible and transparent action.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by the company in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

Gas Natural Fenosa also has an Anticorruption Policy, as an extension of chapter 4.7. on "Corruption and Bribery" on the Code of Ethics, which establishes the principles which must be used to guide the conduct of all employees and group company administrators with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

Likewise, Gas Natural Fenosa has a Code of Ethics and Anticorruption Policy Management Model managed by the Internal Auditing, Compliance and Control Department, whose targets are to ensure the knowledge, application and fulfilment of the code.

This Management Model has the following components: the Code of Ethics per se, the Code of Ethics Committee and the guarantee systems; mechanisms to guarantee dissemination and compliance with the Code of Ethics. These mechanisms are: the complaints channel, through which employees and suppliers can make consultations or notify of breaches in the code, in good faith, confidentially and without repercussions; the annual statement procedure and the training course on aspects included in the code, which are compulsory for all employees.

The Code of Ethics Committee is responsible for ensuring that the code is disclosed and complied through the supervision and control of safeguarding systems. The company has set up local committees in Argentina, Brazil, Chile, Colombia, Italy, Mexico, Moldova, Panama and South Africa.

Our growth has been based on the principles of ethics and honesty, which are the cornerstones of the company's Mission and Vision statement

Since 2011, Gas Natural Fenosa has had a Human Rights Policy approved by the Management Committee, which was drawn up following a consultation period with third sector organisations specialised in this field. With this policy, the company can offset and adequately manage the main risks that affect human rights detected in the company.

The policy is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Gas Natural Fenosa undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.

Fiscal and fiscal risk management policies

Since 2010, Gas Natural Fenosa has subscribed to the Code of Good Tax Practices drawn up by the Large Companies Forum together with the Spanish tax authorities. The aim of this initiative, which is promoted by the Spanish Government, is to promote transparency, good faith and cooperation with the National Tax Authority in corporate fiscal practice and in the legal security in the application and interpretation of tax laws.

Effectuating and guaranteeing compliance with the Human Rights Policy

(No.)	2016	2015	2014
Persons trained in the Human Rights Policy	10,180	13,883	12,568

NB: the decrease in the figure reported in 2016 is due to a change of criterion, as in previous reports this included those persons that had been trained, whether or not at the company, and the figure included in this report only considers the current active workforce.

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 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.

In this regard, the company has expressly undertaken to:

- avoid opaque structures for tax purposes;
- collaborate with the Tax Authorities;
- regularly report to the Board of Directors on the fiscal policies applied;
- apply fiscal criteria in accordance with administrative doctrine and case law.

In order to assure that the tax practices of Gas Natural Fenosa are based on these principles, the group uses a General Good Tax Practices Procedure.

Gas Natural Fenosa also has a risk map in place in which fiscal risks and controversial questions concerning the interpretation or application of the fiscal legal framework are specifically identified. Information about the most important fiscal actions is set out in the "Fiscal Status" section of Note 21 of the Consolidated Annual Accounts.

The Board of Directors is informed of the fiscal consequences of important or particular operations when such consequences are relevant. The Board of Directors should be informed of the creation or acquisition of holdings in companies which are registered in countries or territories which are considered to be tax havens, through the Audit Committee.

Pursuant to Spanish laws which determine which countries are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa has two shareholdings in companies incorporated in those territories:

- The 95% stake in Buenergía Gas & Power, Ltd., domiciled in the Cayman Islands. This is a company which indirectly owns a single industrial shareholding which carries out the electrical generation activity by gas combined-cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pays tax on their income in this country and which does not offer any kind of tax advantage for Gas Natural Fenosa.
- The 52.2% stake in Gasoducto del Pacífico (Cayman), Ltd., domiciled in the Cayman Islands. This is a company which does not engage in business activities and which was included in the group as a result of the acquisition of the CGE group, and as such does not offer any type of tax advantage to Gas Natural Fenosa.

As regards the holdings of 47.5% in Ecoeléctric Holding Ltd. and the 47.5% in Ecoeléctrica Limited, in 2016 they changed their address from the Cayman Islands to Puerto Rico, and are no longer considered to be holdings held in tax havens.

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More detailed information on this issue can be found in section 3.3 of the 2016 Consolidated Management Report.

Fiscal contribution

Gas Natural Fenosa is acutely aware of its responsibility towards the economic development of the countries in which it operates. The taxes it pays represent a significant part of the economic contribution in the countries in which it operates. Accordingly, it pays special attention to complying with its tax obligations in accordance with laws applicable in each territory.

Paying taxes is a question of significant economic importance and implies a high level of commitment towards compliance with formal obligations and cooperation with the tax authorities.

The total fiscal contribution of Gas Natural Fenosa in 2016 amounted to 3,419 million euros (3,636 million euros in 2015). The following table shows the breakdown of the tax actually paid by Gas Natural Fenosa, broken down according to those which are an effective expense for the group (referred to as own taxes) and those which are retained or passed on to the final taxpayer (called third-party taxes):

(millions of euros)	2016	2015	2014
Spain	**2,299**	**2,627**	**2,759**
First-party taxes[1]	711	896	940
Third-party taxes[2]	1,588	1,731	1,819
Latin America	**804**	**726**	**663**
First-party taxes[1]	488	418	480
Third-party taxes[2]	316	308	183
Others	**316**	**283**	**319**
First-party taxes[1]	59	64	106
Third-party taxes[2]	257	219	213
Total	**3,419**	**3,636**	**3,741**

[1] Basically includes payments for corporate income tax, environmental taxes, local taxes and social security paid by the company.
[2] Basically includes Value Added Tax, special taxes, employee withholdings and social security paid by the employee.

Breakdown of taxes actually paid in the year 2016 by categories and countries

	First-party taxes			Third-party taxes				
Country	Profit tax[1]	Others[2]	Total	VAT	Taxes on hydrocarbons	Others[3]	Total	Total
Spain	199	512	711	1,007	352	229	1,588	**2,299**
Argentina	10	42	52	13	-	22	35	**87**
Brazil	38	49	87	58	-	9	67	**154**
Colombia	75	78	153	7	-	14	21	**174**
Chile	42	11	53	117	-	18	135	**188**
Mexico	31	3	34	39	-	11	50	**84**
Panama	89	7	96	-	-	3	3	**99**
Rest of LATAM	12	1	13	2	-	3	5	**18**
Total LATAM	297	191	488	236	-	80	316	**804**
Italy	19	7	26	27	42	5	74	**100**
Others	10	23	33	128	49	6	183	**216**
Total	**525**	**733**	**1,258**	**1,398**	**443**	**320**	**2,161**	**3,419**

[1] Corporate income tax actually paid during the year. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 "Fiscal Status" of the Consolidated Annual Accounts.
[2] Includes energy taxes which in Spain totalled 244 million euros in 2016 (262 million euros in 2015), local taxes, social security payable by the company and other specific taxes of each country.
[3] Basically includes withholdings on employees and Social Security for the employee's contribution.

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For further information, please see the "Integrity and transparency" section of the 2016 Corporate Responsibility Report.

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For more information, please see the Note 21 "Fiscal Status" section of the 2016 Consolidated Annual Accounts.



2016 Integrated Annual Report

Audit report, consolidated annual accounts and consolidated director's report of Gas Natural Fenosa

Gas Natural SDG, S.A., and its subsidiaries

Audit Report independent,
Consolidated Annual Accounts at 31 December 2016 and
Director´s Report for 2016

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Gas Natural SDG, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Gas Natural SDG, S.A. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated net equity, consolidated cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Gas Natural SDG, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Gas Natural SDG, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2016 contains the explanations which the parent company´s Directors consider appropriate regarding Gas Natural SDG, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Gas Natural SDG, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu

February 10, 2017

Consolidated Balance Sheet

(million euros)	31/12/16	31/12/15
Assets		
Intangible assets *(Note 5)*	10,920	10,525
Goodwill	5,036	4,962
Other intangible assets	5,884	5,563
Property, plant and equipment *(Note 6)*	23,627	23,693
Investments recorded using the equity method *(Note 7)*	1,575	1,730
Non-current financial assets *(Note 8)*	1,907	1,387
Deferred income tax assets *(Note 21)*	872	1,070
Non-current assets	**38,901**	**38,405**
Non-current assets held for sale *(Note 9)*	–	955
Inventories *(Note 10)*	758	826
Trade and other receivables *(Note 11)*	4,999	5,191
Trade receivables	4,348	4,521
Other receivables	489	472
Current tax assets	162	198
Other current financial assets *(Note 8)*	389	365
Cash and cash equivalents *(Note 12)*	2,067	2,390
Current assets	**8,213**	**9,727**
Total assets	**47,114**	**48,132**
Net equity and liabilities		
Share capital	1,001	1,001
Share premium	3,808	3,808
Reserves	9,549	9,077
Treasury shares	(21)	–
Net income for the year attributed to the equity holders of the parent company	1,347	1,502
Interim dividend	(330)	(408)
Adjustments for changes in value	(129)	(613)
Available-for-sale financial assets	7	4
Hedging operations	47	(119)
Currency translation differences	(183)	(498)
Net equity attributable to the equity holders of the parent company	**15,225**	**14,367**
Non-controlling interests	**3,780**	**4,151**
Net equity (Note 13)	**19,005**	**18,518**
Deferred income *(Note 14)*	842	853
Non-current provisions *(Note 15)*	1,248	1,488
Non-current financial liabilities *(Note 16)*	15,003	15,653
Borrowings	14,997	15,599
Other financial liabilities	6	54
Deferred income tax liability *(Note 21)*	2,509	2,543
Other non-current liabilities *(Note 18)*	1,331	944
Non-current liabilities	**20,933**	**21,481**
Liabilities related to non-current assets held for sale *(Note 9)*	–	585
Current provisions *(Note 15)*	158	193
Current financial liabilities *(Note 16)*	2,599	2,595
Borrowings	2,437	2,446
Other financial liabilities	162	149
Trade and other payables *(Note 19)*	4,072	4,008
Trade payables	3,274	3,096
Other creditors	692	777
Current tax liabilities	106	135
Other current liabilities *(Note 20)*	347	752
Current liabilities	**7,176**	**8,133**
Total net equity and liabilities	**47,114**	**48,132**

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Consolidated Income Statement

(million euros)

	2016	2015
Sales *(Note 22)*	23,184	26,015
Procurements *(Note 23)*	(15,420)	(17,997)
Other operating income *(Note 24)*	265	257
Personnel costs *(Note 25)*	(1,013)	(973)
Other operating expenses *(Note 26)*	(2,467)	(2,360)
Depreciation, amortisation and impairment expenses *(Notes 5 and 6)*	(1,759)	(1,750)
Release of fixed assets grants to income and others *(Note 14)*	43	64
Gain/(loss) on disposals of tangible fixed assets *(Note 27)*	51	–
Other results *(Note 28)*	122	5
Operating income	**3,006**	**3,261**
Financial income	131	140
Finance expense	(954)	(1,032)
Variations in fair value of financial instruments	(2)	(1)
Net exchange gains/losses	–	(1)
Net financial income *(Note 29)*	**(825)**	**(894)**
Profit/(loss) of entities recorded by equity method *(Note 7)*	(98)	(4)
Profit/(loss) before taxes	**2,083**	**2,363**
Income tax expense *(Note 21)*	(416)	(573)
Net income for the year from continuing operations	**1,667**	**1,790**
Net income for the year from discontinued operations, net of taxes *(Note 9)*	44	34
Consolidated net income for the year	**1,711**	**1,824**
Attributable to:		
Equity holders of the parent company	1,347	1,502
From continuing operations	1,325	1,491
From discontinued operations	22	11
Non-controlling interests *(Note 13)*	364	322
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company *(Note 13)*	1.33	1.56
Basic and diluted earnings per share in euros attributable to the equity holders of the parent Company *(Note 13)*	1.35	1.57

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Consolidated Statement of Comprehensive Income

(million euros)

	2016	2015
Consolidated net income for the year	**1,711**	**1,824**
Other comprehensive income recognised directly in net equity	**445**	**(410)**
Items that will not be transferred to profit/(loss)		
Actuarial gains and losses and other adjustments *(Note 15)*	(51)	7
Tax effect *(Note 21)*	13	(2)
Items that will subsequently be transferred to profit/(loss):		
Valuation of available-for-sale financial assets	4	5
Tax effect valuation of available-for-sale financial assets *(Note 21)*	(1)	(1)
Cash flow hedges	111	(120)
Tax effect cash flow hedges *(Note 21)*	(31)	28
Currency translation differences	378	(358)
Equity-consolidated companies	22	31
Cash flow hedges	2	(8)
Tax effect cash flow hedges *(Note 21)*	–	1
Currency translation differences	20	38
Releases to income statement	**115**	**(26)**
Valuation of available-for-sale financial assets	–	–
Cash flow hedges	106	(46)
Tax effect cash flow hedges *(Note 21)*	(28)	12
Currency translation differences	32	–
Equity-consolidated companies *(Note 7)*	5	8
Cash flow hedges	9	10
Tax effect cash flow hedges *(Note 21)*	(2)	(2)
Currency translation differences	(2)	–
Other comprehensive income for the year	**560**	**(436)**
Total comprehensive income for the year	**2,271**	**1,388**
Attributable to:		
Equity holders of the parent company	1,801	1,093
Non-controlling interests	470	295

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Statement of changes in consolidated net equity

(million euros)

	Net equity attributable to the Company's equity holders							
	Share Capital	Share Premium and reserves	Treasury shares	Net income for the year	Adjustments for changes in value	Subtotal	Non-controlling interests	**Total Net equity**
Balance at 01/01/15	**1,001**	**11,877**	–	**1,462**	**(199)**	**14,141**	**3,879**	**18,020**
Total comprehensive income for the year	–	5	–	1,502	(414)	**1,093**	295	**1,388**
Dividends distribution *(Note 13)*	–	542	–	(1,462)	–	**(920)**	(188)	**(1,108)**
Business combinations *(Note 31)*	–	–	–	–	–	–	5	**5**
Other variations *(Note 13)*	–	53	–	–	–	**53**	160	**213**
Balance at 31/12/15	**1,001**	**12,477**	**–**	**1,502**	**(613)**	**14,367**	**4,151**	**18,518**
Total comprehensive income for the year	–	(30)	–	1,347	484	**1,801**	470	**2,271**
Dividend distribution *(Note 13)*	–	579	–	(1,502)	–	**(923)**	(214)	**(1,137)**
Business combinations *(Note 31)*	–	–	–	–	–	–	–	–
Other variations *(Note 13)*	–	1	(21)	–	–	**(20)**	(627)	**(647)**
Balance at 31/12/16	**1,001**	**13,027**	**(21)**	**1,347**	**(129)**	**15,225**	**3,780**	**19,005**

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Consolidated cash flow statement

(million euros)

	2016	2015
Income before tax	2,083	2,363
Adjustments to income *(Note 30)*	2,495	2,599
Depreciation, amortisation and impairment expenses *(Note 5, 6 and 9)*	1,759	1,791
Other adjustments to net income *(Note 30)*	736	808
Changes in working capital *(Note 30)*	5	(75)
Other cash flow generated from operations *(Note 30)*	(1,208)	(1,387)
Interest paid	(793)	(898)
Interest collected	31	24
Dividends collected	79	82
Income tax paid	(525)	(595)
Cash flow generated from operating activities[1]	**3,375**	**3,500**
Cash flows into investing activities:	(2,556)	(2,065)
Group companies, associates and business units *(Note 31)*	(331)	(99)
Property, plant and equipment and intangible assets	(2,147)	(1,894)
Other financial assets	(78)	(72)
Proceeds from divestitures:	653	436
Group companies, associates and business units *(Note 9 and 28)*	405	97
Property, plant and equipment and intangible assets	222	1
Other financial assets	26	338
Other cash flows from investing activities:	49	69
Other proceeds/(payments) from/(of) investing activities *(Note 14)*	49	69
Cash flows from investing activities [1]	**(1,854)**	**(1,560)**
Receipts/(payments) for equity instruments:	(27)	270
Issue *(Note 13)*	–	986
Acquisition *(Note 13)*	(27)	(716)
Receipts and payments on financial liability instruments:	(243)	(2,100)
Issue *(Note 16)*	7,826	5,943
Repayment and amortisation *(Note 16)*	(8,069)	(8,043)
Dividends paid and remuneration of other equity instruments *(Note 13)*	(1,526)	(1,070)
Other cash flows from financing activities	(61)	(123)
Cash flow generated from financing activities[1]	**(1,857)**	**(3,023)**
Other variations in cash and cash equivalents	(42)	–
Effect of changes in exchange rates	55	(99)
Variation in cash and cash equivalents	**(323)**	**(1,182)**
Cash and cash equivalents at beginning of the year *(Note 12)*	2,390	3,572
Cash and cash equivalents at year end *(Note 12)*	2,067	2,390

[1] Includes cash flows from continuing and discontinued operations (Note 9).

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Notes to the consolidated annual accounts of Gas Natural Fenosa for 2016

Note 1. General information

Gas Natural SDG, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at 1, Plaça del Gas, Barcelona.

Gas Natural SDG, S.A. and its subsidiary companies ("Gas Natural Fenosa") form a group that is mainly engaged in the supply, liquefaction, re-gasification, transport, storage, distribution and commercialisation of natural gas, as well as the generation, transport, distribution and commercialisation of electricity.

Gas Natural Fenosa operates mainly in Spain and also outside Spain, especially in Latin America, in the rest of Europe and Africa.

Note 4 includes financial information by operating segment and geographic area.

Appendix I lists the investee companies of Gas Natural Fenosa.

The shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges, are traded simultaneously on all four ("mercado continuo"), and form part of the Ibex35.

Note 2. Regulatory framework

2.1. Regulation on the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

The Spanish gas sector is regulated by Law 34/1998, October 7, on the hydrocarbons sector, as amended by Law 12/2007, July 2, Royal Decree-law 13/2012 and Law 18/2015, May 21, as well as Law 18/2014, and by its enabling regulations, the most relevant being Royal Decree 1434/2002, December 27, Royal Decree 949/2001, August 3 and Royal Decree 984/2015, 30 October.

The Ministry of Energy, Tourism and the Digital Agenda (MINETAD) previously denominated Ministry of Industry, Energy and Tourism (MINETUR) is the competent organisation in the regulation of the gas and electricity industries, while the National Markets and Competition Commission (CNMC) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. Prior to the publication of Law 3/2013 of June 4, these functions were performed by the National Energy Commission (CNE), which was integrated into the CNMC. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers.

Furthermore, the Technical Manager of the System, Enagás, S.A., is responsible for the appropriate functioning and coordination of the gas system. It should therefore be borne in mind that Law 12/2007 limits the shareholding in Enagás, S.A. to a maximum of 5% of its share capital, and voting rights to 3% in general, and the voting rights of participants in gas activities to 1%, and, in any case, the sum of the interest of the shareholders undertaking activities in the gas sector cannot exceed 40%.

In general, the Spanish gas sector has the following main characteristics:

- It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The non-regulated activities comprise generation, supply and retailing of natural gas.

- The natural gas sector is practically entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.

- Under EU legislation (Directives 2003/55/CE of June 26, and 2009/73/UE), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent right of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

Regulation of natural gas activities in Spain

The natural gas activities are divided into: 1) regulated activities: transport, storage, regasification and natural gas distribution; and 2) non-regulated activities: production, supply and commercialisation of natural gas.

2.1.1. Regulated activities

Regulated activities are characterised by:

- **Need for prior government authorisation:** The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity.

- **Remuneration established by legislation:** The general directives that set the remuneration for these activities are governed by Law 18/2014 and Royal Decree 949/2001, while the specific remuneration to be received is updated annually by ministerial order.

  Thus, the economic framework of these activities tries to incentivise grid development and allow the companies that undertake them to ensure the recovery of the investments made and the operating costs incurred.

  The regulatory framework for the natural gas industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of gas acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- **Subjection to specific obligations of third party access to the network and unbundling:** The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in retailing. The two main obligations in this sense consist of permitting access by third parties to the transport and distribution pipelines (including re-gasification and storage) and the obligation to keep the regulated and non-regulated activities separate.

  Royal Decree 948/2015, October 30, regulates access by third parties to the network, which is managed by a single telematic platform, as well as the rights and obligations of each person involved in the system, changing the procurement regime capacity established in 2001 by Royal Decree 949/2001. The owners of the transport and distribution pipelines have the right to receive tolls and levies in consideration for this access, which are revised annually under ministerial order.

  The legislation establishes the duty of functional separation, which means not only accounting separation, in order to avoid cross-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent operation of the regulated subsidiary company in relation to the other companies in the group.

2.1.1.1. Transport

The transport activity includes re-gasification, storage and transport of gas in the strict sense through the basic high pressure gas pipeline network:

- **Re-gasification:** Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, liquefied natural gas). The re-gasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at re-gasification plants, into a gaseous state, and then pumped into the national gas pipeline network.

- **Transport:** once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas pipeline transport network. The transport network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers and local distributors.

  The transport network is owned mainly by Enagás, S.A., although certain Gas Natural Fenosa companies own a small proportion of it.

- **Storage:** facilities consist basically of underground tanks, which are necessary to ensure a constant supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation established by Royal Decree 1766/2007 (28 December) to maintain minimum security reserves. Prevailing legislation allows unregulated underground storage facilities with third-party access, negotiated and previously authorised by the Spanish Government, although there are currently no such facilities.

  On October 4, 2014, Royal Decree-Law 13/2014, October 3, was published, on urgent measures relating to the gas system and ownership of nuclear plants. With respect to the gas sector, this Royal Decree-Law is intended to resolve the technical situation at the Castor natural gas storage facility and to resolve the waiver of the concession submitted by the holder (Escal UGS, S.L.). Specifically, the facility was put into hibernation, the concession to operate the storage facility was terminated and the administration and maintenance of the facility was assigned to Enagás, S.A., the related costs being remunerated by the gas system. Finally, the amount of Euros 1,351 million was recognised to be payable to Escal UGS, S.L., based on the value of the investment. This sum was paid by Enagás, S.A. in exchange for a debt claim against the gas system for the coming 30 years that may be assigned to third parties.

2.1.1.2. Distribution

Natural gas is transported from the high pressure transport pipeline network to the final consumer through the medium and lower pressure transport pipeline network.

The distribution business is based on a system of administrative authorisations that carry no exclusive use rights. A zone distributor has preference to obtain authorisations for adjoining zones.

A distributor's activity is restricted to the expansion and management of distribution networks; it cannot market power because specifically authorised supply companies are entrusted with last-resort supplies, as mentioned in point 2.1.2.2.

Law 18/2014 (17 October) established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

- The principle of the gas system's economic and financial sustainability is established, whereby any regulation relating to the sector that entails an increase in costs for the gas system or a reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.

- The principle of economic and financial sustainability means that the revenue generated from the use of the facilities must meet all system costs. Gas system revenue will be employed solely to remunerate the regulated activities performed to supply gas.

- Annual mismatches between system costs and revenue are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding yearly payments may not exceed 15%. If this sum is exceeded, tolls will be automatically revised to cover the portion that exceeds said limits. The portion of the mismatch which, without exceeding the limits, is not offset by the rise in tolls and charges, will be financed by the parties subject to the settlement system, in proportion to the remuneration applicable to them; they will be entitled to collect mismatch contributions over the following five years and an interest rate will be applied on market terms.

- The remuneration methodologies regulated in the natural gas sector will take into consideration the costs necessary for the activity to be performed by an efficient, well-managed company under the principle whereby the activity must be performed at the lowest possible cost to the system.

- Six-year regulatory periods have been established for the remuneration of regulated activities, allowing for possible adjustments every three years to the system's remuneration parameters (including unit reference values for customers and sales, operating and maintenance costs, etc.) in the event of significant changes to revenue and cost items. The first regulatory period will end on 31 December 2020.

- The remuneration system for transmission, regasification and storage facilities is based on consistent principles: use of the asset's net value as a basis for calculating investment remuneration, inclusion of variable remuneration based on gas transported, regasified or stored by asset type, and elimination of all automatic review procedures for values and parameters based on price indices.

- With respect to new secondary transmission facilities, remuneration is included in the remuneration methodology for distribution facilities, linking remuneration to growth in customers and to new demand generated.

- Having regard to distribution facilities, remuneration is maintained for each distribution company and all its facilities based on the number of customers connected and the volume of gas supplied. Automatic reviews are eliminated, and the parametric remuneration formula is stablished to distinguish, in the remuneration category for supplies at pressures equal to or below 4 bars, between consumers with an annual consumption of less than 50 MWh and consumers with a higher consumption, so as to guarantee the adequacy of system revenue at all consumption levels, taking into account toll revenue in each case.

- In order to incentivise network expansion to non-gasified zones and bring remuneration into line with actual costs incurred by companies, different unit values are used depending on whether or not customers are in recently-gasified municipalities.

- As regards the gas system's accumulated deficit at 31 December 2014, it is being recognised. This deficit will be financed by facility owners over a 15-year period; annual payments will be included as a system cost and an interest rate will be recognised on similar terms to market rates.

- The departure relating to remuneration for natural gas under the Algeria contract, supplied through the Maghreb pipeline, and assigned to the tariff market, as a result of the Award issued by the Paris International Court of Arbitration on 9 August 2010, has been recognised in as a system cost. The amount of Euros 164 million will be paid as from 2015 over five years, applying market conditions.

Order IET/2736/2015 of 17 December 2015 established the remuneration for regulated gas sector activities for 2016.

Order IET/1977/2016 of 23 December 2016 established the remuneration for regulated gas sector activities for 2017. Additionally, this Order updated the tolls and levies for third-party access to gas facilities.

2.1.2. Unregulated activities

2.1.2.1. Supplies

Taking into account the small volume of natural gas production in Spain, this section will centre on the international supply of natural gas.

The supply of natural gas in Spain is carried out mostly through gas operators such as Gas Natural Fenosa through long-term contracts with gas producers. This supply, although it is an unregulated activity, is subject to two types of limitations, the purpose of which consist basically of ensuring the diversification of supply and the introduction of competition into the market: 1) no country can supply more than 60% of the gas imported into Spain; and 2) no business person or group can contribute as a whole natural gas for consumption in Spain that is greater than 70% of national consumption, excluding self-consumption.

2.1.2.2. Commercialization

Pursuant to 12/2007 Law and its enabling regulations, natural gas is supplied exclusively by supply companies, the former tariff supply operations previously performed by distribution companies having been eliminated. The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a maximum price referred to as the social tariff or last-resort tariff (TUR).

The TUR calculation includes raw material costs, access tolls, supply costs and supply security costs.

The Ministry of Industry, Energy and Tourism issued Order ITC/1506/2010 (8 June), whereby the last-resort tariff for natural gas will be established in a ruling from the Directorate General for Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification of the tolls and levies for access to the system or in the waste coefficients in force. The variable term will be reviewed quarterly, as from the 1st day of the months of January, April, July and October of each year, provided that the cost of raw materials varies upward to downward by 2%.

As regards energy efficiency, Royal Decree-Law 18/2014, stipulates the following:

- The national energy efficiency obligations system is created, whereby gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers will be allocated an annual energy-saving quota (saving obligations). Aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.

- The National Energy Efficiency Fund allow the implementation of economic and financial support mechanisms, technical assistance, training and information, or other measures to enhance energy efficiency in different sectors, which are necessary to achieve the Energy Efficiency Directive's objectives.

- The financial equivalence of the saving obligations will be determined based on the average cost of the support mechanisms, incentives and measures required to mobilise the investments necessary to fulfil the annual saving target, through actions by the National Fund, based on the findings of the technical analysis by the Institute for Energy Diversification and Saving.

- The Government is also authorised to establish and develop a final energy savings accreditation system, by issuing Energy Saving Certificates (ESC). Once launched, this will allow companies to progressively fulfil their saving obligations by directly promoting energy efficiency enhancement actions that fulfil the necessary guarantees.

An annual ministerial order stipulates each liable party's obligations to make contributions to the National Energy Efficiency Fund. Order IET/289/2015 established obligations in 2015 and Order IET/359/2016 established the obligations for 2016.

Law 8/2015 was published on 22 May 2015, amending Law 34/1998 on the Hydrocarbons Sector and regulating certain tax and non-tax measures relating to hydrocarbons exploration, investigation and exploitation. This law creates an organised wholesale market and designates the organised gas market operator; the aim is to integrate, into the organised gas market, activities carried on throughout the Iberian Peninsula, in both Spain and Portugal.

On 31 October 2015, Royal Decree 984/2015, October 30, was published, regulating the organised gas market and third-party access to natural gas system facilities; on 9 December 2015, the Ruling of 4 December 2015 from the Secretary of State for Energy was published, approving market rules, the standard-form contract and the organised gas market rulings. The organised gas market became operational in December 2015, managed by MIBGAS.

The Resolution of 6 June 2016 of the Secretary of State for Energy (SEE) was published on 11 June 2015, and approved various provisions concerning the organised gas market, including the figure of market makers, the acquisition of cushion gas for Yela and the acquisition of heel gas and base gas.

The SEE Resolution of 2 August 2016 was published on 5 August 2016, and approved the rules for the management of guarantees in the gas system. This Resolution lays down a standardised model for the provision of guarantees and determines the amount and duration of guarantees for mismatches in the virtual handover point and of guarantees required for contracting capacity, defines the valid instruments for concluding guarantees and, finally, establishes the protocol for communication with the Guarantee Manager and the action protocol in the event of non-compliance.

In addition, The SEE Resolution of 2 August 2016 was published on 5 August 2016, approving the framework contract for access to the facilities of the Spanish gas system. The purpose of the framework contract is for users (supply companies or direct customers in the market) to contract services for accessing the gas system facilities, excluding the contracting of handover point access services, to or from a gas pipeline connection with Europe.

The tariff of last resort (TUR) has fluctuated as follows in 2016:

- On 30 December 2015, the DGPEM Ruling of 23 December 2015 was published, entailing an average 3.4% cut in the TUR applicable as from 1 January 2016.
- On 31 March 2016, the DGPEM Ruling of 29 March 2016 was published, entailing an average 3% cut in the TUR applicable as from 1 April 2016.
- On 30 September 2016, the DGPEM Ruling of 26 September 2016 was published, entailing an average 1.1% rise in the TUR applicable as from 1 October 2016.
- On 31 December 2016, the DGPEM Ruling of 29 December 2016 was published, entailing an average 3.5% rise in the TUR applicable as from 1 January 2017.

The supply of liquefied petroleum gas (LPG) is regulated by Law 34/1998 on the oil and gas industry.

The MINETAD establishes the selling rates for piped LPG for end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published under monthly resolutions.

2.2. Regulation of the natural gas industry in Latin America

In Brazil, Colombia and Mexico there are stable regulatory and pricing frameworks that set out the procedures and processes needed for periodical rate and distribution margin reviews. The rate review is carried out every five years through the filing of the respective rate reports with the regulators.

The regulatory framework in Mexico is under review, to be brought into line with the Energy Reform decided on at the end of 2013. With respect to gas distribution, a simplification in the payment method is expected which is to favour distributors. Gas Natural Fenosa distributors in Mexico have rates approved for the five year period 2016 – 2020.

In Brazil, on 30 December 2013, the regulator for Río de Janeiro state approved the new tariffs, applicable from 1 January 2014 to the end of 2017. In aggregate terms, unit revenue from this activity is maintained.

In Brazil, the Sao Paulo state regulator is expected to approve new tariffs during 2017.

The tariff review process in Colombia is still under way. The distributors presented their applications for new tariffs in October 2015 in accordance with resolution CREG-202-2013, but on 15 July 2016 resolution CREG-93-2016 was published which revoked certain provisions of CREG-202 and shelved the cases filed by the distribution companies for the calculation of the new distribution tariffs. No resolution has yet been approved concerning the part of the methodology which was revoked by resolution CREG-202. However, the new distribution tariffs are expected to be approved in 2017.

In Argentina, The Ministry of Energy and Mining (MEM) published a resolution on 1 April 2016 establishing the new natural gas prices, instructing the Argentinian regulator to commence the tariff review process which should be completed by March 2017 and ordering the publication of a new transitional tariff list that would enable distributors to comply with the investment plan envisaged, meet O&M, administration and marketing expenses, and fulfil their obligations, which would remain in force until the end of the tariff review process.

The new transitional tariff list led to major increases in the final rate paid by consumers, which in turn led to complaints being filed with the courts. The MEM therefore decided to restrict the final figure to be paid by some consumers by means of arranging discounts in natural gas prices. During June, July and August legal judgements were handed down which annulled the transitional tariffs and ordered a public hearing to approve new tariffs. As a result, the distributors were temporarily unable to apply the tariffs and bill their customers.

In August 2016 the MEM issued a new resolution in order to enforce, inter alia, the retroactive application of the tariffs in force in 2015 to residential consumers for energy consumed by them as from 1 April 2016 and the establishment of a four-month period for consumers to pay the sums that had not been paid to distributors due to the judicial annulment of the transitional tariffs. The regulator was also instructed to convene a public hearing to approve the transitional tariffs.

Following the public hearing, in September 2016 the MEM issued a new resolution for the adaptation of the prevailing transitional tariffs that would allow gas distributors to meet their obligations, in order to ensure the continuity of the ordinary provision of the service until the definitive tariff lists were established as a result of the Comprehensive Tariff Review.

Additionally, in order to reduce the impact on distributors of the judicial annulment of the tariffs and their incapacity to issue invoices for a number of months, the distributors asked the Argentinian Government to provide them with temporary financial assistance, which was eventually granted on 30 December 2016 for a total of 3,450 million Argentinean pesos, to resolve the Mandatory Investment Plan and the repayment of debts to production companies, of which 594 million Argentinian pesos pertains to Gas Natural BAN, S.A.

In Chile, natural gas distribution regulations are limited to technical aspects. Tariffs are freely established by the distributor, which is also the supply company. The Law provides for the possibility of establishing mandatory tariffs for low-consumption customers should the Competition Court (TDLC) demonstrate that there is a monopoly situation. This has not been the case to date.

During 2016 a Bill has been processed to amend the Law on gas services in order to cover certain regulatory lacunae existing under the current Law. The changes include the function of the TDLC, the function of which is now fulfilled by a committee of experts. The period to be considered in profitability analyses has also been extended from one to three years. The Bill was approved by the Congress and Senate, and is expected to be enacted in early 2017. These regulatory developments are not expected to affect management of this activity.

2.3. Regulation of the natural gas industry in Italy

In Italy, natural gas supply activity has been totally deregulated since 1 January 2003. However, residential customers (customers who do not exceed the threshold of 2 Gwh per year) that have not elected to use a new supplier, the price of the natural gas supplied is still set by the Autorità per Energia Elettrica e il Gas (the Italian National Energy Commission, AEEG). On the other hand, for residential customers that have opted for a new natural gas provider in the market, the AEEG has established, on the basis of effective service costs, reference tariffs that the supply companies, as part of their public service obligations, must include in their commercial offering.

In the region of Sicily, the liberalisation of the natural gas supply activities is being implemented, under different modalities and deadlines, and is expected to be completed by 1 January 2010, when all the consumers will be free to choose their supplier.

The supply of natural gas can only be made by companies that are not engaged in other activities in the natural gas sector, except import, export, production and wholesaling. There is also an obligatory legal separation of the operator from the distribution system, and limitations on the maximum percentages of supplies and retailing, in order to foster competition and the entry of new operators.

By means of Delibera number 573 of December 2013, the Italian Regulator published the rates for the period 2014-2019. There are no fundamental changes in the methodology.

At end-2016 the Regulator instigated a process of discussion with Agents for the modification of investments to be made in the future. This process is still under way.

2.4. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

Electricity industry regulation in Spain was reformed during 2013 through Law 24/2013 on the Electricity Industry which adapted the existing Law (Ley 54/1997) to the situation both in the economy and in the Spanish electricity and energy sector.

The Ministry of Energy, Tourism and the Digital Agenda (MINETAD) is responsible for regulating the gas and electricity sectors, which the CNMC is the regulatory authority in charge of maintaining and ensuring competition and the transparent functioning of the Spanish energy industries. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers. The Nuclear Safety Council exercised specific competencies over the facilities using this technology.

Furthermore, the Technical Manager of the System, Red Eléctrica de España, S.A. (REE), has the main function of guaranteeing the continuity and safety of the electricity supply and the proper coordination of the production and transport system. It should be borne in mind that Law provides a strict legal separation between the system operator and the activities of generation or sale of electric power.

Generally, the electricity sector has the following main features:

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport and electricity distribution (as well as system and market operation). The non-regulated activities comprise generation and retailing of electricity.

Following the directives of EU legislation (Directives 2009/72/CE), all Spanish consumers can freely choose their electricity provider. A system of regulated tariff applies to consumers with contracted capacity of less than or equal to 10kW. This regulated tariff has been referred to as the Small Consumer Voluntary Price (PVPC), and it also exists the last-resort tariff (TUR) having become the regulated price which is calculated from PVPC and applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market. The social tariff (TUR) for vulnerable consumers is funded by the social bond, thath will be financed by the holding group companies engaged in electricity supply activities or directly by the suppliers if they are not part of a group.

- The electricity consumed in Spain is mostly generated domestically, since the international connections with France and Portugal have a very limited capacity.

- The Iberian Electricity Market (MIBEL) has operated effectively between Spain and Portugal since 1 July 2007, the electricity systems of both countries having been integrated (although integration is still not perfect).

- During the period 2000-2013 the electricity system was not self-sufficient, generating an annual deficit that has been financed by the conventional electricity companies, among them Gas Natural Fenosa.

- With the aim of eliminating the sector deficit, a number of provisions introduced in recent years have brought in important measures and adjustments to electricity sector activities to correct departures caused by mismatches between costs and revenue, culminating in the regulatory package known as the July 2013 electricity reform and the approval in December 2013 of Electricity Sector Law 24/2013, which established the basic principle of the sector's economic and financial sustainability.

Finally, on December 27, Law 24/2013 of December 26 on the electricity sector was published, the main developments being:

- With respect to the principle of the system's economic and financial sustainability:

  - The remuneration calculation parameters will have a six-year term and will be reviewed prior to the start of the regulatory period taking into account the economic cycle, demand for electricity and an adequate return from these activities.

  - A distinction is made between transmission and distribution grid access tolls and the charges that are necessary to cover other costs of the relevant system activities, which will be determined using methodology to be established by the Government; in general, tolls and charges will be reviewed annually or in the event of circumstances that have a material impact on regulated costs or on the calculation parameters employed.

  - Small consumer voluntary prices (PVPC) are regulated and will be applicable throughout Spain. In line with the prices previously referred to as last-resort tariffs, these prices are defined as the maximum prices that the reference supply companies may collect from consumers that avail themselves of the prices. The last-resort tariff (TUR) has become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the voluntary price for small consumers but are temporarily without a supply company in the free market.

  - Mismatches due to a shortfall in revenues are limited to the extent that they may not exceed 2% of revenues estimated for the period in question and cumulative liabilities due to mismatches may not exceed 5% of those revenues. Should these limits not be observed, the relevant tolls or charges will be reviewed. The portion of the mismatch that is not offset by a rise in tolls and charges shall be financed by the parties subject to the settlement system in proportion to their debt claims arising from the activities performed. The amounts contributed in this way will be reimbursed in the settlements for the following five years, plus applicable interest. Any surplus revenues generated will be used to offset prior-year mismatches; while there are outstanding prior-year liabilities, the access tolls or charges may not be reduced.

  - For 2013, a revenue deficit in electricity system settlements is recognised in a maximum amount of Euros 3.6 Billion, which will give rise to debt claims consisting of the right to receive a part of the monthly billings for 15 successive years as from 1 January 2014, until the debts are settled.

- The obligation to keep separate accounting records is extended, applying not only to the separation of electricity activities from non-electricity activities, but also to the separation of regulated-remuneration activities from unregulated-remuneration activities in electricity generation. This obligation extends to all producers receiving regulated remuneration.

> Electricity generation:

- The temporary closure of generation facilities is contemplated and will be subject to prior administrative authorisation.

- Hydraulic resources necessary for electricity generation are regulated, as is the daily market supply system, one special provision being that all production units must offer to supply electricity to the market, including those operating under the former special regime.

- Electricity demand and contracting, rights and obligation of electricity generators, and specific remuneration regime records are all regulated.

> System's economic and technical management:

- System operator and market operator functions are regulated, as are the procedures for the certification of the system operator by the National Markets and Competition Commission, and for authorisation and designation as a transmission grid manager by the Ministry of Industry, Energy and Tourism, which must be notified to the European Commission, and certification relating to non-European Union countries.

- Grid access and connection is regulated, clearly defining the access right and connection right concepts, as well as access and connection permits, the related grant procedure and requirements, and parties responsible for granting permits subject to technical and economic criteria to be stipulated in enabling regulations.

> Electricity transmission:

- A specific requirement is provided whereby remuneration for new facilities must be included in the planning phase.

- The functions that must be performed by the transmission company are provided, having previously been included in different laws or enabling regulations.

> Electricity distribution:

- A definition of distribution facilities is provided.

- The obligations and functions of electricity distribution companies are stipulated, distinguishing between distribution performed as the owners of distribution grids and distribution performed as grid management companies.

> Regime for inspections, infringements and penalties:

- The classification of infringements is revised and new infringements are included, certain conduct having been identified that had not been envisaged in Law 54/1997 (27 November) but has a negative impact on the electricity system's economic sustainability and functioning.

- The amount of penalties is revised, existing incidental penalties are extended and powers to impose penalties are modified.

The regulation of electricity activities in Spain

Electricity activities are divided into: 1) regulated activities: electricity transport and distribution; and 2) non-regulated activities: electricity generation and retailing.

2.4.1. Regulated activities

The regulated activities are characterised by the fact that access to them is subject to government authorisation, and remuneration for them is established by law, and undertaking these activities is subject to a series of specific obligations.

- **Need for prior government authorisation:** The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory, which does not imply an exclusive right of use because of the third-party network access obligation.

- **Remuneration established by legislation:** Royal Decree 1047/2013, December 27, and Royal Decree 1048/2013, December 27, brought in remuneration methods applicable to the transmission and distribution activities, so as to ensure adequate remuneration and network development. The remuneration to be received is updated annually by ministerial order. The financial yield on assets during the first regulatory period, to 31 December 2019, is linked to the yield on government bonds plus a spread of 200 basis points.

  The regulatory framework for the electricity industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of electricity acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- **Subjection to specific obligations of third party access to the network and unbundling:** The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in retailing. The two main obligations in this respect consist of permitting access by third parties to transport and distribution and the obligation to keep regulated and unregulated activities separate.

  Royal Decree 1955/2000 regulates access by third parties to the grid, determining which persons will have access rights, how the application is made, the deadlines for the same, the grounds for rejection of access, as well as the rights and obligations of each person involved in the system. The owners of the transport and distribution grids have the right to receive tolls and levies in consideration for this access, which are revised annually under ministerial order.

The legislation establishes the duty of functional separation, which means not only accounting separation, in order to avoid cross-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent operation of the regulated subsidiary company in relation to the other companies in the group.

2.4.1.1. Transport

Electricity transport links the plants with the distribution networks and specific final customers. The network is owned mainly by REE, although other companies, including Gas Natural Fenosa's subsidiary Unión Fenosa Distribución, S.A., own a small interest on secondary transport network.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1047/2013 (27 December), providing the new methodology for calculating electricity transmission remuneration, and Order IET/2659/2015 of 11th December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset, which will be used when calculating the remuneration to be paid to the owners of electricity transmission facilities.

Transmission remuneration is laid down annually by the Ministry, which recognises compensation for investment, operation and maintenance, calculated on the basis of the regulatory unitary values of investment, operation and maintenance plus an availability incentive.

2.4.1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1048/2013 (27 December), providing the methodology for calculating electricity transmission remuneration, and Order IET/2660/2015 of 11th December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset and the unitary remuneration figures for other regulated tasks which will be used when calculating the remuneration to be paid to electricity distribution companies, establishing the definitions for natural growth and relevant power increase and compensation for use and reservation of facilities.

The remuneration is calculated annually by the Ministry and recognises compensation for investment and operation and maintenance of the distribution facilities, as well as other regulated services calculated on the basis of the unitary values approve by regulation, including incentives to reduce network losses, detect fraud and improve service quality.

Ministerial Orders IET/980/2016 and IET/981/2016 were published in 17 June 2016, which lay down the remuneration for electricity distribution companies and for owners of the transmission facilities for 2016. The remuneration set in these Orders will be paid on account to the distribution and transport companies in 2017, until the remuneration for 2017 is approved by the Ministry

2.4.2. Unregulated activities

2.4.2.1. Electricity generation

The new Electricity Sector Law 24/2013 (26 December) stipulates that electricity production must be carried on under a free competition regime, in the organised market, including both conventional generation and renewable energy facilities, which must market electricity on the same terms as the conventional plants; the main advantages maintained by renewable energy facilities are a specific remuneration scheme and dispatching priority, on equal economic terms.

The remuneration of the generation activity is based on electricity market prices of electric production. The electricity generated in the system is sold to the wholesale electricity generation market, regulated by Royal Decree 2019/1997, either in the organised spot market or electricity pool or though bilateral, financial and physical agreements, and forward contracts.

Order ITC/3127/2011 of 17 November 2011 regulates remuneration in respect of capacity payments, including the incentive for investment in long-term capacity and the medium-term availability service, modifying remuneration for the capacity investment incentive stipulated in Order ITC/2794/2007 of September 27 and regulating the medium-term availability service applicable to marginal technologies in the daily market, i.e. fuel oil plants, combined cycle plants and coal plants, also applicable to pure-pumping, mixed-pumping and reservoir hydraulic plants.

In 2013, Law 15/2012, of December 27 on fiscal measures for energy sustainability was published, the principal aspects referring to electricity generation are:

- The establishment of a tax on the value of the production of electrical energy, of a direct type and real nature, imposed on the performance of production activities and incorporation of electricity into the Spanish electricity system. The tax will be applied on the production by all the generation installations at a rate of 7%.

- Two new taxes are regulated: the tax on production of nuclear fuel spent and radioactive residue that are the result of the nuclear generation of electricity and the tax on the storage of nuclear fuel generated and radioactive residue in central installations, with the aim of compensating society for the charges that it must bear as a result of this generation.

- Additionally, the Law revises the tax treatment applicable to the various energy generating products employed in the production of electricity. For the activity of generation of electricity from fossil fuels, certain exemptions are abolished while the energy generating products employed for combined generation of heat and electricity are taxed. In the same way, to apply a similar treatment to energy production from fossil energy sources, the tax rate on coal is increased, and at the same time, specific tax rates are created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.

- A new royalty is applied to public domain assets for the use or exploitation of continental waters for hydroelectric power generation, amounting to 22% of the economic value of hydro-electricity generated; related enabling regulations are included in Royal Decree 198/2015, which develops Article 112.ii) of the revised Water Act and regulates the royalty for the use of continental waters to produce electricity in interregional hydrographic basins.

Revenues from these taxes cover the regulated costs in the electricity system.

European Parliament and Council Directive 2010/75/EU of 2010 on industrial emissions (integrated pollution prevention and control) provides that Member States may draw up a transitional national plan, applicable during the period 1 January 2016 to 30 June 2020, addressing combustion plants that obtained their first permit before 27 November 2002 or whose owners filed an application for a permit before said date, provided that the facility was in operation at the latest on 27 November 2003, indicating the facilities to be included therein.

On 19 October 2013, Royal Decree 815/2013 of October 18 was published, approving the Enabling Regulations on industrial emissions and developing Law 16/2002 of 1 July on integrated pollution prevention and control. The publication of this Royal Decree completed the transposition of the Industrial Emissions Directive into Spanish law. Legislative Royal Decree 1/2016, which approved the revised Law on integrated prevention and control and brought together all the amendments made to Law 16/2002 since 2005 in a single law, was published on 31 December 2016.

The specific remuneration regime for generation using renewable energies, co-generation and waste was established by Royal Decree 413/2014 of June 6, the main aspects being:

- Facilities will be classed as standard types (based on technology, capacity, age, etc.), each facility obtaining specific remuneration in accordance with the parameters applicable to each standard type facility.

- Over their regulatory useful lives, the facilities will receive compensation for energy sales on the market calculated at market prices and a specific compensation comprising two terms: a term per unit of installed power which covers, where appropriate, the investment costs for each standard facility that cannot be recovered through sales of energy on the market, called investment remuneration; and a term for operations which covers, as appropriate, the difference between the operating costs and operating income of the standard facility concerned, called operation remuneration.

- The specific remuneration will be sufficient for each standard type facility to obtain an adequate return. This return, before tax, will be similar to the average yield in the secondary market on 10-year government bonds, applying an adequate spread (300 basis points for existing facilities).

- Market prices will generally be applied to future facilities. In exceptional cases, where there is an obligation to fulfil objectives or other exceptional circumstances, a competitive mechanism will be established.

In addition to the six-year review, the regulation on renewables provides for mid-period reviews after three years to examine the specific remuneration for cogeneration and energy-from-waste renewable facilities as a function of market prices. This review calculates the extent to which market prices have deviated from the assumptions at the beginning of the three-year period. It also reviews estimates of future revenues from the sale of electricity in the market and the parameters directly related to it for the next three-year period, which also has an impact on the specific remuneration for the standard facilities.

On 20 June 2014, Order IET/1045/2014, June 16, was published, approving remuneration parameters for facilities, rates applicable to certain facilities generating electricity from renewable sources, cogeneration and waste.

On 16 March 2015, the Constitutional Court judgement of 16 February 2015 was published, annulling certain articles of Extremadura Assembly Law 7/1997 (29 May) on tax measures applicable to power production and transmission affecting the environment, as they covered the same tax areas as the local tax on economic activities and did not have an environmental purpose.

On 21 January 2016 the Resolution of 18 January 2016 of the DGPEM was published, concerning the auction for the assignment of the specific remuneration system for new biomass-based electricity production facilities in the mainland electricity system and for wind technology facilities, under the provisions of Royal Decree 947/2015. The entire MW capacity for both wind and biomass plants was awarded, with the peculiarity that in both cases, the discount was 100% and therefore none of the awardees will receive any compensation for the investment costs.

In relation to self-consumption, on 10 October 2015, Royal Decree 900/2015 (9 October) was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies. This RD includes the reduction in tolls for self-consumers of less than 10 kW published in Royal Decree-Law 9/2015.

On 1 August 2015, Royal Decree 738/2015 was published, regulating electricity production and the dispatching procedure in non-peninsular electricity systems.

On 22 September 2015, Law 34/2015 (21 September) was published, partially amending General Tax Act 58/2003, Final Provision Seven of which envisages the creation of a state tax on the provision of emergency response services by the Civil Guard inside nuclear power plants or other nuclear facilities.

In 2016 the settlement under the Royal Decree on Supply Guarantee that was in force in 2010 and 2014 and which was still outstanding, has been finally completed.

The SEE Resolution of 16 February 2016 was published on 22 February 2016, laying down the procedure for calculating the actual costs for making the definitive annual settlement of the electricity system for 2012 under Royal Decree 134/2010. Following this Resolution, the final settlement for 2012 can be performed.

Subsequently, the SEE Resolution of 2 August 2016 was published on 12 August 2016, laying down the procedure for calculating the actual costs for the performance of the definitive annual settlement for 2013 under Royal Decree 134/2010. Following this Resolution, the final settlement for 2013 can be performed.

Finally, the SEE Resolution of 19 September 2016 was published on 20 September 2016, laying down the procedure for calculating the actual costs for the performance of the definitive annual settlement for 2014 under Royal Decree 134/2010. Following this Resolution, the final settlement for 2014 can be performed.

The amounts due were collected in December 2016.

2.4.2.2. Commercialisation of electricity

The commercialisation is based on the principles of deregulated contracting and the customer’s choice of provider. Commercialisation, as a deregulated activity, is remunerated at a price freely agreed by the parties.

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market retailer, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (last-resort tariff). As from the new Law 24/2013, this regulated tariff is referred to as the Small Consumer Voluntary Price (PVPC), the last-resort tariff (TUR) being the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market.

The criteria for establishing the last-resort supply tariff have been regulated by means of successive provisions of law. Legislation stipulates that the PVPC must include all supply costs on an additive basis, including power generation costs, access tolls and supply costs.

On 29 March 2014, Royal Decree 216/2014, March 28, was published, providing the methodology for calculating small consumer voluntary prices (PVPC) and the related legal regime for contracting. It determines the structure of small consumer voluntary prices, which will apply to low-voltage consumers with a contracted capacity of up to 10 kW. The Royal Decree also stipulates the procedure for calculating the cost of power generation, which will include the small consumer voluntary price.

The cost of power generation will be calculated based on the daily market hourly price during the billing period. Billing will be performed by the reference supply company based on actual readings and taking into consideration consumption profiles, except for supplies using metering equipment capable of telemetering and telemanagement, effectively integrated into the relevant systems, in which billing will be effected using hourly consumption values.

Alternatively, a consumer may contract a fixed power price for one year with the reference supply company.

On 10 September 2016 Order IET/1451/2016 of 8 September was published, approving the percentages for the allocation of the amounts to be financed relating to the social bond for 2016. Under this Order, Gas Natural SDG, S.A. has been allocated 14.80 % of the total.

Section Three of the Supreme Court has handed down various judgements which, upholding the appeals lodged against Royal Decree 968/2014, have declared the non-applicability of the system for financing the social bond laid down in Article 45.4 of Law 24/2013, on the grounds that it is incompatible with European Parliament and Council Directive 2009/72/EC of 13 July 2009 on common rules for the internal electricity market, which revoked Directive 2003/54/CE. Articles 2 and 3 of Royal Decree 968/2014, which developed Article 45.4 of Law 24/2013, were also declared null and void and it was recognised that the appellants were entitled to the reimbursement of the contributions made in this respect.

As a result, a new regulation on the means of financing the social bond has been urgently issued. Royal Decree Law 7/2016 of 23rd December regulating the mechanism for financing the social bond and measures to protect vulnerable electricity consumers was published on 24 December 2016. It was also ruled that supply to severely vulnerable customers may not be interrupted due to non-payment with effect from 1 January 2017.

Royal Decree 469/2016 of 18th November, which amended Royal Decree 216/2014 of 28th March, laying down the method for calculating voluntary prices for small electricity consumers (PVPC) and the legal contracting scheme, was published on 25th November 2016. Subsequently, Order ETU/1948/2016 of 22nd December was published on 24 December 2016, which set certain values for supply costs of supply companies to be included in the calculation of the PVPC for 2014-2018 under the above Royal Decree

In relation to interruptibility offered by some consumers, on 1 November 2013 Order IET/2013/2013 was published, regulating the competitive allocation mechanism for the interruptibility demand management service. It establishes an auction procedure for the allocation of this service, which will be managed by the System Operator and supervised by the CNMC. This Order was subsequently amended various times, the latest being under Order ETU/1976/2016. The SEE Resolution of 5 August 2016 approved the rules for the competitive auctions for assigning the interruptibility demand management service and the model for adhering to the legal framework laid down for taking part in the auctions.

2.5. Regulation of the international electricity sector

2.5.1. Generation

Gas Natural Fenosa, through its subsidiary Global Power Generation (GPG), is present as a generator in Mexico, Panama, Costa Rica, the Dominican Republic, Kenya, Puerto Rico and recently in Chile, Brazil and Australia.

In Costa Rica, Kenya and Puerto Rico, the Group's generation operations are subject to the regime for Power Purchase Agreement (PPA) with the sector's domestic companies, Costa Rica Electricity Institute (ICE), Kenya Power and Lighting Company (KPLC) and Puerto Rico Electric Power Authority (PREPA), respectively; all three public corporations vertically integrated and exclusively responsible for transport, distribution and commercialisation.

Generation under the PPA regime also exists in Mexico, with energy being sold to the Federal Commission for Electricity (CFE) and to end-customers under bilateral contracts. Surplus energy is sold on the market created under the energy reform carried out in 2015 and 2016. Additionally, the Bii Hioxo wind farm became operational during 2014, selling the power generated under bilateral contracts to final customers.

In Panama and the Dominican Republic, electricity generated is sold under bilateral contracts with the distributors.

In Chile, GPG won a tender in August 2016 for generation under a long-term contract scheme (PPA) with distributors (20 years). To meet this commitment, GPG expects to carry out two project (wind and solar) which will enter service in 2021.

In Australia, GPG was awarded a wind generation project in 2016 through a 20-year contract, with regulated tariffs for energy injected into the system.

Finally, GPG is also present in Brazil through the acquisition of two renewable generation projects involving long-term contracts for the sale of reserve energy to the Chamber for Commercialising Electrical Energy (CCEE), which have already been signed, based on a successful bid in the energy auction held in 2015.

In all these countries, electricity sector regulations are well-established and stable; legislation is developed and administered by independent regulators.

2.5.2. Distribution

In the countries in which Gas Natural Fenosa is present as a distributor, Argentina, Chile, Colombia, Moldova and Panama, the distribution activity is regulated. The distributors have the function of transporting electricity from the transport network to the customer hook up points and also the function of supplying electricity at regulated rates, to regulated customers, who, based on their consumption volumes, cannot chose their supplier. As for the unregulated customers that choose to purchase electricity from another supplier, they must pay the regulated distribution toll for the use of the networks.

The tariffs are revised periodically to reflect the variations in energy purchase prices and the transport tariffs, as well as the variation in economic indicators.

There are regulatory and tariff frameworks in these countries that lay down the procedures and paperwork necessary for the periodical revision of tariffs and distribution margins. The tariff revision is carried out between four and five years by filing tariff revision applications with the respective regulators.

In Moldova, distribution and supply tariffs will be in force until March 2018. On 15 July 2016 the Regulator approved a Resolution containing the procedure for the recovery of deviations from energy prices that are not passed on to end customers as they should be, in a period of four years. The Resolution was published on 15 July 2016. On 25 October 2016 the last outstanding agreement was concluded with energy generation companies (with the state corporation Energocom), successfully bringing an end to the negotiations with the Moldovan government to recover the debt derived from the failure to reflect real energy purchase prices in electricity rates. All that remains is for ANRE (Agenţia Naţională pentru Reglementare în Energetică) to define, before March 2017, the amount to be applied in tariffs to recover the debt in accordance with the procedure published on 4 October.

The distribution and sub-transmission activity in Chile is regulated under a known and stable framework. Tariffs are updated regularly to reflect fluctuations in cost indices and purchase prices, and are revised every four years.

The review of the electricity distribution rates, the effects of which will be backdated to November 2016, is expected to be approved in early 2017. Law 20.936 was published on 20 July 2016, which amended some provisions concerning transmission activities under the Law on Electricity Services and set up an Independent Coordination Body for the National Electricity System. The same law approved a two-year extension for current sub-transmission rates into 2016 and 2017, and therefore the new sub-transmission rates will not enter force until January 2018.

In Panama, work on the tariff review will commence in 2017 and the new tariff list will come into effect in July 2018.

Note 3. Basis of presentation and accounting policies

3.1. Basis of presentation

The Consolidated annual accounts of Gas Natural Fenosa for 2015 were adopted by the General Meeting of Shareholders of 4 May 2016.

The Consolidated annual accounts for 2016, which were drawn up by the Gas Natural SDG, S.A. Board of Directors on 7 February 2017, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without modification.

The Consolidated annual accounts of Gas Natural Fenosa for 2016 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter "IFRS-EU"), as per (EC) Regulation 1606/2002 of the European Parliament and Council.

In the preparation of these Consolidated annual accounts the Company has used the historical cost method, although modified by the restatement of the financial instruments which under the standard for financial instruments are recorded at fair value while taking into account the criteria for recording business combinations and defined benefit plans.

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Gas Natural Fenosa at 31 December 2016, and the consolidated results of its operations, the Changes in the Consolidated Statement of Comprehensive Income, the Changes in Consolidated Net Equity and the Consolidated Cash Flows of Gas Natural Fenosa for the year then ended.

The aggregates set out in these Consolidated annual accounts are stated in million Euros, unless indicated otherwise.

3.2. New IFRS-EU and IFRIC interpretations

As a result of the adoption, publication and coming into force on 1 January 2016 the following changes in the standards were applied:

- Annual improvements to IFRS, Cycle 2010-2012;
- IAS 19 (Amendment), "Defined benefit plans: employee contributions".
- IFRS 11 (Amendment), "Accounting for acquisitions of interests in joint operations";
- IAS 16 and IAS 38 (Amendment), "Clarification of acceptable methods of depreciation and amortisation";
- Annual improvements to IFRS, Cycle 2012-2014;
- IAS 1 (Amendment), "Disclosure initiative";
- IAS 27 (Amendment), "Equity method in separate financial statements".
- IFRS 10, IFRS 12 and IAS 28 (Amendment), "Investment entities: exception to consolidation".

The application of the above standards, interpretations and amendments did not have a significant impact on the consolidated annual accounts.

Additionally, in 2016 the European Union adopted the following standards which come into force for periods commencing on or after 1 January 2018, which have not been adopted early:

- IFRS 15, "Revenue from contracts with customers";
- IFRS 9 "Financial instruments";

Finally, the IASB has issued the following standards and amendments that will come into force on 1 January 2017, 2018 or 2019 and are pending adoption by the European Union:

- IFRS 16, "Leases";
- IAS 12 (Amendment), "Recognition of deferred tax assets for unrealised losses";
- IAS 7 (Amendment), "Disclosure initiative";
- IFRS 15 (Clarifications), "Revenue from contracts with customers";
- IFRS 2 (Amendment) , "Classification and measurement of share-based payments";
- IFRS 4 (Amendment), "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts".
- IAS 40 (Amendment), "Investment property"
- IFRIC 22, "Foreign Currency Transactions and Advance Consideration"
- Annual improvements to IFRS, Cycle 2014-2016;

Gas Natural Fenosa is assessing the impact of the application of these standards and amendments on the Consolidated Annual Accounts.

Based on the analysis conducted to date, Gas Natural Fenosa estimates that, of all these regulations and amendments, the only ones that might have an impact on the consolidated financial statements are IFRS 9 and IFRS 15, which are due to come into force on 1 January 2018, and IFRS 16, which is due to come into force on 1 January 2019.

With regard to IFRS 9, which is a new standard for the classification and measurement of financial assets and liabilities that also includes modelling on expected credit looses and on hedge accounting aligned with the economic management of the risk, Gas Natural Fenosa is reviewing the impact on its business practices of the new model for impairment of accounts receivable as a function of expected losses, and for hedge accounting.

With respect to IFRS 15, wich is a new standard by which revenues arising from contracts will be recognised based on the compliance of performance obligations towards customers, Gas Natural Fenosa is analysing the application of the internal revenue recognition policies currently in force for the various types of contract with customers and identifying the performance obligations, transaction prices and their allocation in order to identify differences with respect to the model established by the new standard.

IFRS 16 establishes that assets for the right-of-use and liabilities arising from operating lease contracts must be recognised in the consolidated balance sheet (except for short-term leases and those relating to low-value assets). In addition, there will be a change in the policy for recognising the lease expense, which will be recognised as a depreciation expense for the relevant asset and a financial expense due to discounting the lease liability. Gas Natural Fenosa is compiling the necessary data on its operating lease contracts in order to assess the impact. Nevertheless, considering that the total amount of the Group's lease contracts is not material (Note 35), Gas Natural Fenosa does not expect IFRS 16 to have a significant impact on the consolidated financial statements.

Consequently, given the complexity of applying IFRS 9, IFRS 15 and IFRS 16, the analyses referred to above will end in 2017 since a conclusion has not yet been reached about the first-time-adoption option to be adopted on the date of transitioning to these standards.

3.3. Accounting policies

The main accounting policies used in the preparation of these consolidated annual accounts have been as follows:

3.3.1. Consolidation

a) Subsidiaries

Subsidiaries are companies controlled by Gas Natural Fenosa. Gas Natural Fenosa controls an entity when, as a result of its involvement, it is exposed or entitled to variable returns and has the capacity to influence those returns through the power exercised in the entity.

Subsidiaries are fully consolidated as from the date on which control is transferred to Gas Natural Fenosa and are excluded from consolidation on the date on which this control ceases.

In order to account for the acquisition of subsidiaries the acquisition method is used. The cost of acquisition is the fair value of the assets delivered of the equity instruments issued and the liabilities incurred and borne on the date of the exchange, the fair value of any additional consideration that depends on future events (provided that they are likely to occur and can be reliably measured).

The intangible assets acquired through a business combination must be recognised separately from goodwill if they met the criteria for asset recognition, whether they are separable or they arise from legal or contractual rights and when their fair value can be reliably measured.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transactions are initially stated at their fair value at the date of acquisition, irrespective of the percentage of the non-controlling interest.

For each business combination, Gas Natural Fenosa may opt to recognise any non-controlling interest in the target company at fair value or at the proportional part of the target's net identifiable assets pertaining to the non-controlling interest.

Acquisition costs are expensed in the year when they are incurred.

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural Fenosa in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement.

The measurement period for business combinations begins on the acquisition date and ends when Gas Natural Fenosa concludes that it cannot obtain further information on the events and circumstances that existed at the acquisition date. This period may not in any case exceed one year as from the acquisition date. During the measurement period, the business combination is deemed to be provisional and adjustments to the provisional amount will be recognised, if applicable, as if the business combination had been fully recognised on the acquisition date.

In a business combination achieved in stages, Gas Natural Fenosa values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the Consolidated Income Statement.

Inter-company transactions, balances and unrealized gains on transactions between Gas Natural Fenosa companies are eliminated in the consolidation process. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The shareholding of the minority shareholders in the equity and profit or loss of the subsidiary companies is broken down under "Non-controlling interests" in the Consolidated Balance Sheet and "Net income attributable to non-controlling interests" in the Consolidated Income Statement.

In relation to the acquisitions or sale of shareholdings without loss of control, the difference between the price paid or received and their net carrying value, or as the case may be, the result of their sale, is booked as equity transactions and does not generate either goodwill or profits.

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies are stated at the current value of the reimbursement, i.e., their exercise price and are carried under "Other liabilities".

b) Joint Arrangements

Joint arrangements are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the partners.

A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Interests in joint operations are accounted for by proportionate consolidation method and interests in joint arrangements are recorded under the equity method.

Under the equity consolidation method, interests in joint arrangements are initially recognised at cost and are later adjusted to recognise Gas Natural Fenosa's share of post-acquisition profits and losses and movements in other comprehensive income.

At each reporting date, Gas Natural Fenosa determines whether there is objective evidence of the impairment of its investment in a joint venture. If impairment is identified, Gas Natural Fenosa calculates the amount of the impairment loss as the difference between the joint venture's recoverable amount and carrying amount, recognising it in the item "Profit/(loss) from equity-consolidated companies" in the consolidated income statement.

The assets and liabilities assigned to joint operations are recorded on the Consolidated Balance Sheet in accordance with their nature and proportionally to Gas Natural Fenosa shareholding percentage. The income and expenses from joint operations are reflected in the Consolidated Income Statement in accordance with their nature and proportionally to Gas Natural Fenosa shareholding percentage.

c) Associates

Associates are all entities over which Gas Natural Fenosa has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted under the equity method.

d) Consolidation scope

Appendix I includes the investee companies directly and indirectly owned by Gas Natural Fenosa that have been included in the consolidation scope.

Appendix II lists the main consolidation scope changes in 2016 and 2015, the most relevant being as follows.

Year 2016

In 2016 the main consolidation scope changes relate to the sale by Unión Fenosa Gas of its interest in Gasifica, S.A and in Planta de Regasificación de Sagunto, S.A. (Note 7), the sale of the interest in GNL Quintero, S.A. (Note 7), the sale of Gasco S.A. along with the purchase of an additional 37.88% of Gas Natural Chile S.A. (Note 9), the purchase of Vayu Limited (Note 31) and the desconsolidation of the interest in Electricaribe after the loss of control (Note 8).

Year 2015

In 2015, the main consolidation scope changes related to the sale of a 44.9% interest in the electricity distribution company Barras Eléctricas Galaico Asturianas, S.A. in June 2015 (Note 28) and the acquisition of the 100% of the shares in the renewable energy company Gecal Renovables, S.A. in October 2015 (Note 31).

Although the transfer did not entail a loss of control and the subsidiary is still fully consolidated, the interest held by Global Power Generation S.A., the company that holds Gas Natural Fenosa's international generation assets, decreased from 100% to 75% (Note 13).

3.3.2. Transactions in foreign currency

Items included in the financial statements of each of Gas Natural Fenosa's entities are measured using the currency of the primary economic environment in which the entity operates. The Consolidated financial statements are presented in Euros, which is the Gas Natural Fenosa presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The results and financial position of all Gas Natural Fenosa entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities for each Balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each Income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All the currency translation differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the caption Cumulative translation adjustments in net equity.

The adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as its assets and liabilities and are translated at the closing exchange rate.

The exchange rates against the Euro (EUR) of the main currencies of the companies in Gas Natural Fenosa at Saturday, December 31, 2016 and 2015 have been:

	31 December 2016		31 December 2015	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.05	1.11	1.09	1.11
Argentinean Peso (ARS)	16.74	16.24	14.09	10.21
Brazilian Real (BRL)	3.44	3.86	4.25	3.70
Colombian Peso (COP)	3.163	3.376	3.329	3.046
Chilean Peso (CLP)	703.32	748.54	770.08	726.09
Mexican Peso (MXN)	21.78	20.66	18.88	17.61
Panamanian Balboa (PAB)	1.05	1.11	1.09	1.11
Moldovan Lei (MDL)	21.01	22.04	21.40	20.85

3.3.3. Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Gas Natural Fenosa's share of the net identifiable assets of the acquired subsidiary, joint arrangements or associates acquired, at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint arrangements is included in Intangible assets while goodwill related to acquisitions of associates is recorded under Investments using the equity method.

Goodwill derived from acquisitions carried out before 1 January 2004 is recorded at the amount recognized as such in the 31 December 2003 consolidated financial statements prepared using Spanish GAAP.

Goodwill is not amortised and it is tested annually to analyse possible impairment losses. It is recognised in the consolidated balance sheet at cost value less cumulative impairment losses.

The impairment losses on goodwill cannot be reversed.

b) IFRIC 12 Concessions and other Concessions and the like

The concessions and the like relates to the cost of acquisition of concessions if they are acquired directly from a public entity or similar, or at the fair value attributed to the corresponding concession in the event of being acquired as part of a business combination. These amounts relate both to the concessions that are considered intangible assets, or construction and improvements of those infrastructures assigned to concessions in accordance with IFRIC 12 "Service concession Agreements".

The aforementioned assets related to the service concession agreements under IFRIC 12 are those that the licensor controls the services that Gas Natural Fenosa (operator) must provide and the significant residual stake in the infrastructure at the end of the agreement, are set forth in this section in accordance with the accounting model for intangible assets based on the nature of the economic profits to be received by the operator. The income and expenses on construction services or infrastructure improvements are recognized for their gross amount. Given that concession agreements do not specify remuneration for these concepts, it is assumed that fair value of income corresponds to incurred costs without margin.

The assets included in this accounts are amortised on a straight-line basis over the duration of each concession, except in the case of the Maghreb-Europe pipeline, which, in order to properly reflect the expected consumption scheme for the future economic profits, is based on the value of gas transported during the life of the right of use, which represents accumulated amortisation that is no less than what would be the result of using a straight-line amortisation method.

Furthermore, the concessions for the distribution and transmission of electricity in Spain and Chile, and the concessions for the gas distribution in Chile acquired, all of them, basically as part of a business combination has no legal or any other type of limit. Accordingly, since we are dealing with intangible assets with an undefined life, they are not amortised, although they are tested for possible impairment annually as per that set out in Note 3.3.5.

c) Computer software

Cost associated with the production of computer software programs that are likely to generate economic profits greater than the costs related to their production are recognized as intangible assets. The direct costs include the cost of the staff that has developed the computer programs.

Computer software development costs recognized as assets are amortised on a straight–line basis in four or five years as from the time the assets are prepared to be brought into use.

d) Research costs

Research activities are expensed in the Consolidated Income Statement as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive re-gasification rights at the re-gasification plant in Peñuelas (Puerto Rico), which are amortised on a straight-line basis until the end of their term (2025).

- The licence costs for renewable farms, mainly acquired as part of a business combination, which will be amortized on a straight-line basis over their useful lives.

- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valuated at fair value and amortised over the contract term that does not differ of expected consumption scheme.

There are no intangible assets with an undefined useful life apart from goodwill and the aforementioned concessions for electricity distribution and transmission and the concessions for gas distribution.

3.3.4 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

a) Cost

All property, plant and equipment are presented at cost of acquisition or production, or the value attributed to the asset in the event that it was acquired as part of a business combination.

The financial cost for the technical installation projects until the asset is ready to be brought into use, form part of property, plant and equipment.

Costs of improvements are capitalized only when they represent an increase in capacity, productivity or an extension of their useful life.

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

The non-extractable gas necessary as a cushion for the exploitation of the underground storage units of natural gas is recorded as Property, plant and equipment (“cushion gas”), and depreciated over the useful life of the underground storage deposit.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

They are capitalised when they represent asset additions to Property, plant and equipment, and when allocated to minimise environmental impact and protect and improve the environment.

The future costs to which Gas Natural Fenosa must meet in relation to the closure of certain facilities are included in the value of the assets at the restated value, including the respective provision (Note 3.3.16).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Consolidated Income Statement.

b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement. Estimated useful lives are as follows:

	Years of estimated useful life
Buildings	33-50
Gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-65
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	25
Technical installations (electricity transmission lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer equipment	4
Vehicles	6
Other	3-20

The hydro-electric plants are subject to the temporary administrative concession regime. Upon termination of the terms established for the administrative concessions, the plants revert to the Government in proper condition, which is achieved by stringent maintenance programs.

The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2022 and 2063).

Gas Natural Fenosa depreciates its nuclear energy plants over a useful life of 40 years which corresponds to the theoretical useful life of its main components. Operating licences for these plants usually have 10-year terms, it not being possible to request their renewal until near to the end of each licence. Nonetheless, in view of the optimal performance of these facilities and related maintenance programmes, the permits are expected to be renewed at least until a 40-year useful life is reached.

In the third quarter of 2015, Gas Natural Fenosa completed technical studies on the estimation of the useful life of wind parks. The technical studies were conducted by internal engineers based on experience gained in operating assets in use for approximately 20 years that maintain the same availability levels, on the wind farm's excellent state of repair due to maintenance plans applied and on information supplied by the equipment manufacturers and the practices of the sector's main operators, which consider a 25-year useful life.

Consequently, as from 1 October 2015, Gas Natural Fenosa prospectively adjusted the useful life of its wind farms from the estimated 20 years to 25 years. The effect of this estimated useful life change on the item “Depreciation, amortisation and impairment losses” in the 2015 consolidated income statement was a reduction of Euros 6 million in the depreciation charge.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (Note 3.3.5).

c) Exploration operations and production of gas

Operating costs, excluding drilling costs, are recognised in the income statement as they arise, using the successful-efforts method. If, as a result of test drilling, proven reserves are found that justify commercial development, costs are transferred to investments in zones with reserves; otherwise, they are charged to the income statement.

Costs of investments in zones with reserves are capitalised and depreciated over the estimated commercial life of the gas field, based on the relationship between annual production and proven reserves at the start of the depreciation period.

At the year end, or at any time when there is an indication that there may be asset impairment, the recoverable value is compared to their carrying value.

3.3.5 Impairment losses of assets

Assets are tested for possible impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, goodwill and intangible assets not in use or with indefinite useful lives are tested at least annually for impairment.

When the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised in the consolidated income statement for the difference between both. Recoverable amount is calculated as the higher of fair value less costs to sell and value in use, using the future cash flow discounting method. Gas Natural Fenosa considers value in use as the recoverable amount, calculated as described below.

For the purposes of assessing impairment, assets are grouped at the lowest level for which separate cash inflows can be identified. Both assets and goodwill are assigned to these cash generating units (CGUs).

CGUs are defined using the following criteria:

- Gas distribution:
  - Gas distribution in Spain. The development, operation and maintenance of the gas distribution network is managed jointly.
  - Gas distribution in Latin America. A CGU is understood to exist for each country in which there are operations (Argentina, Brazil, Chile, Colombia, Mexico and Peru) since the businesses are subject to different regulatory frameworks.
  - Gas distribution Rest of Europe. This relates to the gas distribution assets in Italy, which are managed separately.
- Electricity distribution:
  - Electricity distribution in Spain. The development, operation and maintenance of the electricity distribution network is managed jointly.
  - Electricity distribution in Latin America. A CGU is understood to exist for each country in which there are operations (Argentina, Chile, Panama and Colombia) since the businesses are subject to different regulatory frameworks.
  - Electricity distribution Rest of Europe. This relates to electricity distribution assets in Moldova.

- Gas. This includes the gas infrastructure and supply CGUs and the interest in Unión Fenosa Gas, which is tested for impairment separately.
- Electricity:
  - Electricity Spain. The power generation park in Spain is managed jointly and is centralised based on conditions of demand, where all power plants using different technologies play a major, complementary and necessary role in light of different market situations, providing the electricity required by customers at any given time. This model focuses, inter alia, on the existence of a single representative and settlement agent vis-á-vis the market, that operates through a single supply room, the entire generation and marketing business being under the same management. Therefore, a single CGU is understood to exist for the generation (including the different conventional and renewable generation technologies) and marketing of electricity in Spain, since they are managed and controlled globally on a centralised basis).
  - Global Power Generation (GPG). A CGU is understood to exist in each country in which there are operations since the businesses are subject to different regulatory frameworks and are managed independently. GPG's power generation park is located in Latin America (Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter being consolidated using the equity method and in Kenya and Australia).
- Rest. This includes basically the CGU connected with the coal mines in South Africa.

For those CGUs, requiring testing for impairment, cash flows have been based on the Strategic Plan approved by Gas Natural Fenosa, extrapolated for up to five years, on the basis of regulations and expectations regarding the development of the market based on available industry forecasts and historical experience of the performance of prices and output.

Cash flows subsequent to the projected period are extrapolated, taking into account the growth rates estimated by each CGU. These rates in no circumstances exceed the medium to long-term growth rates for the business and country in which the CGUs operate and which in no event are less than the growth rates for the period covered by the strategic plan. In order to estimate future cash flows in the calculation of residual values, all maintenance investments have been taken into account, and where appropriate, the investments for renewal needed to maintain CGU production capacity.

The nominal growth rates used for each CGU or group of CGUs are as follows:

	Growth 2016 (%)	Growth 2015 (%)
Gas distribution Spain	1.0	1.0
Gas distribution Rest of Europe	1.0	1.0
Gas distribution Latin America	2.6-3.0	1.0-2.8
Electricity distribution Spain	1.2	0.6
Electricity distribution Rest of Europe	1.8	1.8
Electricity distribution Latin America	1.6-3.0	1.2-3.0
Unión Fenosa Gas	1.8	1.4
Electricity Spain	2.2	1.8
GPG	1.0-4.6	1.0-4.9

The discount rates before tax used to calculate the recoverable value of each CGU or group of CGUs are as follows:

	Rates 2016 (%)	Rates 2015 (%)
Gas distribution Spain	6.2	6.5
Gas distribution Rest of Europe	5.9	6.3
Gas distribution Latin America	10.0-17.0	10.7-16.0
Electricity distribution Spain	5.2	5.6
Electricity distribution Rest of Europe	14.9	14.9
Electricity distribution Latin America	8.8-16.6	8.8-15.5
Unión Fenosa Gas	11.9	11.0
Electricity Spain	6.1	6.8
GPG	5.8-12.8	6.4-11.1

The parameters taken into account to determine the above discount rates are as follows:

- Risk-free bond: 10-year bond on the CGU's reference market.
- Market risk premium: Estimate based on equities in each country at 10 years.
- Unlevered beta: According to sector average in each case.
- Local currency interest rate swap: 10-year swap.
- Debt to equity ratio: Sector average.

Apart from these discount rates, the most sensitive parameters included in the projections used and which are based on sector forecasts and historical experience are as follows:

- Gas and electricity distribution Latin America and Other
    - Rate performance. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
    - Energy cost. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
    - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
    - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
- Electricity distribution in Spain.
    - Regulated remuneration. Amount and increase in remuneration approved by the regulator, taking into account the regulatory impacts of Royal Decree-Law 9/2013 and Law 24/2013 (Note 2.4.1.2) and Royal Decree 1048/2013 (Note 2.4.1).
    - Order IET /2660/2015 of 11th December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset and the remuneration for other regulated activities that will be applied in the first regulatory period which will run from 1 January 2016 to 31 December 2019.
    - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
    - Investments. Taking into account the necessary investments to maintain the regular use of the network and supply quality.

- Unión Fenosa Gas:
  - Gas supply cost. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets.
  - Gas volumes to be obtained from each supply source.
  - Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Union Fenosa Gas operates.
- Electricity Spain:
  - Electricity generated. The evolution of demand has been estimated by consensus with several international organisations. Market share has been estimated based on the market share of Gas Natural Fenosa in each technology and the expected performance of the share of each technology in the market as a whole. The regulatory impacts of Royal Decree-Law 2/2013, Royal Decree-Law 9/2013, Law 24/2013 and Royal Decree 413/2014 have been taken into account (Note 2.4 and 2.4.2.1).
  - Electricity price. Market electricity prices used have been calculated using models cross-checking expected demand against supply forecasts, taking into account the forecast performance of the generation park in Spain, based on sector forecasts.
  - Fuel costs. Estimated based on the long-term supply contracts entered into by Gas Natural Fenosa and the forecast performance of price curves and experience on the markets where it operates.
  - Operation and maintenance costs. Estimated based on the historical cost of the park managed.
  - Impact of taxes laid down in Law 15/2012 (Note 2.4.2.1).
- Global Power Generation (GPG):
  - International electricity generation is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.

As a result of the above process, in 2016 the recoverable values of the CGUs' assets, calculated using the methodology described, have been, except for the interest in Union Fenosa Gas where an impairment of the investment has been recognised (Note 7), higher than the carrying amounts recognised in these consolidated annual accounts.

In 2015 the impairment tests performed did not reveal the need to recognise additional impairment or reverse impairment recognised in the previous year.

Gas Natural Fenosa has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts of CGUs have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

	Increase	Decrease
Discount rate	50 basis points	–
Electricity generated (%)	–	5
Electricity price (%)	–	5
Fuel and gas supply costs (%)	5	–
Rate/ remuneration performance (%)	–	5
Operation and maintenance cost. (%)	5	–
Investments (%)	5	–

These sensitivity analyses performed for each basic assumption independently would not alter the conclusions obtained as regards the recoverable amount being higher than CGUs' carrying amount except in the case of Unión Fenosa Gas whose recoverable value is similar to its carrying amount.

3.3.6. Financial assets and liabilities

Financial investments

Purchases and sales of investments are recognized on trade-date, which is the date on which Gas Natural Fenosa commits to purchase or sell the asset, and are classified under the following categories:

a) Loans and financial receivables

These are non-derivative financial assets, with fixed or determinable pay outs, which are not listed in an active market, and for which there is no plan to trade in the short-term. They include current asset, except those maturing after twelve months as from the balance sheet date those are classified as non-current assets.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method.

A provision is set up for impairment of receivables when there is objective proof that all the outstanding amounts will not be paid. The provision is the difference between the book value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are assets representing debt with fixed or determinable pay outs and fixed maturity which Gas Natural Fenosa plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Fair value financial assets through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the Income Statement for the year.

d) Available for sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognised at the fair value. Unrealized gains and losses arising from changes in fair value are recognized in net equity. When these assets are sold or suffer an impairment for a long period, the accumulated adjustments to the reserves due to valuation adjustments are included in the Income statement as gains and losses.

The fair values of listed investments are based on listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows (Levels 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

Fair value measurements recognised in these consolidated annual accounts are classified using a fair value hierarchy that reflects the relevance of the variables employed to perform the measurement. This ranking has three levels:

- Level 1: Valuations based on the quotation price of identical instruments in an official market. The fair value is based on quoted market prices at the balance sheet date.

- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets included in this category is determined using valuation techniques. The valuation techniques maximize the use of observable market data when available and rely as little as possible on specific estimates done by Gas Natural Fenosa. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

- Level 3: Valuations based on variables that are not based on observable market information.

The financial assets are written off when the contractual rights to the cash flows generated by the asset have matured or have been transferred, while the risks and rewards inherent in their ownership must be substantially transferred. The financial assets are not written off and a liability is recognised in an amount equal to the consideration received for the assignment of assets in which the income and profit inherent in them have been retained.

The account receivables assignment agreements are qualified as factoring without recourse always when they involve a transfer of the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other short-term investments noted for their great liquidity with a maturity of no longer than three months.

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by Gas Natural Fenosa.

Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than 12 months are considered non-current payables.

3.3.7. Derivatives and other financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

Gas Natural Fenosa documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, the aims of risk management and hedging strategies are periodically reviewed.

A hedge is considered to be highly effective when the changes in the fair value or the cash flows of the assets hedged are offset by the change in the fair value or cash flows of the hedging instrument, with an effectiveness ranging from 80% to 125%.

The market value of the different financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end quotation (Level 1).
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year end market conditions, based on market conditions as at Consolidated balance sheet date or, for some non-financial items, on best estimation on forward curves of said non-financial item (Level 2 and 3).

Fair values obtained in absence of risk are adjusted by the expected impact of the risk of counterparty credit observable in positive valuation scenarios and the impact of own credit risk in observable negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through consolidated profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Income Statement.

Amounts accumulated in net equity are reclassified to the income statement in the periods when the hedged item will affect the Consolidated Income Statement.

c) Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried on the Consolidated Balance Sheet under "Cumulative translation differences". The gain or loss from the non-effective part is recognised immediately under "Exchange differences" on the Consolidated Income Statement. The accumulated amount of the valuation recorded under "Cumulative translation differences" is released to the Consolidated Income Statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the Consolidated Income Statement.

3. Energy purchase and sale agreements

During the normal course of its business Gas Natural Fenosa enters into energy purchase and sale agreements which in most cases include "take or pay" clauses. by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by Gas Natural Fenosa in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted always may be by physical delivery. Consequently, these are negotiated contracts for "own use", and accordingly, fall out with the scope of IAS 39.

3.3.8 Non-current assets held for sale and discontinued activities

Gas Natural Fenosa classifies as assets held for sale all the assets and related liabilities for which active measures have been taken in order to sell them and if it is estimated that the sale will take place within the following twelve months.

Additionally, Gas Natural Fenosa considers discontinued activities the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations, which are significant and which can be considered separately from the rest, and which have been sold or disposed by other means or which meet the conditions to be classified as held-for-sale. Furthermore, discontinued activities also include entities acquired exclusively for resale.

These assets are stated at the lower of their carrying value or fair value after deducting the costs required for their sale and they are not subject to depreciation, as from the time in which they are classified as non-current assets held for sale.

Non-current assets held for sale are disclosed as follows on the consolidated balance sheet: the assets are carried under a single account "Non-current assets held for sale" and the liabilities are also carried under a single account called "Liabilities linked to non-current assets held for sale". The profit or loss from discontinued activities is stated on a single line on the Consolidated income statement called "Net income for the year from discontinued operations net of tax".

3.3.9. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to the acquisition and/or production, including the costs of transporting inventories to the current location.

The nuclear fuel is valued on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the income statement on the basis of the energy capacity consumed.

During 2016 the accounting policy for classifying greenhouse gas emission allowances as intangible fixed assets has been revised. Following the relevant analysis than considers those assets as inventories, based on the fact that they will not remain, generally, as an asset for a long period, and following the practice applied by the main industry operators, the carrying amount of the emission allowances recorded as intangible assets has been reclassified to inventories. emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the rights are delivered, they are derecognised against the provision recorded when the CO_2 emissions take place (Note 3.3.16).

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, the Group assesses whether or not the net realisable value of finished goods is greater than their production cost.

3.3.10. Share capital

Share capital is made up of ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves.

Dividends on ordinary shares are recognized as a deduction from equity in the year they are approved.

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The Gains and losses on disposal of treasury shares are recognized under "Reserves" in the consolidated balance sheet.

3.3.11. Earnings per share

Basic earnings per share are calculated as a quotient between Consolidated Net Income for the year attributable to equity holders of the company and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

Diluted earnings per share are calculated as a quotient between Consolidated net income for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself.

3.3.12. Borrowings and equity instruments

Borrowings and equity instruments issued by Gas Natural Fenosa are classified based on the nature of the issue.

Gas Natural Fenosa treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.3.13. Preference shares and subordinated perpetual debentures

The issues of preference shares and subordinated perpetual debentures are considered equity instruments if and only if:

- They do not include the contractual obligation for the issuer to repurchase them, under conditions involving certain amounts and at certain dates or determinable amounts and at determinable dates, or the right of the holder to demand their redemption.

- The payment of interest is at the discretion of the issuer.

In the case of issues of preference shares made by a subsidiary of the Group, which comply with the above conditions, the amount received is classified on the Consolidated Balance Sheet under "Non-controlling interest".

3.3.14. Deferred income

This caption mainly includes:

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which Gas Natural Fenosa has met all the conditions established, are stated at the amount granted.

- Income received for the construction of connection facilities for the gas or electricity distribution network (connections), which are booked for the cash received, as well as assignments received for these facilities, which are booked, in accordance with IFRIC 18, at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities.

- Income from the extension of the pipeline network that will be financed by third parties.

Amounts under Deferred income are recognised through the Consolidated Income Statement systematically on the basis of the useful life of the corresponding asset, thus offsetting the amortisation expense.

When the corresponding asset is replaced, the deferred income from the extension of the pipeline network financed by third parties is expensed at the carrying value of the assets replaced. The remaining amount of the deferred income is taken to profit and loss systematically over the useful life of the respective asset.

3.3.15. Provisions for employee obligations

a) Post-employment pension obligations and the like

- Defined contribution plans

  Gas Natural SDG. S.A., together with other Group companies, is the promoter of a joint occupational pension plan, which is defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are secured.

  Additionally, there is a defined contribution plan for a group of executives, for which Gas Natural Fenosa undertakes to make certain contributions to an insurance policy. Gas Natural Fenosa guarantees this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

  The contributions made have been recorded under "Personnel costs" on the Consolidated Income Statement.

- Defined benefit plans

For certain groups there are defined benefit liabilities relating to the payment of retirement pension, death and disability supplements, in accordance with the benefits agreed by the entity and which have been transferred out in Spain through single premium insurance policies under Royal Decree 1588/1999/15 October, which adopted the Regulations on the arrangement of company pension liabilities.

The liability recognised for the defined benefit pensions plans is the current value of the liability at the balance sheet date less the fair value of the plan-related assets. The defined benefit liabilities are calculated annually by independent actuaries using the projected credit unit method. The current value of the liability is determined by discounting the estimated future cash flows at bond interest rates denominated in the currency in which the benefits will be paid and using maturities similar to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised directly in the equity item "Other comprehensive income", for the entire amount, in the period in which they arise.

Past-service costs are recognized immediately in Consolidated Income Statement under "Personnel costs".

b) Other post-employment benefit obligations

Some of Gas Natural Fenosa's companies provide post-employment benefits to their employers. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited, directly in equity, to "reserves".

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Gas Natural Fenosa terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which Gas Natural Fenosa has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.3.16. Provisions

Provisions are recognized when Gas Natural Fenosa has a legal or implicit present obligation as a result of past events; it is more likely than an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of expenditure required to settle the present obligation at the balance sheet date.

When it is expected that part of the disbursement needed to settle the provision is paid by a third party, the payment is recognised as a separate asset, provided that its receipt is practically assured.

Gas Natural Fenosa has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it is recorded under Property. plant and equipment the current value of the cost that these tasks would amount, which, in the case of nuclear plants, includes the time until ENRESA, the public entity takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

In the contracts in which the obligations borne include inevitable costs greater than the economic profit expected to be received from them, the expenses and respective provision are recognised in the amount of the current value of the existing difference.

In order to cover the obligation concerning the delivery of CO_2 emission allowances for emissions made during the year, Current provisions record the CO_2 allowances to be delivered valued at acquisition cost for allowances purchased recorded under Inventories and, if not all necessary emission allowances are held, at fair value for allowances pending purchase.

3.3.17. Leases

1) Finance leases

The leases in which the lessee assumes substantially all the risks and the advantages derived from the ownership of the assets are classified as financial leases.

Gas Natural Fenosa acts as a lessee under a number of finance lease agreements. These leases are recognised at lease inception at the lower of the asset's fair value and the present value of lease payments, including the purchase option, if applicable. Each lease payment is allocated between the debt reduction and finance charge so as to achieve a constant rate of interest on the debt pending payment. The payment obligation arising from the lease, net of the finance charge, is recognised in liabilities in the consolidated balance sheet. The interest component of the finance charge is taken to the consolidated income statement over the term of the lease so as to produce a constant periodic rate of interest on the debt pending payment for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

2) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Operating lease payments are charged to the consolidated income statement on a straight-line basis over the lease period.

3.3.18. Income tax

Income tax expense includes the deferred tax expense and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the Consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when Gas Natural Fenosa can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

Deferred taxes arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred income tax assets and credit taxes are recorded only when there are no doubts as to their future recoverability through the future tax profits that can be used to offset timing differences and make credit taxes effective.

Should tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to the consolidated income statement or to the item “Other comprehensive income for the year” in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

3.3.19. Revenue and expenses recognition and payments for regulated activities

a) General

The sales of goods are recognised when they have been delivered to the customer and the customer has accepted them, even if they have not been billed, or, if applicable, the services have been rendered and the collectability of the respective accounts receivable is reasonably assured. The sales figure for the year includes the estimate of the energy supplied that has yet to be invoiced.

The expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts and the transactions between companies in the Gas Natural Fenosa are eliminated.

b) Revenues from the gas business and settlement for regulated activities

Note 2.1 describes the basic aspects of the applicable regulations to the gas sector.

The regulatory framework of the natural gas sector in Spain regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained, so that each company receives the remuneration recognised for its regulated activities.

The remuneration of the regulated gas distribution activity is fixed for each distribution company for all its facilities according to the clients connected to them and the volume of gas supplied.

The remuneration of the regulated gas transport is fixed in respect of availability and continuity of supply of the companies owning transmission assets.

The remuneration of the regulated gas transport is recorded as income in the amount assigned under the Ministerial Order that sets this amount each year.

At the date of preparation of these consolidated annual accounts, no final settlements from prior years are outstanding.

Order ETU/1977/2016 of 23rd December (Note 2.1.1.2) recognises the accumulated deficit in the gas system at 31 December 2014 which coincides with the amount approved in the final settlement in 2014. Companies subject to the settlement system, including Gas Natural Fenosa, will be entitled to recover this deficit in fifteen consecutive annual payments from 25 November 2016, through annual amounts that will be included in system costs and in which a provisional interest rate of 1.104% will be recognised. Order ETU/1977/2016 also recognises a temporary mismatch between income and costs for 2015, which coincides with that approved in the final settlement for 2015. Companies subject to the settlement system, including Gas Natural Fenosa, will be entitled to recover this amount in five consecutive annual payments from 25 November 2016, applying a provisional interest rate of 0.836%. Consequently, the financing for the gas system revenue deficit is recognised as a financial asset since, on the basis of this regulation, Gas Natural Fenosa is entitled to a reimbursement and there are no future contingent factors.

Revenue includes the amount of both last-resort gas sales and free market sales, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made.

The exchanges of gas that do not have a different value and do not include costs that causes differences in value are not classified as transactions that generate revenues and are not included, therefore, in the income figure.

c) Revenue from electricity business and settlement for regulated activities

Note 2.4 describes the basic aspects of the applicable regulations to the electricity sector.

The regulatory framework of the electricity sector in Spain regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained, so that each company receives the remuneration recognised for its regulated activities.

The remuneration of the regulated electricity distribution is recorded as income in the amount assigned under the Ministerial Order that sets this amount each year.

At the date of formulation of these Consolidated annual accounts the final payments for the period 2013-2015 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In 2006 to 2013, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different regulated activities and costs of the system, the companies themselves, including Gas Natural SDG. S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund. Following successive auctions and assignments of the outstanding debt claims, on 15 December 2014 the electricity system deficit securitisation process was completed.

Following the publication of Electricity Sector Law 24/2013, December 26 (Note 2.4), temporary mismatches between electricity system revenues and costs are funded by the companies subject to the settlement system, including Gas Natural Fenosa, generating the right to recover the relevant amount over the following five years, including interest at a market rate. Consequently, the financing for the electricity system revenue deficit is recognised as a financial asset since, on the basis of this regulation, Gas Natural Fenosa is entitled to a reimbursement and there are no future contingent factors. In 2014 to 2016 after new regulation implementation, there is no revenue shortfall in the sector, according to the provisional settlements data.

Revenue includes the amount of electricity sales in both the PVPC market and the free market, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made. Consequently, power purchases and sales are recognised for the total amount. Nonetheless, power purchases and sales from the pool made by the Group's generation and supply companies in the same time band are eliminated during the consolidation process.

d) Other income and expenses

Gas Natural Fenosa has power generation capacity assignment contracts with the Federal Electricity Commission for its combined-cycle plants in Mexico (CFE), for a 25-year term as from the start date of commercial operations. These contracts stipulate a pre-established collection schedule for the assignment of power supply capacity. As Gas Natural Fenosa has the capacity to operate and manage the plants, sells the power at market prices and retains the rewards and risks of operations, taking relevant decisions that will affect future cash flows, these contracts represent provisions of services and are thus recognised on a percentage-of-completion basis.

In accounting for revenues from the service provision agreements is used the percentage realisation method in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the Consolidated Income Statement for the year.

Interest income and expenses are recognized using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established.

3.3.20. Cash Flow Statements

The consolidated cash flow statements have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

a) Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.

b) Investing activities: acquisition, sale or disposal band other means of assets in the long-term and other investments not included in cash and cash equivalents.

c) Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

3.3.21. Significant accounting estimates and judgements

The preparation of the Consolidated annual accounts requires the use of estimates and assumptions. We set out below the measurement policies that require a greater use of estimates:

a) Intangible assets and property, plant and equipment (Notes 3.3.3 and 3.3.4)

The useful lives of intangible assets and property, plant and equipment are determined using estimates of the level of use of the assets and of expected technological advancement. Assumptions regarding level of use, technological framework and future development imply a significant degree of judgement, since the timing and nature of future events are difficult to foresee.

b) Impairment of non-financial assets (Note 3.3.5)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the budgets by Gas Natural Fenosa, which have historically been substantially met.

c) Derivatives and other financial instruments (Note 3.3.7)

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Gas Natural Fenosa uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of financial swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of commodity prices derivatives is determined using quoted forward price curves at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Gas Natural Fenosa for similar financial instruments.

d) Provisions for employee benefits (Note 3.3.15)

The calculation of the pension expense, other post-employment benefit expenses or other post-employment liabilities, requires the application of various assumptions. Gas Natural Fenosa estimates at each year end the provision necessary to meet its pension liabilities and the like, in accordance with the advice from independent actuaries. The changes that affect these assumptions could give rise to different expenses and liabilities recorded. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Moreover, the assumptions of social security coverage are essential in determining other post-employment benefits. The future changes in these assumptions will have an impact on the future pension expenses and liabilities.

e) Provisions (Note 3.3.16)

Gas Natural Fenosa makes an estimate of the amounts to be settled in the future, including amounts relating to, contractual obligations, outstanding litigation, future costs for dismantling and closure of certain facilities and restoration of land or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) Income tax (Note 3.3.18)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Gas Natural Fenosa operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. Gas Natural Fenosa evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. The recoverability of the deferred tax assets depends ultimately on the capacity of Gas Natural Fenosa to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

g) Revenue recognition and settlement of regulated activities (Nota 3.3.19)

Revenues from energy sales are recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts booked as unbilled income and none are expected in the future.

Certain aggregates for the electricity and gas system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialise in the respective final payments, could affect the calculation of the deficit in the payments for the electricity and gas regulated business in Spain.

Note 4. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur in costs, which operating results are reviewed regularly by the Gas Natural SDG, S.A. Board of Directors to determine the resources that must be allocated to the segment and to evaluate its performance, and in respect of which separate financial information is available.

Without there being any change in the definition of the segments in which Gas Natural Fenosa operates with respect to the previous year, CGE (Chile)'s business is presented within gas distribution Latin America and electricity distribution Latin America in line with internal management information information used by the Gas Natural Fenosa's management.

a) Segment information

The operating segments of Gas Natural Fenosa are:

- Gas distribution. This segment encompasses the regulated gas distribution business in Spain, Italy and Latin America.

  The gas distribution business in Spain includes the regulated gas distribution activity, the services for third-party access to the network, as well as the activities related to distribution. This also includes the liquefied petroleum gas (LPG) business.

  Gas distribution in Italy consists of regulated gas distribution.

  The gas distribution business in Latin America (Argentina, Brazil, Chile, Colombia, Mexico and Peru) includes the regulated gas distribution activity and sales to customers at regulated prices. In Chile the gas supply and commercialisation business is also included.

- Electricity distribution. This segment encompasses the regulated electricity distribution business in Spain, Moldova and Latin America.

  The electricity distribution business in Spain includes the regulated electricity distribution business and network services for customers, metering and other business related to third party access to the distribution network.

  The electricity distribution business in Moldova consists of the regulated distribution of electricity and commercialisation at tariff in the area of the country.

  The electricity distribution business in Latin America consists of the regulated electricity distribution activity in Argentina, Chile, Panama and Colombia (until 31 december 2016).

- Gas. Includes the activity arising from the gas Infrastructure, the supply activity and Unión Fenosa Gas.

  The infrastructure business includes operation of the Maghreb-Europe gas pipeline and the regassfication process, and gas exploration, production and storage.

  The commercialization business includes wholesale gas procurement and supply both in the Spanish liberalised market and in other countries, maritime transportation, retail supply of gas and other related products and services in the liberalised market in Spain and Italy, and supply of gas at the last-resort tariff (TUR) in Spain. Additionally includes maritime transportation activity, previously included in the infraestructure business, has been included, adapting 2015 comparative amounts.

  Unión Fenosa Gas' business (50%-owned by Gas Natural Fenosa and 50% by another shareholder, consolidated using the equity method) includes the Damietta (Egypt) liquefaction activities, sea transport and gas commercialisation activities.

- Electricity. It includes the electricity generation and commercialisation in Spain and the Global Power Generation activities.

  The Electricity business in Spain includes electricity production activity through combined cycle, coal, nuclear, hydro, co-generation and wind farm plants. and other special regime technologies, the supply of electricity to wholesale markets and the wholesaling and retailing of electricity in the de-regulated Spanish market.

  The Global Power Generation business mainly includes the Group's international generation activities in Latin America (Mexico, Costa Rica, Dominican Republic, Panama and Puerto Rico, the latter being consolidated using the equity method, through EcoEléctrica, L.P.), Rest (Kenya and Australia) and will incorporate Brasil and Chile when their activities start.

- Rest. This includes the exploitation of the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa, the corporation operational assets/liabilities and operation expenses along with its billing to the different business based on its utilisation as well as the other non-energy business.

  Net financial income and income tax expense are not allocated to the operating segments, since both financing activities and the income tax effects are managed jointly.

Segment results and investments for the periods of reference are as follows:

Segment financial information – Income statement

2016	Gas distribution				Electricity distribution				Gas				Electricity			Rest	Elimina-tions	Total
	Spain	Italy	Latin America	Total	Spain	Moldova	Latin America	Total	Infrastruc-tures	Supply	UF GAS	Total	Spain	Global Power Generation	Total			
Sales consolidated	1,075	88	3,587	**4,750**	789	227	4,673	**5,689**	27	7,616	–	**7,643**	4,217	763	**4,980**	**122**	**–**	**23,184**
Sales intersegments	123	–	–	**123**	44	–	–	**44**	297	1,194	–	**1,491**	1,062	18	**1,080**	**242**	**–**	**2,980**
Sales segment	**1,198**	**88**	**3,587**	**4,873**	**833**	**227**	**4,673**	**5,733**	**324**	**8,810**	**–**	**9,134**	**5,279**	**781**	**6,060**	**364**	**(2,980)**	**23,184**
Segment supplies	(33)	(1)	(2,372)	**(2,406)**	–	(170)	(3,408)	**(3,578)**	(7)	(7,951)	–	**(7,958)**	(3,813)	(400)	**(4,213)**	**(94)**	**2,829**	**(15,420)**
Net personnel expenses	(68)	(11)	(124)	**(203)**	(85)	(6)	(216)	**(307)**	(5)	(72)	–	**(77)**	(138)	(40)	**(178)**	**(248)**	**–**	**(1,013)**
Other operating income/ expenses	(208)	(14)	(312)	**(534)**	(145)	(9)	(360)	**(514)**	(14)	(240)	–	**(254)**	(613)	(84)	**(697)**	**67**	**151**	**(1,781)**
Ebitda	**889**	**62**	**779**	**1,730**	**603**	**42**	**689**	**1,334**	**298**	**547**	**–**	**845**	**715**	**257**	**972**	**89**	**–**	**4,970**
Other results	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**–**	**122**	**–**	**122**
Depreciation, amortization and impairment expenses	(291)	(24)	(159)	**(474)**	(222)	(5)	(162)	**(389)**	(58)	(62)	–	**(120)**	(523)	(132)	**(655)**	**(121)**	**–**	**(1,759)**
Transfers to provisions	(2)	–	(23)	**(25)**	–	–	(215)	**(215)**	–	(44)	–	**(44)**	(38)	–	**(38)**	**(5)**	**–**	**(327)**
Operating income	**596**	**38**	**597**	**1,231**	**381**	**37**	**312**	**730**	**240**	**441**	**–**	**681**	**154**	**125**	**279**	**85**	**–**	**3,006**
Net financial income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**–**	**–**	**–**	**(825)**
Equity-method result	–	–	16	**16**	–	–	9	**9**	–	–	(176)	**(176)**	2	49	**51**	**2**	**–**	**(98)**
Income before tax	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**2,083**
Income tax	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**(416)**
Profit/(loss) for the year from continuing operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**1,667**
Profit/(loss) for the year from discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**44**
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**1,711**

2015	Gas distribution				Electricity distribution				Gas				Electricity			Rest	Elimina-tions	Total
	Spain	Italy	Latin America	Total	Spain	Moldova	Latin America	Total	Infrastruc-tures	Supply	UF GAS	Total	Spain	Global Power Generation	Total			
Sales consolidated	1,056	92	4,018	**5,166**	792	260	4,582	**5,634**	21	9,468	-	**9,489**	4,695	779	**5,474**	**252**	**-**	**26,015**
Sales intersegments	135	–	–	**135**	46	–	–	**46**	296	1,292	–	**1,588**	1,084	27	**1,111**	**237**	**–**	**3,117**
Sales segment	**1,191**	**92**	**4,018**	**5,301**	**838**	**260**	**4,582**	**5,680**	**317**	**10,760**	**–**	**11,077**	**5,779**	**806**	**6,585**	**489**	**(3,117)**	**26,015**
Segment supplies	(16)	(1)	(2,779)	**(2,796)**	(1)	(205)	(3,359)	**(3,565)**	(6)	(9,676)	–	**(9,682)**	(4,338)	(420)	**(4,758)**	**(177)**	**2,981**	**(17,997)**
Net personnel expenses	(68)	(12)	(126)	**(206)**	(83)	(6)	(196)	**(285)**	(5)	(68)	–	**(73)**	(138)	(39)	**(177)**	**(232)**	**–**	**(973)**
Other operating income/ expenses	(235)	(13)	(300)	**(548)**	(147)	(11)	(326)	**(484)**	(13)	(228)	–	**(241)**	(562)	(86)	**(648)**	**4**	**136**	**(1,781)**
Ebitda	**872**	**66**	**813**	**1,751**	**607**	**38**	**701**	**1,346**	**293**	**788**	**–**	**1,081**	**741**	**261**	**1,002**	**84**	**–**	**5,264**
Other results	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**–**	**5**	**–**	**5**
Depreciation, amortization and impairment expenses	(289)	(24)	(170)	**(483)**	(217)	(6)	(159)	**(382)**	(65)	(54)	–	**(119)**	(523)	(134)	**(657)**	**(109)**	**–**	**(1,750)**
Transfers to provisions	(4)	–	(20)	**(24)**	(2)	–	(135)	**(137)**	–	(59)	–	**(59)**	(38)	–	**(38)**	**–**	**–**	**(258)**
Operating income	**579**	**42**	**623**	**1,244**	**388**	**32**	**407**	**827**	**228**	**675**	**–**	**903**	**180**	**127**	**307**	**(20)**	**–**	**3,261**
Net financial income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**–**	**–**	**–**	**(894)**
Equity-method result	–	–	1	**1**	2	–	24	**26**	–	–	(81)	**(81)**	4	40	**44**	**6**	**–**	**(4)**
Income before tax	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**2,363**
Income tax	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**(573)**
Profit/(loss) for the year from continuing operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**1,790**
Profit/(loss) for the year from discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**34**
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**1,824**

Segmental financial information – Assets, liabilities and investments

2016	Gas distribution				Electricity distribution				Gas				Electricity			Rest	Elimina-tions	Total
	Spain	Italy	Latin America	**Total**	Spain	Moldova	Latin America	**Total**	Infrastruc-tures	Supply	UF GAS	**Total**	Spain	Global Power Generation	**Total**			
Operating assets (a)	4,113	528	5,031	**9,672**	4,939	149	5,223	**10,311**	520	3,247	–	**3,767**	8,761	1,979	**10,740**	**1,115**	**(689)**	**34,916**
Investments under equity method	–	–	10	**10**	6	–	54	**60**	–	–	1,034	**1,034**	94	344	**438**	**33**	**–**	**1,575**
Operating liabilities (a)	(768)	(42)	(796)	**(1,606)**	(900)	(32)	(804)	**(1,736)**	(10)	(1,404)	–	**(1,414)**	(1,035)	(145)	**(1,180)**	**(984)**	**699**	**(6,221)**
Investment in intangible assets (b)	20	30	136	**186**	30	–	44	**74**	4	6	–	**10**	5	3	**8**	**124**	**–**	**402**
Invest, in property, plant & equipment (c)	673	1	168	**842**	235	13	344	**592**	9	455	–	**464**	100	85	**185**	**32**	**–**	**2,115**
Business combinations *(Note 31)*	–	–	–	**–**	–	–	–	**–**	–	32	–	32	–	–	**–**	**–**	**–**	**32**

2015	Gas distribution				Electricity distribution				Gas				Electricity			Rest	Elimina-tions	Total
	Spain	Italy	Latin America	**Total**	Spain	Moldova	Latin America	**Total**	Infrastruc-tures	Supply	UF GAS	**Total**	Spain	Global Power Generation	**Total**			
Operating assets (a)	3,697	518	4,497	**8,712**	5,178	208	5,769	**11,155**	543	2,773	-	**3,316**	9,192	1,983	**11,175**	**1,238**	**(723)**	**34,873**
Investments under equity method	-	-	10	**10**	6	-	73	**79**	-	-	1,209	**1,209**	90	309	**399**	**33**	**-**	**1,730**
Operating liabilities (a)	(764)	(40)	(639)	**(1,443)**	(994)	(42)	(1,148)	**(2,184)**	(15)	(1,352)	-	**(1,367)**	(1,055)	(102)	**(1,157)**	**(966)**	**746**	**(6,371)**
Investment in intangible assets (b)	27	24	149	**200**	29	-	19	**48**	-	4	-	**4**	1	1	**2**	**112**	**-**	**366**
Invest, in property, plant & equipment (c)	408	1	175	**584**	220	9	301	**530**	12	34	-	**46**	103	57	**160**	**81**	**-**	**1,401**
Business combinations *(Note 31)*	5	-	-	**5**	-	-	-	**-**	-	-	-	-	304	-	**304**	**-**	**-**	**309**

(a) There follows a breakdown of the reconciliation of “Operating assets” and “Operating liabilities” with consolidated “Total assets” and “Total liabilities”:

	2016	2015
Operating assets	**34,916**	**34,873**
Goodwill	5,036	4,962
Investments carried under the equity method	1,575	1,730
Non-current financial assets	1,907	1,387
Deferred tax assets	872	1,070
Non-current assets held for sale *(Note 9)*	–	955
Derivative financial instruments *(Note 11)*	46	5
Public administrations *(Note 11)*	144	197
Current tax assets	162	198
Other current financial assets	389	365
Cash and cash equivalents	2,067	2,390
Total assets	**47,114**	**48,132**

	2016	2015
Operating liabilities	**(6,221)**	**(6,371)**
Net equity	(19,005)	(18,518)
Non-current financial liabilities	(15,003)	(15,653)
Finance lease liability *(Notes 18 and 20)*	(1,067)	(646)
Deferred tax liabilities	(2,509)	(2,543)
Liabilities related to non-current assets held for sale *(Note 9)*	–	(585)
Current financial liabilities	(2,599)	(2,595)
Derivative financial instruments *(Notes 18, 19 and 20)*	(48)	(188)
Dividend payable *(Note 20)*	(37)	(421)
Public administrations *(Note 19)*	(519)	(477)
Current tax liabilities	(106)	(135)
Total liabilities	**(47,114)**	**(48,132)**

(b) Includes the investment in "Intangible assets" (Note 5), broken down by operating segment, except for the investment for emission allowances amounting to Euro100 million in 2015.
(c) Includes the investment in "Property, plant and equipment" (Note 6), broken down by operating segment.

b) Reporting by geographic area

Gas Natural Fenosa's net revenue by country of destination is analysed below:

	2016	2015
Spain	10,101	11,731
Rest of Europe	2,794	2,668
Latin American	9,504	10,271
Other	785	1,345
Total	**23,184**	**26,015**

The assets of Gas Natural Fenosa, which include operating assets, as described above, and the investments booked using the equity method, are assigned based on their location:

	At 31/12/16	At 31/12/15
Spain	21,706	21,863
Rest of Europe	1,162	1,069
Latin American	12,558	12,564
Other	1,065	1,107
Total	**36,491**	**36,603**

The investments in property, plant and equipment and other intangible assets of Gas Natural Fenosa, as described above, assigned according to location of the assets are as follows:

	At 31/12/16	At 31/12/15
Spain	1,672	967
Rest of Europe	50	36
Latin American	773	739
Other	22	25
Total	**2,517**	**1,767**

Note 5. Intangible assets

The movement in 2016 and 2015 in intangible assets is as follows:

	IFRIC 12 Concessions	Other concessions and the like	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	2,527	3,539	946	1,309	**8,321**	4,959	**13,280**
Amortisation and impairment expenses	(948)	(563)	(601)	(385)	**(2,497)**	–	**(2,497)**
Net carrying value at 1/1/15	**1,579**	**2,976**	**345**	**924**	**5,824**	**4,959**	**10,783**
Investment *(Note 4)*	153	4	196	113	**466**	–	**466**
Divestitures[1]	(1)	–	–	(47)	**(48)**	–	**(48)**
Assets and liabilities held for sale *(Note 9)*	–	(47)	–	(51)	**(98)**	(49)	**(147)**
Amortisation and impairment charge	(75)	(52)	(123)	(58)	**(308)**	–	**(308)**
Translation differences	(294)	(54)	(5)	(11)	**(364)**	38	**(326)**
Business combinations *(Note 31)*	–	2	–	87	**89**	14	**103**
Reclassifications and other	(11)	(8)	–	21	**2**	–	**2**
Net carrying value at 12/31/15	**1,351**	**2,821**	**413**	**978**	**5,563**	**4,962**	**10,525**
Gross cost	2,229	3,496	1,131	1,423	**8,279**	4,962	**13,241**
Amortisation and impairment expenses	(878)	(675)	(718)	(445)	**(2,716)**	–	**(2,716)**
Net carrying value at 1/1/16	**1,351**	**2,821**	**413**	**978**	**5,563**	**4,962**	**10,525**
Investment *(Note 4)*	151	13	215	23	**402**	–	**402**
Divestitures	–	–	(1)	–	**(1)**	–	**(1)**
Assets and liabilities held for sale *(Note 9)*	–	–	–	–	**–**	–	**–**
Amortisation and impairment charge	(78)	(41)	(133)	(76)	**(328)**	–	**(328)**
Translation differences	184	158	2	5	**349**	55	**404**
Business combinations *(Note 31)*	–	–	–	39	**39**	19	**58**
Reclassifications and other[2]	–	–	(5)	(135)	**(140)**	–	**(140)**
Net carrying value at 12/31/16	**1,608**	**2,951**	**491**	**834**	**5,884**	**5,036**	**10,920**
Gross cost	2,661	3,662	1,341	1,374	**9,038**	5,036	**14,074**
Amortisation and impairment expenses	(1,053)	(711)	(850)	(540)	**(3,154)**	–	**(3,154)**
Net carrying value at 12/31/16	**1,608**	**2,951**	**491**	**834**	**5,884**	**5,036**	**10,920**

[1] Mainly includes the transfer of CO_2 emission allowances as a result of the previous year's emissions.
[2] Mainly includes the reclassification of CO_2 emission allowances to Inventories for Euros 104 million (Note 3.3.9) and the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Note 4 includes a breakdown of investments in intangible assets by segment.

In the heading "IFRIC 12 Concessions" are included the concessions that are considered intangible assets in accordance with IFRIC 12 “Service Concession Agreements” (Note 32).

The heading "Other concessions and the like" includes principally:

- The Maghreb-Europe pipeline concession (Note 32) amounting to Euros 212 million at 31 December 2016 (Euros 238 million at 31 December 2015).
- The electricity distribution concessions in Spain that have an indefinite useful life amounting to Euros 684 million (Euros 684 million at 31 December 2015).
- The Chilean power distribution concessions amounting to Euros 1,139 million (Euros 1,040 million at 31 December 2015) and gas distribution concessions in the amount of Euros 893 million (Euros 835 million at 31 December 2015), all having indefinite useful lives.

The heading "Other intangible assets" mainly includes:

- Licences to operate renewable farms totalling Euros 181 million at 31 December 2016 (Euros 182 million at 31 December 2015). In 2016 Euros 23 million have been included from Ibereólica Cabo Leones II S.A. business combination (Note 31)
- The exclusive regasification rights in the Peñuelas regasification plant (Puerto Rico) totalling Euros 24 million at 31 December 2016 (Euros 25 million at 31 December 2015).
- The CO_2 emission allowances acquired for Euros 104 million at 31 December 2015 that in 2016 have been reclassified to "Inventories" (Note 3.3.9).
- Value of gas supply contracts and other contractual rights acquired as a result of the CGE business combination in the amount of Euros 184 million at 31 December 2016 (Euros 193 million at 31 December 2015) and Unión Fenosa in the amount of Euros 389 million at 31 December 2016 (Euros 420 million at 31 December 2015) and Vayu Limited in the amount of Euros 14 million at 31 December 2016 (Note 31).

Set out below is a summary of goodwill assignment by CGU or CGU groups:

2016	Gas distribution	Electricity distribution	Gas	Electricity	Other	**Total**
Spain	–	1,070	–	2,708	–	**3,778**
Latin American	124	449	–	482	–	**1,055**
Rest	143	11	16	18	15	**203**
	267	**1,530**	**16**	**3,208**	**15**	**5,036**

2015	Gas distribution	Electricity distribution	Gas	Electricity	Other	**Total**
Spain	–	1,070	–	2,708	–	**3,778**
Latin American	116	418	–	463	–	**997**
Rest	143	11	–	18	15	**187**
	259	**1,499**	**–**	**3,189**	**15**	**4,962**

The impairment tests have been carried out at 31 December 2016 and 2015. On the basis of impairment analysis of the goodwill and indefinite useful life intangible assets the need of impairment was not shown (Note 3.3.5).

At 31 December 2016, Gas Natural Fenosa records investment commitments totalling Euros 2 million relating basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

The intangible assets include, at 31 December 2016, fully amortised assets still in use totalling Euros 521 million (Euros 452 million at 31 December 2015).

Note 6. Property, plant and equipment

The movements in the accounts in 2016 and 2015 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas tankers	Other Property, plant and equipment	PPE under construction	**Total**
Gross cost	965	10,353	11,924	8,479	693	1,067	883	**34,364**
Depreciation and impairment expenses	(144)	(4,853)	(3,237)	(1,261)	(186)	(416)	–	**(10,097)**
Net carrying value at 1/1/15	**821**	**5,500**	**8,687**	**7,218**	**507**	**651**	**883**	**24,267**
Investment *(Note 4)*	30	530	41	286	–	55	459	**1,401**
Divestitures	(10)	(6)	(1)	(4)	–	(5)	(8)	**(34)**
Assets and liabilities held for sale *(Note 9)*	(124)	(502)	–	–	–	(21)	(24)	**(671)**
Depreciation and impairment charge	(25)	(414)	(593)	(336)	(30)	(85)	–	**(1,483)**
Translation differences	(15)	(68)	120	(215)	–	(7)	(14)	**(199)**
Business combinations *(Note 31)*	1	27	349	–	–	6	4	**387**
Reclassifications and other	5	11	114	196	–	108	(409)	**25**
Net carrying value at 12/31/15	**683**	**5,078**	**8,717**	**7,145**	**477**	**702**	**891**	**23,693**
Gross cost	817	10,194	12,484	8,670	693	1,140	891	**34,889**
Depreciation and impairment expenses	(134)	(5,116)	(3,767)	(1,525)	(216)	(438)	–	**(11,196)**
Net carrying value at 1/1/16	**683**	**5,078**	**8,717**	**7,145**	**477**	**702**	**891**	**23,693**
Investment *(Note 4)*	26	781	50	316	425	63	454	**2,115**
Divestitures	(157)	(9)	(2)	–	–	(25)	(19)	**(212)**
Depreciation and Impairment charge	(23)	(379)	(591)	(339)	(29)	(70)	–	**(1,431)**
Translation differences	29	53	11	245	–	(1)	30	**367**
Business combinations *(Note 31)*	–	–	–	–	–	–	–	**–**
Reclassifications and other [(1)]	(13)	94	145	(723)	–	(44)	(364)	**(905)**
Net carrying value at 12/31/16	**545**	**5,618**	**8,330**	**6,644**	**873**	**625**	**992**	**23,627**
Gross cost	668	10,972	12,666	8,269	1,118	1,042	992	**35,727**
Depreciation and impairment expenses	(123)	(5,354)	(4,336)	(1,625)	(245)	(417)	–	**(12,100)**
Net carrying value at 12/31/16	**545**	**5,618**	**8,330**	**6,644**	**873**	**625**	**992**	**23,627**

[1] Apart from the reclassification of PPE under construction, includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Note 4 include a breakdown of investments in property, plant and equipment by segment.

In December 2016, Gas Natural Fenosa completed the sale of four properties located in Madrid (Avenida San Luis 77, Antonio Lopez 193, A Canto 11-13 and Avenida América 38) for Euros 206 million and creating a gain before income tax of Euros 51 million (Note 27). Additionally for each of those properties it signed 10-year operating lease contracts, without a purchase option, with the buyers that, except for the Avenida América 38 building, are renewable for five more years (Note 35). At the transaction date, the remaining useful life of all the sold properties was far higher than the maximum lease term.

The item “Electricity generation plants” includes the power islands at the Palos de la Frontera combined cycle plant and Sagunto combined cycle plant acquired under finance lease (Note 16).

The item “Gas tankers” at 31 December 2016 includes the present value at the acquisition date of committed payments to charter tankers under finance leases (Note 18), net of their depreciation. At 31 december 2016 Gas Natural Fenosa have six gas tankers chartered under finance leases after the adquisition in 2016 of two new gas tankers for Euros 425 million. On the other hand, here is a commitment to obtain two more gas tankers in 2017 (Note 34).

At 31 December 2016, the item “Other fixed assets” includes the carrying amount of investments in areas with reserves, totalling Euros 293 million (Euros 338 million at 31 December 2015), basically relating to the investments in the coalfield of the company Kangra Coal (Proprietary), Ltd. in South Africa and exploration and development costs of Euros 22 million (Euros 26 million at 31 December 2015).

Set out below is a breakdown of fixed assets in course of construction by business area:

	31/12/2016	31/12/2015
Gas distribution	109	144
Electricity distribution	528	388
Electricity	329	334
Rest	26	25
Total	**992**	**891**

At 31 December 2016, Gas Natural Fenosa had no significant real estate investments.

At 31 December 2016, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2,011 million (Euros 1,854 million at 31 December 2015).

It is Gas Natural Fenosa's policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2016, Gas Natural Fenosa records investment commitments totalling Euros 533 million relating basically to the construction of two gas tankers (Note 35) and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2016 in fixed assets projects during their construction total Euros 12 million (Euros 14 million in 2015). The financial expenses capitalised in 2016 account for 1.3% of total financial costs on net borrowings (1.6% in 2015). The average capitalisation rate for 2016 and 2015 was 4.1% and 3.3%, respectively.

Note 7. Investments in companies

Associates and jointly-controlled entities

Set out below is a breakdown of equity-consolidated investments:

	At 31/12/16	At 31/12/15
Associates	46	45
Jointly-controlled entities	1,529	1,685
Total	**1,575**	**1,730**

Appendix I lists all the associates and jointly-controlled entities in which Gas Natural Fenosa holds an interest, stating their activity and the percentage of the shareholding and equity interest.

The most significant shareholdings are Unión Fenosa Gas and EcoEléctrica L.P. (Note 4).

Movements during 2016 and 2015 in equity-consolidated investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Other jointly-controlled entities	Total jointly-controlled entities	Associates	Total
Value of shareholding at 1/1/2015	**1,295**	**286**	**408**	**1,989**	**45**	**2,034**
Investment	–	–	61	61	–	**61**
Divestitures[1]	–	–	(92)	(92)	–	**(92)**
Shares of profits/(losses)	(81)	40	32	(9)	5	**(4)**
Business combinations *(Note 31)*	–	–	6	6	–	**6**
Dividends received	(13)	(52)	(36)	(101)	–	**(101)**
Translation differences	11	32	(5)	38	–	**38**
Other comprehensive income	(1)	2	–	1	–	**1**
Reclassifications and other[2]	(2)	1	(207)	(208)	(5)	**(213)**
Value of shareholding at 12/31/2015	**1,209**	**309**	**167**	**1,685**	**45**	**1,730**
Investment	–	–	5	5	–	**5**
Divestitures[3]	–	–	(52)	(52)	–	**(52)**
Shares of profits/(losses)	(176)	49	27	(100)	2	**(98)**
Business combinations *(Note 31)*	–	–	–	–	–	**–**
Dividends received	(2)	(27)	(13)	(42)	(1)	**(43)**
Translation differences	1	13	4	18	–	**18**
Other comprehensive income	4	1	4	9	–	**9**
Reclassifications and other	(2)	(1)	9	6	–	**6**
Value of shareholding at 12/31/2016	**1,034**	**344**	**151**	**1,529**	**46**	**1,575**

[1] In July 2015, Gas Natural Fenosa sold its 44.9% stake in the electricity distribution company Barras Eléctricas Galaico Asturianas, S.A., entailing a divestment of Euros 92 million in companies carried under the equity method (Note 28).

[2] It Included the transfer of held-for-sale assets totalling Euros 5 million (Note 9) and the write-off of the spin off shares from Nueva Generadora del Sur, S.A. (Note 31).

[3] On 29 June 2016 Gas Natural Fenosa, through the company Aprovisionadora Global de Energía (AGESA), a subsidiary of Gas Natural Chile, S.A., concluded an agreement for the sale of 20.0% of the interest in GNL Quintero, S.A. (Chile) with Enagás for USD 200 million, which following the adjustments for dividends at the year end stood at USD 197 million (Euros 182 million). The operation was concluded in November 2016 and resulted in a capital gain before taxes and Non-controlling interests of Euros 128 million (Note 28).

In April 2016, Unión Fenosa Gas (consolidated by the equity method) sold its 21% holding in Regasificadora del Noroeste, S.A. (Reganosa), through Gasifica, S.A., to the Galicia regional government and to Grupo Tojeiro for an amount of Euros 28 million, generating an after-tax capital gain of Euros 1 million for Gas Natural Fenosa.

In June 2016 Unión Fenosa Gas reached an agreement with Enagás for the sale, through Infraestructuras de Gas S.A., of its 42.5% interest in Planta de regasificación de Sagunto, S.A. (Saggas) for Euros 106 million. This transaction took place in July 2016, generating an after-tax capital gain of Euros 21 million for Gas Natural Fenosa.

At 31 December 2015, the recoverable value of Unión Fenosa Gas was similar to its carrying value. In the previous year an impairment of the interest in Unión Fenosa Gas amounting to Euros 485 million had been recognised due to a substantial failure of the Egyptian supplier to comply with the agreements to re-establish supplies of gas to the Damietta (Egypt) liquefaction plant. The results posted by Unión Fenosa Gas in 2015 are similar to the amounts included in the projections used in the 2014 impairment analysis; as there were no new events, there was no need to recognise additional impairment or to reverse the impairment loss recognised in the previous year.

In 2016 an impairment of Euros 94 million was recognised with respect to the interest in Unión Fenosa Gas due to the need to update the assumptions concerning the supply cost in view of the forecast evolution of the energy scenario for Unión Fenosa Gas. Note 3.3.5 provides details of the assumptions relating to the discount and growth rates. The other assumptions have not been altered.

There follows a breakdown of assets, liabilities, revenue and results of Gas Natural Fenosa's main interests in jointly-controlled entities (by shareholding percentage):

	At 31/12/2016		At 31/12/2015	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Non-current assets	1,537	313	1,772	313
Current assets	266	96	316	76
Cash and cash equivalents	100	18	123	3
Non-current liabilities	(623)	(32)	(700)	(54)
Non-current financial liabilities	(181)	(27)	(204)	(50)
Current liabilities	(146)	(33)	(179)	(26)
Current financial liabilities	(34)	(25)	(31)	(11)
Net assets	**1,034**	**344**	**1,209**	**309**
Net borrowings[1]	115	34	112	58

[1] Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2016		2015	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Operating income	**(128)**	**56**	**(99)**	**46**
Sales	578	155	676	152
Operating expenses	(576)	(81)	(635)	(84)
Depreciation and amortisation charge	(130)	(18)	(140)	(22)
Share of profits	**(176)**	**49**	**(81)**	**40**
Profit/(loss) for the year from continuing operations	(82)	49	(81)	40
Impairment of shareholding	(94)	–	–	–

There are no contingent liabilities affecting interests in jointly-controlled entities. Contractual commitments relating to interests in jointly-controlled entities are commitments to purchase gas of Unión Fenosa Gas and EcoEléctrica L.P. in the amount of Euros 5,189 million at 31 December 2016 (Euros 5,223 million at 31 December 2015, commitments to sell gas of Unión Fenosa Gas in the amount of Euros 1,859 million (Euros 2,643 million at 31 December 2015), commitments to provide power generation capacity assignment services of EcoEléctrica L.P. to the Puerto Rico Electricity Power Authority in the amount of Euros 232 million (Euros 265 million at 31 December 2015) and the operating costs associated with charter contracts for gas tankers of Unión Fenosa Gas in the amount of Euros 145 million at 31 December 2016 (Euros 148 million at 31 December 2015).

Certain investment projects related to interests in jointly-controlled entities have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2016, the outstanding balance of this type of financing totals Euros 303 million (Euros 361 million at 31 December 2015).

Joint operations

Gas Natural Fenosa participates in different joint ventures that meet the conditions indicated in Note 3.3.1.b and which are described in Appendix I, section 3. The relevant interests in joint ventures at 31 December 2016 and 2015 are as follows:

(%)	2016	2015
Comunidad de Bienes Central Nuclear de Almaraz	11.3	11.3
Comunidad de Bienes Central Nuclear de Trillo	34.5	34.5
Comunidad de Bienes Central Térmica de Aceca	50.0	50.0
Comunidad de Bienes Central Térmica de Anllares	66.7	66.7

The contribution from the joint operations to Gas Natural Fenosa's assets, liabilities, revenue and results is analysed below:

	At 31/12/2016	At 31/12/2015
Non-current assets	**562**	**596**
Current assets	**120**	**185**
Cash and cash equivalents	1	1
Non-current liabilities	**(75)**	**(76)**
Non-current financial liabilities	–	–
Current liabilities	**(91)**	**(89)**
Current financial liabilities	**(13)**	**(11)**
Net assets	**516**	**616**
Net borrowings[1]	**12**	**10**

[1] Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2016	2015
Operating income	**(23)**	**49**
Sales	226	254
Operating expenses	(192)	(146)
Depreciation and amortisation charge	(57)	(59)
Share of profits	**(17)**	**41**
Profit/(loss) for the year from continuing operations	(17)	41

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2016 and 2015, classified according to their nature and account, is as follows:

At 31 december 2016	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Fair value through profit or loss	**Total**
Equity instruments	619	–	–	–	–	**619**
Derivatives *(Note 17)*	–	–	–	111	–	**111**
Other financial assets	–	1,175	2	–	–	**1,177**
Non-current financial assets	619	1,175	2	111	–	**1,907**
Derivatives *(Note 17)*	–	–	–	1	–	**1**
Other financial assets	–	388	–	–	–	**388**
Current financial assets	–	388	–	1	–	**389**
Total	**619**	**1,563**	**2**	**112**	**–**	**2,296**

At 31 December 2015	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Fair value through profit or loss	**Total**
Equity instruments	141	–	–	–	–	**141**
Derivatives *(Note 17)*	–	–	–	208	–	**208**
Other financial assets	–	1,035	3	–	–	**1,038**
Non-current financial assets	141	1,035	3	208	–	**1,387**
Derivatives *(Note 17)*	–	–	–	2	–	**2**
Other financial assets	–	362	1	–	–	**363**
Current financial assets	–	362	1	2	–	**365**
Total	**141**	**1,397**	**4**	**210**	**–**	**1,752**

Financial assets recognised at fair value at 31 December 2016 and at 31 December 2015 are classified as follows:

	31 December 2016				31 December 2015			
Financial assets	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Available for sale	–	–	619	**619**	–	–	141	**141**
Hedging derivatives	–	112	–	**112**	–	210	–	**210**
Fair value through profit or loss	–	–	–	**–**	–	–	–	**–**
Total	**–**	**112**	**619**	**731**	**–**	**210**	**141**	**351**

Available-for-sale financial assets

The movement of Available for sale financial assets in 2016 and 2015, according with the method applied for calculating their fair value is as follows:

	2016				2015			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
At January 1	–	–	141	141	–	–	145	145
Increases	–	–	–	**–**	–	–	–	**–**
Translation differences	–	–	1	**1**	–	–	(7)	**(7)**
Transfers and other[1]	–	–	477	**477**	–	–	3	**3**
At 31 December	–	–	619	**619**	–	–	141	**141**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Basically, it includes a 14.9% interest in the Medgaz, S.A., the company that operates the submarine gas pipeline between Algeria and Spain, in the amount of Euros 90 million (Euros 87 million at 31 December 2015) and the interest in Electrificadora del Caribe, S.A. ESP and their dependent companies (Electricaribe).

Electricaribe, a company in which Gas Natural Fenosa owns an interest of 85.38%, experienced major cash difficulties during the year due to the acts and omissions of the Republic of Colombia in relation to the non-payment of a considerable number of customer invoices, mostly with obligatory supply arrangements, as well as significant consumer fraud.

As a result, within the framework of the Treaty for the reciprocal protection of investments between Spain and Colombia, on 12 July 2016 Gas Natural Fenosa commenced discussions to seek a negotiated solution to the extremely difficult situation in which Electricaribe finds itself. In the event of an expropriation or similar event, the treaty demands that the indemnity be equivalent to the fair market value of the investment prior to the expropriation.

On 14 November 2016, the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") ordered, as a necessary measure to ensure the provision of electrical energy services, the seizure of the goods, assets and businesses of Electricaribe.

The Superintendence also ordered the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. In the fulfilment of his functions, this agent has replaced the executive personnel appointed by Gas Natural Fenosa and has centralised decision-making on the information to be supplied to Gas Natural Fenosa. Therefore, at 31 December 2016 Gas Natural Fenosa had lost control and any significant influence over Electricaribe as it does not take part in, and has no direct information about, material business activities or decisions.

Subsequently, on 11 January 2017, the Superintendence agreed to extend this government take-over until 14 March 2017, in order to analyse the reports issued by the agent and other entities on Electricaribe's situation. The action plan to be implemented in the company will be based on the diagnosis that eventually emerges from the government intervention in accordance with Colombian regulations applicable to such situations, although Gas Natural Fenosa will exercise its rights to recover control of, and continue to manage, the company.

In the light of the above facts and in accordance with IFRS 10, on 31 December 2016 Electricaribe ceased to be consolidated on the consolidated balance sheet of Gas Natural Fenosa. Its assets, liabilities and non-controlling interests have been derecognised for a net amount of Euros 475 million and the relevant negative exchange differences amounting to Euros 38 million have been transferred to the income statement (Note 28). In addition, the investment in Electricaribe has been recorded at fair value as defined by IAS 39 (Euros 475 million) under "Available-for-sale financial assets". As the investment in Electricaribe involves unlisted equity instruments and, therefore, no quoted share price is available, it has been valued on Level 3 and a prudent approach has been applied in the valuation due to the uncertainty surrounding the current situation, as described above, obtaining an amount which does not differ from the net book value. The assumptions used in the valuation are similar to those described in Note 3.3.5. However, Gas Natural Fenosa believes that the final amount that may reasonably be expected to be recognised by the agencies and courts that may decide on the applicable price or indemnity based on fair market value will be higher than the figure mentioned above.

The detail of assets, liabilities and non-controlling interests of Electricaaribe recorded in the Gas Natural Fenosa consolidated Balance Sheet that have been written off at 31 december 2016 are as follows:

	At 31/12/2016
Intangible assets	6
Property, plant and equipment	929
Non-current financial assets	63
Deferred income tax assets	157
Non-current assets	**1,155**
Trade and other receivables	633
Other current financial assets	20
Cash and cash equivalents	42
Current assets	**695**
Total assets	**1,850**
Non-controlling interests	**70**
Non-current provisions	265
Non-current financial liabilities	85
Deferred income tax liability	4
Non-current liabilities	**354**
Current financial liabilities	493
Trade and other payables	450
Other current liabilities	8
Current liabilities	**951**
Total non-controlling interests and liabilities	**1,375**

By the other hand the Profit and loss account generated by Electricaribe to the consolidated profit and loss account during 2016 is as follows:

	2016
Sales	1,453
Procurements	(984)
Other operating income	3
Personnel costs	(53)
Other operating expenses	(360)
Depreciation, amortisation and impairment expenses	(40)
Operating income	**19**
Financial income	5
Finance expense	(65)
Net exchange gains/losses	(1)
Net financial income	**(61)**
Profit/(loss) before taxes	**(42)**
Income tax expense	(10)
Net income for the year	**(52)**
Attributable to:	
Equity holders of the parent company	(44)
Non-controlling interests	(8)

The 2016 Electricaribe statutory Financial Statements prepared as the Colombian legislation have not been yet audited.

Loans and other receivables

The breakdown at 31 December 2016 and 2015 is as follows:

	At 31/12/16	At 31/12/15
Commercial loans	56	129
Gas system income deficit financing	357	199
Deposits and guarantees deposits	138	121
Debtors for levelling of capacity service income	74	88
Other loans	550	498
Loans and other receivables non-current	**1,175**	**1,035**
Commercial loans	62	65
Electricity system income deficit financing	106	68
Gas system income deficit financing	144	102
Dividend receivable	8	14
Other loans	68	113
Loans and other receivables current	**388**	**362**
Total	**1,563**	**1,397**

The breakdown by maturities at December 2016 and 2015 is as follows:

Maturities	At 31/12/16	At 31/12/15
No later than 1 year	388	362
Between 1 year and 5 years	500	284
More than 5 years	675	751
Total	**1,563**	**1,397**

The fair values and carrying amounts of these assets do not differ significantly.

"Commercial loans" mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 11% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

The item "Electricity system income deficit financing" relates to temporary mismatches between electricity system income and costs, funded by Gas Natural Fenosa pursuant to Law 24/2013, December 26 (Note 2.4), generating a recovery right over the following five years and interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

The item "Gas system revenue deficit financing" relates to temporary mismatches between gas system revenues and costs accumulated in 2014, 2015 and 2016 funded by Gas Natural Fenosa pursuant to the Law 18/2014, October 17 (Note 2.1.1.2), generating a recovery right, over the following 15 years, to the amount that is deemed to be the definitive 2014 deficit, and in the following five years for the remainder of the financing, recognising a market interest rate. The amount of this financing has been recognised in long term and short term items based on the estimated recovery period through system settlements.

The item "Deposits and guarantees deposits" basically include amounts deposited with the competent Public Administrations, under applicable legislation, in respect of guarantees and deposits received from customers when contracts are concluded to secure the supply of electricity and natural gas (Note 18).

The item "Capacity service income debtors" relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission (Note 3.3.19.d).

"Other loans" includes, basically:

- a loan of Euros 192 million (Euros 211 million at 31 December 2015) for financing ContourGlobal La Rioja. S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011, of which Euros 15 million is classified under current assets (Euros 14 million in 2015). The loan, which is secured by the shares of this company and by other assets, bears annual interest at a market rate and matures in 2021.

- the value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 "Service concession arrangements" (Note 3.3.3.b and Note 31), in the amount of Euros 276 million (Euros 277 million at 31 December 2015), of which Euros 12 million is classified in current assets (Euros 14 million in 2015). These credits are classified in the item "Loans and receivables" as they represent an unconditional right to receive cash in fixed or determinable amounts.

Hedging derivatives

The variables upon which the valuation of the hedging derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 17 shows the details of the derivative financial instruments.

Note 9. Non-current assets and disposal groups of assets held for sale and discontinued operations

On 18 December 2015 Gas Natural Fenosa, which owned a controlling interest through the Chilean company CGE of 56.62% of Gasco, S.A., entered into an agreement with a group of shareholders with an interest of 22.4% in Gasco S.A., named "Familia Perez Cruz", to split Gasco, S.A. into two companies, one devoted to the natural gas business which would remain under the control of Gas Natural Fenosa and the other to the liquefied petroleum gas business (GLP) which would be controlled by the Perez Cruz Family. This split was approved at an extraordinary meeting of the shareholders of Gasco, S.A. on 30 March 2016.

Following completion of the split, on 6 July 2016 each party launched a public share offering in order to obtain a 100% interest in its company in order to carry out its own independent project. On 8 August 2016 Gas Natural Fenosa reported the sale of the shares in Gasco S.A. held by it through its subsidiaries totalling 160,197 million Chilean pesos (Euros 220 million), generating a net capital gain of Euros 4 million, in addition to the success of the takeover bid for Gas Natural Chile, S.A. which entailed the acquisition of an additional 37.88% of the capital of Gas Natural Chile, S.A. for a total of 223,404 million Chilean pesos (Euros 306 million).

Since Gas Natural Fenosa has a commitment to sell those assets that were clearly identified, the process was ongoing and it was expected to conclude in 2016, the sale was assumed to be highly likely and, consequently, on 31 December 2015 the account balances of these assets and liabilities were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale" in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

In addition, it was considered a discontinued operation since it was a component classified as held for sale which represented a significant line of business, separate from the rest. Therefore, all income and expenses pertaining to the LPG business for 2015 and 2016 are presented under "Profit/loss for the year from discontinued operations, net of taxes".

At 31 December 2015, the detail by nature of assets classified as held for sale and the associated liabilities was as follows:

	2015
Intangible assets	147
Property, plant and equipment	671
Non-current financial assets	9
Deferred tax assets	14
Non-current assets	841
Inventories	49
Trade and other receivables	42
Cash and cash equivalents	23
Current assets	114
Total assets	**955**
Non-current provisions	12
Non-current financial liabilities	285
Deferred tax liabilities	134
Other non-current liabilities	38
Non-current liabilities	469
Current financial liabilities	53
Trade and other payables	57
Other current liabilities	6
Current liabilities	116
Total liabilities	**585**

Total comprehensive income on this activity in the years ended 31 December 2016 and 2015 breaks down as follows::

	2016[1]	2015
Consolidated profit/(loss) for the year	44	34
Income and expenses recognised directly in net equity:	21	(16)
Translation differences	21	(16)
Cash-flow hedges	–	–
Total comprehensive income for the year	**65**	**18**

[1] Relates to the period1 January 2016 to 8 August 2016 (date on which the shares were sold).

The breakdown by nature of "Profit/(loss) for the year from discontinued operations net of taxes" on the consolidated income statement relating to the LPG business in Chile at 8 August 2016, date on which the shares were sold, and 31 december 2015 is as follows:

	2016[1]	2015
Sales	391	547
Procurements	(263)	(329)
Other operating income	2	4
Personnel costs	(26)	(45)
Other operating expenses	(36)	(66)
Depreciation, amortisation and impairment expenses	–	(41)
Other results	4	–
Operating income	**72**	**70**
Financial income	1	4
Financial expenses	(15)	(28)
Net exchange gains/losses	(1)	–
Net financial income	**(15)**	**(24)**
Profit/(loss) on equity method companies	1	1
Profit/(loss) before taxes	**58**	**47**
Income tax	(14)	(13)
Net income for the year from discontinued operations	**44**	**34**
Attributable to:		
Equity holders of the parent company	22	11
Non-controlling interests	22	23

[1] Relates to the period 1 January 2016 to 8 August 2016 (date on which the shares were sold).

The cash flows from discontinued operations included in the consolidated cash flow statements are:

	2016[1]	2015
Cash flow generated from operating activities	46	75
Cash flow received from investing activities	(17)	(35)
Cash flow received from financing activities	(32)	(46)

[1] Relates to the period1 January 2016 to 8 August 2016 (date on which the shares were sold).

Transactions between the companies making up the discontinued LPG business with other group companies are not significant. Therefore, intragroup cash flows with the discontinued business are not significant.

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31/12/16	At 31/12/15
Natural gas and liquefied gas	421	522
Coal and fuel oil	76	130
Nuclear fuel	65	63
CO_2 emission allowances[1]	60	–
Raw materials and other inventories	136	111
Total	**758**	**826**

[1] Relates to the reclassification of CO_2 emission allowances from intangible assets amounting to Euros 104 million (Note 3.3.9), the delivery of CO_2 emission allowances due to emissions in the preceding year amounting to Euros 103 million and the acquisition of emission allowances totalling Euros 59 million.

Gas inventories basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31/12/16	At 31/12/15
Trade receivables	4,939	5,248
Receivables with related companies *(Note 33)*	85	163
Provision for depreciation of receivables	(676)	(890)
Trade receivables for sales and provisions of services	4,348	4,521
Public Administration	144	197
Prepayments	70	83
Derivative financial instruments *(see Note 17)*	46	5
Sundry receivables	229	187
Other receivables	489	472
Current income tax assets	162	198
Total	**4,999**	**5,191**

The fair values and carrying amounts of these assets do not differ significantly.

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 19 days.

The movement in the impairment of receivables is as follows:

	2016	2015
At January 1	**(890)**	**(940)**
Net charge for the year *(Note 26)*	(327)	(258)
Write offs	336	254
Translation adjustments	(21)	54
Transfers and other[1]	226	–
At December 31	**(676)**	**(890)**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31/12/16	At 31/12/15
Cash at bank and in hand	985	1.467
Short term investments (Spain and rest of Europe)	618	751
Short term investments (International)	464	172
Total	**2,067**	**2,390**

The investments in cash equivalents mature in less than three months and bear a weighted effective interest rate 0.4% at 31 December 2016 (0.5% at 31 December 2015).

Note 13. Equity

The main elements of Equity are broke down as follows:

Share capital and share premium

The variations in 2016 and 2015 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	**Total**
At 31 December 2014	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Variation	–	–	–	–
A 31 December 2015	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Variation	–	–	–	–
A 31 December 2016	**1,000,689,341**	**1,001**	**3,808**	**4,809**

All the shares issued are fully paid and have the same economic and voting rights.

The Spanish Capital Companies Act specifically allows the use of the "Share premium" balance to increase capital and imposes no specific restrictions on its use.

The most representative holdings in the share capital of Gas Natural SDG, S.A. at 31 December 2016, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	Interest in share capital %	
	2016	2015
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa"[1]	24.4	34.4
Repsol, S.A.	20.1	30.0
Global Infrastructure Partners III[2]	20.0	–
Sonatrach	4.0	4.0

[1] Through Criteria Caixa S.A.U. and Caixabank, S.A. In 2015 additionally through VidaCaixa S.A. de Seguros and Reaseguros.
[2] Global Infrastructure Partners III, whose investment manager is Global Infraestructure Management LLC, owns its stake indirectly through GIP III Canary 1, S.à.r.l.

On 21 September 2016 the shareholders of Gas Natural Fenosa, Criteria Caixa, S.A.U. (la Caixa) and Repsol, S.A. (Repsol) reported the sale to GIP III Canary 1, S.à.r.l. (GIP) of shares representing 20% (10% Criteria and 10% Repsol) of the capital of Gas Natural SDG, S.A. in accordance with the sale and purchase agreement concluded on 12 September 2016. As a result of this sale, the agreement between "la Caixa" and Repsol concerning Gas Natural of 11 January 2000, amended on 16 May 2002, 16 December 2002 and 20 June 2003, has been terminated and the composition of the Board of Directors and Board committees of Gas Natural Fenosa has changed; in addition, the Regulations of its Board of Directors envisages a majority of two thirds of Board members for the approval of certain reserved matters.

All the shares of Gas Natural SDG, S.A. are traded on the four official Spanish Stock Exchanges and the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The share price at the end of 2016 of Gas Natural SDG, S.A. is Euros 17.91 (Euros 18.82 at 31 December 2015).

Reserves

"Reserves" includes the following reserves:

	2016	2015
Legal reserve	200	200
Statutory reserve	100	100
Revaluation Reserve Royal Decree-Law 7/96	225	225
Goodwill reserve	496	496
Voluntary reserves	6,603	6,580
Other reserves	1,925	1,476
	9,549	**9,077**

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the articles of association of Gas Natural SDG, S.A., 2% of net income for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Revaluation reserve

The revaluation reserve can be used to offset accounting losses, increase share capital, or can be allocated to freely distributable reserves, provided that all the monetary gain has been realised. The part of the gain that will be considered realised is the part relating to the amortisation recorded or when the revaluated assets have been transferred or written off the accounting books.

Goodwill reserve

Law 22/2015 on Auditing has eliminated the requirement to record annually the restricted reserve for at least 5% of the goodwill figuring under assets on the balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the balance sheet.

Treasury shares

Movements during 2016 and 2015 involving the treasury shares of Gas Natural SDG, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2015	–	–	–
Acquisitions	2,899,180	58	0.3
Disposals	(2,899,180)	(58)	(0.3)
A 31 December 2015	–	–	–
Acquisitions	3,049,189	53	0.3
Disposals	(2,298,644)	(40)	(0.2)
At 31 December 2016	**750,545**	**13**	**0.1**

On 14 May 2015, the shareholders in General Meeting authorised the Board of Directors to purchase, within five years, in one or more operations, a maximum of 10% of share capital or the maximum figure applicable under legislation prevailing at the time of acquisition. The relevant Company shares must be fully paid in and the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, may not exceed 10% of share capital or any other limit established by law.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

In 2016, Gas Natural Fenosa obtained a profit of Euros 0.4 million in transactions involving treasury shares, which was recorded in "Other reserves" (a profit of Euros 2 million in the exercise 2015).

Movements during 2016 and 2015 involving the treasury shares of Compañía General de Electricidad, S.A. have been as follows:

	Number of shares	In million euro	% Capital
At 1 January 2015	–	–	–
Acquisitions	–	–	–
Disposals	–	–	–
A 31 December 2015	–	–	–
Acquisitions	1,879,034	8	0.1
Disposals	–	–	–
At 31 December 2016	**1,879,034**	**8**	**0.1**

On 9 august 2016 Gas Natural Fenosa Chile S.A. (today Compañía General de Electricidad S.A.) Extraordinary Shareholder's Meeting was celebrated where the merger by incorporation of Compañía General de Electricidad S.A. in Gas Natural Fenosa Chile S.A. was approved. As a consequence of the operation, shareholder's of both companies had a retirement right, by which they had the opportunity to sell their shares to the company. This rigth was exercised by 44 shareholders owners of 1,879,034 shares of Compañía General de Electricidad, S.A. equivalent to the 0.4% of the capital.

Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31/12/16	At 31/12/15
Net income attributable to equity holders of the parent company[1]	1,347	1,571
Weighted average number of ordinary shares in issue	1,001,468,342	1,001,689,341
Earnings per share from continuing activities (in Euros):		
Basic	1.33	1.56
Diluted	1.33	1.56
Earnings per share from discontinued activities (in Euros):		
Basic	0.02	0.01
Diluted	0.02	0.01

[1] Pursuant to IAS 33, profit attributable to the parent company's equity holders at 31 December 2015 was adjusted for the excess carrying amount of the preferred shares over the amount paid to buy them back, net of the tax effect (see "Non-controlling interests" section of this note).

The weighted average number of ordinary shares in issue used to calculate the Earnings per share of 2016 is as follows:

	2016
Weighted average number of ordinary shares	1,001,689,341
Weighted average number of treasury shares	(220,999)
Weighted average number of ordinary shares in issue	1,001,468,342

The Parent Company has no financial instruments that could dilute the earnings per share.

Dividends

The breakdown of the payments of dividends made in 2016 and 2015 is as follows:

	31/12/16			31/12/15		
	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	133	1.330	1,331	91	0.908	909
Remaining shares (no vote. redeemable. etc.)	–	–	–	–	–	–
Total dividends paid	**133**	**1.330**	**1,331**	**91**	**0.908**	**909**
a) Dividends charged to income statement	133	1.330	1,331	91	0.908	909
b) Dividends charged to reserves or share premium	–	–	–	–	–	–
c) Dividends in kind	–	–	–	–	–	–

Additionally, dividends paid to non-controlling shareholders in 2016 amounted to Euros 195 million (Euros 161 million in 2015). See "Non-controlling interest" section of this note.

Year 2016

Includes the payment of an interim dividend of Euros 0.408 per share out of 2015 profits, for a total amount of Euros 408 million, agreed on 30 October 2015 and paid out on 8 January 2016.

The General Shareholders Meeting held on 4 May 2016 approved a complementary dividend of Euros 0.592 per share for a total of Euros 593 million, paid on 30 June 2016.

On 22 July 2016 the Board of Directors approved the payment of an interim dividend out of 2016 profits of Euros 0.330 per share, for a total of Euros 330 million, paid on 27 September 2016.

The Parent company had sufficient liquidity to pay out the interim dividend at the approval date, pursuant to the Spanish Companies Act 2010. The Parent company's provisional liquidity statement drawn up by the Directors at 31 July 2016 is as follows:

Net income	721
Reserves to be allocated	–
Maximum amount available for distribution	**721**
Forecast of interim dividend payment	**330**
Treasury liquidity	1,434
Debt issue and undrawn credit facilities	6,906
Total liquidity	**8,340**

On 7 February 2017, the Board of Directors approved the following proposal for the distribution of Gas Natural SDG, S.A.'s net profit for 2016, for submission to the Annual General Meeting:

Available for distribution	
Profit/(loss)	1,067
Distribution	
To Voluntary reserve	66
To Dividend	1,001

This proposal for the distribution of profits prepared by the Board for approval by the Annual General Meeting includes the payment of a supplementary dividend of Euros 0.67 per qualifying share outstanding on the proposed payment date, 27 June 2017.

The economic rights inherent to treasury shares, with the exception of the right to free allocation of new shares, will be allocated proportionally to the rest of the shares.

Year 2015

It Included the payment of an interim dividend of Euros 0.397 per share out of 2014 profits, for a total amount of Euros 397 million, agreed on 28 November 2014 and paid out on 8 January 2015.

Additionally, the proposal for the distribution of 2014 profits approved by the Annual General Meeting held on 14 May 2015 included the payment of a supplementary dividend of Euros 0.511 per share, for a total amount of Euros 512 million, paid on 1 July 2015.

Adjustments for changes in value

Adjustments for changes in value movements are presented in the Consolidated statement of comprehensive income for each concept showing a breakdown of the tax effect.

The item "Currency translation differences" includes the exchange differences described in Note 3.3.2 as a result of the euro's fluctuation against the main currencies of Gas Natural Fenosa's foreign companies.

Non-controlling interests

	Non-controlling interests
Balance at 1/1/2015	**3,879**
Total comprehensive income for the year	295
Distribution of dividends	(188)
Issue of perpetual subordinated debentures	493
Repurchase of preference shares	(640)
Capital increase in Global Power Generation	496
Payments return on other equity instruments	(41)
Other changes	(143)
Balance at 31/12/2015	**4,151**
Total comprehensive income for the year	470
Distribution of dividends	(214)
Sale of Gasco, S.A.	(196)
Purchase of 37.88% Gas Natural Chile	(314)
Payments return on other equity instruments	(58)
Loss of control in Electricaribe *(Note 8)*	(70)
Business combinations *(Note 31)*	8
Other changes	3
Balance at 12/31/2016	**3,780**

The most significant movements for 2016 relate to:

- On 8 August 2016 the liquefied petroleum gas (LPG) business in Chile was sold through the sale of the interest in Gasco, S.A. (Euros 220 million, generating a net capital gain of Euros 4 million and a reduction in “Non-controlling interests” of Euros 196 million (Note 9).

- On the other hand, on the same date, following the successful takeover bid for Gas Natural Chile, S.A. an additional 37.88% of its capital was acquired for Euros 306 million. As this is an acquisition of non-controlling interests, it has been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 314 million and an increase in "Reserves" of Euros 8 million.

- Other changes:

  In December 2016, an additional 6.9% of Gas Galicia, S.A. was acquired for Euros 6 million, taking the controlling interest to 68.5%. As this is an acquisition of non-controlling interests, it has been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 3 million and a decrease in "Reserves" of Euros 3 million.

  In 31 desember 2015 it also included the acquisition of other additional investments in subsidiaries of Euros 6 million.

The most significant movements in 2015 are described below:

- Issue of perpetual subordinated debentures.

  On 21 April 2015 Gas Natural Fenosa Finance, B.V. closed an issue of perpetual subordinated debentures secured by Gas Natural SDG, S.A. amounting to Euros 500 million. The issue rate was set at 98.65% of nominal value, resulting in a net issue of Euros 493 million. The debentures accrued interest was defined as a reference interest rate plus a mark-up. The reference interest rate is the swap rate at 9 years (initially equivalent to 0.421%) which may be reviewed every 9 years. The initial spread is 3,079% and will be maintained for the first 10 years, followed by 3.329% from 2025 to 2044 and subsequently 4.079%. The effective interest rate was therefore 3.375%.

  Interest accrued on these debentures is not payable but rather cumulative. Nonetheless, Gas Natural Fenosa should pay it if dividends are paid out or the decision to exercise the early cancellation option is taken.

  Although no contractual maturity has been established for these debentures, Gas Natural Fenosa Finance, B.V. have the option to redeem them early in certain circumstances envisaged in the terms and conditions on 24 April 2024 and subsequently, on every interest payment date.

  After analysing the terms and conditions of this issue, and in accordance with IAS 32, Gas Natural Fenosa accounted for the cash received by crediting “Non-controlling interests” included in equity on the consolidated balance sheet at 31 December 2015 on the understanding that the issue did not meet the conditions to be considered as a financial liability, because Gas Natural Fenosa Finance B.V. did not have the contractual commitment to hand over cash or another financial asset and also it did not have an obligation to exchange financial assets or liabilities, being at the discretion of Gas Natural Fenosa Finance, B.V the fully circumstances.

Repurchase of preference shares

In 2005 Union Fenosa Preferentes, S.A. carried out a preference share issue for a nominal amount of Euros 750 million, which was recognised under Non-controlling interests. The main characteristics are:

a) Dividend: variable non-accumulative; from the date of payment until 30 June 2015 it will be Euribor at three months plus a spread of 0.65%; as from that date, it will be Euribor at three months plus a spread of 1.65%.

b) Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of Gas Natural Fenosa, considering as such the lesser of the net profit declared by the Gas Natural Fenosa and the net profit of Gas Natural SDG, S.A. as guarantor.

c) Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Any redemptions will be made at par value.

d) Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.

e) Voting rights: none

In May 2015 Gas Natural Fenosa offered to buy back in cash the preference shares issued by Union Fenosa Preferentes S.A.U. in 2005 at 85% of their nominal value. After the acceptance period, the aggregate nominal amount with respect to which the pertinent acceptance was issued totalled Euros 640 million (85.3% of the issue), which represented a cash amount of Euros 544 million. The rest has remained outstanding.

The excess of the carrying amount of the preference shares over the amount paid to buy them back totalled Euros 69 million and was recognised as an equity transaction, entailing an increase in "Reserves" under “Other movements" in the consolidated Statement of changes in equity.

Capital increase in Global Power Generation

In March 2015 Gas Natural Fenosa and Kuwait Investment Authority (KIA) entered into an agreement through which KIA committed to increasing capital by $550 million (Euros 493 million) to become a 25% shareholder of Global Power Generation S.A. (GPG), the parent of the subgroup holding that included the international generation assets of Gas Natural Fenosa. Following the obtainment of the pertinent authorisations, this operation was completed in October 2015. In accordance with the terms and conditions of the agreement reached, Gas Natural Fenosa retains control of GPG. Therefore, from an accounting viewpoint, it is an equity transaction, entailing an increase in “Non-controlling interests” amounting to Euros 496 million, relating to the carrying amount of the interest transferred, and a decrease in “Reserves” amounting to Euros 3 million.

Other changes.

In 2015 Gas Natural Fenosa Chile, SpA acquired an additional interest of 0.65% in Compañía General de Electricidad, S.A. (CGE) for Euros 18 million, its controlling interest amounting to 97.37%. As this is an acquisition of non-controlling interests, it was recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 16 million and a decrease in "Reserves" of Euros 2 million.

In June 2015 Gasco, S.A. (a subsidiary of Gas Natural Fenosa) acquired an additional interest of 12.75% in Gasmar, S.A. (a subsidiary of Gas Natural Fenosa) for Euros 34 million, its controlling interest amounting to 63.8%. As this is an acquisition of non-controlling interests, it was recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 32 million and a decrease in "Reserves" of Euros 2 million.

In October 2015 Gas Natural Fenosa Chile, SpA acquired an additional interest of 8.33% in Metrogas, S.A. (a subsidiary of Gas Natural Fenosa) for Euros 116 million, its controlling interest amounting to 60.17%. As this is an acquisition of non-controlling interests, it was been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 110 million and a decrease in "Reserves" of Euros 6 million.

In 31 desember 2015 it also included the acquisition of other additional investments in subsidiaries of Euros 4 million.

Set out below is a breakdown of the most significant non-controlling interests:

	2016			2015		
Company	Attributed equity	Consolidated profit/(loss) for the year	Dividends received and other remunerations	Attributed equity	Consolidated profit/(loss) for the year	Dividends received and other remunerations
Metrogas, S.A.	605	46	13	860	44	25
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	205	35	12	150	38	20
Global Power Generation, S.A.[1]	114	(2)	19	140	–	–
Gasco GLP, S.A.	–	7	7	98	11	22
Fuerza y Energía de Tuxpan[1]	115	10	–	106	2	–
Electrificadora del Caribe, S.A. ESP	–	–	–	89	7	–
Empresa de Distribución Eléctrica Metro Oeste, S.A.	101	11	–	85	13	22
Ecoelectrica L.P.[1]	83	14	14	77	1	–
Kangra Coal (Proprietary), Ltd	75	(6)	–	75	(6)	–
Europe Maghreb Pipeline, Ltd.	63	40	42	62	55	52
Gasmar, S.A.	–	9	4	57	14	13
Gas Natural Mexico, S.A. de CV	61	7	3	55	8	–
Gas Natural, S.A. ESP	49	29	28	45	31	4
Ceg Río, S.A.	46	6	3	35	10	7
Aprovisionadora global de energía, S.A.	39	65	32	–	–	–
Other companies[2]	612	34	36	605	38	20
Subtotal	**2,168**	**305**	**213**	**2,539**	**266**	**185**
Preferred shares	110	1	1	110	3	3
Subordinated perpetual debentures	1,502	58	58	1,502	53	41
Other equity instruments	**1,612**	**59**	**59**	**1,612**	**56**	**44**
Total	**3,780**	**364**	**272**	**4,151**	**322**	**229**

[1] Included in 2015 due to the effect of the GPG capital increase paid up by KIA, as described in this note.
[2] 2016 profits include the impact on non-controlling interests of the capital gain on the sale of GNL Quintero S.A. (Note 7) for Euros 39 million.

Dividends paid to non-controlling interests in 2016 amounted to Euros 195 million (Euros 161 million in 2015).

Set out below are financial highlights for the most significant non-controlling shareholdings (amounts at 100%):

	31 December 2016			31 December 2015		
Company	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	2,216	(759)	(88)	2,190	(764)	(63)
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	909	(205)	(239)	703	(172)	(188)
Global Power Generation, S.A.	542	(5)	(86)	583	(1)	(2)
Gasco GLP, S.A.	–	–	–	409	(125)	(66)
Fuerza y Energía de Tuxpan	1,151	(174)	(33)	1.070	(161)	(16)
Electrificadora del Caribe, S.A. ESP	–	–	–	1.538	(480)	(454)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	920	(218)	(350)	731	(152)	(258)
Ecoelectrica L.P.	409	(32)	(33)	389	(54)	(26)
Kangra Coal (Proprietary), Ltd	377	(101)	(8)	433	(114)	(6)
Europe Maghreb Pipeline, Ltd.	292	(1)	(15)	276	(1)	(4)
Gasmar, S.A.	–	–	–	163	(46)	(30)
Gas Natural Mexico, S.A. de CV	809	(314)	(90)	721	(241)	(55)
Gas Natural, S.A. ESP	334	(68)	(145)	379	(92)	(99)
Ceg Río, S.A.	277	(85)	(74)	253	(51)	(110)
Aprovisionadora global de energía, S.A.	181	(18)	(72)	–	–	–

Appendix I contains a breakdown of Gas Natural Fenosa's investee companies, stating their activity and the percentage of the shareholding and equity interest.

The analysis performed to determine that Gas Natural Fenosa exercises control over the consolidated entities identified no cases requiring a complex judgement, since Gas Natural Fenosa is entitled to variable returns from its involvement in the investee and has the capacity to influence those returns through its power in the investee, based on Gas Natural Fenosa's representatives on the Board of Directors and its participation in significant decisions. Additionally, in general terms, there are no significant restrictions, such as protective rights, on Gas Natural Fenosa's capacity to access or utilise assets, or to settle liabilities.

Note 14. Deferred income

The breakdown and the movements under this heading in 2016 and 2015 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other	Total
At 1/01/15	156	567	99	10	**832**
Amount received	16	50	3	–	**69**
Release to income	(19)	(29)	(15)	(1)	**(64)**
Translation differences	3	–	(1)	(2)	**–**
Transfers and other	12	–	4	–	**16**
At 31/12/15	168	588	90	7	**853**
Amount received	6	38	5	–	**49**
Release to income	(9)	(25)	(9)	–	**(43)**
Translation differences	1	(1)	(1)	(1)	**(2)**
Transfers and other	(10)	(2)	(3)	–	**(15)**
At 31/12/16	156	598	82	6	**842**

Note 15. Provisions

The breakdown of provisions at 31 December 2016 and 2015 is as follows:

	At 31/12/16	At 31/12/15
Provisions for employee obligations	489	659
Other provisions	759	829
Non-current provisions	1,248	1,488
Current provisions	158	193
Total	**1,406**	**1,681**

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2016			2015		
	Pensions and other similar obligations	Other obligations with personnel	**Total**	Pensions and other similar obligations	Other obligations with personnel	**Total**
At January 1	650	9	**659**	731	9	**740**
Contributions charged to profits	42	10	**52**	42	9	**51**
Payments during the year	(44)	–	**(44)**	(60)	–	**(60)**
Translation differences	25	–	**25**	(43)	–	**(43)**
Changes recognised directly in equity	51	–	**51**	(7)	–	**(7)**
Business combinations *(Note 31)*	–	–	**–**	–	–	**–**
Transfers and other applications[1]	(245)	(9)	**(254)**	(13)	(9)	**(22)**
At 31 December	479	10	**489**	650	9	**659**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Pensions and other similar obligations

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	At 31/12/16	At 31/12/15	At 01/01/15
Spain (1)	368	362	374
Colombia (2)	-	196	238
Brazil (3)	40	25	36
Chile (4)	54	48	67
Mexico (5)	11	14	10
Rest	6	5	6
Total	**479**	**650**	**731**

1) Pension plans and other post-employment benefits in Spain

Most of the post-employment obligations of Gas Natural Fenosa in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2016 and 31 December 2015, Gas Natural Fenosa held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).

- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.

- Coverage of retirement and death for certain employees.

- Gas subsidy for current and retired personnel.

- Electricity for current and retired personnel.

- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.

- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.

- Health care and other benefits.

2) Pension plans and other post-employment benefits in Colombia

At 31 December 2015 there were following obligations with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

- Pension liabilities for retired personnel.

- Electricity for current and retired personnel.

- Healthcare and other post-retirement aid.

3) Pension Plans and Other post-employment benefits in Brazil

At 31 December 2016 and at 31 December 2015, Gas Natural Fenosa has the following benefits for certain employees in Brazil:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.

- Post-employment healthcare plan.

- Other defined post-employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

4) Pension plans and Other post-employment benefits in Chile

At 31 December 2016 and 2015, as a result of the acquisition of the CGE Group, Gas Natural Fenosa has the following benefits in force for certain employees in Chile:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.

- Pension supplements for employees hired prior to 1992 in some electricity distribution companies.

- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

5) Pension Plans and Other post-employment benefits in Mexico

At 31 December 2016 and at 31 December 2015, Gas Natural Fenosa has the following benefits for certain employees in Mexico:

- Length-of-service award payable after 15 years of service

- Severance indemnity for employees without the service requirement, payable in the event of death at work, incapacity or redundancy.

- Severance indemnity equivalent to three months' salary plus 20 days' salary per year of service.

- Additional compensation only in the event of retirement equal to 1% of the base salary per year of service.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2016					2015				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Present value of obligations										
At 1 January	1,173	196	96	48	14	1,240	238	138	67	10
Service cost for the year	5	–	–	4	–	6	–	–	4	2
Interest cost	23	17	15	3	1	24	17	13	2	–
Changes recognised in equity	77	35	22	–	–	(19)	2	(11)	(1)	–
Benefits paid	(75)	(22)	(11)	(5)	–	(78)	(25)	(11)	(11)	–
Translation differences	–	17	24	4	(3)	–	(36)	(33)	(1)	2
Business combinations *(Note 31)*	–	–	–	–	–	–	–	–	–	–
Transfers and other[1]	–	(243)	–	–	–	–	–	–	(12)	–
At 31 December	1,203	–	146	54	12	1,173	196	96	48	14
Fair value of plan assets										
At 1 January	811	–	71	–	–	866	–	102	–	–
Expected yield	15	–	12	–	–	16	–	10	–	–
Contributions	(2)	–	4	–	–	1	–	6	–	–
Changes recognised in equity	71	–	13	–	–	(11)	–	(11)	–	–
Benefits paid	(60)	–	(11)	–	–	(61)	–	(11)	–	–
Translation differences	–	–	17	–	–	–	–	(25)	–	–
Transfers and other	–	–	–	–	1	–	–	–	–	–
At 31 December	835	–	106	–	1	811	–	71	–	–
Provisions for pensions and similar obligations	368	–	40	54	11	362	196	25	48	14

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

The amounts recognized in the Consolidated Income Statement for the above-mentioned pension plans are as follows:

	2016					2015				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Cost of service for the year	5	–	–	4	–	6	–	–	4	2
Past service cost	–	–	–	–	–	–	–	–	–	–
Interest cost	23	17	15	3	1	24	17	13	2	–
Expected return on plan assets	(15)	–	(12)	–	–	(16)	–	(10)	–	–
Total income statement charge	**13**	**17**	**3**	**7**	**1**	**14**	**17**	**3**	**6**	**2**

Benefits payable in coming years as a result of the above-mentioned commitments are as follows:

	2016					2015				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Between 1 to 5 years	5	–	–	–	–	8	–	–	13	–
Between 5 to 10 years	37	–	2	29	2	31	196	25	12	3
More than 10 years	326	–	38	25	9	323	–	–	23	11
Provisions for pensions and similar obligations	**368**	**–**	**40**	**54**	**11**	**362**	**196**	**25**	**48**	**14**

The weighted average term of defined benefit commitments is as follows:

	2016					2015				
Years	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Weighted average term of pension commitments	11.33	–	9.84	10.26	19.45	11.49	7.41	8.90	10.50	11.49

Movements in the liability recognised in the Consolidated Balance Sheet are as follows:

	2016					2015				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
At 1 January	362	196	25	48	14	374	238	36	67	10
Charge against the income statement	13	17	3	7	1	14	17	3	6	2
Contributions paid	(13)	(22)	(4)	(5)	–	(18)	(25)	(6)	(11)	–
Changes recognised in equity	6	35	9	–	–	(8)	2	–	(1)	–
Transfers (1)	–	(243)	–	–	(1)	–	–	–	(12)	–
Translation differences	–	17	7	4	(3)	–	(36)	(8)	(1)	2
Business Combinations	–	–	–	–	–	–	–	–	–	–
Discontinued operations	–	–	–	–	–	–	–	–	–	–
At 31 December	**368**	**–**	**40**	**54**	**11**	**362**	**196**	**25**	**48**	**14**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Cumulative actuarial gains and losses recognised directly in equity are negative in the amount of Euros 107 million in 2016 (Spain: negative in the amount of Euros 55 million, Brazil: negative in the amount of Euros 42 million, Chile: negative in the amount of Euros 5 million and Mexico: negative in the amount of Euros 5 million). In 2015, the cumulative amount was negative by Euros 188 million (Spain: negative in the amount of Euros 49 million, Colombia: negative in the amount of Euros 100 million, Brazil: negative in the amount of Euros 33 million, Chile: negative in the amount of Euros 5 million and Other: negative in the amount of Euros 1 million).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2016					2015				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Financial assumptions	39	21	3	–	–	6	(7)	(6)	–	–
Demographic assumptions	–	–	–	–	–	–	–	–	–	–
Experience	(33)	14	6	–	–	(13)	9	4	(1)	–
Limits on assets	–	–	–	–	–	(1)	–	2	–	–
At 31 December	**6**	**35**	**9**	**–**	**–**	**(8)**	**2**	**–**	(1)	**–**

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

	2016					2015				
% over total	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Shares	–	–	16	–	–	–	–	13	–	–
Bonds	100	–	76	–	–	100	–	77	–	–
Real estate and other assets	–	–	8	–	–	–	–	10	–	–

Real yields on the plan-related assets in 2016, relating basically to Spain and Brazil, have been Euros 27 million (Euros 26 million in 2015).

The main annual actuarial assumptions used were as follows:

	At 31/12/16					At 31/12/15				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Discount rate[1] (%)	0.0 to 1.8	7.5	11.9	1.7	7.0	0.2 to 2.6	8.7	13.3	1.7	7.0
Expected return on plan assets[1] (%)	0.0 to 1.8	–	11.9	–	7.0	0.2 to 2.6	–	13.3	–	7.0
Future salary increases[1] (%)	2.0	4.5	6.6	2.0	5.5	2.0	4.5	7.7	1.9	5.5
Future pension increases[1] (%)	2.0	3.5	5.5	NA	3.4	2.0	3.5	5.5	NA	3.4
Inflation rate[1] (%)	2.0	3.5	5.5	3.0	4.0	2.0	3.5	5.5	NA	4.0
Mortality table	PERMF 2000	RV08	AT–2000	RV–2009	EMSSA 2009	PERMF 2000	RV08	AT–2000	RV–2009	EMSSA 2009
Life expectancy:										
Men										
Retired in the current year	22.5	18.45	20.45	19.58	22.56	22.5	18.45	20.45	19.58	22.5
Retired in 20 years	42.5	36.69	37.94	20.47	39.53	42.5	36.69	37.94	20.47	39.42
Women										
Retired in the current year	27.0	22.18	23.02	29.07	25.04	27.0	22.18	23.02	29.07	24.99
Retired in 20 years	48.4	40.39	41.44	29.75	44.81	48.4	40.39	41.44	29.75	44.75

[1] Annual.

These assumptions are applicable to all the obligations homogeneously irrespective of the origin of their collective bargaining agreements.

The interest rates employed to discount the post-employment liabilities are applied based upon the period of each commitment and the reference curve is calculated as the average of the curves of corporate bonds with a high level credit rating (AA), issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2017 in million euros are as follows:

	Benefits					Contributions				
	Spain	Colombia	Brazil	Chile	Mexico	Spain	Colombia	Brazil	Chile	Mexico
Post-employment	63	–	9	–	–	12	21	1	4	–
Post-employment medical	–	–	–	–	–	3	3	2	–	–
Long term	–	–	–	–	–	–	–	–	–	–
At 31 December	**63**	**–**	**9**	**–**	**–**	**15**	**24**	**3**	4	**–**

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation + 1%	Discount +1%	Healthcare +1%
Present value of obligations	117	(148)	17
Fair value of plan assets	–	(76)	–
Provision for pensions	117	(72)	17
Cost of service for the year	2	(2)	–
Interest cost	2	9	1
Expected return on plan assets	–	(7)	–

Other obligations with personnel

Gas Natural Fenosa operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the Group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the Group, grants the right to receive a variable remuneration in cash in the first quarter of the year after its termination.

At 31 December 2016 a provision has been booked corresponding to the remuneration, 2014-2016, 2015-2018 and 2016-2019 amounting to Euros 18 million (Euros 18 million at 31 December 2015), of which Euros 9 million are classified as non-current in 2016 (Euros 9 million 2015).

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions				
	Due to facility closure costs	Other provisions	**Total**	Current provisions	**Total**
At 01/01/15	**403**	**417**	**820**	**128**	**948**
Appropriations/reversals charged to income statement:					
Appropriations due to financial update	10	4	**14**	–	**14**
Appropriations charged to other results	–	34	**34**	103	**137**
Reversals	–	(22)	**(22)**	–	**(22)**
Appropriations/reversals charged to fixed assets:	18	–	**18**	–	**18**
Payments	(2)	(37)	**(39)**	(43)	**(82)**
Business combinations *(Note 31)*	2	5	**7**	–	**7**
Translation differences	(3)	(8)	**(11)**	5	**(6)**
Transfers and other	–	8	**8**	–	**8**
At 31/12/15	**428**	**401**	**829**	**193**	**1.022**
Appropriations/reversals charged to income statement:					
Appropriations due to financial update	10	1	**11**	–	**11**
Appropriations charged to other results	–	15	**15**	56	**71**
Reversals	–	(24)	**(24)**	(1)	**(25)**
Appropriations/reversals charged to fixed assets:	(1)	–	**(1)**	–	**(1)**
Payments	(4)	(30)	**(34)**	(112)	**(146)**
Business combinations *(Note 31)*	–	–	**–**	–	**–**
Translation differences	4	3	**7**	2	**9**
Transfers and other	(23)	(21)	**(44)**	20	**(24)**
At 31/12/16	**414**	**345**	**759**	**158**	**917**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

The item "provisions due to facility closure costs" includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

The item "Other provisions" mainly includes provisions posted to cover obligations derived principally from tax claims (Note 21), lawsuits and arbitration, insurance and other liabilities. Note 35 "Commitments and contingent liabilities" includes further information on contingent liabilities.

The item "Current provisions" relates mainly to CO_2 emissions estimated for the year in the amount of Euros 56 million at 31 December 2016 (Euros 103 million in 2015).

No provision for onerous contracts was deemed necessary at 31 December 2016 or 2015.

The estimated payment periods for the obligations provisioned in this item are Euros 306 million in between one and five years (Euros 331 million at 31 December 2015), Euros 86 million in between five and ten years (Euros 102 million at 31 December 2015), and Euros 367 million after more than 10 years (Euros 396 million at 31 December 2015).

Note 16. Borrowings

The breakdown of borrowings at 31 December 2016 and 2015 is as follows

	At 31/12/16	At 31/12/15
Issuing of debentures and other negotiable obligations	10,098	10,632
Loans from financial institutions	4,837	4,802
Derivative financial instruments	62	165
Other financial liabilities	6	54
Non-current borrowings	**15,003**	**15,653**
Issuing of debentures and other negotiable obligations	1,563	1,691
Loans from financial institutions	856	741
Derivative financial instruments	18	14
Other financial liabilities	162	149
Current borrowings	**2,599**	**2,595**
Total	**17,602**	**18,248**

Financial liabilities recognised at fair value at 31 December 2016 and at 31 December 2015 are classified as follows:

	31 December 2016				31 December 2015			
Financial liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Fair value through profit or loss	–	–	–	**–**	–	–	–	**–**
Hedging derivatives	–	80	–	**80**	–	179	–	**179**
Total	**–**	**80**	**–**	**80**	**–**	**179**	**–**	**179**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	At 31/12/16	At 31/12/15	At 31/12/16	At 31/12/15
Issuing of debentures and other negotiable securities	10,098	10,632	11,389	11,961
Loans from financial institutions and others	4,843	4,856	4,874	4,882

The fair value of the listed bond issues is estimated on the basis of their market price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2016 and 31 December 2015 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2016	2015
At 1 January	**18,248**	**20,544**
Business combinations *(Note 31)*	–	165
Increase in borrowings	7.826	5.943
Decrease in borrowings	(8,069)	(8,043)
Translation differences	264	(285)
Assets and liabilities held for sale *(Note 9)*	–	(338)
Transfers and other[1]	(667)	262
At 31 December	**17,602**	**18,248**

[1] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

The following tables describe consolidated gross borrowings by instrument at 31 December 2016 and 31 December 2015 and their maturity profile, taking into account the impact of the derivative hedges.

	2017	2018	2019	2020	2021	2022 and afters	**Total**
At 31 December 2016							
Issuing of debentures and other negotiable securities							
Fixed	1,429	1,568	1,241	1,659	1,553	3,992	**11,442**
Floating	133	23	63	–	–	–	**219**
Institutional Banks and other financial companies							
Fixed	229	163	127	127	84	93	**823**
Floating	138	108	82	78	121	624	**1,151**
Commercial Banks and other financial liabilities							
Fixed	134	30	484	146	125	5	**924**
Floating	536	791	881	385	390	60	**3,043**
Total Fixed	**1,792**	**1,761**	**1,852**	**1,932**	**1,762**	**4,090**	**13,189**
Total Floating	**807**	**922**	**1,026**	**463**	**511**	**684**	**4,413**
Total	**2,599**	**2,683**	**2,878**	**2,395**	**2,273**	**4,774**	**17,602**

	2016	2017	2018	2019	2020	2021 and afters	**Total**
At 31 December 2015							
Issuing of debentures and other negotiable securities							
Fixed	1,296	1,405	1,567	1,235	1,660	4,588	**11,751**
Floating	390	29	26	58	–	69	**572**
Institutional Banks and other financial companies							
Fixed	167	234	190	177	177	255	**1,200**
Floating	53	68	79	53	50	88	**391**
Commercial Banks and other financial liabilities							
Fixed	172	168	78	491	30	10	**949**
Floating	517	582	581	774	579	352	**3,385**
Total Fixed	**1,635**	**1,807**	**1,835**	**1,903**	**1,867**	**4,853**	**13,900**
Total Floating	**960**	**679**	**686**	**885**	**629**	**509**	**4,348**
Total	**2,595**	**2,486**	**2,521**	**2,788**	**2,496**	**5,362**	**18,248**

Had the impact of the derivatives on borrowings been excluded, the financial debt at fixed rate would amount to Euros 11,636 million at 31 December 2016 (Euros 11,104 million at 31 December 2015) and, at floating rates, Euros 5,886 million at 31 December 2016 (Euros 6,965 million in 2015).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2016 and 31 December 2015 and its maturity profile, taking into account the impact of the derivative hedges:

	2017	2018	2019	2020	2021	2022 and after	**Total**
At 31 December 2016							
Euro Debt	1,944	1,923	1,951	2,113	2,086	3,961	**13,978**
Foreign Currency Debt							
US Dollar	288	20	502	1	106	5	**922**
Chilean peso	133	408	167	281	81	751	**1,821**
Mexican peso	3	136	102	–	–	57	**298**
Brazilian real	159	179	74	–	–	–	**412**
Colombian peso	61	9	75	–	–	–	**145**
Argentinian peso	11	8	7	–	–	–	**26**
Rest	–	–	–	–	–	–	–
Total	**2,599**	**2,683**	**2,878**	**2,395**	**2,273**	**4,774**	**17,602**

	2016	2017	2018	2019	2020	2021 and after	**Total**
At 31 December 2015							
Euro Debt	1,940	1,879	1,800	2,123	2,218	4,593	**14,553**
Foreign Currency Debt:							
US Dollar	229	86	20	486	1	6	**828**
Chilean peso	161	183	412	16	256	696	**1,724**
Mexican peso	4	–	157	66	–	67	**294**
Brazilian real	104	107	84	–	–	–	**295**
Colombian peso	143	225	47	97	21	–	**533**
Argentinian peso	10	6	1	–	–	–	**17**
Rest	4	–	–	–	–	–	**4**
Total	**2,595**	**2,486**	**2,521**	**2,788**	**2,496**	**5,362**	**18,248**

Borrowings in euros have borne an effective average interest rate of 3.57% at 31 December 2016 (3.81% at 31 December 2015) while borrowings in foreign currency have borne an effective average interest rate of 7.13% in 2016 (7.91% at 31 December 2015) including derivative instruments assigned to each transaction.

At 31 December 2016, Gas Natural Fenosa has credit facilities totalling Euros 8,192 million (Euros 8,003 million at 31 December 2015), of which Euros 7,642 million has not been drawn down (Euros 7,558 million at 31 December 2015).

Bank borrowings totalling Euros 2,308 million (Euros 1,505 million at 31 December 2015) are subject to the fulfilment of certain financial ratios.

At the formulation date of these Consolidated annual accounts, Gas Natural Fenosa is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Certain investment projects have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2016, the outstanding balance of this type of financing totals Euros 13 million (Euros 19 million at 31 December 2015).

The most relevant financing instruments are described below:

Issuing of debentures and other negotiable securities

In 2016 and 2015 the evolution of the issues of debt securities has been as follows:

	At 01/01/2016	Issuances	Buy-backs or redemptions	Adjustments, exch, rates & other	At 31/12/2016
Issued in a member state of the European Union which required the filing of a prospectus	**10,857**	5,125	(5,725)	5	**10,262**
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	–	–
Issued outside a member state of the European Union	**1,466**	–	(116)	49	**1,399**
Total	**12,323**	**5,125**	**(5,841)**	**54**	**11,661**

	At 01/01/2015	Issuances	Buy-backs or redemptions	Adjustments, exch, rates & other	At 31/12/2015
Issued in a member state of the European Union which required the filing of a prospectus	**11,246**	2,859	(3,263)	15	**10,857**
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	–	–
Issued outside a member state of the European Union	**2,004**	194	(583)	(149)	**1,466**
Total	**13,250**	**3,053**	**(3,846)**	**(134)**	**12,323**

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being the subsidiary Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV). During 2016, further issues were completed under that Programme for a total amount of Euros 4,225 million (Euros 2,359 million at December 2015). At 31 December 2016, the amount of Euros 100 million had been drawn down on the Programme (Euros 300 million at December 2015) and the sum of Euros 900 million was available (Euros 700 million at December 2015).

EMTN Program

Gas Natural Fenosa, though the subsidiary companies Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV), maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euros 2.000 million could be issued. Following a number of extensions, the latest in December 2016, the Programme limit is Euros 14,000 million (Euros 14,000 million at 31 December 2015). At 31 December 2016, principal drawn down totalled Euros 10,205 million (Euros 10,605 million at 31 December 2015) and the amount of Euros 3,795 million was available. In April 2016 a private placement of Euros 300 million was performed to refinance another bond which maturity was April 2017 with an annual coupon of 2.31%.

The breakdown of the nominal issue balance is as follows:

Issue	Nominal	Maturity	Coupon %
July 2009	500	2019	6.375
November 2009	750	2021	5.125
January 2010	850	2020	4.500
January 2010	700	2018	4.125
February 2011	600	2017	5.625
May 2011	500	2019	5.375
February 2012	750	2018	5.000
September 2012	800	2020	6.000
October 2012	500	2017	4.125
January 2013	600	2023	3.875
January 2013[1]	204	2019	2.125
April 2013	750	2022	3.875
July 2013[2]	101	2023	3.974
October 2013	500	2021	3.500
March 2014	500	2024	2.875
May 2014	200	2023	2.625
January 2015	500	2025	1.375
April 2016	600	2026	1.250
April 2016	300	2021	0. 515
Total	**10,205**		

[1] CHF 250 million as nominal value.
[2] NOK 800 million as nominal value.

Preference shares

In May 2003, the subsidiary Unión Fenosa Financial Services USA, L.L.C., issued preference shares for a nominal amount of Euros 609 million with the following characteristics:

- Dividend: variable, non-accumulative, until 20 May 2013, was Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.

- Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Any redemptions will be made at par value.

- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable consolidation profit is reported or the payment of a dividend to its ordinary shareholders.

- Voting rights: none

On 16 April 2013, Gas Natural Fenosa's Board of Directors approved a bid for the preferred shares. A cash bid was made to purchase the shares at 93% of their nominal amount; on 16 May 2013, once the acceptance period had ended, the aggregate nominal amount of the acceptances confirmed was Euros 539 million. 88.56% of the issue's nominal amount.

On 22 February 2016, all said outstanding preference shares were redeemed at par value. The balance totalled Euros 69 million and accrued interest at a rate of 3.849%.

Negotiable bonds and Certificates Programme

In May 2010, in Panama, the subsidiary Empresa de Distribución Eléctrica Metro-Oeste, S.A. launched a programme to issue up to USD 50 million (Euros 47 million) in Negotiable Commercial Paper (VCNs). At 31 December 2016 no issuance under said programme had been utilised, remaining available in its entirety (Euros 46 million at December 2015).

In turn, on 3 May 2011 Gas Natural Fenosa, through its subsidiary Gas Natural México S.A. de C.V., registered a Stock Market Certificate Programme in the Mexican Stock Exchange for the sum of Mexican Pesos 10 billion (Euros 530 million), secured by Gas Natural SDG, S.A. Under this Programme, on 20 May 2011 debt was issued for a period of seven years amounting to 1,460 million Mexican pesos (Euros 67 million). Debt was also issued at four years, which has now expired. On 14 July 2015 a debt issue was completed for periods of three and ten years and an aggregate amount of Mexican Pesos 2.8 billion (Euros 129 million). At 31 December 2016, the drawn-down balance is 4,260 Mexican pesos, Euros 196 million (Euros 225 million at 31 December 2015). The balance available under this programme at 31 December 2016 was Mexican Pesos 5,740 million, Euros 263 million (Euros 305 million at 31 December 2015).

During the year 2012, the dependent company Gas Natural S.A. ESP, located in Colombia, signed an Ordinary Bonds program for Columbian Pesos 500,000 million (Euros 158 million) on the local capital market; in the month of October it placed under this program two issues amounting to Columbian Pesos 100,000 million (Euros 32 million) and Columbian Pesos 200,000 million (Euros 63 million) with maturity at 5 and 7 years, respectively. The balance available at 31 December 2016 under this program is Columbian Pesos 200,000 million (Euros 63 million) (Euros 58 million at 31 December 2015).

Following the CGE Group acquisition, capital market debt under a Chilean programme was consolidated. At 31 December 2016, a balance of CLP 563,599 million (Euros 801 million) (Euros 730 million at 31 December 2015) had been utilised and CLP 1,067,663 million (Euros 1,518 million) was drawable.

Loans from financial institutions

European bank loans (commercial / institutional banks)

At 31 December 2016, bank borrowings include bank loans of Euros 1,520 million (Euros 1,662 million at 31 December 2015) and credit lines drawn in the amount of Euros 233 million (Euros 237 million at 31 December 2015). On 16 February 2015, a tranche of the Club Deal loan obtained in 2013 was repaid in advance in the amount of Euros 750 million and a credit line tranche of that loan was refinanced in the amount of Euros 1,500 million to obtain a new credit line of Euros 1,750 million thaht was not utilised at 31 December 2016 and 2015. Additionally, borrowings from the Official Credit Institute (ICO) total Euros 112 million, maturing in 2018 at maximum (Euros 192 million at 31 December 2015).

The European Investment Bank (EIB) has granted financing to Gas Natural Fenosa in the amount of Euros 1,835 million (Euros 1,358 million at 31 December 2015) with Euros 300 million remaining available. In September 2016 the Euros 600 million loan granted by the EIB to finance investments in the gas distribution business in Spain was drawn down.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2016 borrowings from various Latin American banks totalled Euros 1,978 million (Euros 2,069 million at 31 December 2015). The geographic breakdown of these loans is as follows:

Country	2016	2015
Chile	998	1,002
Colombia	48	445
Brazil	412	295
Panama	409	222
Mexico	106	80
Other	5	25
	1,978	**2,069**

Of the total bank borrowings in Latin America at 31 December 2016, 99% relates to commercial banks and the remaining 1% to institutional banks.

Bank loans in other countries (commercial/institutional banks)

At 31 December 2016, borrowings from credit institutions in other countries stand at Euros 16 million (Euros 25 million at 31 December 2015), relating basically to Moldova and Kenya.

Other financial liabilities

At 31 December 2016, the item “Other financial liabilities” basically includes the 10-year finance lease entered into in 2007 with financial institutions for the power islands at the Sagunto combined cycle plant (Note 6).

The breakdown of the minimum payments for the finance leases are as follows:

	At 31/12/16			At 31/12/15		
	Nominal value	Discount	Present value	Nominal value	Discount	Present value
Less than 1 year	52	(2)	**50**	37	(3)	**34**
Between 1 and 5 years	–	–	**–**	51	(2)	**49**
Total	**52**	**(2)**	**50**	**88**	**(5)**	**83**

Note 17. Risk management and derivative financial instruments

Risk management

Gas Natural Fenosa has a series of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Gas Natural Fenosa in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

On 23 June 2016, voters in the United Kingdom supported their country's exit from the European Union ("Brexit"). Although the United Kingdom's exit will be accompanied by a negotiation process that will last for a period of time that is currently undefined, the first consequences have already been observed in both capital and currency markets. However, Gas Natural Fenosa's exposure to the risk of the so-called "Brexit" is virtually zero, so the conclusions stated above on risks and uncertainties are not affected.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce financial debt costs within the established risk parameters.

Gas Natural Fenosa employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2016 and 2015 (Note 16), after taking into account the hedges structured through derivatives, is as follows:

	At 31/12/16	At 31/12/15
Fixed interest rate	13,189	13,900
Floating interest rate	4,413	4,348
Total	**17,602**	**18,248**

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Colombia, Argentina and Chile.

The sensitivity of profit and equity ("Adjustments for changes in value") to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2016	+50	(22)	83
	-50	22	(83)
2015	+50	(22)	27
	-50	22	(27)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the sale and purchase of gas and other raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Gas Natural Fenosa finances, to the extent possible, its investments in local currency. Furthermore, it tries to make, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which Gas Natural Fenosa operates the most is the US Dollar. The sensitivity of results and consolidated equity ("Adjustments for changes in value") of Gas Natural Fenosa to a 5% variation (increase or decrease) in the US Dollar / Euro exchange rate is as follows:

	%	Effect on profit before tax	Effect on equity before tax
2016	+5	–	12
	-5	–	(10)
2015	+5	–	24
	-5	–	(23)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial. At 31 December 2016 Gas Natural Fenosa's equity denominated in Argentinian pesos totals Euros 47 million (Euros 39 million at 31 december 2015), representing a pre-tax impact on equity of Euros 2 million (Euros 2 million at 31 december 2015) at 5% sensitivity.

Commodities price risk

A large portion of Gas Natural Fenosa's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants. Therefore, Gas Natural Fenosa is exposed to gas price fluctuation risk, whose determination is basically subject to the prices of crude oil and its by-products. Additionally, in the electricity generation business Gas Natural Fenosa is exposed to CO_2 emission allowances fluctuation risk and electricity prices variations.

The exposure to these risks is managed and mitigated through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

The risk involved in the electricity ad CO_2 emission allowances trading operations carried out by Gas Natural Fenosa is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

The sensitivity of profit and equity (Value adjustments) to the variation in the fair value of derivative contracts to hedge commodity prices is as follows:

	Increase / decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2016	+10	–	44
	-10	–	(44)
2015	+10	–	67
	-10	–	(67)

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2016	+10%	–	27
	-10%	–	(27)
2015	+10%	1	1
	-10%	(1)	(1)

As regards exposure to low commodity prices, Gas Natural Fenosa has no relevant investments in upstream businesses or commodities production, so that fluctuations in commodity prices have no significant impact on asset values.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Gas Natural Fenosa's results.

- Gas and electricity. Profit margins on gas and electricity commercialisation activities are directly affected by commodity prices. In this regard, Gas Natural Fenosa has a risk policy that stipulates the tolerance range of the company, based on applicable risk limits, among other aspects. Measures employed to keep the risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit binomial.

Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which the respective credit limits are assigned.

In order to do so various credits quality measuring models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2016, Gas Natural Fenosa had received guarantees totalling Euros 155 million to cover the risk of large industrial customers (Euros 51 million at 31 December 2015). In 2016, bank guarantees amounting to Euros 1 million were enforced (Euros 1 million at 31 December 2015).

Furthermore, the debt claims are stated on the Consolidated balance sheet net of provisions for bad debts (Note 11), estimated by Gas Natural Fenosa on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2016 and 2015 Gas Natural Fenosa does not have significant concentrations of credit risk.

In order to mitigate credit risk arising from financial positions, Gas Natural Fenosa enters into derivatives and places treasury surpluses in banks and financial entities that are highly solvent and rated by Moody’s and S&P.

Likewise, most of the accounts receivable neither due nor provided for have a high credit rating, according to the valuations of Gas Natural Fenosa, based on the solvency analysis and payment habits of each customer.

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2016 and 2015 is as follows:

	At 31/12/16	At 31/12/15
Less than 90 days	326	450
90 – 180 days	89	142
More than 180	14	7
Total	**429**	**599**

The impaired financial assets are broken down in Note 11.

Liquidity risk

Gas Natural Fenosa has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of funds sufficient to cover credit obligations.

Available cash resources at 31 December 2016 are analysed below:

Liquidity source	Availability 2016
Undrawn credit facilities *(Note 16)*	7,642
Undrawn loans	352
Cash and cash equivalents *(Note 12)*	2,067
Total	**10,061**

There is also additional capacity to issue debt in the capital markets unused for Euros 6,586 million, as explained previously (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2016 and 2015 is as follows:

	2017	2018	2019	2020	2021	2022 and after	**Total**
At 31 December 2016							
Trade and other payables	(4,072)	–	–	–	–	–	**(4,072)**
Loans and other financial payables	(3,327)	(3,371)	(3,499)	(2,914)	(2,678)	(5,709)	**(21,498)**
Financial derivatives	(16)	31	23	–	(11)	7	**34**
Other liabilities	(104)	(97)	(165)	(87)	(81)	(615)	**(1,149)**
Total[1]	**(7,519)**	**(3,437)**	**(3,641)**	**(3,001)**	**(2,770)**	**(6,317)**	**(26,685)**

[1] The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 16.

	2016	2017	2018	2019	2020	2021 and after	**Total**
At 31 December 2015							
Trade and other payables	(4,008)	–	–	–	–	–	**(4,008)**
Loans and other financial payables	(3,165)	(3,247)	(3,220)	(3,420)	(3,017)	(6,210)	**(22,279)**
Financial derivatives	(1)	(16)	(1)	73	–	(15)	**40**
Other liabilities	(65)	(60)	(59)	(125)	(51)	(366)	**(726)**
Total[1]	**(7,239)**	**(3,323)**	**(3,280)**	**(3,472)**	**(3,068)**	**(6,591)**	**(26,973)**

[1] The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 16.

Capital management

The main purpose of capital management of Gas Natural Fenosa is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Gas Natural Fenosa considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

The long-term credit rating of Gas Natural Fenosa is as follows:

	2016	2015
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Its leverage rating is as follows:

	2016	2015
Net borrowings:	**15,423**	**15,648**
Non-current borrowings *(Note 16)*	15,003	15,653
Current borrowings *(Note 16)*	2,599	2,595
Cash and cash equivalents *(Note 12)*	(2,067)	(2,390)
Derivatives *(Note 17)*	(112)	(210)
Net equity:	**19,005**	**18,518**
Equity holders of the Company *(Note 13)*	15,225	14,367
Non-controlling interests *(Note 13)*	3,780	4,151
Leverage (Net borrowings / (Net borrowings + Net equity))	**44.8**	**45.8**

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31/12/16		At 31/12/15	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	111	62	208	167
Cash flow hedges				
Interest rate	85	22	25	41
Commodity prices	–	–	–	2
Fair value hedges				
Interest rate and exchange rate	26	40	183	124
Other financial instruments	–	–	–	–
Derivative financial instruments – non current	111	62	208	167
Derivatives qualifying for hedge accounting	46	61	5	190
Cash flow hedges				
Interest rate	1	6	–	1
Exchange rate	9	–	1	1
Commodity prices	36	42	1	174
Fair value hedges				
Interest rate and exchange rate	–	–	–	–
Exchange rate	–	13	3	14
Other financial instruments	1	5	2	10
Commodity prices	1	5	2	9
Exchange rate	–	–	–	1
Derivative financial instruments – current	47	66	7	200
Total	**158**	**128**	**215**	**367**

The fair value of derivatives is determined based on observable variables in an active market (Level 2).

"Other financial instruments" includes the derivatives not qualifying for hedge accounting.

The impact on the Consolidated Income Statement of derivative financial instruments is as follows:

	2016		2015	
	Operating profit/(loss)	Net financial income/(expense)	Operating profit/(loss)	Net financial income/(expense)
Cash flow hedges	(81)	(25)	61	(15)
Fair value hedges	(10)	(28)	(18)	(36)
Other financial instruments	(25)	(1)	(2)	15
Total	**(116)**	**(54)**	**41**	**(36)**

The breakdown of the derivative financial instruments at 31 December 2016 and 2015, their fair value and the breakdown by maturity of their notional values are as follows:

		31 December 2016 Notional amount						
	Fair value	2017	2018	2019	2020	2021	after	**Total**
Interest rate hedges								
Cash flow hedges								
Financial swaps (EUR)	23	684	–	–	–	–	1,500	**2,184**
Financial swaps (USD)	(2)	223	259	–	–	–	–	**482**
Financial swaps (MXN)	32	57	200	–	–	–	–	**257**
Financial swaps (CHF)	26	–	–	204	–	–	–	**204**
Financial swaps (NOK)	(21)	–	–	–	–	–	101	**101**
Financial swaps (COP)	–	–	–	–	–	–	–	**–**
Foreign exchange hedges								
Cash flow hedges								
Foreign exchange insurance (USD)	9	213	–	–	–	–	–	**213**
Foreign exchange insurance (GBP)	–	13	–	–	–	–	–	**13**
Fair value hedges								
Financial swaps (CLP)	(14)	–	–	60	–	160	–	**220**
Financial swaps (MXN)	–	–	–	–	–	–	–	**–**
Foreign exchange insurance (BRL)	–	–	–	–	–	–	–	**–**
Foreign exchange insurance (USD)	(13)	374	–	–	–	–	–	**374**
Foreign exchange insurance (DHN)	–	7	–	–	–	–	–	**7**
Commodities hedges								
Cash flow hedges								
Commodities price derivatives (EUR)	23	309	54	4	–	–	–	**367**
Commodities price derivatives (USD)	(29)	281	139	131	–	–	–	**551**
Other								
Commodities price derivatives (EUR)	(4)	13	–	–	–	–	–	**13**
Foreign exchange derivatives (USD)	–	–	–	–	–	–	–	**–**
Total	**30**	**2,174**	**652**	**399**	**–**	**160**	**1,601**	**4,986**

	Fair value	31 December 2015 Notional amount						
		2016	2017	2018	2019	2020	after	**Total**
Interest rate hedges								
Cash flow hedges:								
Financial swaps (EUR)	(13)	255	684	–	–	–	–	**939**
Financial swaps (USD)	(5)	3	216	251	–	–	–	**470**
Financial swaps (MXN)	0	–	53	–	–	–	–	**53**
Financial swaps (CHF)	24	–	–	–	204	–	–	**204**
Financial swaps (NOK)	(24)	–	–	–	–	–	101	**101**
Financial swaps (COP)	1	23	120	–	–	–	–	**143**
Foreign exchange hedges								
Cash flow hedges								
Foreign exchange insurance (USD)	–	482	–	–	–	–	–	**482**
Foreign exchange insurance (GBP)	–	1	–	–	–	–	–	**1**
Fair value hedges:								
Financial swaps (CLP)	60	–	–	–	722	–	160	**882**
Financial swaps (MXN)	(1)	–	–	222	–	–	–	**222**
Foreign exchange insurance (BRL)	–	13	–	–	–	–	–	**13**
Foreign exchange insurance (USD)	(11)	833	–	–	–	–	–	**833**
Foreign exchange insurance (DHN)	–	6	–	–	–	–	–	**6**
Commodities hedges								
Cash flow hedges								
Commodities price derivatives (EUR)	(20)	219	40	–	–	–	–	**259**
Commodities price derivatives (USD)	(155)	215	228	120	123	–	–	**686**
Other								
Commodities price derivatives (EUR)	(7)	103	27	–	–	–	–	**130**
Foreign exchange derivatives (USD)	(1)	1	–	–	–	–	–	**1**
Total	**(152)**	**2,154**	**1,368**	**593**	**1,049**	**–**	**261**	**5,425**

Note 18. Other non-current liabilities

The breakdown of this heading at 31 December 2016 and 2015 is as follows:

	At 31/12/16	At 31/12/15
Finance lease liabilities (1)	965	582
Deposits and guarantees deposits (2)	221	215
Derivative financial instruments *(see Note 17)*	–	2
Other liabilities (3)	145	145
Total	**1,331**	**944**

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Finance lease liabilities

The main finance lease liabilities recognised in this item at 31 December are as follows:

- In 2003 Gas Natural Fenosa acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m3 through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.
- In 2007 and 2009 two 138,000 m3 tankers were acquired, together with Repsol, under 25-year time-charter agreements, extendable for consecutive 5-year periods. In 2014, Gas Natural Fenosa and Shell entered into an agreement, as part of the sale of the Repsol Group's liquefied natural gas business, to obtain exclusive use of each of the two tankers, Gas Natural Fenosa using the tanker acquired in 2009 under a time charter expiring in 2029 and extendable for consecutive five-year periods.
- In March 2014, Gas Natural Fenosa acquired a 173,000 m3 tanker to carry liquefied natural gas under an 18-year finance lease expiring in 2032.
- In September and November 2016, Gas Natural Fenosa acquired two 176,300 m3 tankers to carry liquefied natural gas under an 20-year finance leases expiring in 2036.

Minimum lease payments are as follows:

	A 31/12/16			A 31/12/15		
	Nominal value	Discount	Present value	Nominal value	Discount	Present value
Less than 1 year	110	(7)	**103**	68	(4)	**64**
Between 1 and 5 years	439	(86)	**353**	271	(51)	**220**
More than 5 years	1,190	(578)	**612**	640	(278)	**362**
Total	**1,739**	**(671)**	**1,067**	**979**	**(333)**	**646**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2016 is 6.5% (6.5% at 31 December 2015).

(2) Deposits and guarantees deposits

The item "deposits and guarantees deposits" basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 8) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(3) Other liabilities

This includes the purchase commitment (without a premium) made to Sinca Inbursa, S.A. de C.V. (Inbursa) on 22 September 2008 covering 14.125% of Gas Natural México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. The maturity date of this commitment is May 2019, when Ibursa will be able to offer all shares held at that time to Gas Natural Fenosa, which will be obligated to purchase them. The acquisition price will be the market value of each share, based on the investees' results. As a result of the commitment, this sale is recognized as a deferred payment and the repurchase commitment percentage is still allocated to the Parent company. The liability recognised in this item at 31 December 2016 totals Euros 74 million, representing the present value of the amount repayable (Euros 72 million at 31 December 2015).

Note 19. Trade and other payables

The breakdown at 31 December 2016 and 2015 is as follows:

	At 31/12/16	At 31/12/15
Trade payables	3,204	3,049
Trade payables with related parties *(Note 33)*	51	43
Amounts due to associates	19	4
Trade payables	**3,274**	**3,096**
Public Administration	519	477
Derivative financial instruments *(see Note 17)*	48	183
Amounts due to employees	96	95
Other creditors	29	22
Other creditors	**692**	**777**
Current tax liabilities	106	135
Total	**4,072**	**4,008**

The fair value and carrying value of these liabilities do not differ significantly.

Disclosure of deferrals of payment to suppliers Additional Provision 3 "Duty of disclosure" of Law 15/2010 of July 5

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of July 5, which laid down measures against slow payers, is as follows:

	2016 Amount	2015 Amount
Total payments	11,533	14,647
Total payments outstanding	417	464
Average supplier payment period (days)[1]	28	29
Transactions paid ratio (days)[2]	27	29
Transactions pending payment ratio (days)[3]	30	30

[1] Calculated taking into account paid amounts and pending payment amounts.
[2] Supplier payment period in the operations paid in the exercise
[3] Average age of supplier pending payment amounts

Note 20. Other current liabilities

The breakdown at 31 December 2016 and 2015 is as follows:

	A 31/12/16	A 31/12/15
Dividend payable	37	421
Expenses accrued pending payment	174	233
Finance lease liabilities *(Note 18)*	103	64
Derivative financial instruments *(Note 17)*	–	3
Other liabilities	33	31
Total	**347**	**752**

Note 21. Tax situation

Gas Natural SDG, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2016 is indicated in Appendix III.

The rest of the Gas Natural Fenosa companies file individual tax returns under their respective regimes, barring a number of Italian subsidiaries that form their own tax consolidated group.

Set out below is the reconciliation between "Income tax" recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes" for 2016 and 2015:

	2016	%	2015	%
Income before taxes	**2,083**		**2,363**	
Statutory tax	**521**	**25.0**	**662**	**28.0**
Effect of net results under equity method	25	1.2	1	–
Application of tax rates of foreign entities	(20)	(1.5)	(45)	(1.9)
Tax credits	(13)	(0.1)	(39)	(1.7)
Reversal deferred tax on Transnet merger	(128)	(6.1)	–	–
Remeasurement deferred taxes Colombia	21	1.0	–	–
Other items	10	0.5	(6)	(0.2)
Income tax	**416**	**20.0**	**573**	**24.2**
Breakdown of current/deferred expense				
Current income tax	474		662	
Deferred income tax	(58)		(89)	
Income tax	**416**		**573**	

On 27 November 2014, Corporate Income Tax Law 27/2014 was approved, stipulating a general tax rate cut from 30% to 28% for 2015 and to 25% as from 2016. This tax rate reduction from 28% to 25% in Spain was partially mitigated by a rise in the tax rate in Chile from 22.5% to 24%.

As part of a business reorganisation process in Chile and corporate structure simplifcation, on 14 December 2016, Compañía General de Electricidad, S.A. carried out a vertical merger with its subsidiary Transnet. The resulting goodwill has been allocated to the value for tax purposes of the non-monetary assets received from the absorbed company (electricity transmission networks), subject to the limit of its market value, equivalent to its carrying amount at the date of the operation, generating a decrease in deferred tax liabilities of Euros 128 million with exchange to the heading "Income tax expense" of the Consolidated income statement.

On 29 December 2016, Colombia published Act no. 1819 on Structural Tax Reform, which establishes a progressive reduction in the income tax rate in 2017, 2018 and 2019. As a result, deferred taxes were re-measured using the projected reversal rate, resulting in an amount of Euros 21 million of additional corporate income tax expenses being recognised in the consolidated income statement.

Royal Decree-Act 3/2016, adopting tax-related measures to strengthen public finances, was enacted on 3 December 2016; it made significant amendments to the law on corporate income tax. Those amendments include: the obligation, from 1 January 2016, to reverse, within at most five years, any impairment recognised on holdings that were deductible prior to 2013; limitation of tax loss carryforwards for large companies to 25% of the preceding taxable base; and limitation of the application of the earned or unused internal or international double-taxation tax credit to 50% of the pre-existing gross tax payable. Additionally, with effects from 1 January 2017, the transmissions losses of participations will not be deducted. In 2016 these measures had a non-material impact in the financial statements of Gas Natural Fenosa.

Income qualifying for the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2004 of March 5 (TRLIS) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. Set out below is a breakdown:

Year of sale	Amount obtained on the sale	Amount reinvested	Income qualifying for deduction	Year of reinvestment
2011	4	4	2	2011
2012	1	1	–	2012
2013	1	1	1	2013
2014	414	414	210	2014
Total	**420**	**420**	**213**	

The reinvestment was made in fixed assets used in business activities and was carried out by both the parent company the other companies included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the revised CIT Act) and the investments in which it was used in prior years are explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	18	444
2003	39	39	20	–	20
2004	292	292	177	9	168
2005	432	432	300	1	299
2006	309	309	226	–	226
2009	161	161	87	–	87
2010	799	799	560	–	560
2011	450	450	394	–	394
2012	38	38	32	–	32
Total	**3,437**	**3,437**	**2,258**	**28**	**2,230**

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of "Other comprehensive income" of the Consolidated Statement of Comprehensive Income for the year is as follows:

	At 31/12/16			At 31/12/15		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	4	(1)	3	5	(1)	4
Cash flow hedges	228	(61)	167	(164)	39	(125)
Translation differences	428	–	428	(320)	–	(320)
Actuarial gains and loss *(Note 15)*	(51)	13	(38)	7	(2)	5
Total	**609**	**(49)**	**560**	**(472)**	**36**	**(436)**

Set out below is an analysis of and movements in deferred taxes:

Deferred tax assets	Provisions for employee benefit obligations	Provision of depreciation of receivables and other provisions	Tax- loss carry-forwards[1]	Depreciation differences	Financial instruments and asset valuation	Other	Total
At 01/01/15	204	236	106	416	43	129	1,134
Charged/(credited) to income statement[2]	(11)	42	(7)	(79)	38	16	**(1)**
Business combinations *(Note 31)*	–	–	6	1	–	2	**9**
Movements related to equity adjustments	(2)	–	–	–	1	–	**(1)**
Translation differences	(10)	(28)	(2)	(8)	(12)	(2)	**(62)**
Assets and liabilities held for sale (Note 9)	(1)	(1)	(10)	(2)	–	–	**(14)**
Transfers and other	(1)	9	–	–	(3)	–	**5**
At 31/12/15	179	258	93	328	67	145	1,070
Charged/(credited) to income statement	(7)	(10)	(16)	(14)	(39)	(5)	**(91)**
Business combinations *(Note 31)*	–	–	–	–	–	–	**–**
Movements related to equity adjustments	17	–	–	–	(4)	–	**13**
Translation differences	5	13	5	2	(6)	(1)	**18**
Assets and liabilities held for sale *(Note 9)*	–	–	–	–	–	–	**–**
Transfers and other[3]	(33)	(96)	(15)	(9)	21	(6)	**(138)**
At 31/12/16	161	165	67	307	39	133	872

[1] At 31 December 2016 and 2015, the tax credits relate mainly to tax loss carryforwards in the CGE Group generated basically as a result of taking accelerated depreciation for tax purposes. The recovery of the tax credits is reasonably assured since there is no expiration date and they relate to companies that have historically posted recurring profits.
[2] The reversal of the application of the temporary 30% limit on the tax deduction of depreciation charges stipulated in Law 16/2012 was included in 2015.
[3] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

Deferred tax liabilities	Depreciation differences	Deferred capital gains	Business combination valuation[1]	Financial instruments and asset valuation	Other	**Total**
At 01/01/15	**1.043**	**210**	**1.448**	**6**	**91**	**2,798**
Charged/(credited) to income statement	(2)	(1)	(66)	(5)	(16)	**(90)**
Business combinations *(Note 31)*	1	–	15	–	–	**16**
Movements related to equity adjustments	(1)	–	–	(2)	–	**(3)**
Translation differences	(39)	1	(9)	–	3	**(44)**
Assets and liabilities held for sale *(Note 9)*	(111)	–	(20)	–	(3)	**(134)**
Transfers and other	2	(1)	–	(1)	–	**–**
At 31/12/15	**893**	**209**	**1.368**	**(2)**	**75**	**2,543**
Charged/(credited) to income statement[2]	(119)	–	(51)	1	20	**(149)**
Business combinations *(Note 31)*	–	–	8	–	–	**8**
Movements related to equity adjustments	–	–	–	20	–	**20**
Translation differences	61	–	6	–	4	**71**
Assets and liabilities held for sale *(Note 9)*	–	–	–	–	–	**–**
Transfers and other[3]	–	–	(9)	25	–	**16**
At 31/12/16	**835**	**209**	**1.322**	**44**	**99**	**2,509**

[1] The item “Business combination valuation” includes the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. in 2009, allocated to net assets acquired, which is not expected to have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Gas Natural Fenosa carried out in 2014 and of various prior acquisitions completed by CGE.
[2] The item "Depreciation differences" includes the decrease in deferred tax liabilities of Euros 128 million resulting from the Transnet merger mentioned above.
[3] Includes mainly the derecognition of the balances of Electricaribe due to deconsolidation of that stake after the loss of control (Note 8).

At 31 December 2016 the tax credits that have not been recorded totalled Euros 30 million (Euros 27 million at 31 December 2015).

In October 2015, the tax inspection of Gas Natural SDG, S.A. and Gas Natural Distribución Latinoamérica, S.A. (formerly Gas Natural Internacional SDG, S.A.) for corporate income tax (2009 and 2010) and value added tax (2010) came to an end, no relevant matters having been identified and without any significant impacts on the consolidated income statement.

Gas Natural SDG, S.A.'s tax group is open to inspection for 2011 and subsequent periods and the taxes to which it is subject.

In general, the other Gas Natural Fenosa companies are open to inspection for the following periods:

Country	Period
Argentina	2010-2016
Brazil	2011-2016
Colombia	2014-2016
Chile	2013-2016
Italy	2012-2016
Mexico	2011-2016
Panama	2010-2016

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. In any case, Gas Natural Fenosa considers that any such liabilities will not have a significant effect on these annual accounts.

Gas Natural Fenosa has recorded provisions for obligations deriving from a number of tax claims. At 31 December 2016, the main tax litigation affecting the Group relates to the tax credit for export activities. As a result of the inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural SDG, S.A.; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the Supreme Court. At 31 December 2016, the assessments, including interest, amounted to Euros 93 million and are fully provisioned (Note 15).

Note 22. Sales

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Sales of gas and connections to distribution networks	11,531	13,904
Sales of electricity and access to distribution networks	10,106	10,575
Rental of facilities, maintenance and other services	1,472	1,445
Other sales	75	91
Total	**23,184**	**26,015**

Note 23. Procurements

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Energy purchases	12,782	15,075
Access to transmission networks	2,152	2,176
Other purchases and Stock variation	486	746
Total	**15,420**	**17,997**

Note 24. Other operating income

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Other management income	261	252
Operating grants	4	5
Total	**265**	**257**

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 141 million (Euros 143 million in 2015); whose fair value is estimated by reference to the expenses incurred (Note 26), with no margin.

Note 25. Personnel costs

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Wages and salaries	857	820
Social security costs	136	134
Defined contribution plans	44	41
Defined benefit plans *(Note 15)*	9	10
Own work capitalised	(116)	(113)
Other	83	81
Total	**1,013**	**973**

The average number of employees of Gas Natural Fenosa in 2016 was 19,661 and 21,542 in 2015 and its breakdown by category is as folows:

	2016	2015
Executives	1,477	1,500
Middle management	3,098	3,631
Specialized technicians	5,281	5,769
Workers	9,805	10,642
Total	**19,661**	**21,542**

The average number of employees in the year with a disability equal to or greater than 33% is as follows, by category:

	2016	2015
Executives	7	6
Middle management	25	23
Specialized technicians	64	60
Workers	164	174
Total	**260**	**263**

The number of employees of Gas Natural Fenosa at the end of 2016 and 2015 broken down by category, gender and geographical area, is as follows:

	2016		2015	
	Male	Female	Male	Female
Executives	1,091	371	1,087	360
Middle management	2,297	607	2,402	648
Specialized technicians	3,479	1,757	3,611	1,702
Workers	5,515	2,112	7,386	2,743
Total	**12,382**	**4,847**	**14,486**	**5,453**

	2016	2015
Spain	7,452	7,560
Rest of Europe	1,252	1,210
Latin American	7,612	10,213
Rest	913	956
Total	**17,229**	**19,939**

At the end of 2016, the number of employees, which is not included as a consequence of the loose of control (Note 8), was 1,478 persons.

The calculation of the average number of employees does not take into account the average number of employees of equity-consolidated companies, which amounts to 920 persons (1,104 persons at 31 December 2015). It also did not consider the number of employees of those companies at the year end, amounting to 848 persons at 31 December 2016 (1,151 persons at 31 December 2015).

Note 26. Other operating expenses

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Taxes	483	484
Operation and maintenance	372	361
Commercial services and advertising	357	353
Bad debt provision (Note 11)	327	258
Professional services and insurance	200	193
Construction or improvements services of IFRIC 12 Concessions *(Note 24)*	141	143
Supplies	113	121
Services to customers	86	70
Operating leases[1]	57	61
Other	331	316
Total	**2,467**	**2,360**

[1] In Note 35 are detail of the minium payments that can not be cancelled of the operating leases.

Note 27. Gain/(loss) on disposals of tangible fixed assets

It includes the gain of Euros 51 million from the sale of four buildings in Madrid for Euros 206 million (Note 6).

Note 28. Other income

In 2016, this item relates to the pre-tax gain of Euros 128 million from the sale of the interest in GNL Quintero, S.A. (Chile) for Euros 182 million (Note 7).

Also included is the transfer of translation differences accumulated in net equity on the Electricaribe stake up to the point that Gas Natural Fenosa lost control (Note 8), with a negative impact of Euros 38 million.

In 2015, this item related to the pre-tax gain of Euros 5 million from the sale of the 44.9% stake in the company Barras Eléctricas Galaico Asturianas, S.A. to the Viesgo Group for Euros 97 million (Note 7).

Note 29. Net financial income

The breakdown of this heading for 2016 and 2015 is as follows:

	2016	2015
Dividends	14	12
Interest income	32	22
Other	85	106
Total financial income	**131**	**140**
Financial expense from borrowings	(779)	(845)
Interest expenses of pension plans and other post-employment benefits	(32)	(30)
Other financial expenses	(143)	(157)
Total financial expenses	**(954)**	**(1,032)**
Variations in the fair value of derivate financial instruments *(Note 17)*	(2)	(1)
Net exchange gains/losses	–	(1)
Net financial income	**(825)**	**(894)**

Note 30. Cash generated from operating activities

The breakdown of cash generated from operations in 2016 and 2015 is as follows:

	2016	2015
Income before tax	2,083	2,363
Adjustments to net income:	2,495	2, 599
Depreciation, amortisation and impairment expenses *(Note 5, 6 and 9)*	1,759	1,791
Other adjustments to net income:	736	808
Net financial income *(Note 9 and 29)*	825	918
Profit of entities recorded by equity method *(Note 7 and 9)*	98	3
Transfer of deferred income *(Note 14)*	(43)	(64)
Other results *(Note 28)*	(122)	(5)
Net variation in Provisions	(76)	(91)
Pre-tax profit/(loss) from discontinued activities *(Note 9)*	54	47
Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences)	5	(75)
Inventories	135	251
Trade and other receivables	(316)	228
Trade and other payables	186	(554)
Other cash flows from operating activities	(1,208)	(1,387)
Interest paid	(793)	(898)
Interest collected	31	24
Dividends collected	79	82
Income tax payments	(525)	(595)
Cash flows generated from operating activities	**3,375**	**3,500**

Note 31. Business combinations

Year 2016

Vayu Limited

On 29 July 2016 Gas Natural Fenosa completed the purchase of 100% of the Irish gas and electricity supply company Vayu Limited (Vayu) under the new strategic plan which envisages growth in the energy supply business in Europe. This transaction will complement the Group's position in the European markets in which it is already present (France, Italy, Belgium, Netherlands, Portugal, Germany and Luxembourg) will permit to achive the saving synergies arising from the integration and facilitates the development of GNL's trading and operations activity. Vayu's share in the supply of gas in Ireland to major industrial and commercial customers is 15%, while its share of electricity sales is around 6%. The total cost of the business combination amounts to Euros 32 million. Goodwill has been calculated at Euros 16 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 30 September 2016 and goodwill break down as follows:

Acquisition cost	32
Fair value of the net assets	16
Goodwill *(Note 5)*	**16**

	Fair value	Carrying amount
Intangible assets *(Note 5)*	14	–
Other current assets	12	12
Cash and cash equivalents	10	10
Total assets	**36**	**22**
Deferred tax liabilities *(Note 21)*	2	–
Other current liabilities	18	18
Total liabilities	**20**	**18**
Net assets acquired	**16**	**4**
Fair value of the net assets acquired	**16**	
Acquisition price	32	
Cash and cash equivalents in subsidiary acquired	10	
Net acquisition cost	**22**	

If the operation had taken place on 1 January 2016, the impact of the operation on revenue and consolidated profit would not have been significant.

During the process for the assignment of the purchase price, assets were identified subject to restatement on the basis of the balance sheet of Vayu Limited at 31 July 2016. Vayu Limited 's net assets have basically been measured using the following methodology:

- The business was measured following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the measurement were a discount rate of 12.1% and a growth rate of 0%.
- The most sensitive assumptions included in the projections and which are based on sector forecasts and the analysis of historical information relate to the evolution of electricity and gas margins.

As a result of the assignment process, an intangible asset restatement has been recognised with respect to the value of the gas and electricity customer portfolio and the value of agreements to acquire energy. The deferred tax liabilities relating to revaluations were also recognised.

At the acquisition date, no contingent liabilities have been identified and therefore no provisions have been recognised in addition to the amounts included in the carrying amount.

Provisional goodwill resulting from this business combination is attributable to the high profitability of the acquired business described above, to the benefits and synergies that are expected to arise from the aforementioned integration, and from the fact that Vayu has a workforce with considerable experience in the energy markets.

Ibereólica Cabo Leones II S.A.

At 15 December 2015, Gas Natural Fenosa reached an agreement to acquire 15% of Ibereólica Cabo Leones II S.A. through its subsidiary Global Power Generation Chile S.p.A. This business combination was recognised definitively in 2016 since that was the year in which key information required for such recognition was obtained and in which the 12-month period from the acquisition data as established in IFRS 3 expired.

Cabo Leones II is a 204 MW wind farm which, in the 2016 power auctions, was awarded a contract to supply 555 GWh per year to the Chilean distribution system starting in 2020.

With this acquisition, Gas Natural Fenosa fulfilled its commitment to enter the Chilean power generation market.

The total cost of the business combination amounts to Euros 11 million. Goodwill has been calculated at Euros 3 million as the difference between the acquisition cost and the interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 1 January 2016 and goodwill break down as follows:

Acquisition cost	11
Fair value of the net assets	8
Goodwill *(Note 5)*	**3**

	Fair value	Carrying amount
Intangible assets *(Note 5)*	23	1
Total assets	**23**	**1**
Deferred tax liabilities *(Note 21)*	6	–
Trade and other payables	1	1
Total liabilities	**7**	**1**
Net assets acquired	**16**	**–**
Non-controlling interests *(Note 13)*	**8**	
Fair value of the net assets acquired	**8**	
Acquisition price	11	
Cash and cash equivalents in subsidiary acquired	–	
Net acquisition cost	**11**	

During the process for the assignment of the purchase price, assets qualifying for revaluation were identified on the basis of the balance sheet of Ibereólica Cabo Leones II S.A. at 1 January 2016, corresponding to intangible assets consisting of the necessary permits to operate the wind farm. The deferred tax liabilities relating to revaluations were also recognised.

Those net assets of Ibereólica Cabo Leones II S.A. were measured basically as follows:

- The business was measured following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the measurement were a discount rate of 9.2% and a growth rate of 0%.
- The most sensitive assumptions included in the projections, which are based on sector forecasts and the analysis of historical information, relate to the evolution of electricity prices in the Chilean market and the estimated hours of wind during the facility's useful life.

Other acquisitions

In December 2016, Gas Natural Fenosa acquired, through GPG, 100% of the companies Inca de Varas I, S.A. and Inca de Varas II, S.A. for an initial amount of Euros 1 million corresponding basically to intangible assets. These companies are initiating the development of a photovoltaic solar generation facility in Chile with a capacity of 120 MW.

On the other hand, in December 2016, Gas Natural Fenosa acquired, through GPG, 85% of the companies Sobral I Solar Energia SPE Ltda. and Sertao I Solar Energia SPE Ltda., for a joint amount of Euros 1 million corresponding basically to intangible assets. No goodwill arose on the operation. These companies are commencing the development of two photovoltaic solar generation facilities in Brazil with a joint capacity of 60 MW.

Had these operations taked place on 1 January 2016, the impact on revenue and consolidated profit would not have been significant.

All these business combinations have been accounted for provisionally, as the 12-month period from the acquisition date established under IFRS 3 has still not terminated.

During 2016, payments on investments in companies, net of cash and equivalents acquired amounted to Euros 331 million, mainly due to the acquisitions of Gas Natural Chile, S.A. (Nota 9) and Vayu Limited.

Year 2015

Gecal Renovables, S.A.

In June 2015 Gas Natural Fenosa entered into an agreement to acquire 100% of Gecal Renovables, S.A. (Gecalsa). The transaction was completed on 13 October 2015 although for accounting purposes, the business combination date was considered to be 30 September 2015 on the understanding that the difference between both dates was insignificant. The total cost of the business combination amounts to Euros 104 million. Goodwill was calculated at Euros 14 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 30 September 2015 and goodwill break down as follows:

Acquisition cost	104
Fair value of the net assets	90
Goodwill *(Note 5)*	**14**

	Fair value	Carrying amount
Intangible assets *(Note 5)*	89	2
Property, plant and equipment *(Note 6)*	160	160
Investments carried under the equity method *(note 7)*	6	2
Non-current financial assets	2	2
Deferred tax assets *(Note 21)*	9	9
Other current assets	13	13
Cash and cash equivalents	12	12
Total assets	**291**	**200**
Non-controlling interests *(Note 13)*	5	–
Non-current financial liabilities *(Note 16)*	56	56
No-current provisions *(Note 15)*	3	3
Other non-current liabilities	2	2
Deferred tax liabilities *(Note 21)*	16	2
Current financial liabilities *(Note 16)*	109	109
Other current liabilities	10	10
Total liabilities	**201**	**182**
Net assets acquired	**90**	**18**
Fair value of the net assets acquired	**90**	
Acquisition price	104	
Cash and cash equivalents in subsidiary acquired	12	
Net acquisition cost	**92**	

The consolidated net profit for the period contributed since the acquisition date amounted to Euros 1 million. If the acquisition had taken place on 1 January 2015, consolidated revenue and EBITDA for the period would have increased by Euros 28 million and Euros 19 million respectively, and the impact on consolidated profit attributable to the parent company's shareholders would not have been significant.

Gecalsa operates 10 wind farms and a photovoltaic plant in Spain, which together have a net installed capacity of 222 MW.

During the process for the assignment of the purchase price, assets were identified subject to restatement on the basis of the balance sheet of Gecalsa at 30 September 2015. The measurement of Gecalsa's net assets was basically performed using the following methodology:

- The business was measured following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the measurement were a discount rate of 10.3% and a growth rate of 0%.
- The most sensitive assumptions included in the projections and which were based on sector forecasts and the analysis of historical information, relate to the evolution of electricity price, and the operation and maintenance costs.

As a result of the assignment process, an intangible asset restatement was recognised with respect to the value of the necessary authorisations to operate the wind farms while deferred tax liabilities were been recognised on the restatements with no tax effect. In December 2015 the merger by absorption of Gecal Renovables, S.A and several subsidiaries by Gas Natural Fenosa Renovables S.L.U was initiated.

Gas Directo, S.A.

In July 2015 Gas Natural Fenosa acquired from Union Fenosa Gas, S.A. and Cepsa, S.A, their respective interests of 60% and 40% in the gas distribution company, Gas Directo, S.A., amounting to Euros 5 million. This operation did not trigger any goodwill. Before the operation Gas Natural Fenosa owned an indirect interest of 30% through its interest in Union Fenosa Gas, S.A. Therefore, the operation was treated as a business combination in stages, although the restatement for the different between the carrying amount of the interest and its fair value was not significant.

If the operation had taken place on 1 January 2015, the impact of the operation on revenue and consolidated profit would not have been significant.

Genroque, S.L.

In October 2015 Nueva Generadora del Sur, S.A., a company 50% owned jointly with another shareholder, that operated the 800 MW combined cycle plant in Gibraltar, spun off each of its two groups of 400 MW generators, along with the corresponding material and human resources in favour of two companies Genroque, S.L. and Puente Mayorga Generación, S.L., wholly owned respectively by Gas Natural Fenosa and the other shareholder, following the sale-purchase of 50 remaining. Therefore, for accounting purposes, the operation was considered a swap. Given that the net amount of the interest in Nueva Generadora del Sur, S.A. amounting to Euros 200 million was carried at fair value and that this agreed with the fair value of the business acquired (Genroque, S.L.), the operation did not generate profit or goodwill. On 30 December 2015 the Extraordinary General Shareholders' Meeting of Gas Natural Fenosa Generación, S.L.U. approved the merger by absorption of Genroque, S.L.U, in order to fully integrate the group attributed in the generation park of Gas Natural Fenosa.

If the operation had taken place on 1 January 2015, the impact of the operation on consolidated revenue and profit would not have been significant.

All the business combinations described in this note have been definitely recognised in 2016,without changes of the provisional accounting of 2015.

During 2015, payments on investments in companies, net of cash and equivalents acquired amounted to Euros 99 million, mainly due to Gecalsa and Gas Directo, S.A. acquisitions.

Note 32. Service concession arrangements

Gas Natural Fenosa manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Note 2). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	11
Energía San Juan S.A.	Electricity distribution (CGE)	Argentina	60	40
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	11-14
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP and Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendable 20)	31
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	6-14
Gas Natural Fenosa Generación S.L.U., S.A. and Gas Natural Fenosa Renovables, S.L.	Hydraulic power generation	Spain	14-65	6-47
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L and Cilento Reti Gas, S.R.L	Gas distribution	Italy	11-30	22
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	11-22
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendable)	5
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendable)	9
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	12
Gas Natural Perú, S.A.	Gas distribution	Peru	20-year extendable	18

As indicated in Note 3.3.3.b, Gas Natural Fenosa applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil Italy and Peru, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 3.3.4.b) fall out with the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall out with the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

Note 33. Related-party disclosures

Related parties are as follows:

- Significant shareholders of Gas Natural Fenosa. i.e. those directly or indirectly owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors.

  Based on this definition, the significant shareholders of Gas Natural Fenosa are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol, S.A. (Repsol) and Global Infrastructure Partners III (GIP) and subsidiaries.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of Gas Natural Fenosa and the Internal Audit Director. The operations with directors and executives are disclosed in Note 34.

- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Gas Natural Fenosa's share of the balances and transactions with companies recorded under equity method.

The main aggregates for operations with significant shareholders are as follows:

	2016				2015		
	Significant shareholders			Group companies	Significant shareholders		Group companies
Expense and Income (thousand euros)	"la Caixa"	Repsol	GIP*		"la Caixa"	Repsol	
Financial expenses	2,799	–	–	100	3,532	–	336
Leases	–	–	–	5	–	–	2
Services received	15,160	8,853	–	25,954	14,009	5,148	32,229
Goods purchased	–	236,845	–	300,478	–	292,762	391,294
Other expenses[1]	24,541	–	–	–	28,705	–	–
Total expenses	**42,500**	**245,698**	**–**	**326,537**	**46,246**	**297,910**	**423,861**
Financial income	247	–	–	415	2,040	–	984
Leases	–	–	–	–	–	–	–
Services provided	462	1,363	–	22,079	561	374	24,619
Goods sold (finished or in progress)	1,243	694,196	–	44,240	–	878,022	62,196
Other income	–	–	–	2,007	–	–	2,007
Total income	**1,952**	**695,559**	**–**	**68,741**	**2,601**	**878,396**	**89,806**

Other transactions (thousand euros)	2016 Significant shareholders "la Caixa"	2016 Significant shareholders Repsol	2016 Significant shareholders GIP*	2016 Group companies	2015 Significant shareholders "la Caixa"	2015 Significant shareholders Repsol	2015 Group companies
Acquisition of property, plant and equipment, intangible assets or other assets (2)	–	424,651	–	–	–	74,209	–
Financing agreements: loans and capital contributions (lender) (3)	513,062	–	–	11,211	779,317	–	12,533
Sale of property, plant and equipment, intangibles or other assets (4)	274,528	–	–	–	458,355	–	–
Financing agreements: loans and capital contributions (borrower) (5)	123,316	–	–	–	205,384	–	–
Collateral and bank guarantees received	100,000	–	–	–	201,667	–	–
Dividends and other profits distributed	424,923	367,291	66,045	–	311,716	273,873	–
Other operations (6)	480,720	–	–	–	1,053,762	–	–

Trade debtors and creditors (thousand euros)	2016 Significant shareholders "la Caixa"	2016 Significant shareholders Repsol	2016 Significant shareholders GIP*	2016 Group companies	2015 Significant shareholders "la Caixa"	2015 Significant shareholders Repsol	2015 Group companies
Trade and other receivables	–	77,381	–	8,099	–	138,049	24,585
Trade and other payables	–	20,828	–	30,351	–	11,916	31,519

*Since 21 September 2016.

(1) Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.

(2) Basically includes the purchase of LNG supply points under the agreement with Repsol Butano dated 30 September 2015, located in the area of influence of its existing distribution zones and it is being completed as the relevant administrative authorisations are obtained.

(3) Includes treasury and financial investments.

(4) Includes basically the assignment of debt claims (factoring without recourse) with "la Caixa" each of the years.

(5) At 31 December 2016, credit lines contracted with "la Caixa" amounted to Euros 569,000 thousand (Euros 569,000 thousand at 31 December 2015), of which no amounts having been utilised. "la Caixa" also has shares of other loans totalling Euros 123,316 thousand. At 31 December 2015, its shares in other loans amounted to Euros 205,384 thousand.

(6) At 31 December 2016, the item "Other transactions" with "la Caixa" includes the amount of Euros 348,962 thousand in respect of foreign exchange hedges (Euros 771,746 thousand at 31 December 2015) and Euros 131,758 thousand in respect of interest rate hedges (Euros 282,016 thousand at 31 December 2015).

Note 34. Disclosures regarding members of the Board of Directors and the Executive personnel

Remuneration of the members of the Board of Directors

In accordance with the By-laws and the General Meeting resolution of 14 May 2015, the Company may earmark a maximum of Euros 5 million for Board directors' remuneration each year.

The amount accrued to the members the Board of Directors of Gas Natural SDG, S.A. as members of the Board of Directors, Executive Committee (EC), Audit Committee (AC) and Appointments and Remuneration Committee (A&RC) totalled Euros 4,573 thousand (Euros 4,205 thousand in 2015), broken down as follows in Euros:

	Office	Board	EC	AC	A&RC	Total
Mr. Isidro Fainé Casas[1]	Chairman	280,500	200,000	–	–	480,500
Mr. Salvador Gabarró Serra[2]	Chairman	400,000	400,000	–	–	800,000
Mr. Josu Jon Imaz San Miguel[3]	First Deputy Chairman	46,000	46,000	–	–	92,000
Mr. Antonio Brufau Niubó[4]	Deputy Chairman	92,000	–	–	18,182	110,182
Mr. William Alan Woodburn[3]	Second Deputy Chairman	46,000	46,000	–	9,091	101,091
Mr. Rafael Villaseca Marco	Chief Executive Officer	126,500	126,500	–	–	253,000
Mr. Ramón Adell Ramón	Director	126,500	126,500	40,000	–	293,000
Mr. Enrique Alcántara-García Irazoqui	Director	126,500	92,000	14,545	–	233,045
Mr. Xabier Añoveros Trías de Bes	Director	126,500	–	14,545	–	141,045
Mr. Marcelino Armenter Vidal[3]	Director	46,000	46,000	–	–	92,000
Mr. Mario Armero Montes[3]	Director	46,000	–	–	–	46,000
Mr. Francisco Belil Creixell	Director	126,500	46,000	29,091	9,091	210,682
Mr. Demetrio Carceller Arce[4]	Director	92,000	92,000	–	–	184,000
Mrs. Benita María Ferrero-Waldner	Director	126,500	80,500	–	–	207,000
Mr. Alejandro García-Bragado Dalmau[3]	Director	46,000	–	–	9,091	55,091
Mrs. Cristina Garmendia Mendizábal	Director	126,500	–	14,545	25,000	166,045
Mrs. Helena Herrero Starkie[5]	Director	80,500	–	14,545	–	95,045
Mr. Emiliano López Achurra[6]	Director	46,000	46,000	–	–	92,000
Mr. Miguel Martínez San Martín	Director	126,500	126,500	–	9,091	262,091
Mr. Heribert Padrol Munté[4]	Director	92,000	–	–	–	92,000
Mr. Rajaram Rao[3]	Director	46,000	46,000	14,545	–	106,545
Mr. Juan Rosell Lastortras[4]	Director	92,000	92,000	–	–	184,000
Mr. Luis Suárez de Lezo Mantilla	Director	126,500	–	40,000	–	166,500
Mr. Miguel Valls Maseda[4]	Director	92,000	–	–	18,182	110,182
		2,681,500	**1,612,000**	**181,816**	**97,728**	**4,573,044**

[1] Since 21 September 2016, previously a Member of the Board of Directors.
[2] Until 21 September 2016. Appointed Honorary President, unremunerated, on 30 September 2016.
[3] Since 21 September 2016.
[4] Until 21 September 2016.
[5] Since 4 May 2016.
[6] Until 4 May 2016.

In 2016, as in 2015, no amounts were received for other items.

In 2016, the Chief Executive Officer received Euros 57 thousand (Euros 85 thousand in 2015) as a Board member of the investee company CGE. These amounts are deducted from the Chief Executive Officer's annual variable remuneration.

The amounts accrued to the Chief Executive Officer for executive functions in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 1,212 thousand, Euros 1,002 thousand, Euros 860 thousand and Euros 8 thousand, respectively, in 2016 (Euros 1,142 thousand, Euros 1,054 thousand, Euros 883 thousand and Euros 8 thousand in 2015).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 328 thousand in 2016 (Euros 315 thousand in 2015). Funds accumulated due to these contributions amount to Euros 3,241 thousand at 31 December 2016 (Euros 2,930 thousand at 31 December 2015).

The members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Gas Natural Fenosa. In 2016, the premium paid by Gas Natural SDG, S.A. for the entire policy amounted to 101 thousand euros.

The Chief Executive Officer's contract was amended in October 2016 to remove the clause under which the contract would be terminated in the event of a material change in the Company's shareholders and its duration was extended to cover the entire term of his current appointment as a Company director.

It contains an agreement whereby six months' prior notice must be provided by the Chief Executive Officer, except in the event of force majeure, an exclusivity pact for the period during which he is to fulfil his functions and a confidentiality agreement for both the duration of the contract and post-termination.

The Chief Executive Officer's contract provides for an indemnity of three yearly payments of his full emoluments at the date of contractual amendment for certain termination events: at the company's decision, except in the event of a serious and culpable breach of his professional obligations causing serious harm to the interests of Gas Natural SDG, S.A., at the Chief Executive Officer's decision, or due to the finalisation of the contract. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full remuneration is provided for.

The contract requires the Company to arrange third-party liability insurance.

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by Regulation of the Board of Gas Natural SDG, S.A. and Articles 228 and 229 of the Capital Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

The Directors of Gas Natural SDG, S.A. have not reported any conflict of interest that has to be informed.

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee or Audit Committee, the Directors representing the related party involved have abstained.

During the years 2016 and 2015, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Remuneration of Executive personnel

For the sole purposes of the information contained in this section, “executives” refers to the members of the Management Committee, excluding the CEO, whose remuneration has been included in the previous section, and the Internal Audit Director.

During 2016 a total of 11 persons formed part of the Management Committee. One person left the committee in April.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,827 thousand, Euros 2,553 thousand, Euros 1,945 thousand and Euros 120 thousand, respectively, in 2016 (Euros 4,962 thousand, Euros 2,528 thousand, Euros 1,982 thousand and Euros 112 thousand, respectively, in 2015).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 2,389 thousand in 2016 (Euros 2,428 thousand in 2015). Funds accumulated due to these contributions amount to Euros 22,121 thousand at 31 December 2016 (Euros 24,955 thousand at 31 December 2015).

The executives have received no remuneration in respect of profit sharing or bonuses and no loans have been granted to them. Advances to management personnel at 31 December 2016 amounted to Euros 175 thousand. At 31 December 2015 no advances to management personnel were granted. No indemnities were received during 2016 or 2015.

The contracts of the executives contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year’s fixed remuneration for the post-employment no-competition clause for a period of two years.

Note 35. Commitments and contingent liabilities

Guarantees

At 31 December 2016 Gas Natural Fenosa has given guarantees to third parties for activities totalling Euros 1,332 million (Euros 1,368 million at 31 December 2015).

Financial guarantees have also been given totalling Euros 607 million (Euros 348 million at 31 December 2015), of which Euros 126 million relate to the guarantee for compliance with the obligations on the loan received by investee companies (Euros 138 million at 31 December 2015).

Gas Natural Fenosa estimates that the liabilities not foreseen at 31 December 2016, if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2016:

	At 31 December 2016:						
Acquisition	**Total**	2017	2018	2019	2020	2021	and after
Energy purchases (1)	**81,094**	7,474	7,191	7,285	7,174	5,818	46,152
Energy transmission (2)	**4,176**	439	458	389	391	364	2,135
Investment (3)	**536**	532	1	2	–	1	–
Operating leases (4)	**217**	86	22	17	15	15	62
Nuclear fuel purchases	**34**	15	19	–	–	–	–
Total contractual obligations	**86,057**	**8,546**	**7,691**	**7,693**	**7,580**	**6,198**	**48,349**

	At 31 December 2016						
Sale	**Total**	2017	2018	2019	2020	2021	and after
Energy sales (5)	**18,768**	3,345	3,096	1,638	1,570	1,472	7,647
Provision of capacity assignment services (6)	**4,115**	285	265	283	333	299	2,650
Total contractual obligations	**22,883**	**3,630**	**3,361**	**1,921**	**1,903**	**1,771**	**10,297**

1) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for “own use” (Note 3.3.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2016.

This also includes long-term commitments to buy electricity, calculated based on prices at 31 December 2016.

2) Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2016. Additionally, reflects operating costs associated with charter contracts for gas tankers under finance leases, including the six operational tankers (Note 18) and the two tankers under construction (Note 6), which are expected to become operational in 2017.

3) Basically reflects the investment commitments for the construction of two gas tankers expected to enter services in 2017 (Note 6), the construction of new power generation facilities and the development of the electricity distribution network.

4) Mainly reflects the gas tankers operating lease commitments, which end in 2017, as well as buildings leases commitments.

It includes the rent of the “Torre del Gas” building owned by Torre Marenostrum, S.L., for which Gas Natural Fenosa has an operating lease without a purchase option for a period of ten years as from March 2016, extended at market value during 2016 as the contract is extendible at market value for successive periods of three years, on a discretionary basis for Gas Natural Fenosa and an obligatory basis for Torre Marenostrum S.L.

It also includes operating leases without a purchase option that were written down in December 2016 of four buildings in Madrid (Avenida San Luís 77, Antonio López 193, Acanto 11-13 and Avenida América 38), for a term of ten years, except for Avenida América 38, extendable for five years more (Note 6).

5) It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for “own use” (Note 3.3.7.3). The commitments have been calculated based on natural gas prices at 31 December 2016.

6) It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 3.3.19). The commitments made in these contracts have been calculated based on prices at 31 December 2016.

Contingent liabilities

At the preparation date of these consolidated annual accounts, the main contingent liabilities relate to the following litigation:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Río de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by the Group company Companhia Distribuidora de Gás do Rio de Janeiro - CEG, 54.2% subsidiary owned by Gas Natural Fenosa. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of tax payable in dispute with interest included, was BRL 386 million (Euros 111 million). In November 2015, the above-mentioned first-instance court issued a judgement partially allowing CEG's appeal and reducing the total amount to BRL 260 million (Euros 75 million). This reduction in the amount of the contingency will not be definitive until the scope for appeals has been exhausted, estimated tentatively at another four years. Gas Natural Fenosa has appealed the judgement, taking the view, together with the company's legal advisors, that there is no basis even for the reduced amount.

Claim against Edemet - Edechi (Panama)

In April 2012, notification was received of a second-instance judgement rendering void the first-instance judgement that ordered Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A., a 51.0% subsidiaries owned by Gas Natural Fenosa, to pay damages to the claimant in the amount that was to be determined by experts, subject to a maximum of USD 84 million. Both the claimant and the defendants (Edemet and Edechi) appealed that judgement. The alleged damages relate to a tender for the en bloc purchase of electricity called by the Public Services Authority and awarded to the claimant, which was not finally capable of fulfilling the contract due to the failure to furnish the guarantees required by the bidding specifications. In March 2015, the Supreme Court resolved the appeal, ordering Edemet and Edechi to pay USD 21 million (Euros 19 million). In March 2016 the First Civil Chamber of the Supreme Court of Justice of Panama communicated the corresponding ruling, reducing the amount payable to USD 2.5 million (Euros 2 million). The plaintiffs have filed an appeal for review against this new quantification of damages.

Qatar Gas arbitration

In May 2015, Gas Natural Fenosa commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company. Gas Natural Fenosa has requested a price reduction and the supplier has requested an increase. The parties submitted their pleadings during 2016.

Unión Fenosa Gas

In 2014, Egyptian state-owned company, Egyptian Natural Gas Holding (EGAS), ceased supplying gas to Unión Fenosa Gas a 50.0% subsidiary owned by Gas Natural Fenosa, and ceased paying the fee for use of the Damietta liquefaction plant. As a result, Unión Fenosa Gas initiated arbitration proceedings against that company and against Egypt, and also reduced its supplies to its main customer, Gas Natural Fenosa Generación, S.L.U., a wholly-owned subsidiary of Gas Natural Fenosa, resulting in a number of proceedings being undertaken between this company and Unión Fenosa Gas.

Gas Natural Fenosa considers that no significant liabilities will arise as a consecuence of the risks described in this Note.

Note 36. Auditor’s fees

The fees accrued in thousand Euros by the different companies trading under the PwC brand are as follows:

	Thousand euros	
	2016	2015
Auditing services	3,846	3,854
Assurance services and services related to the audit	888	877
Other services	233	22
Total fees	**4,967**	**4,753**

Additionally, other audit firms have rendered the following services to Group companies:

	Thousand euros	
	2016	2015
Auditing services	2,307	1,686
Assurance services and services related to the audit	–	32
Other services	336	96
Total fees	**2,643**	**1,814**

Note 37. Environment

Main environmental actions

Gas Natural Fenosa’s main activities related to the company's environmental strategy so as to assure compliance with environmental legislation, reduce environmental impacts, mitigate climate change, preserve biodiversity, optimise consumption of natural resources such as water, prevent pollution and promote continuous improvement, going beyond the stipulations of applicable laws.

Measures continued to make energy development compatible with environmental protection. General activities included the promotion of continuous improvement by updating and extending environmental management, involving our suppliers and encouraging our customers to use energy responsibly.

This is achieved through environmental management based on the ISO 14001 model, the correct functioning of which is verified periodically, providing the tools required to assure environmental management. In 2016, certification has been obtained for the environmental management system applied to electricity distribution in Chile. Along similar lines, progress has been made in the process to adapt environmental management of rest of the Chilean activities to ensure consistency with the rest of the company.

Gas Natural Fenosa's positioning in relation to climate change is based on its contribution to climate change mitigation by using low-carbon and renewable energies, promoting energy saving and efficiency, applying new technologies and capturing carbon in the Group's projects. During 2016 there have been significant reductions in direct CO_2 emissions with respect to 2015, as a result of lower production in coal generation in Spain which has been replaced by cleaner generation options. As a result, specific emission per unit of energy generated has been significantly reduced compared with 2015. There has been also a reduction in emissions of other substances due to lower thermal generation in Spain.

In 2016, Gas Natural Fenosa undertook numerous actions to promote the conservation of biodiversity, some in response to requirements implemented by environmental authorities and others voluntarily. During this period, the initial steps have been taken to implement biodiversity action plans and highly significant progress has been made in the creation of tools to support the company's biodiversity strategy.

Gas Natural Fenosa is aware of the essential role played by water in the production process; as part of its ongoing commitment to the environment and to the efficient management of natural resources, in 2016 progress has been made in its water strategy by determining management indicators and lines of action to optimise water use in the most significant production processes. Within the commitment towards the environment and the efficient management of natural resources, during 2016 Gas Natural Fenosa has started work on bringing together, in 2017, the lines of action in the circular economy area on which it has been working for some time.

All these environmental activities undertaken in 2016 amounted to Euros 91 million (Euros 95 million in 2015), of which Euros 21 million related to environmental investments and Euros 70 million relate to environmental management expenditure. Among these actions we should note those relating to improving safety at nuclear power plants and combustion systems in thermal power stations, improving hydraulic generation facilities and improving the gas distribution network to reduce emissions of natural gas into the atmosphere.

Any contingencies, indemnities and other environmental risks that could be incurred by Gas Natural Fenosa are adequately covered by third-party liability insurance.

Emissions

In 2016, total consolidated CO_2 emissions from Gas Natural Fenosa' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 10.4 million tonnes of CO_2 (13.6 million tonnes of CO_2 in 2015).

Gas Natural Fenosa devises a strategy each year for managing its CO_2 emission allowance coverage portfolio, acquiring them through its active participation both in both the primary and secondary markets. In addition, it has a committed investment of approximately Euros 1 million in primary projects and carbon funds, for the provision of emission credits.

In 2014 the Group launched the COmpensa2 initiative in which emissions associated with buildings, corporate trips, vehicles and events are voluntarily offset every year. Gas Natural Fenosa also offers its customers the opportunity to neutralise emissions equivalent to their consumption, offering CO_2 management as a value-added product.

Note 38. Events after the balance sheet date

On 11 January 2017 Gas Natural Fenosa, through its Euro Medium Term Notes (EMTN) programme, carried out a bond issue amounting to Euros 1,000 million, maturing in January 2027 with an annual coupon of 1.375%.

Appendix I Gas Natural Fenosa companies

1. Subsidiaries

				Total % interestl	
Company	Country	Activity	Consolidation[1]	% Controlling interest[2]	% Equity interest
Gas Natural BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	F.C.	77.5	45.7
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	F.C.	62.2	21.7
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	F.C.	54.5	32.2
Gas Natural, S.A. ESP	Colombia	Gas distribution	F.C.	59.1	59.1
Gas Galicia SDG, S.A.	Spain	Gas distribution	F.C.	68.5	68.5
Gas Natural Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Aragon SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Balears, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	95.0
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	90.1
Gas Natural Catalunya SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	99.7
Gas Natural Redes Distribución Gas, SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Madrid SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	87.5

				Total % interestl	
Company	Country	Activity	Consolidation[1]	% Controlling interest[2]	% Equity interest
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Nedgia, S.P.A.	Italy	Gas distribution	F.C.	100.0	100.0
Comercializadora Metrogas, S.A. de CV[3]	Mexico	Gas distribution	F.C..	100.0	85.0
Gas Natural México, S.A. de CV[3]	Mexico	Gas distribution	F.C.	85.0	85.0
Gas Natural Fenosa Perú, S.A.	Peru	Gas distribution	F.C.	100.0	100.0
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Gas Natural Fenosa Furnizare Energie, S.R.L.	Moldova	Electricity distribution	F.C.	100.0	100.0
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Gas infrastructures	F.C.	63.9	63.9
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas infrastructures	F.C.	100.0	100.0
Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2
Natural Energy, S.A.	Argentina	Gas commercialisation	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply	F.C.	100.0	100.0
Serviconfort Colombia, S.A.S.	Colombia	Gas supply	F.C.	100.0	100.0

Company	Country	Activity	Consolidation[1]	Total % interestl % Controlling interest[2]	 % Equity interest
Gas Natural Servicios, S.A. de C.V.[3]	Mexico	Gas supply	F.C.	100.0	85.0
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Fenosa LNG, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas supply	F.C.	100.0	100.0
Gas Natural Fenosa LNG GOM Limited	Ireland	Gas supply	F.C.	100.0	100.0
Gas Natural Fenosa LNG International Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Gas Natural Fenosa LNG Marketing Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Gas Natural Vendita Italia, S.P.A.	Italy	Gas supply	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural Servicios SDG, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Mataró Energía Sostenible, S.A.	Spain	Gas and electricity supply	F.C.	51.1	51.1
Vayu Energy B.V.	Holland	Gas and electricity supply	F.C.	100.0	100.0
Vayu Energy, Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Vayu Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Vayu Energy, Ltd (UK)	United Kingdom	Gas and electricity supply	F.C.	100.0	100.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.7
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.7
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.7

Company	Country	Activity	Consolidation[1]	Total % interestl % Controlling interest[2]	% Equity interest
Sertao i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Iberéolica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Hidroeléctrica Rio San Juan S.A.S. ESP	Colombia	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
P.H. La Perla, S.A.	Costa Rica	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Fenosa Wind, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Fenosa, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Generación Nuclear, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation	F.C.	51.0	51.0
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0

Company	Country	Activity	Consolidation[1]	Total % interestl: % Controlling interest[2]	Total % interestl: % Equity interest
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
P.E. El Hierro, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Montamarta, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñarroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Sociedad de Tratamiento Hornillos, S.L., in liquidation	Spain	Electricity generation	F.C.	94.4	94.4
Sociedad de Tratamiento La Andaya, S.L., in liquidation	Spain	Electricity generation	F.C.	60.0	60.0
Sociedad Parque Eólico Mouriños, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	F.C.	80.0	80.0
Tratamiento Cinca Medio, S.L. in liquidation	Spain	Electricity generation	F.C.	80.0	80.0
Tratamiento de Almazán, S.L., in liquidation	Spain	Electricity generation	F.C.	90.0	90.0
Iberáfrica Power Ltd.	Kenya	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0

Company	Country	Activity	Consolidation[1]	Total % interestl	
				% Controlling interest[2]	% Equity interest
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	F.C.	70.0	70.0
Welgedacht Exploration Company, Ltd	South Africa	Mining	F.C.	100.0	70.0
Gas Natural Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A.	Brazil	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.S.	Colombia	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Soluziona Technical Services, Llc. in liquidation	Egypt	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.L.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.	Guatemala	Engineering services	F.C.	100.0	75.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingenieria México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingenieria y Desarrollo de Gen. México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
GPG Energía México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy Mexico, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0

Company	Country	Activity	Consolidation[1]	Total % interestl	
				% Controlling interest[2]	% Equity interest
Gas Natural Fenosa Engineering Panamá, S.A.	Panama	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Technology INC	Puerto Rico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Gas Natural Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Financiación, S.A.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Gas Natural Fenosa Finance B.V.	Holland	Financial services	F.C.	100.0	100.0
Clover Financial and Treasury Services, DAC.	Ireland	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios, S.A.S.	Colombia	Services	F.C.	100.0	59.0
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	F.C.	100.0	100.0
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	F.C.	98.5	98.5
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Gas Natural Italia S.P.A.	Italy	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV[3]	Mexico	Services	F.C.	100.0	85.0
Energía y Confort Administración de Personal, S.A. de C.V.[3]	Mexico	Services	F.C.	100.0	85.3

				Total % interestl	
Company	Country	Activity	Consolidation[1]	% Controlling interest[2]	% Equity interest
Sistemas de Administración y Servicios, S.A. de C.V.[3]	Mexico	Services	F.C.	85.0	85.0
Gas Natural Fenosa Servicios Panamá, S.A.	Panama	Services	F.C.	100.0	100.0
Inversiones Hermill, S.A.	Dominican Rep.	Services	F.C.	100.0	100.0
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	F.C.	97.0	72.7
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
Gas Natural Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Internacional, S.A.	Spain	Holding company	F.C.	100.0	100.0
Holding Negocios Regulados Gas Natural, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Energía, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas Latam, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Unión Fenosa Minería, S.A.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Minería, B.V.	Holland	Holding company	F.C.	100.0	100.0
GPG México Wind, B.V.	Holland	Holding company	F.C.	100.0	75.0
GPG México, B.V.	Holland	Holding company	F.C.	100.0	75.0
Buenergía Gas & Power, Ltd.	Cayman Islands	Holding company	F.C.	95.0	71.3
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100.0	75.0

Company	Country	Activity	Consolidation[1]	Total % interestl % Controlling interest[2]	% Equity interest
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe , S.A.	Panama	Holding company	F.C.	100.0	75.0
Unión Fenosa South Africa Coal (Proprietary), Ltd	South Africa	Holding company	F.C.	100.0	100.0
Grupo CGE:					
Compañía General de Electricidad, S.A.	Chile	Electricity distribution	F.C.	97.2	97.2
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	97.2
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100.0	97.2
International Financial Investments S.A.	Argentina	Electricity distribution	F.C.	100.0	97.2
Los Andes Huarpes S.A.	Argentina	Electricity distribution	F.C.	98.0	95.3
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	97.2
CGE Distribución S.A.	Chile	Electricity distribution	F.C.	99.3	96.6
CGE Magallanes S.A.	Chile	Electricity distribution	F.C.	99.9	97.1
Compañía Nacional de Fuerza Eléctrica S.A.	Chile	Electricity distribution	F.C.	99.3	96.6
Emel Norte S.A.	Chile	Electricity distribution	F.C.	98.2	95.5
Emelat Inversiones S.A.	Chile	Electricity distribution	F.C.	98.4	94.0
Empresa de Transmisión Eléctrica Transemel S.A.	Chile	Electricity distribution	F.C.	100.0	93.0
Empresa Eléctrica de Antofagasta S.A.	Chile	Electricity distribution	F.C.	92.7	86.3
Empresa Eléctrica de Arica S.A.	Chile	Electricity distribution	F.C.	94.2	86.9
Empresa Eléctrica de Atacama S.A.	Chile	Electricity distribution	F.C.	98.4	95.0
Empresa Eléctrica de Iquique S.A.	Chile	Electricity distribution	F.C.	88.6	84.2
Empresa Eléctrica de Magallanes S.A.	Chile	Electricity distribution	F.C.	55.2	53.6

Company	Country	Activity	Consolidation[1]	Total % interestl: % Controlling interest[2]	% Equity interest
Comercial & Logística General S.A.	Chile	Services	F.C.	100.0	97.2
Energy Sur Ingeniería, S.A.	Chile	Services	F.C.	55.0	53.5
Inversiones San Sebastian S.A.	Chile	Services	F.C.	100.0	53.6
Inversiones y Gestión S.A.	Chile	Services	F.C.	100.0	97.2
Novanet S.A.	Chile	Services	F.C.	100.0	97.2
Sociedad de Computación Binaria S.A.	Chile	Services	F.C.	100.0	97.2
Transformadores Tusan S.A.	Chile	Services	F.C.	100.0	97.2
TV Red S.A.	Chile	Services	F.C.	90.0	48.3
CGE Gas Natural, S.A.	Chile	Holding company	F.C.	97.4	97.4
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.8
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	92.0
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60.0	55.2
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100.0	55.2
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100.0	55.2
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.8
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.2
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	52.2
Gasoducto del Pacífico (Cayman) Ltd.	Cayman Islands	Gas infrastructures	F.C.	56.7	52.2
Centrogas S.A.	Chile	Services	F.C.	100.0	55.8
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	55.8
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.8

Company	Country	Activity	Consolidation[1]	Total % interestl	
				% Controlling interest[2]	% Equity interest
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100.0	92.0
Gas Natural Chile, S.A.	Chile	Holding company	F.C.	94.5	92.0
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100.0	92.0
Sociedad Inversiones Atlántico S.A.	Chile	Holding company	F.C.	100.0	92.0
CGE Servicios, S.A.	Chile	Services	F.C.	100.0	100.0

[1] Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

[2] Parent company's interest in the subsidiary.

[3] The shareholding percentage relating to legally owned shares and to the share buy-back commitment at the percentages stated in Note 18, which are also allocated to the Parent company.

Appendix I Gas Natural Fenosa companies

2. Joint ventures

Company	Country	Activity	Method of Consolidation[1]	Total % interest % Controlling interest[2]	Total % interest % Equity interest
Grupo UF Gas:					
Unión Fenosa Gas, S.A.	Spain	Gas supply	E.M.	50.0	50.0
Segas Services, S.A.E.	Egypt	Gas infrastructures	E.M.	100.0	40.7
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas infrastructures	E.M.	80.0	40.0
Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply	E.M.	100.0	50.0
Unión Fenosa Gas Infraestructures B.V.	Holland	Holding company	E.M.	100.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación[3]	Mexico	Gas distribution	E.M.	51.3	43.6
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V.[3]	Mexico	Gas supply	E.M.	50.0	42.5
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Línea de Trasmisión Cabo Leones, S.A.	Chile	Electricity generation	E.M.	50.0	19.1
Castrios, S.A.	Spain	Electricity generation	E.M.	33.3	33.3
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	E.M.	36.3	36.3
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
ENER Renova España, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	E.M.	50.0	50.0

Company	Country	Activity	Method of Consolidation[1]	Total % interest: % Controlling interest[2]	Total % interest: % Equity interest
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	39.6	33.8
Molinos de la Rioja, S.A.	Spain	Electricity generation	E.M.	33.3	33.3
Molinos del Cidacos, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
Montouto 2000, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Spain	Electricity generation	E.M.	21.0	21.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services	E.M.	41.2	41.2
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100.0	35.6
Grupo CGE:					
Gascart S.A.	Argentina	Gas distribution	E.M.	50.0	46.0
Gasnor S.A.	Argentina	Gas distribution	E.M.	97.4	46.0
Gasmarket S.A.	Argentina	Gas distribution	E.M.	50.0	46.0
Empresa de Distribución Eléctrica de Tucumán S.A.	Argentina	Electricity distribution	E.M.	80.5	48.6
Compañía Eléctrica de Inversiones S.A.	Argentina	Electricity distribution	E.M.	90.0	48.6
Empresa Jujeña de Energía S.A.	Argentina	Electricity distribution	E.M.	90.0	43.8
Empresa Jujeña de Sistemas Energéticos Dispersos S.A.	Argentina	Electricity distribution	E.M.	90.0	43.8
Norelec S.A.	Argentina	Electricity distribution	E.M.	50.0	48.6

				Total % interest	
Company	Country	Activity	Method of Consolidation[1]	% Controlling interest[2]	% Equity interest
Dimater, S.A.	Argentina	Electricity distribution	E.M.	100.0	48.6
Empresa de Construcción y Servicios , S.A.	Argentina	Electricity distribution	E.M.	100.0	48.6
Noanet, S.A.	Argentina	Electricity distribution	E.M.	100.0	48.6
Gasoductos GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47.0	26.2
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	27.9
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.3
Gasoductos GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47.0	26.2
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.6
Inmobiliaria Parque Nuevo S.A.	Chile	Services	E.M.	50.0	48.6

[1] Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
[2] Parent company's interest in the subsidiary.
[3] The shareholding percentage relating to legally owned shares and to the share buy-back commitment at the percentages stated in Note 18, which are also allocated to the Parent company.

3. Jointly-controlled assets and operations

Company	Country	Activity	Method of Consolidation[1]	Total % interest: % Controlling interest[2]	Total % interest: % Equity interest
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	P.C.	60.0	60.0
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Gas Natural West África, S.L.	Spain	Gas infrastructures	P.C.	40.0	40.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Tánger Larrache	Morocco	Gas infrastructures	P.C.	24.0	24.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 71, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 72, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 73, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

[1] Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
[2] Parent company's interest in the subsidiary.

4. Associates

Company	Country	Activity	Method of Consolidation[1]	Total % interest: % Controlling interest[2]	Total % interest: % Equity interest
Qalhat LNG S.A.O.C.	Oman	Gas infrastructures	E.M.	7.4	3.7
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. in liquidation	Spain	Services	E.M.	20.0	20.0
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5
Torre Marenostrum, S.L.	Spain	Services	E.M.	45.0	45.0
CER's Commercial Corp	Panama	Services	E.M.	25.0	18.8

[1] Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
[2] Parent company's interest in the subsidiary

Appendix II Variations in consolidation scope

The main changes in the consolidation scope in 2016 have been as follows:

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
Renovables Aragón, S.L.U	Acquisition	1 March	100.0	100.0	Full
Alas Capital Gas Natural, S.A.	Disposal	11 March	40.0	–	–
Gas Natural Chile, S.A.	Incorporation	30 March	56.6	56.6	Full
Sociedad Inversiones Atlántico, S.A.	Incorporation	31 March	55.1	55.1	Full
Energías Especiales de Extremadura, S.L.	Liquidation	25 April	99.0	–	–
Regasificadora del Noroeste, S.A.	Disposal	28 April	11.6	–	–
Leo-Ras, S.L.	Acquisition	15 May	100.0	100.0	Full
Aprovisionadora Global de Energía, S.A.	Incorporation	1 June	36.9	36.9	Full
Unión Fenosa Financial Services USA, Llc	Liquidation	29 June	100.0	–	–
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	20 July	0.2	96.7	Full
Gas Natural Redes GLP, S.A.	Incorporation	21 July	100.0	100.0	Full
Enervent, S.A.	Disposal	28 July	26.0	–	–
Infraestructuras de Gas, S.A.	Disposal	29 July	85.0	–	
Planta de Regasificación de Sagunto, S.A.	Disposal	31 July	50.0	–	–
Vayu Ltd	Acquisition	2 August	100.0	100.0	Full
Vayu Energy, Ltd	Acquisition	2 August	100.0	100.0	Full
Vayu Energy, Ltd (UK)	Acquisition	2 August	100.0	100.0	Full
Vayu Energy B.V.	Acquisition	2 August	100.0	100.0	Full
LNG GOM Limited	Acquisition	2 August	100.0	100.0	Full
LNG International Resources Ltd	Acquisition	2 August	100.0	100.0	Full

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
LNG Marketing Ltd	Acquisition	2 August	100.0	100.0	Full
Gas Natural Wind 6, S.L.	Liquidation	2 August	60.0	–	–
Gas Natural Chile, S.A.	Acquisition	8 August	37.9	94.5	Full
Gasco S.A.	Disposal	8 August	55.1	–	–
Gasco GLP S.A.	Disposal	8 August	55.1	–	–
Gasmar S.A.	Disposal	8 August	35.2	–	–
Hualpén Gas S.A.	Disposal	8 August	17.6	–	–
Autogasco S.A.	Disposal	8 August	55.1	–	–
Transportes e Inversiones Magallanes S.A.	Disposal	8 August	46.9	–	–
Automotive Gas Systems S.A.	Disposal	8 August	55.1	–	–
Inversiones Invergas S.A.	Disposal	8 August	55.1	–	–
Inversiones Atlántico S.A.	Disposal	8 August	55.1	–	–
Campanario Generación S.A.	Disposal	8 August	11.0	–	–
Inversiones GLP S.A.S. E.S.P.	Disposal	8 August	38.6	–	–
JGB Inversiones S.A.S. E.S.P.	Disposal	8 August	38.6	–	–
Unigas Colombia S.A. E.S.P.	Disposal	8 August	27.0	–	–
Montagas S.A. E.S.P.	Disposal	8 August	12.9	–	–
Energas S.A. E.S.P.	Disposal	8 August	10.9	–	–
Tecnet, S.A.	Disposal	9 August	100.0	–	–
Infraestructuras Eléctricas La Mudarra, S.L.	Incorporation	31 August	39.6	39.6	Equity

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
CGE Gas Natural, S.A.	Incorporation	14 October	100.0	100.0	Full
GNL Quintero, S.A.	Disposal	8 November	20.0	–	–
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	15 December	0.2	97.0	Full
Hormigones del Norte, S.A.	Disposal	16 December	100.0	–	–
Sobral i Solar Energía SPE, Ltda	Acquisition	19 December	85.0	85.0	Full
Sertao i Solar Energía SPE, Ltda	Acquisition	19 December	85.0	85.0	Full
Inca de Varas I	Acquisition	20 December	100.0	100.0	Full
Inca de Varas II	Acquisition	20 December	100.0	100.0	Full
Gasifica, S.A.	Liquidation	27 December	100.0	–	–
Gas Galicia SDG, S.A.	Acquisition	29 December	6.9	68.5	Full
Electrificadora del Caribe S.A, E.S.P.	Loss of control	31 December	85.4	–	–
Energía Empresarial de la Costa, S.A., E.S.P.	Loss of control	31 December	85.4	–	–
Energía Social de la Costa S.A. E.S.P.	Loss of control	31 December	85.4	–	–

The main changes in the consolidation scope in 2015 were as follows:

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
Oficina de cambios de suministrador, S.A.	Liquidation	2 January	20.0	–	–
Gas Natural Fenosa Furnizare Energie, S.R.L.	Incorporation	31 January	100.0	100.0	Full
Compañía General de Electricidad, S.A.- CGE	Acquisition	31 January	0.2	96.9	Full
	Acquisition	28 February	0.4	97.3	Full
	Acquisition	31 March	0.1	97.4	Full
Mataró Energía Sostenible, S.A.	Acquisition	24 March	51.1	51.1	Full
Palencia 3 Investigación y Desarrollo y Exp. S.L.	Acquisition	9 April	24.9	63.93	Full
Genroque, S.L.	Incorporation	10 April	50.0	50.0	Equity
Puente Mayorga Generación, S.L.	Incorporation	10 April	50.0	50.0	Equity
First Independent Power, Ltd.	Acquisition	14 April	10.4	100.0	Full
Iberáfrica Power Ltd.	Acquisition	14 April	10.4	100.0	Full
Gas Natural Aragón SDG, S.A.	Incorporation	18 June	100.0	100.0	Full
Gas Natural Infraestructuras Distribución Gas SDG, S.A.	Incorporation	18 June	100.0	100.0	Full
Gasmar, S.A.	Acquisition	25 June	12.8	63.8	Full
Gas Directo, S.A.	Acquisition	10 July	70.0	100.0	Full
Barras Eléctricas Galaico Asturianas, S.A.	Disposal	28 July	44.9	–	Equity
Banteay Srei, S.L.	Acquisition	16 September	100.0	100.0	Full
Lanzagorta Comunicaciones, S.L.	Acquisition	16 September	100.0	100.0	Full
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	2 September	0.4	96.5	Full
Berrybank development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full
Crookwell development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
Ryan Corner development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full
Global Power Generation, S.A.	Capital increase	5 October	25.0	75.0	Full
Metrogas, S.A.	Acquisition	10 October	8.3	60.2	Full
Gecal Renovables, S.A.	Acquisition	13 October	100.0	100.0	Full
Estela Eólica, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Nerea, S.L.	Acquisition	13 October	85.5	85.5	Full
P.E. Los Pedreros, S.L.	Acquisition	13 October	100.0	100.0	Full
P.E. Peñarroldana, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. El Hierro, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. Montamarta, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. La Rabia, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Cova da serpe, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Eólica La Vega I, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Eólica La Vega II, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Ampliación de Nerea, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Las Claras, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Arañuelo Solar, S.L.	Acquisition	13 October	60.0	60.0	Full
P.E. Cinseiro, S.L.	Acquisition	13 October	50.0	50.0	Equity
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Acquisition	13 October	21.0	21.0	Equity
Ener Renova España, S.L.	Acquisition	13 October	40.0	40.0	Equity
Ener Renova , S.A.	Acquisition	13 October	40.0	40.0	Equity

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/eliminated (%)	Voting rights afte operation (%)	Consolidation method after operation
Puente Mayorga, S.L.	Disposal	28 October	50.0	–	–
Genroque, S.L.	Acquisition	28 October	50.0	100.0	Full
Palawan Sulu Sea Gas, INC	Liquidation	30 November	50.0	–	–
Parque Eólico Sierra del Merengue S.L en Liq.	Liquidation	30 November	50.0	–	–
Gas Natural Balears, S.A.	Incorporation	30 November	100.0	100.0	Full
Global Power Generation Chile, S.p.A.	Incorporation	4 December	100.0	100.0	Full
Ibereólica Cabo Leones II S.A.	Acquisition	15 December	51.0	51.0	Full
Línea de Trasmisión Cabo Leones, S.A.	Acquisition	15 December	50.0	50.0	Equity
P.E. Nerea, S.L.	Acquisition	17 December	9.5	95.0	Full
3G Holdings Limited	Liquidation	30 December	10.0	–	–
Gasco Gran Cayman Ltd. (Sociedad Chilena)	Liquidation	31 December	55.1	–	–
Arañuelo Solar, S.L.	Liquidation	31 December	60.0	60.0	–

Appendix III Gas Natural tax group companies

The companies belonging to the Gas Natural tax group are as follows:

Gas Natural SDG, S.A.	Gas Natural Redes Distribución Gas SDG, S.A.
Ampliación de Nerea, S.L.U.	Gas Natural Redes GLP, S.A.
Banteay Srei, S.L.U.	Gas Natural Rioja, S.A.
Boreas Eólica 2, S.A.	Gas Natural S.U.R. SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Servicios SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Transporte SDG, S.L.
Energías Especiales Alcoholeras, S.A.	Gas Natural Wind 4, S.L.U.
Energías Especiales de Extremadura, S.L.	Gas Navarra, S.A.
Eólica la Vega I, S.L.U.	Gecal Renovables, S.A.
Eólica la Vega II, S.L.U.	General de Edificios y Solares, S.L.
Estela Eólica, S.L.U.	Genroque, S.L.U.
Europe Mahgreb Pipeline Limited	Global Power Generation, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Holding Negocios Regulados Gas Natural, S.A.
Fenosa Wind, S.L.	JGC Cogeneración Daimiel, S.L.
Fenosa, S.L.U.	La Energía, S.A.
Gas Directo, S.A.U.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Almacenamientos Andalucía, S.A.	La Propagadora del Gas, S.A.

Gas Natural Andalucía, S.A.	Lanzagorta Comunicaciones, S.L.
Gas Natural Aprovisionamientos SDG, S.A.	Lignitos de Meirama, S.A.
Gas Natural Aragón SDG, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Balears, S.A.	Parque Eólico Cova da Serpe, S.L.U.
Gas Natural Capital Markets, S.A.	Parque Eólico el Hierro, S.L.
Gas Natural Castilla y León, S.A.	Parque Eólico la Rabia, S.L.U.
Gas Natural Castilla-La Mancha, S.A.	Parque Eólico las Claras, S.L.U.
Gas Natural Catalunya SDG, S.A.	Parque Eólico los Pedreros, S.L.
Gas Natural Cegas, S.A.	Parque Eólico Montamarta, S.L.
Gas Natural Comercializadora, S.A.	Parque Eólico Nerea, S.L.
Gas Natural Distribución Latinoamérica, S.A.	Parque Eólico Peñarroldana, S.L.
Gas Natural Exploración, S.L.	Petroleum, Oil&Gas España, S.A.
Gas Natural Fenosa Electricidad Colombia, S.L.	Sagane, S.A.
Gas Natural Fenosa Engineering, S.L.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Fenosa Generación Nuclear, S.L.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Fenosa Generación, S.L.U.	Tratamiento Cinca Medio, S.L.
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.L.U.	Tratamiento de Almazán, S.L.

Gas Natural Fenosa Internacional, S.A.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa LNG, S.L.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Madrid SDG, S.A.	



2016 Integrated Annual Report

Consolidated Directors' report

Consolidated Management Report pertaining to the year ended on 31 December 2016

Consolidated Directors' report

1. Company situation

Gas Natural Fenosa's business model is characterised by responsible and sustainable management of all resources. Our commitment to sustainability and value creation over time is reflected specifically in our corporate responsibility policy, approved by the Board of Directors and implemented across all the Company's business processes; it comprises seven corporate responsibility commitments to stakeholders, which guide our activities: commitment to results, customer orientation, environmental protection, concern for people, health and safety, commitment to society and integrity.

Gas Natural Fenosa is an integrated energy company that supplies gas and electricity to almost 22 million customers. Its main purpose is to supply energy to society so as to maximise development and welfare, using innovation, energy efficiency and sustainability as the fundamental pillars of the business model. It is a leading energy company and a pioneer in the integration of gas and electricity. The business focuses on the full gas life cycle and on electricity generation, distribution and supply. There are other business lines, such as energy services, that favour diversification of activities and revenues, anticipating new market trends, meeting specific customer needs and providing an integrated service not focused only on selling energy.

Gas Natural Fenosa's business model is implemented through a large number of companies, basically in Spain, the rest of Europe, Latin America and Africa; there are four major business areas:

Gas distribution (Spain, rest of Europe and Latin America)

Gas Natural Fenosa has a leading position in the markets in which it operates, allowing organic growth opportunities to be leveraged both by winning new customers in municipalities to which gas is supplied and by expanding networks into zones without a gas supply. It is the leader in Spain and has a solid presence in Italy. It is also the leader in Latin America, with a presence in Mexico, Chile, Colombia, Brazil, Argentina and Peru.

Electricity distribution (Spain, rest of Europe and Latin America)

Gas Natural Fenosa is one of the most efficient operators in terms of operating and maintenance costs in electricity distribution. It is the third-ranked operator in the Spanish market and the leader in Moldova. In Latin America, it operates in Chile, Argentina, Panama and Colombia.

Gas (Infrastructures, Supply and Unión Fenosa Gas)

Gas Natural Fenosa has a unique, integrated gas infrastructure that provides considerable business stability, operational flexibility and the capacity to transport gas towards the best business opportunities.

For Gas Natural Fenosa, our suppliers play a critical role in the optimal functioning of the value chain; accordingly, long-term contracts are concluded, a commitment to society is assumed and environmental impacts are minimised so as to guarantee supply.

Gas Natural Fenosa responds with value-added services to customers' demands for speed, guarantees, quality and energy efficiency.

- **Electricity (Spain and International)**

  Gas Natural Fenosa has broad knowledge of all power generation technologies and an infrastructure that can be tailored to the needs of any energy model and each country's circumstances. A competitive, flexible gas supply allows the Company to achieve better margins than its competitors when managing combined cycle plants.

  Our leading position in the combined retailing of natural gas and electricity brings major advantages, such as a lower service cost, integrated customer service and lower acquisition costs, as well as greater proximity to customers.

  In the international market, Gas Natural Fenosa, through Global Power Generation, is established in Mexico, Puerto Rico, the Dominican Republic, Costa Rica, Panama, Kenya, Australia and, most recently, Chile and Brazil.

Our operations throughout the gas value chain provide Gas Natural Fenosa with a competitive advantage and a leading position in the sector. Our electricity management capacity and experience, combined with a unique integrated position in the gas and electricity markets, make the company a benchmark in this sector. International presence guarantees a privileged position to achieve growth in new regions that are in the process of economic development, making the Company one of the world's leading operators.

Appendix I to the Consolidated Annual Accounts contains a list of Gas Natural Fenosa's investees.

1.1. Corporate governance

Gas Natural Fenosa develops and continuously updates its corporate governance rules, which are formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Directors and Board Committee Regulations.
- Internal Code of Conduct with regard to the Securities Markets.
- Code of Ethics.
- Corporate Responsibility Policy.

Gas Natural Fenosa has continued to enhance its commitment to transparency and good practices, with the participation of the General Shareholders' Meeting, the Board of Directors and the Board committees: Executive Committee, Appointments and Remuneration Committee, and Audit Committee. The Management Committee also plays a significant role. In 2015, Gas Natural Fenosa adapted its corporate governance rules to the requirements of Act 31/2014, 3 December, which amended the Spanish Companies Act 2010 to improve corporate governance, and to the new the recommendations of the corporate governance code for listed companies of February 2015.

The accompanying 2016 Annual Corporate Governance Report contains a more detailed description.

The Board of Directors represents the Company and is Gas Natural Fenosa's ultimate decision-taking body, except for decisions reserved for the General Meeting. In particular, the Board is responsible for the following matters:

- Determining strategy and economic objectives.
- Supervising and verifying that the top executives fulfil the strategies and objectives.
- Assuring the company's future viability and competitiveness.
- Approving codes of conduct.

The Executive Committee is the Board committee responsible for continuous monitoring of Company management.

The Appointments and Remuneration Committee proposes Board remuneration criteria and general management remuneration policies. It also reviews the Board's structure and composition, supervising the appointment of new members and establishing guidelines for the appointment of directors.

The Audit Committee supervises internal control and risk management systems and evaluates their effectiveness, and also oversees the preparation of financial information and internal audit services.

The Management Committee coordinates business and corporate areas. Its main functions include studying and proposing Objectives, the Strategic Plan and the Annual Budget, as well as assessing, for the main Governing Bodies, action proposals that could affect the fulfilment of the Company's Strategic Plan. All the Management Committee members participate in the preparation of the Corporate Risk Map through work meetings in which they express opinions on the main uncertainties and potential impacts on the businesses.

2. Business evolution and results

2.1. Main milestones in 2016

Net profit amounted to Euros 1,347 million in 2016, 10.3% less than in 2015.

EBITDA amounted to Euros 4,970 million in 2016, 5.6% less than in 2015, after discontinuation of the liquefied petroleum gas business in Chile; these results were affected by a very demanding macroeconomic and energy situation. This situation had a particular impact on the contribution by the gas supply business, while the depreciation of Latin American currencies on translation to euro impacted EBITDA in the amount of Euros 112 million, mainly attributable to the Colombian peso and the Mexican peso.

As of 31 December 2016, the indebtedness ratio was 44.8%, i.e. lower than at 2015 year-end (45.8%), and the net financial debt/EBITDA ratio was 3.1, compared with 3.0 at the end of 2015, despite bringing forward the 2016 interim dividend.

The sale of a 20.0% stake in GNL Quintero, S.A. (Chile) to Enagas for Euros 182 million by Aprovisionadora Global de Energía, S.A. (AGESA), a subsidiary of Gas Natural Chile, S.A., was completed in November 2016, providing Euros 128 million in capital gains before taxes and non-controlling interests (Euros 50 million net capital gains).

On 14 November 2016, the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") ordered, as a necessary measure to ensure the provision of electrical energy services, the seizure of the goods, assets and businesses of Electricaribe. The Superintendence also ordered the removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. In the fulfilment of his functions, this agent has replaced the executive personnel appointed by Gas Natural Fenosa and has centralised decision-making on the information to be supplied to Gas Natural Fenosa. Therefore, at 31 December 2016, Gas Natural Fenosa had lost control and any significant influence over Electricaribe as it does not take part in, and has no direct information about, material business activities or decisions. Subsequently, on 11 January 2017, the Superintendence extended this government take-over until 14 March 2017. In the light of the above facts and in accordance with IFRS 10, on 31 December 2016, Electricaribe ceased to be consolidated on the consolidated balance sheet of Gas Natural Fenosa, and its assets, liabilities and non-controlling interests have been derecognised for a net amount of Euros 475 million. In addition, the investment in Electricaribe has been recorded at fair value as defined by IAS 39 (Euros 475 million) under Available-for-sale financial assets.

Gas Natural Fenosa confirms its guidance for net profit for 2017 to be between Euros 1,300 and 1,400 million, as well as the continuity of its dividend policy in accordance with the Strategic Vision 2016-2020.

The Board of Directors will propose to the Ordinary Shareholders' Meeting that it allocate Euros 1,001 million out of 2016 income to dividends, i.e. the same as in the previous year, in line with the new dividend policy for 2016-18, which was approved in March 2016. The interim dividend of Euros 0.330 per share was paid in full in cash on 27 September 2016, and the supplementary dividend amounting to Euros 0.670 per share will also be paid in cash in June 2017, representing a payout of 74.3%.

2.2. Main aggregates

Gas Natural Fenosa's financial information contains magnitudes and measurements prepared in accordance with the International Financial Reporting Standards (IFRS), as well as others prepared in accordance with the Group's own reporting model, referred to as Alternative Performance Metrics (APM), which are considered to be adjusted magnitudes with respect to those presented in accordance with IFRS. In the last chapter of the Consolidated Directors' Report there is a glossary of terms and the definitions of the APMs.

Financial main aggregates

	2016	2015	%
Net sales	23,184	26,015	(10.9)
Ebitda	4,970	5,264	(5.6)
Operating income	3,006	3,261	(7.8)
Net income attributable to equity holders of the Company	1,347	1,502	(10.3)
Cash flows from operating activities	3,375	3,500	(3.6)
Investments	2,225	1,422	56.5
Net equity (at 31/12)	19,005	18,518	2.6
Attributed net equity (at 31/12)	15,225	14,367	6.0
Net borrowings (at 31/12)	15,423	15,648	(1.4)

Main financial ratios

	2016	2015
Leverage (%)	44.8	45.8
Ebitda / Net financial expenses	6.7x	6.4x
Net borrowings / Ebitda	3.1x	3.0x
Liquidity ratio	1.1x	1.2x
Solvency ratio	1.0x	1.0x
Return on equity (ROE) (%)	8.8	10.5
Return on assets (ROA) (%)	2.9	3.1

Main stock market ratios and shareholder remuneration

	2016	2015
Average number of shares (thousand)	1,000,468	1,000,689
Share price at 31/12 (euro)	17.91	18.82
Stock market capitalisation at 31/12 (million euro)	17,922	18,828
Earnings per share (euro)[1]	1.35	1.57
Attributable equity per share (euro)	15.21	14.36
Price-earnings ratio (P/E)	13.3	12.5
EV/ Ebitda	6.7	6.5

[1] Profit at 31 December 2015 adjusted in accordance with IAS 33 due to the carrying amount of the preference shares exceeding the amount paid to redeem them, net of the tax effect.

Main physical aggregates

	2016	2015	%
Gas distribution			
Sales-TPA[1]	458,265	473,831	(3.3)
Europe	188,197	181,212	3.9
Latin America	270,068	292,619	(7.7)
Gas distribution connections points (thousand) (at 31/12)	13,546	13,172	2.8
Europe	5,773	5,724	0.9
Latin America	7,773	7,448	4.4
Electricity distribution			
Sales-TPA[1]	68,258	68,731	(0.7)
Europe	34,697	34,676	0.1
Latin America*	33,561	34,055	(1.5)
Electricity distribution connections (thousand) (at 31/12):	8,202	10,622	(22.8)
Europe	4,580	4,550	0.7
Latin America	3,622	6,072	(40.3)
ICEIT[2] (minutes)	43	44	(2,3)

* Figures for Colombia are as of 30/11/2016 since the December data are not available.

[1] Third-Party Access (energy distributed).

[2] Installed capacity equivalent interruption time in Spain.

Main physical aggregates (continuation)

	2016	2015	%
Gas			
Gas supply (MW)	325,384	316,268	2.9
Spain	178,916	185,851	(3.7)
Rest of Europe	77,136	54,787	40.8
LNG International	69,332	75,630	(8.3)
Gas transportation–EMPL (MW)	111,720	112,861	(1.0)
Electricity			
Electricity generated (GWh)	46,552	49,548	(6.0)
Spain	28,504	31,568	(9.7)
Hydroelectric	3,933	2,457	60.1
Nuclear	4,463	4,544	(1.8)
Coal	5,687	7,973	(28.7)
CCGTs	11,963	14,494	(17.5)
Renewables and Cogeneration	2,458	2,100	17.0
Global Power Generation	18,048	17,980	0.4
Hydroelectric	496	481	3.1
CCGTs	15,648	15,519	0.8
Oil–gas	1,111	1,130	(1.7)
Wind	793	850	(6.7)
Installed capacity (MW)	15,418	15,471	(0.3)
Spain	12,716	12,769	(0.4)
Hydroelectric	1,954	1,954	–
Nuclear	604	604	–
Coal	2,010	2,065	(2.7)
CCGTs	7,001	7,001	–
Renewables and Cogeneration	1,147	1,145	0.2
Global Power Generation	2,702	2,702	–
Hydroelectric	123	123	–
CCGTs	2,035	2,035	–
Oil–gas	310	310	–
Wind	234	234	–
Electricity supply (GWh)	36,384	35,241	3.2

2.3. Analysis of consolidated results

Sales

	2016	% of total	2015	% of total	% 2016/2015
Gas distribution	4,873	21.1	5,301	20.4	(8.1)
Spain	1,198	5.2	1,191	4.6	0.6
Italy	88	0.4	92	0.4	(4.3)
Latin America	3,587	15.5	4,018	15.4	(10.7)
Electricity distribution	5,733	24.7	5,680	21.8	0.9
Spain	833	3.6	838	3.2	(0.6)
Moldova	227	1.0	260	1.0	(12.7)
Latin America	4,673	20.1	4,582	17.6	2.0
Gas	9,134	39.4	11,077	42.6	(17.5)
Infrastructures	324	1.4	317	1.2	2.2
Supply	8,810	38.0	10,760	41.4	(18.1)
Electricity	6,060	26.1	6,585	25.3	(8.0)
Spain	5,279	22.7	5,779	22.2	(8.7)
Global Power Generation	781	3.4	806	3.1	(3.1)
Rest	364	1.6	489	1.9	(25.6)
Consolidation adjustments	(2,980)	(12.9)	(3,117)	(12.0)	(4.4)
Total	**23,184**	**100.0**	**26,015**	**100.0**	**(10.9)**

Net sales totalled Euros 23,184 million in 2016, a 10.9% decline with respect to 2015, due broadly to the decline in commodity prices year-on-year.

Ebitda

	2016	% of total	2015	% of total	% 2016/2015
Gas distribution	1,730	34.8	1,751	33.3	(1.2)
Spain	889	17.9	872	16.6	1.9
Italy	62	1.2	66	1.3	(6.1)
Latin America	779	15.7	813	15.4	(4.2)
Electricity distribution	1,334	26.8	1,346	25.6	(0.9)
Spain	603	12.1	607	11.5	(0.7)
Moldova	42	0.8	38	0.7	10.5
Latin America	689	13.9	701	13.4	(1.7)
Gas	845	17.0	1,081	20.5	(21.8)
Infrastructures	298	6.0	293	5.6	1.7
Supply	547	11.0	788	14.9	(30.6)
Electricity	972	19.6	1,002	19.0	(3.0)
Spain	715	14.4	741	14.0	(3.5)
Global Power Generation	257	5.2	261	5.0	(1.5)
Rest	89	1.8	84	1.6	6.0
Total	**4,970**	**100.0**	**5,264**	**100.0**	**(5.6)**

Consolidated EBITDA declined by Euros 294 million in 2016 to Euros 4,970 million, 5.6% less than in 2015, after discontinuation of the liquefied petroleum gas business in Chile.

Translation of foreign currencies in the consolidation process had a negative impact on EBITDA of Euros 112 million in 2016 compared with 2015, basically because of depreciation of the Colombian peso and Mexican peso.

EBITDA from Gas Natural Fenosa's international activities declined by 12.1% to account for 44.5% of the consolidated total, compared with 47.8% in 2015. EBITDA from operations in Spain increased by 0.4% and increased as a share of the consolidated total to 55.5%.

Under Rest caption there is a capital gain of €51 million (net capital gain is €35 million) on the sale of four buildings in Madrid for €206 million.

Operating income

	2016	% of total	2015	% of total	% 2016/2015
Gas distribution	1,231	41.0	1,244	38.1	(1.0)
Spain	596	19.8	579	17.8	2.9
Italy	38	1.3	42	1.3	(9.5)
Latin America	597	19.9	623	19.0	(4.2)
Electricity distribution	730	24.3	827	25.4	(11.7)
Spain	381	12.7	388	11.9	(1.8)
Moldova	37	1.2	32	1.0	15.6
Latin America	312	10.4	407	12.5	(23.3)
Gas	681	22.7	903	27.7	(24.6)
Infrastructures	240	8.0	228	7.0	5.3
Supply	441	14.7	675	20.7	(34.7)
Electricity	279	9.2	307	9.4	(9.1)
Spain	154	5.1	180	5.5	(14.4)
Global Power Generation	125	4.1	127	3.9	(1.6)
Rest	85	2.8	(20)	(0.6)	(525.0)
Total	**3,006**	**100.0**	**3,261**	**100.0**	**(7.8)**

Depreciation and amortisation charges and impairment losses in 2016 amounted to Euros 1,759 million, a 0.5% increase year-on-year, basically as a result of exchange rate trends.

Provisions for bad debts amounted to Euros 327 million, compared with Euros 258 million in 2015, a 26.7% increase.

EBIT in 2016 declined by Euros 255 million (7.8%) year-on-year to Euros 3,006 million.

Net financial income

Net financial expenses amounted to Euros 825 million in 2016, 7.7% less than in 2015 (Euros 894 million).

The breakdown of net financial income is as follows:

	2016	2015	%
Cost of net financial debt	(747)	(823)	(9.2)
Other financial expenses/revenues	(94)	(86)	9.3
Financial revenues Costa Rica[1]	16	15	6.7
Net financial income	**(825)**	**(894)**	**(7.7)**

[1] Generation concessions in Costa Rica are recorded as financial assets following IFRIC 12.

The cost of net borrowings in 2016 was Euros 747 million, i.e. lower than in 2015 due to the sharp reduction in the average volume of debt and in the margins and reference interest rates.

The average cost of net borrowings is 4.3%, and 75% of the debt is at fixed rates.

Profit/(loss) of entities recorded by equity method

Equity-accounted affiliates provided a loss of Euros -98 million in 2016, compared with Euros -4 million in 2015. The main components of this item were as follows: Ecoeléctrica provided a positive contribution of Euros 49 million, and the Unión Fenosa Gas sub-group contributed Euros -176 million, including the Euros 21 million capital gain on the Sagunto, S.A. (Saggas) regasification plant and Euros 94 million of impairment recognised as a result of the need to update the procurement cost assumptions contained in Unión Fenosa Gas's energy scenario projections.

Corporate income tax

On 27 November 2014, Act 27/2014, on Corporate Income Tax was approved, reducing the general tax rate in Spain from 30% to 28% for 2015 and to 25% from 2016 onwards.

The tax rate resulting from the consolidated corporate income tax recorded in 2016 was 20.0%, compared with 24.3% in 2015, as a result of the aforementioned reduction in the tax rate in Spain from 28% to 25%, which was partly offset by an increase in the tax rate in Chile from 22.5% to 24% and the accounting of the following non-recurring items:

- As part of a reorganisation of the business in Chile and a corporate structure simplification, Transnet was merged into Compañía General de Electricidad, S.A., its parent company, on 14 December 2016. The resulting goodwill was allocated to the value for tax purposes of the non-monetary assets received from the acquired company which was equivalent to their carrying amount on the transaction date, resulting in a reduction in deferred tax liabilities in the amount of Euros 128 million, with the corresponding positive impact in the ”Corporate income tax” recorded.

- On 29 December 2016, Colombia published Act no. 1819 on Structural Tax Reform, which establishes a progressive reduction in the income tax rate in 2017, 2018 and 2019. As a result, deferred taxes were re-measured using the projected reversal rate, resulting in an amount of €21 million of additional corporate income tax expenses being recognised in the consolidated income statement.

Non-controlling interests

The main items in this account are the non-controlling interests in EMPL, GPG, gas distribution companies in Brazil, Chile, Colombia and Mexico, and electricity generation and distribution companies in Chile, Panama and Colombia, as well as accrued interest on perpetual subordinated notes.

Income attributed to non-controlling interests amounted to Euros -364 million in 2016, compared with Euros -322 million in 2015, basically as a result of KIA acquiring a 25% stake in GPG and of the capital gain on the sale of GNL Quintero that is attributable to non-controlling interests.

Net income

Net income amounted to Euros 1,347 million, a reduction of 10.3% with respect to 2015.

2.4. Analysis of the consolidated balance sheet

Investments

The breakdown of investments by nature is as follows:

	2016	2015	%
Investments in property, plant and equipment and intangible assets	2,517	1,767	42.4
Financial investments	384	315	21.9
Total gross investments	**2,901**	**2,082**	**39.3**
Disposals and others	-676	-660	2.4
Total investments	**2,225**	**1,422**	**56.5**

Investments in property, plant and equipment and intangible assets amounted to Euros 2,517 million in 2016, a 42.4% increase with respect to 2015, due basically to the acquisition of new gas tankers in September and December 2016.

Excluding the Euros 425 million investment in the gas carriers, which were acquired under finance lease, investments in property, plant and equipment and intangible assets amounted to Euros 2,092 million, an 18.4% increase, due basically to greater investment in gas distribution in Spain as a result of completion of the acquisition of LPG distribution points from Repsol that had been agreed in 2015.

Financial assets added in 2016 correspond basically to the acquisition of an additional 37.88% of Gas Natural Chile (Euros 306 million) and the acquisition of a number of investees, including notably Vayu (Irlanda).

Disposals and others in 2016 refer basically to the sale of the shares of Gasco, S.A. that Gas Natural Fenosa held through subsidiaries, for a total of Euros 220 million, the sale of GNL Quintero for Euros 182 million, and the sale of buildings in Madrid for Euros 206 million.

The breakdown of investment in property, plant and equipment and intangible assets, by line of business, is as follows:

	2016	2015	% 2016/2015
Gas distribution	1,028	784	31.1
Spain	693	435	59.3
Italy	31	25	24.0
Latin America	304	324	(6.2)
Electricity distribution	666	578	15.2
Spain	265	249	6.4
Moldova	13	9	44.4
Latin America	388	320	21.3
Gas	474	50	–
Infrastructures	13	12	8.3
Supply	461	38	–
Electricity	193	162	19.1
Spain	105	104	1.0
Global Power Generation	88	58	51.7
Rest	156	193	(19.2)
Total	**2,517**	**1,767**	**42.4**

The gas distribution business accounted for 27.5% of total consolidated investment and was the largest single area of investment, in line with 2015. Excluding investment in gas supply, which increased because of the acquisition of two new gas carriers under finance lease in September and December 2016, the fastest-growing area of investment was gas distribution in Spain (+59.3%) due to the acquisition of LPG supply points from Repsol agreed in 2015.

Capital expenditure in Spain increased by 73.1% to account for 66.4% of the total, up from 54.7% the previous year, as a result of the acquisition of two new gas carriers under finance lease in September and December 2016. Excluding that effect, capital expenditure in Spain would have increased by 29.1% to 59.6% of the total.

Capital expenditure in other countries was stable year-on-year and accounted for 33.6% of the total (40.4% excluding the new gas carriers), compared with 49.6% in 2015.

Equity and shareholder remuneration

At 31 December 2016, Gas Natural Fenosa's shareholders' equity totalled Euros 19,005 million. Of that total, Euros 15,225 million is attributable to Gas Natural Fenosa.

At 31 December 2016, there were 1,000,689,341 ordinary shares represented by book entries, with a par value of one euro per share. All issued shares are fully paid up and carry equal voting and dividend rights.

At 31 December 2016, based on publicly available information, the main shareholders of Gas Natural Fenosa were as follows:

	Interest in share capital %
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa"[1]	24.4
Repsol, S.A.	20.1
Global Infrastructure Partners III[2]	20.0
Sonatrach	4.0

[1] Held through Criteria Caixa S.A.U. and Caixabank, S.A.

[2] Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, owns its stake indirectly through GIP III Canary 1, S.à.r.l.

See Note 13 of the Consolidated Annual Accounts for further details.

Year 2016

The Board of Directors will propose to the Ordinary Shareholders' Meeting that it allocate Euros 1,001 million out of 2016 income to dividends. That represents a dividend of Euros 1 per share and a pay-out of 74.3%, i.e. a dividend yield of 5.6% based on the share price at 31 December 2016 (Euros 17.91).

The 2016 interim dividend of Euros 0.330 per share was paid entirely in cash on 27 September 2016.

Year 2015

The distribution of 2015 income approved by the Shareholders' Meeting on 4 May 2016 entails allocating Euros 1,001 million to dividends, 10.1% more than in 2015. That represents a dividend of Euros 1 per share and a pay-out of 66.6%, i.e. a dividend yield of 5.3% based on the share price at 31 December 2015 (Euros 18.82).

Debt and finances

Evolution of net borrowings (million euros)

	31/12/16	31/12/15	%
Net borrowings	15,423	15,648	(1.4)

At 31 December 2016, net borrowings amounted to Euros 15,423 million and leverage was 44.8% (Euros 15,648 million and 45.8% as at 31 December 2015).

The net debt/EBITDA ratio was 3.1 and the EBITDA/net interest ratio was 6.7 at 31 December 2016, evidencing that the company continued to enhance its credit fundamentals in the period.

The detail of net borrowings is as follows:

	31/12/16	31/12/15
Non-current borrowings	15,003	15,653
Current borrowings	2,599	2,595
Cash and cash equivalents	(2,067)	(2,390)
Derivatives	(112)	(210)
Net borrowings	**15,423**	**15,648**

Net debt maturities (Million euros)

	2017	2018	2019	2020	2021	2022 and thereafter
Net debt maturities	833	2,276	2,872	2,395	2,273	4,774

The above table shows Gas Natural Fenosa's net debt maturities at 31 December 2016.

A total of 79.8% of the net borrowings at 31 December 2016 matures in or after 2019. The average term of the debt is 5.2 years.

Of the net financial debt, 5.4% is short term and 94.6% is long term.

Main financial transactions

Continuing with the financial policy of strengthening the liquidity position and managing the debt maturity profile, during 2016 Euros 600 million of 10-year notes were issued under the EMTN programme and a private placement of Euros 300 million in 5-year notes was performed.

With the same goal, bilateral bank loans were renegotiated with the banks and new loans were arranged.

In September 2016, the company drew a Euros 600 million loan granted by the EIB to finance investments in the gas distribution business in Spain.

The breakdown of the net borrowings by currency at 31 December 2016, in absolute and relative terms, is as follows:

(million euros)	31/12/2016	%
EUR	12,318	79.9
CLP	1,452	9.4
USD	923	6.0
COP	100	0.6
BRL	339	2.2
MXN	287	1.9
Others	4	–
Total net borrowings	**15,423**	**100.0**

Credit rating

The credit ratings of Gas Natural Fenosa's short-term and long-term debt are as follows:

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

Liquidity and capital funds

At 31 December 2016, cash and cash equivalents together with available bank finance totalled Euros 10,061 million, providing the company with sufficient liquidity to cover its debt maturities for more than 24 months, with the following breakdown:

Liquidity source

	Limit	Drawn	Available
Committed credit lines	7,485	(365)	7,120
Uncommitted credit lines	707	(185)	522
Undrawn loans	352	–	352
Cash and cash equivalents	2,067	–	2,067
Total	**10,611**	**(550)**	**10,061**

Additionally, at 31 December 2016 the company had Euros 6,586 million available in the form of shelf registrations for financial instruments, including Euros 3,795 million in the Euro Medium Term Notes (EMTN) programme; Euros 900 million in the Euro Commercial Paper (ECP) programme; and a combined Euros 1,891 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange, the straight bonds programme in Colombia and the bond lines in Chile.

Set out below is a breakdown of working capital at 31 December:

(million euros)	2016	2015
Current operating assets[1]	5,595	5,819
Current operating liabilities[2]	(4,276)	(4,204)
	1,319	**1,615**

[1] Includes Inventories, Trade receivables for sales and provision of services, and Other receivables.
[2] Includes Trade payables, Other payables and Other current liabilities, excluding the dividend payable.

The average payment period for Gas Natural Fenosa suppliers is 28 days.

Analysis of contractual obligations and off-balance-sheet transactions

Note 35 to the consolidated annual accounts provides a breakdown of Gas Natural Fenosa's contractual obligations, off-balance-sheet transactions and contingent liabilities.

2.5. Analysis of results by activity

Gas distribution

2.5.1 Gas distribution Spain

This area includes gas distribution, third-party access (TPA), as well as the distribution activities in Spain that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) and the liquefied petroleum gas (LPG) business.

Results

	2016	2015	%
Net sales	1,198	1,191	0.6
Procurement	(33)	(16)	106.3
Net personnel expenses	(68)	(68)	–
Other expenses/revenues	(208)	(235)	(11.5)
Ebitda	**889**	**872**	**1.9**
Depreciation, amortisation and impairment expenses	(291)	(289)	0.7
Change in operating provisions	(2)	(4)	(50.0)
Operating income	**596**	**579**	**2.9**

Net sales in the gas distribution business totalled Euros 1,198 million, Euros 7 million more than in 2015, due to growth in the liquefied petroleum gas business as a result of the acquisition of supply points that was completed in the fourth quarter of 2016. This effect offset the reduction in revenues from the regulatory inspection business caused by the lower volume of inspections scheduled in the year. The change in the regulatory inspection frequency (from every four years to every five years) resulted in 2016 being a trough year with a lower volume of inspections.

The higher volume of business in LPG business resulted in an increase in procurements to meet the higher demand.

This effect, coupled with efficiencies in operating expenses, resulted in a 1.9% increase in EBITDA.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2016	2015	%
Sales – TPA (GWh)	184,619	177,391	4.1
LPG sales (ton)	57,175	4,072	–
Distribution network (km)	51,956	51,016	1.8
Increase in connection points (thousand)	47	40	17.5
Connection points (thousand) (at 31/12)	5,313	5,266	0.9

Regulated gas sales increased by 4.1% (+7,228 GWh).

Residential demand accelerated in the fourth quarter, to +3% (+1,432 GWh), mainly as a result of higher consumption in that period (a colder winter in 2016 compared with 2015).

Industrial demand under 60 bar is recovering steadily, having increased by 3% (+2,939 GWh). Demand for transportation and industrial consumption over 60 bar increased by 6% (+2,857 GWh).

The distribution network expanded by 940 km in the last 12 months, adding 47 thousand new connection points, a 0.9% increase, to total 5.313 million connections.

On 30 September 2015, Gas Natural Distribución signed an agreement to acquire piped gas assets from Repsol Butano; as a result, in the fourth quarter of 2016, the company purchased approximately 230,000 supply connection points in its current distribution territories, enabling them to be connected to the natural gas distribution grid. These assets will accelerate growth and expansion in Gas Natural Fenosa's regulated natural gas business in the coming years.

2.5.2 Gas distribution Italy

The business in Italy includes regulated distribution of gas.

Results

	2016	2015	%
Net sales	88	92	(4.3)
Procurement	(1)	(1)	–
Net personnel expenses	(11)	(12)	(8.3)
Other expenses/revenues	(14)	(13)	7.7
Ebitda	**62**	**66**	**(6.1)**
Depreciation, amortisation and impairment expenses	(24)	(24)	–
Change in operating provisions	–	–	–
Operating income	**38**	**42**	**(9.5)**

EBITDA amounted to Euros 62 million, a 6.1% decrease year-on-year. The reduction was due basically to lower remuneration caused by updating the WACC recognised by the Italian regulator as a result of the decline in the risk-free rate.

Main aggregates

	2016	2015	%
Sales – TPA (GWh)	3,578	3,821	(6.4)
Distribution network (km)	7,265	7,167	1.4
Connection points (thousand) (at 31/12)	460	458	0.4

A total of 3,578 GWh of gas were distributed, i.e. 6.4% less than in 2015, due to less favourable weather.

The distribution grid expanded by 98 km in 2016, to 7,265 km at 31 December 2016.

Gas Natural Fenosa has 459,713 gas distribution connection points in Italy, a slight increase with respect to the previous year.

2.5.3 Gas distribution Latin America

This division involves regulated gas distribution in Argentina, Brazil, Chile, Colombia, Mexico and Peru. In Chile, it also includes the gas procurement and supply business.

Results

	2016	2015	%
Net sales	3,587	4,018	(10.7)
Procurement	(2,372)	(2,779)	(14.6)
Net personnel expenses	(124)	(126)	(1.6)
Other expenses/revenues	(312)	(300)	4.0
Ebitda	**779**	**813**	**(4.2)**
Depreciation, amortisation and impairment expenses	(159)	(170)	(6.5)
Change in operating provisions	(23)	(20)	15.0
Operating income	**597**	**623**	**(4.2)**

Revenues declined by 10.7% to Euros 3,587 million due to depreciation of the main Latin American currencies.

EBITDA amounted to Euros 779 million, a decline of 4.2% with respect to 2015, impacted by currency performance in Argentina (-37.2%), Mexico (-14.1%), Colombia (-10.2%), Brazil (-4.0%) and Chile (-2.6%). Excluding the effect of currency fluctuations, EBITDA would have increased by 4.8%.

Brazil contributed 30.8% of EBITDA, i.e. less than in 2015, mainly because of the currency effect; adjusting for that effect, EBITDA would have declined by 4.6%.

The sharp economic deceleration in Brazil resulted in lower sales to the industrial market; also, power generation dispatching and TPA for power plants were much lower as abundant rainfall raised reservoir levels. Offsetting this, residential-commercial sales were 6.2% higher than in 2015.

Mexico accounted for 20.8% of total EBITDA in this business. Excluding the exchange rate effect, Mexico's EBITDA increased by 13.5% on 3.2% growth in revenues, with volumes and margins increasing in all markets.

EBITDA in Colombia increased by 7.2% year-on-year (excluding the exchange rate effect), to account for 20.8% of the total. This growth was due mainly to the higher supply margin in the secondary market, which was the result of higher sale prices and volumes in this market. This positive performance in the secondary market was attributable to the effects of El Niño, which caused a sharp decline in hydroelectric generation during the first quarter.

EBITDA in Colombia was also impacted by other effects on energy margins, mainly from higher tariff update indices.

Chile contributed Euros 174 million in EBITDA (+1.7% at constant exchange rates), i.e. 22.3% of total EBITDA from Latin America. That was Euros 3 million more than in 2015, excluding the currency effect.

Adjusting for the negative exchange rate effect, EBITDA in Argentina increased by 29.8% due to the entry into force on 7 October 2016 of a new table of tariffs for all markets and to the receipt in December of Euros 35 million in Economic Assistance from the State to compensate for the delay in applying the initial tariffs (1 April 2016). Sales in the residential/commercial segment increased by 11.7% in 2016 as a result of lower temperatures in comparison with the previous year.

Main aggregates

The main physical aggregates in gas distribution in Latin America were as follows:

	2016	2015	%
Gas activity sales (GWh)	270,068	292,619	(7.7)
Gas sales at the tariff	158,608	174,378	(9.0)
TPA	111,460	118,241	(5.7)
Distribution network (km)	82,966	80,036	3.7
Increase in connection points (thousand)	325	314	3.5
Connection points (thousand) (at 31/12)	7,773	7,448	4.4

The main physical aggregates by country in 2016 are as follows:

	Argentina	Brazil	Chile	Colombia	Mexico	**Total**
Gas activity sales (GWh):	71,526	72,015	47,154	28,177	51,196	**270,068**
Increase v, 31/12/2015 (%)	4.1	(30.4)	7.0	5.0	3.2	**(7.7)**
Distribution network (km)	25,663	7,446	6,966	21,839	21,052	**82,966**
Increase vs. 31/12/2015 (km)	1,007	299	116	370	1,138	**2,930**
Connection points (thousand) (at 31/12)	1,632	1,037	584	2,862	1,658	**7,773**
Increase vs. 31/12/2015 (thousand)	20	51	22	118	114	**325**

At 31 December 2016, there were a total of 7,772,830 gas distribution customers. Customer numbers increased by 325 thousand year-on-year, notably in Colombia and Mexico.

Sales in the gas activity in Latin America, which includes both gas sales and TPA (third-party access) services, totalled 270,068 GWh, i.e. less than the 2015 figure due to lower sales for power generation in Brazil.

The gas distribution grid expanded by 2,930 km (+3.7%) in the last 12 months, to 82,966 km at the end of December 2016. This sizeable expansion is attributable most notably to Mexico, which added 1,138 km, and Colombia, which added 370 km.

Highlights of this area in 2016:

- On 1 April 2016, new gas tariffs were approved in Argentina, effective from that same date, including full-rate tariffs, tariffs for customers who saved over 15% with respect to the previous year, and a social tariff. The Ministry of Energy and Mining instructed ENARGAS to carry out a comprehensive tariff review (RTI) within a year. This tariff increase commenced the process of normalising the company's revenues.

  Although the initial reaction was not excessively adverse, abnormally cold weather in May resulted in a sharp increase in bills and led the government to suspend application of the tariffs nationwide. The reason given was that the new tariffs had not been submitted for public consultation, which is a necessary requirement but whose result is not binding.

  In August, a court declared the 1 April 2016 tariffs to be null and void for residential customers. On 16 September 2016, a public consultation was announced as a first step towards the publication of new tariffs.

  On 7 October 2016, the Argentine government officially published a new table of tariffs that is applicable to all customers from that date. At the same time, an application was filed with the government for monetary compensation for the delay in applying the original tariffs (1 April 2016).

  On 28 December 2016, a resolution of the Ministry of Energy and Mining approved Transitional Economic Assistance (AET) for the gas distribution network licence-holders. The amount approved for Gas Natural BAN was ARP 594 million.

  The company also continues its efforts to contain costs in a context of high inflation (estimated at 38% per year).

- In Brazil, residential-commercial customer numbers increased by 10.5% year-on-year, especially new buildings, due to commercial efforts being brought forward because of the Olympics. Sales declined by 30.4%; the economic crisis affected sales to industrial customers (-11.9%), while sales for power generation and TPA declined by -41% due to lower dispatching of thermal power plants as reservoir levels were higher than in 2015 (33.7%) and also to lower electricity demand. In contrast, sales to the residential and commercial markets, which provide the highest margins, increased by 6.2%, while sales of natural gas as fuel for vehicles increased by 4.8% as it was more competitive than liquid fuels.

- In Colombia, gas sales and TPA expanded by 5.0% year-on-year, due mainly to growth in industrial consumption (+10.7%), caused by higher sales in the secondary market. Residential-commercial customer numbers increased by 117,856 net in 2016, i.e. 8.3% year-on-year growth, due mainly to the increase in connections of new buildings and to horizontal saturation.

  The unregulated businesses in Colombia performed better than in 2015, with the margin rising by 26.1%, particularly in the area of energy solutions, where the number of live contracts increased by 34.2%. Appliance sales in the residential and SME market increased by 23.9%.

- The acceleration plan continues to be implemented in Mexico. Gas sales increased in all markets, including 4.8% growth in the residential-commercial market, 7.1% in the industrial market and 0.5% in TPA.

  On 26 February 2016, Mexico's energy regulator (Comisión Reguladora de Energía — CRE) notified Gas Natural Fenosa of the resolutions determining the list of maximum tariffs for the fourth five-year period (2016-2020) of permits for natural gas distribution granted for the distribution territories of Nuevo Laredo, Bajío, Toluca, Saltillo, Monterrey and Mexico City, which came into force in mid-March 2016 in all areas.

  The gas distribution licence for the Cuautitlán-Texcoco-Hidalgo area was granted in December.

- The number of supply connections in Chile increased by 21,954, including growth of 3.9% in the residential-commercial segment and 2.4% in the industrial segment with respect to 2015. As for gas sales and TPA, the strongest year-on-year growth was observed in the power generation (19.2%) and industrial (16.6%) segments, followed by the residential-commercial (5.0%) and TPA (3.5%) segments

- In Peru, the company continues development work with a view to initiating commercial operations early in May 2017.

As a result of the concession awarded in July 2013, Gas Natural Fenosa will supply energy to an area in south-west Peru that is not yet connected to the gas grid and expects to supply natural gas to over 80,000 households.

Electricity distribution

2.5.4 Electricity distribution Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to Gas Natural Fenosa's distribution network.

Results

	2016	2015	%
Net sales	833	838	(0.6)
Procurement	–	(1)	–
Net personnel expenses	(85)	(83)	2.4
Other expenses/revenues	(145)	(147)	(1.4)
Ebitda	**603**	**607**	**(0.7)**
Depreciation, amortisation and impairment expenses	(222)	(217)	2.3
Change in operating provisions	–	(2)	(100.0)
Operating income	**381**	**388**	**(1.8)**

The Ministerial Orders on remuneration for distribution (IET/980/2016) and transmission (IET/981/2016) for 2016, which were issued in June, set the remuneration for distribution and transmission by Gas Natural Fenosa's electricity distribution company and the other players. That remuneration reflects the amendments made by the Electricity Sector Act (Act 24/2013, of 26 December) and the new methodology for calculating the remuneration for distribution and transmission, set out in Royal Decrees 1048/2013 and 1047/2013, of 27 December.

EBITDA amounted to Euros 603 million in 2016, a 0.7% decline with respect to 2015. Net sales amounted to Euros 833 million, i.e. 0.6% less than in 2015, due to application of the aforementioned Royal Decrees and to the accrual of investments that were brought into operation. Net personnel expenses increased by 2.4% due to efficiency measures implemented in the year that are expected to have a positive impact in subsequent years.

Main aggregates

	2016	2015	%
Electricity sales (GWh): TPA	32,025	31,992	0.1
Connection points (thousand) (at 31/12)	3,702	3,683	0.5
TIEPI (minutos)	43	44	(2.3)

Energy supply increased slightly in the fourth quarter. December ended with 0.1% growth, a slightly poorer performance than distribution demand nationwide, which was 246,691 GWh, i.e. 0.5% growth, according to figures from Red Eléctrica de España (REE).

The number of distribution connections increased in 2016, by 19,006 net year-on-year.

The ICEIT outage indicator also improved in the fourth quarter due to the lack of notable incidents. The ICEIT outage indicator was lower than in 2015 despite the impact of strong gales and rainstorms in January and the first half of February in Galicia, where the terrain is less favourable.

2.5.5 Electricity distribution in Moldova

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. Gas Natural Fenosa is responsible for 70% of electricity distribution in Moldova.

Results

	2016	2015	%
Net sales	227	260	(12.7)
Procurement	(170)	(205)	(17.1)
Net personnel expenses	(6)	(6)	–
Other expenses/revenues	(9)	(11)	(18.2)
Ebitda	**42**	**38**	**10.5**
Depreciation, amortisation and impairment expenses	(5)	(6)	(16.7)
Change in operating provisions	–	–	–
Operating income	**37**	**32**	**15.6**

Net sales reflect the pass-through effect of procurement costs together with the capital expenditure and operation and maintenance work performed in accordance with the country's current regulations.

The increase in EBITDA in 2016 was due to higher remuneration for the capital base following the annual tariff update, to a reduction in grid losses, and also to the MDL/USD exchange rate.

Main aggregates

	2016	2015	%
Electricity sales (GWh) – tariff sales	2,672	2,684	(0.4)
Connection points (thousand) (at 31/12)	878	867	1.3

In 2016, the company continued to implement its plan to improve operations in Moldova, focusing on processes to control power flows in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility O&M, being the most relevant aspects:

- Electricity supplied declined by 0.4% in 2016 because of milder weather compared with 2015 and of slower economic growth.
- The number of supply connections totalled 878,491, i.e. an increase of 1.3% in the last twelve months, primarily as a result of growth in the real estate sector.

2.5.6 Electricity distribution Latin America

This division involves regulated electricity distribution in Argentina, Chile, Colombia and Panama, and electricity transmission in Chile.

Results

	2016	2015	%
Net sales	4,673	4,582	2.0
Procurement	(3,408)	(3,359)	1.5
Net personnel expenses	(216)	(196)	10.2
Other expenses/revenues	(360)	(326)	10.4
Ebitda	**689**	**701**	**(1.7)**
Depreciation, amortisation and impairment expenses	(162)	(159)	1.9
Change in operating provisions	(215)	(135)	59.3
Operating income	**312**	**407**	**(23.3)**

EBITDA from electricity distribution in Latin America totalled Euros 689 million, a 1.7% decline compared with 2015.

Excluding the effect of currency fluctuations, EBITDA would have increased by 3.0%.

The distribution business in Colombia contributed Euros 253 million to EBITDA, i.e. a 7.8% increase excluding the currency effect. This growth was basically due to higher supply charge revenues and to the fact that tariffs were updated at higher rates.

Excluding the exchange rate effect, provisions in Colombia increased by Euros 75 million, mainly due to the growth in customer receivables caused by the increase in supply charge revenues from May 2015 and in energy prices because of the El Niño phenomenon, a trend not matched by an increase in receipts, which have deteriorated in the last year.

EBITDA in Panama amounted to Euros 118 million in 2016, a 1.7% reduction at constant exchange rates. This variation was due mainly to higher power losses.

EBITDA in Chile and Argentina (CGE) amounted to Euros 318 million, a Euros 3 million increase at constant exchange rates. This increase arose in the power distribution business in Chile mainly because of growth in physical sales, increased services to third parties and the reduction of operating expenses through efficiency plans, along with higher demand for power in the transmission segment.

Main aggregates

	2016*	2015	%
Electricity sales (GWh):	33,561	34,055	(1.5)
Tariff electricity sales	31,441	32,131	(2.1)
TPA	2,120	1,924	10.2
Connection points (thousand) (at 31/12)	3,622	6,072	(40.3)

* Figures for Colombia are at 30/11/2016 since the December data are not available.

Electricity sales amounted to 33,561 GWh, down 1.5% due basically to a decline in demand in Colombia.

Demand in Panama continues its positive growth, having increased by 3.0% in 2016.

The main physical aggregates by country in 2016 are as follows:

	Argentina	Chile	Colombia*	Panama	**Total**
Electricity sales (GWh)	1,946	14,319	12,306	4,990	**33,561**
Increase v. 2015 (%)	5,0	2,3	(7,9)	3,0	**(1.5)**
Connection points (thousand)	221	2,786	–	615	**3,622**
Increase vs. 31/12/2015 (thousand)	5	74	–	37	**116**

* Figures for Colombia are at 30/11/2016 since the December data are not available.

The increase in sales and connection points reflects the sustained growth in the electricity distribution business in Latin America.

Electricity transmission in Chile

	2016	2015	%
Electricity transmitted (GWh)	14,484	14,497	(0.1)
Transmission network (km)	3,528	3,495	0.9

Power transmission in Chile decreased by 0.1% year-on-year, mainly because of lower activity in the fourth quarter. The transmission network reached 3,528 km, 33 km more than at the end of 2015.

Gas

2.5.7 Infrastructure

This area includes operation of the Maghreb-Europe gas pipeline and the exploration, production, storage and regasification of gas.

Results

	2016	2015	%
Net sales	324	317	2.2
Procurement	(7)	(6)	16.7
Net personnel expenses	(5)	(5)	–
Other expenses/revenues	(14)	(13)	7.7
Ebitda	**298**	**293**	**1.7**
Depreciation, amortisation and impairment expenses	(58)	(65)	(10.8)
Change in operating provisions	–	–	–
Operating income	**240**	**228**	**5.3**

Net sales in the infrastructure business totalled Euros 324 million in 2016, a 2.2% increase.

EBITDA increased by 1.7% year-on-year to Euros 298 million, mainly as a result of the 3% increase in the international shipping tariff on the Maghreb-Europe pipeline.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2016	2015	%
Gas transport-EMPL (GWh)	111,720	112,861	(1.0)
Portugal-Morocco	41,295	36,971	11.7
Spain (Gas Natural Fenosa)	70,425	75,890	(7.2)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 111,720 GWh, 1.0% more than in the same period last year. Of that figure, 70,425 GWh were shipped for Gas Natural Fenosa through Sagane and 41,295 GWh for Portugal and Morocco.

Gas Natural Fenosa owns 14.9% of Medgaz, the company that owns and operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year). The corresponding capacity is associated with a new supply contract amounting to 0.8 bcm/year. A total of 8,614 GWh were shipped via the Medgaz pipeline for Gas Natural Fenosa in 2016.

The company currently has 916 GWh of company-owned gas storage capacity. In December 2016, work (replacement of a gas pipeline and preliminary wells) was performed on one of the exploration, production and storage projects that Gas Natural Fenosa plans for the Guadalquivir Valley in the coming years. This project is expected to be completed in late 2017. The other four projects are at various stages of the permit process.

2.5.8 Supply

This area includes wholesale gas procurement and supply both in the Spanish liberalised market and in other countries, maritime transportation, retail supply of gas and other related products and services in the liberalised market in Spain and Italy, and supply of gas at the last-resort tariff (TUR) in Spain.

Results

	2016	2015	%
Net sales	8,810	10,760	(18.1)
Procurement	(7,951)	(9,676)	(17.8)
Net personnel expenses	(72)	(68)	5.9
Other expenses/revenues	(240)	(228)	5.3
Ebitda	**547**	**788**	**(30.6)**
Depreciation, amortisation and impairment expenses	(62)	(54)	14.8
Change in operating provisions	(44)	(59)	(25.4)
Operating income	**441**	**675**	**(34.7)**

Net sales amounted to Euros 8,810 million, 18.1% less than in 2015. EBITDA amounted to Euros 547 million, a 30.6% decrease that was in line with the adjustment in energy prices in the period.

Market context

Spanish gas market demand reached 319,838 GWh in 2016 (313,233 GWh in 2015), of which 51,892 GWh relate to the residential market (50,194 GWh in 2015), 208,546 GWh to the industrial market and third-party supplies (202,040 GWh in 2015) and 59,400 GWh to the electricity market (61,000 GWh in 2015).

Evolution of the main gas market price indices is set out below:

	2016	2015	%
Brent (USD/bbl)	43.7	52.5	(16.8)
Henry Hub (USD/MMBtu)	2.4	2.8	(14.3)
NBP (USD/MMBtu)	4.7	6.5	(27.7)
TTF (€/MWh)	13.9	20.3	(31.5)

Main aggregates

The main aggregates in the gas supply activity are as follows:

	2016	2015	%
Gas supply (GWh)	**325,384**	**316,268**	**2.9**
Spain:	178,916	185,851	(3.7)
Gas Natural Fenosa supply	140,877	144,568	(2.6)
Residential	27,053	27,658	(2.2)
Industrial	96,421	96,831	(0.4)
Electricity	17,403	20,079	(13.3)
Supplies to third parties	38,039	41,283	(7.9)
International:	146,468	130,417	12.3
Europe wholesale	74,102	51,677	43.4
Europe retail	3,034	3,110	(2.4)
LNG International	69,332	75,630	(8.3)
Energy services contracts (thousand) (at 31/12)	**2,853**	**2,859**	**(0,2)**
Share of supply market in Spain	**44.0%**	**46.2%**	**(4.8)**
Maritime transportation capacity (m^3)	**1,387,344**	**951,318**	**45.8**

Gas supply

Wholesale supply by Gas Natural Fenosa totalled 295,297 GWh, a 3.4% increase, basically due to international business (+12.7%).

In a situation of weak demand due to weather conditions, Gas Natural Fenosa supplied 178,916 GWh to end customers in Spain, i.e. 3.7% less than in the previous year.

International gas supply continued the trend of previous quarters and reached 146,468 GWh in 2016, a 12.3% increase year-on-year, driven particularly by supply to end customers in other European countries.

The organised market in gas through MIBGAS continued to expand trading in DA (day-ahead: next-day delivery) and WD (within day) contracts and there was an increase in liquidity as a result of actions proposed by the System Operator (GTS) to achieve equilibrium in the gas balance; Gas Natural Comercializadora is one of the few active participants in this market.

In 2016, Gas Natural Europe strengthened its position in natural gas supply in Europe, with a presence in France, Belgium, Luxembourg, the Netherlands and Germany. It is also an active trader in these countries' liquid markets, enabling Gas Natural Fenosa to optimise its position and seize opportunities in European markets.

Sales in France in 2016 amounted to 49.2 TWh, to customers in numerous segments such as industry, local government and the public sector. Sales in Belgium, Luxembourg, the Netherlands and Germany amounted to 11.9 TWh in the same period.

Gas Natural Fenosa is also active in the wholesale market in Italy, where it sold 6.8 TWh in the year, and in the wholesale market in Ireland, through the supply company it acquired in July 2016, which contributed a volume of 0.6 TWh in 2016.

Gas Natural Fenosa is still Portugal's second-largest operator, with a 15% market share; it is the largest foreign operator there, with a sales volume of 5.6 TWh. Its activities are focused in the industrial market, where it has a share of over 17%.

The company continues to diversify into international markets, having sold gas in the Americas and Asia. This strengthens the Group's presence in the main international LNG markets, providing it with a medium-term position in countries with growth potential and in new markets.

In the retail market, Gas Natural Fenosa focuses on meeting its customers' energy needs. With a range of quality products and services, it has 12.3 million active gas, electricity and maintenance contracts, of which 575,000 are in Italy.

In the Italian retail market, Gas Natural Fenosa has a portfolio of 434,500 gas supply contracts and 50,000 electricity supply contracts, with an overlap of 25,000 between the two. Additionally, 90,500 customers have a maintenance contract.

Gas Natural Fenosa provides a comprehensive service by integrating the supply of both energies (gas and electricity) with maintenance services to achieve efficiencies and enhance customer satisfaction; it supplies both energies to over 1.5 million homes, a large percentage of which have a maintenance contract in place.

With a strong focus on continued growth in the retail business, the company sells products and services throughout Spain, having obtained 1,536,000 new contracts in 2016.

In the domestic gas segment, GNF updates its product portfolio with a view to offering electricity and natural gas tariffs that are tailored to each customer's profile. New products meet needs as a function of customers' energy usage, preferred form of payment, usage patterns over time and their interest in consuming renewable energy.

Gas Natural Fenosa remains committed to innovation to meet and even anticipate its customers' expectations by adding new functionalities in all digital channels, such as the ability to buy services and receive customer care online; its online platform receives 6 million queries per year.

The broad, diversified offering of services for residential customers and SMEs has enabled the company to increase the number of active contracts to 2.7 million, managed through the group's own operating platform with 118 associated firms connected via an online system, through which it provides an excellent service and satisfies even the most demanding customers. As a result of this performance, the portfolio of energy and services contracts in the retail segment increased in value.

The number of gas and electricity maintenance contracts in the SME market continues to grow, having attained 23,000.

Gas Natural Fenosa continues to develop its own network of natural gas service stations that are open to the public; at the end of 2016, it had a total of 48 service stations (both compressed and liquefied natural gas), of which 27 are open to the general public and 21 are private.

The integrated energy services solutions business continues to expand. A survey conducted by DBK identified Gas Natural Servicios as market leader in energy services to business.

Unión Fenosa Gas

Gas supplied in Spain by Unión Fenosa Gas (equity method, main aggregates at 100%) amounted to 35,741 GWh in 2016, compared with 33,389 GWh in 2015. Additionally, a total of 22,500 GWh of energy was traded in international markets, compared with 21,782 GWh in 2015.

Electricity

2.5.9 Electricity in Spain

The electricity business in Spain includes electricity generation in Spain, electricity wholesale and retail in Spain's liberalised market, and electricity supply at the "Small Consumer Voluntary Price" (PVPC).

Results

	2016	2015	%
Net sales	5,279	5,779	(8.7)
Procurement	(3,813)	(4,338)	(12.1)
Net personnel expenses	(138)	(138)	–
Other expenses/revenues	(613)	(562)	9.1
Ebitda	**715**	**741**	**(3.5)**
Depreciation, amortisation and impairment expenses	(523)	(523)	–
Change in operating provisions	(38)	(38)	–
Operating income	**154**	**180**	**(14.4)**

Net sales in the electricity business in Spain amounted to Euros 5,279 million, 8.7% less than in 2015, while EBITDA amounted to Euros 715 million, in line with 2015.

Market context

Electricity demand in mainland Spain amounted to 250,132 GWh in 2016, a 0.7% increase year-on-year. Correcting for the temperature and calendar effects, demand was flat year-on-year.

There was a net importation of electricity (7,663 GWh) via international physical exchanges in 2016, contrasting with 133 GWh exported in 2015; this was due to the entry into commercial operation of the new interconnector with France in October 2015 and to market prices in Spain being higher than in the rest of Europe (a phenomenon not seen since 2003).

Consumption for pumped storage amounted to 4,810 GWh in 2016, i.e. 6.4% more than in 2015, due to low market prices in comparison with last year.

Net domestic generation fell by 2.3% in 2016 with respect to 2015.

Renewable output (including hydroelectric) increased by 7.9% in 2016 and covered 39.9% of demand, 2.6 points more than in 2015.

Wind power output declined by 0.8%. Wind covered 18.9% of total demand, 0.3 points less than in 2015.

Other renewable output increased by 17.1% in 2016, while there was a decline in output by all technologies except hydroelectric and renewable thermal.

In terms of hydroelectric energy capability, 2016 ceased to be classified as a very wet year, since its exceedance probability was ultimately 29% when compared with the historical average; i.e. statistically, 29 out of every 100 years would be wetter than 2016.

Non-renewable output declined by 8.1% in 2016 and the thermal gap went from 30.7% in 2015 to 24.4% in 2016.

Nuclear output increased by 2.4%.

Coal-fired production declined by 30.9%. Utilisation of the former capacity guarantee units was 35%, compared with 46% for the other coal-fired units.

CCGT output increased by 2.3%. They covered 10.3% of total demand, 0.1 points more than in 2015.

Other non-renewable thermal output (cogeneration and energy-from-waste) increased by 1.7% in 2016.

Movements in the main electricity and related market price indices (in addition to the indices mentioned in point 2.5.8.) are set out below:

	2016	2015	%
Weighted average daily market price (€/MWh)	40.8	51.8	(21.2)
Coal API 2 CIF (USD/t)	59.8	56.8	5.3
CO_2 EUA (€/ton)	5.4	7.7	(29.8)

Main aggregates

The main aggregates in Gas Natural Fenosa's electricity business in Spain were as follows:

	2016	2015	%
Installed capacity (MW)	**12,716**	**12,769**	**(0.4)**
Generation:	11,569	11,624	(0.5)
Hydroelectric	1,954	1,954	–
Nuclear	604	604	–
Coal	2,010	2,065	(2.7)
CCGTs	7,001	7,001	–
Renewable and cogeneration output:	1,147	1,145	0.2
Wind	979	977	0.2
Small hydroelectric	110	110	–
Cogeneration and other	58	58	–
Electricity generated (GWh)	**28,504**	**31,568**	**(9.7)**
Generation:	26,046	29,468	(11.6)
Hydroelectric	3,933	2,457	60.1
Nuclear	4,463	4,544	(1.8)
Coal	5,687	7,973	(28.7)
CCGTs	11,963	14,494	(17.5)
Renewable and cogeneration output:	2,458	2,100	17.0
Wind	1,844	1,601	15.2
Small hydroelectric	562	448	25.4
Cogeneration and other	52	51	2.0
Power generation availability factor (%)	92.1	90.1	2.0 p.p.
Electricity sales (GWh)	**36,384**	**35,241**	**3.2**
Liberalised market	31,167	29,720	4.9
PVPC/Regulated	5,217	5,521	(5.5)
Market share of generation	17.0	18.4	-1.4 p.p.

On 17 May 2016, the market operator definitively decommissioned unit 1 of Narcea thermal power plant; this did not have an impact on the income statement because the plant was fully depreciated and a provision had been recognised for decommissioning it.

Gas Natural Fenosa generated 28,504 GWh of electricity in mainland Spain in 2016, i.e. 9.7% less than in 2015, basically due to conventional generation (-11.6%).

Conventional hydroelectric output increased by 60.1% with respect to 2015.

In the watersheds where Gas Natural Fenosa operates, 2016 was officially classified as an average year, with an exceedance probability of 51%; the year had two distinct parts: it was average-wet until June, and extremely dry for the remainder of the year.

Reservoirs in the Gas Natural Fenosa watersheds were at 23% of capacity, one point lower than at 2015 year-end (24.2%). Annual reservoir stocks stand at 34%, five points less than in 2015, while hyper-annual stocks are 9%, almost double the figure at 2015 year-end (5%).

Nuclear output declined by 1.8% in 2016 with respect to 2015, although the figures are affected by changes in the dates of scheduled shut-downs.

Coal-fired output decreased by 28.7% in 2016 with respect to 2015, and capacity utilisation stood at 34%.

CCGT output was 17.5% lower than in 2015; however, utilisation of this technology by Gas Natural Fenosa was 20%, almost double that of the industry as a whole (12%).

Emissions of CO_2 (greenhouse gases) in 2016 from Gas Natural Fenosa's coal-fired plants and CCGTs totalled 10.4 million tons in 2016 (3.1 million tons less than in 2015).

Under its commitments, during April 2016 Gas Natural Fenosa supplied the European Union's Union Registry with the rights equivalent to the CO_2 emissions certified at its coal-fired and CCGT plants in 2015, a total of 13.5 million tons of CO_2.

Gas Natural Fenosa's share of power generation was 17.0% in 2016, i.e. 1.4 points less than in 2015.

Sales in the electricity supply business amounted to 36,384 GWh, 3.2% more than in 2015. The electricity supply portfolio is in line with Gas Natural Fenosa's strategy of optimising margins and market share and hedging against price variations in the electricity market.

In November 2016, Gas Natural Fenosa Renovables commenced construction of 5 of the 13 wind farms that it registered within the maximum quota of 450 MW authorised by the Canary Islands Regional Government Ministry of Industry, Energy and Tourism. This quota qualifies for a special remuneration regime; the farms are expected to be commissioned by 31 December 2018. Work continues in order to obtain the necessary permits to commence construction of the other eight wind farms in the first half of 2017.

At 31 December 2016, Gas Natural Fenosa Renovables (GNF Renovables) had a consolidable total operational capacity of 1,104 MW, of which 979 MW are wind, 110 MW are small hydroelectric and 15 MW are cogeneration and photovoltaic. These figures do not include the cogeneration plants that are currently in liquidation (43MW); the company is awaiting the enactment of the new parameters for this technology in order to make a decision to partly or wholly re-open this capacity, which is currently dormant.

2.5.10 Global Power Generation

GPG encompasses all of the Group's international power generation assets and holdings in Mexico, Puerto Rico, the Dominican Republic, Panama, Costa Rica, Kenya and Australia (wind projects), and the assets operated for third parties via O&M Energy.

Results

	2016	2015	%
Net sales	781	806	(3.1)
Procurements	(400)	(420)	(4.8)
Net personnel expenses	(40)	(39)	2.6
Other expenses/revenues	(84)	(86)	(2.3)
Ebitda	**257**	**261**	**(1.5)**
Depreciation, amortisation and impairment expenses	(132)	(134)	(1.5)
Change in operating provisions	–	–	–
Operating income	**125**	**127**	**(1.6)**

Global Power Generation's EBITDA in 2016 amounted to Euros 257 million, down 1.5% compared with 2015, due mainly to lower EBITDA in Mexico and the Dominican Republic, partly offset by lower operating expenses at GPG Holding.

There was a 3.6% decline in EBITDA in Mexico basically because of the exchange rate effect and of higher maintenance expenses due to changes in the shutdown calendar. These negative effects were offset by a higher contribution margin attributable to better plant availability, despite adverse performance by the contractual benchmark indices. Bii Hioxo improved results due to more efficient management of the commercial mix.

EBITDA in the Dominican Republic declined by 31.4% due to the effect on margins of lower output and lower spot market prices after expiration of the PPA with the distribution companies.

EBITDA in Panama increased by 16.7% due to higher precipitation in the areas where the plants are located. This also resulted in the need to purchase electricity in the market to meet contractual commitments.

In Kenya, EBITDA increased by 12.5% year-on-year. This increase was due mainly to higher output as the plants were dispatched to a greater extent, and also to the receipt of insurance indemnities and a reduction in maintenance expenses.

Main aggregates

The main aggregates are as follows:

	2016	2015	%
Installed capacity (MW)	**2,702**	**2,702**	–
Mexico (CCGT)	2,035	2,035	–
Mexico (wind)	234	234	–
Costa Rica (hydroelectric)	101	101	–
Panama (hydroelectric)	22	22	–
Dominican Republic (oil-fired)	198	198	–
Kenya (oil-fired)	112	112	–
Electricity generated (GWh)	**18,048**	**17,980**	**0.4**
Mexico (CCGT)	15,648	15,519	0.8
Mexico (wind)	793	850	(6.7)
Costa Rica (hydroelectric)	398	408	(2.5)
Panama (hydroelectric)	98	73	34.2
Dominican Republic (oil-fired)	920	1,012	(9.1)
Kenya (oil-fired)	191	118	61.9
Availability factor (%)			
Mexico (CC)	93.4	91.2	2.2 p.p.
Costa Rica (hydroelectric)	93.2	93.6	-0.4 p.p.
Panama (hydroelectric)	94.4	96.4	-2.0 p.p.
Dominican Republic (oil-fired)	89.4	92.6	-3.2 p.p.
Kenya (oil-fired)	95.8	94.8	1.0 p.p.

Output in Mexico increased year-on-year since the major overhauls of Tuxpan and Naco lasted longer in 2015, Tuxpan unit III operated in open cycle, and there were problems with the quality of input gas in 2015. These effects offset the reduction in wind output caused by lower winds at Bii Hioxo and reduced production by Durango, which had a major overhaul this year. Differences in maintenance calendars between years resulted in higher availability than last year.

Hydroelectric output in Costa Rica was negatively impacted by lower dispatching of hydroelectric plants in the fourth quarter of 2016. The lower availability was due mainly to an additional shutdown at La Joya in December 2016 and an unscheduled shutdown at Torito in September 2016 caused by flooding of the machine hall. As discussed in section 2.3, the concessions in Costa Rica are recognised as finance asset in accordance with IFRIC 12.

Output in Panama was higher as a result of higher precipitation in the second half of 2016. The reduction in availability year-on-year is attributable to a major overhaul on the La Yeguada plant.

Output in the Dominican Republic declined year-on-year due to higher hydroelectric generation and to the withdrawal of the more efficient plants from the system in 2015.

Oil-fired output in Kenya was 61.9% higher than in 2015 as a result of higher dispatching in 2016 due to maintenance shutdowns of some of the country's hydroelectric facilities, and to the non-availability of other geothermal plants.

On 18 August 2016, Gas Natural Fenosa, through GPG, was awarded two power generation projects in Chile: the Cabo Leones II wind farm (204 MW) and a solar photovoltaic plant in Inca de Varas (120 MW). This is Gas Natural Fenosa's first electricity generation project in Chile, and it will ultimately supply 858 GWh per year; the investment is expected to amount to Euros 325 million. Construction is expected to commence in the third quarter of 2018, with commissioning scheduled for the fourth quarter of 2020.

On 23 August 2016, Gas Natural Fenosa, through GPG, was awarded its first wind farm in Australia; located in New South Wales, the 91 MW plant is expected to cost Euros 120 million. It is expected to be commissioned in the second half of 2018.

The Group also acquired two photovoltaic projects in Brazil that are ready for construction, with a combined capacity of 60 MW and output of 156 GWh. The total investment will be approximately Euros 85 million and they are expected to be commissioned by late 2017.

Ecoelectrica

The contribution by Ecoelectrica's CCGT in Puerto Rico (equity method) to the consolidated Group increased with respect to 2015 as a result of higher capacity revenues and a 14.1% increase in output, due to the fact that the plant had a major overhaul in the first quarter of 2015 and the shutdown scheduled for the first quarter of 2016 was brought forward to late 2015 due to damage caused by tropical storm Erika.

3. Sustainability

3.1 Environment

Main aggregates

	2016	2015	% Var.
Zero emissions installed capacity (%)	22.1	22.0	0.4
Zero emissions net production (%)	16.4	11.8	39.1
Direct GHG emissions1 (Mt CO_2 eq.)	19.5	22.4	(12.9)
CO_2 emissions/electricity production (t CO_2/GWh)	411	445	(7.6)
Methane emissions in gas distribution (t CO_2 eq./km network)	9.3	9.3	–
Environmentally certified activities (% of environmentally certified EBITDA/total Group EBITDA potentially certifiable)[2]	90.1	88.3	(2.0)

[1] Scope 1 direct greenhouse gas emissions in accordance with "The Greenhouse Gas Protocol. A Corporate accounting and reporting standard".
[2] Approximately 86.8% of Group EBITDA is potentially certifiable.

Gas Natural Fenosa works to ensure compliance with environmental legislation, reduce environmental impact, mitigate climate change, optimise the consumption of natural resources such as water, preserve biodiversity in the environment, prevent pollution and foster continuous improvement, going beyond the legal requirements.

In 2016, new environmental management systems were certified in accordance with ISO 14001 and internal requirements, and there was a slight increase in the percentage of EBITDA certified as a result of the addition of part of the Chilean electricity distribution business. The work to adapt environmental management systems and certify them to international standards and internal requirements will conclude in 2017.

Regarding climate change, there was a significant reduction in direct CO_2 emissions with respect to 2015 as a result of lower coal-fired output in Spain, replaced by less polluting output. As a result, specific emissions per unit of power generated were reduced considerably with respect to 2015.

In 2016, Gas Natural Fenosa carried out numerous and varied activities in favour of conserving biodiversity, many of which have gone beyond the requirements set by the environmental authorities and others are voluntary in nature.

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

Note 36 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

3.2 People

Main aggregates

Employment indicators	2016	2015	% Var.
Number of employees at 31/12	17,229	19,939	(13.6)
Voluntary turnover rate (%)	2.5	3.5	(28.6)
Integration rate (persons with disabilities)[1]	2.4	2.4	–
Employee training hours	50.9	61.4	(17.1)
Absenteeism	2.2	2.0	10.0
Days lost	2,424	3,674	(34.0)
Number of accidents resulting in days lost	65	125	(48.0)

[1] Spain.

Human and social development

Gas Natural Fenosa provides stable and quality employment (96% of positions are indefinite) and a solid, structured and appealing professional career.

During 2016, the implementation of the Human and Social Development project continued, the main objective of which is to promote a quality work environment based on respect, diversity and personal and professional development. Through this project, a number of programmes have been promoted and coordinated on the basis of two essential pillars: equality of opportunities, and training as a lever to raise internal awareness about disability.

Gas Natural Fenosa has a common global model for personnel selection for all the geographies in which it operates. This ensures that it applies uniform approach as an employer, using standard criteria and best practices in identifying, attracting and retaining the professional talent necessary to carry on its business.

Gas Natural Fenosa continues to offer all employees the opportunity to participate in the internal mobility programme. Through this programme, employees can apply for any vacant position in any location, irrespective of where the employee's work place is located. This is one of the main components for enhancing career development within the company. To ascertain employees' preferences and concerns in connection with mobility, work continues on the "Conocerte" project. This initiative, which commenced in 2015, has helped to provide individual and centralised information for the entire Company. Aimed at technical professionals not include in executive programmes or the Savia programme, the initiative gathered information about 10,000 employees in 15 countries.

Ethical behaviour, promoting and respecting equality, and occupational health and safety are essential parts of the commitment made by Gas Natural Fenosa to its employees.

These principles are reflected in the company's day-to-day performance through the Code of Ethics, the II Collective Agreement, the Equality Plan and the Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment.

In 2016, progress was made on the implementation of equality and diversity actions for employees, with the design of a Comprehensive Diversity Plan focused on gender, age and disability.

Concerning disability, the Capacitas and Aflora programmes aimed at normalising the professional integration of professionals with disability. Since implementation of these two projects commenced, a total of 156 persons with special needs have received aid relating to employment in Spain, i.e. over 87% of employees with disabilities have availed themselves of these programmes. Gas Natural Fenosa renewed the Bequal Plus Seal in recognition of our inclusion policy as a pioneer in disability commitment within the energy industry.

Gas Natural Fenosa promotes work-life balance through a major set of labour flexibility measures, services and benefits adapted to employees' needs. Our professionals can thus design their own life options in line with their development plans and the company's interests.

Training and talent management

Talent management at Gas Natural Fenosa's is centred on employees' individual development and professional careers, helping to define professional learning in a controlled and consistent manner to ensure that their development is aligned with the company's objectives.

The leadership and talent management model seeks to foster responsibility as well as individual and career development by using innovative tools and methodologies in training and development.

The model was simplified in 2016 to make it more accessible to all employees, the goal being to have a single, homogeneous, standardised model for professional evaluation and development.

The Talent Management and Corporate University unit is responsible for the development of Gas Natural Fenosa's professionals on all organisational levels and for knowledge management in all areas of the company. Training is a success factor for the company since our employees are the ones who achieve business objectives and drive our corporate strategies.

The Corporate University has a network of alliances with academic institutions in Spain and other countries. The Advisory Board, comprising the Polytechnic Universities of Barcelona and Madrid, the Monterrey Institute of Technology, IESE, ESADE and Boston Consulting Group, with the internal units of Gas Natural Fenosa, ensure a permanent link between the company's strategy and the programmes that are implemented.

Gas Natural Fenosa has established itself as a leader in health and safety following the implementation in 2012 of an ambitious "Health and Safety Commitment Plan" aimed at achieving a profound cultural change. The Corporate University has contributed to this process through a related training scheme, under which 100% of the company's employees have been trained.

Remuneration

Gas Natural Fenosa's remuneration policy is guided by the principles of internal equality and competitiveness in the market. Employees' remuneration depends on whether or not they are covered by the Collective Agreement.

The salary levels of employees covered by the Collective Agreement are based on the professional group and sub-group to which they belong.

For those not covered, salaries are defined individually, in line with the Company's remuneration policy.

Variable remuneration under Gas Natural Fenosa's remuneration policy is designed to promote employee commitment and motivate performance, in line with the long-term interests of the Company and its shareholders.

Annual variable remuneration rewards the achievement of individual targets depending on the position, applying financial, efficiency and growth variables, as well as on quality and security issues, directly related to the fulfilment of the objectives proposed in the Management by Objectives Plan.

Management by Objectives and Commercial Variable Remuneration are methodologies deployed in Gas Natural Fenosa to encourage employee involvement in achieving the objectives of the company and their direct participation in results. Both are arranged through two types of Annual Variable Remuneration, depending on the group addressed:

- Management: based on management by objectives and performance appraisal. Applies to management personnel not covered by the Collective Agreement.

- Commercial: based on the fulfilment of commercial objectives. Aimed at employees with commercial functions.

The compensation package for employees of Gas Natural Fenosa is complemented by a benefits system which includes the pension plan, the main vehicle for funding post-employment commitments.

Furthermore, Gas Natural Fenosa offers a range of social benefits that complement the employees' remuneration package. The "Mis Beneficios" (My Benefits) platform for the workforce in Spain went live in 2016; it provides a single, comprehensive solution for managing and communicating compensation and benefits programmes. The platform continues to be developed to adapt to the various compensation and benefits strategies.

It includes such modules as: "Sistema de previsión social" to help employees understand their retirement and be aware of the Company's retirement plans, and "Bienestar y Salud", which enables employees to manage their well-being and health related plans.

All personnel in Spain also have a flexible remuneration system, which was implemented in 2012. The system enables beneficiaries to design the composition of their compensation package by combining a range of products on offer.

Personnel structure

Note 25 to the Consolidated Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

3.3 Taxation

Tax policies and tax risk management

Gas Natural Fenosa's tax policies are aligned with the Gas Natural Fenosa Corporate Responsibility Policy, which establishes as one of the commitments and principles of action to "act responsibly in managing business and comply with tax obligations in all the jurisdictions in which the company operates, assuming the commitment to transparency and collaborate with the relevant tax authorities."

To this end, since 2010 Gas Natural Fenosa has adhered to the "Code of Best Tax Practices" drawn up by the Large Companies Forum in conjunction with the Spanish tax authorities. This initiative, supported by the Spanish government, aims to promote transparency, good faith and cooperation with the tax authorities in business tax practices, and legal certainty in the application and interpretation of tax regulations.

In this respect, the company has expressly undertaken to: (a) avoid opaque structures for tax purposes, (b) collaborate with the tax authorities, (c) regularly report on tax policies to the Board of Directors, and (d) apply tax criteria in line with administrative pronouncements and case law.

To ensure that the tax practices of Gas Natural Fenosa are based on these principles, the group has a General Procedure governing Best Practices in the area of Tax.

In addition, Gas Natural Fenosa has a risk map specifically identifying tax risks and disputes concerning the interpretation and application of tax law. Information on the main tax-related actions is disclosed in Note 21 (Tax Situation) to the consolidated annual accounts.

The tax repercussions of any material or unique transactions are reported to the Board of Directors when they are deemed to be material. The creation or acquisition of holdings in entities domiciled in designated tax havens must be reported to the Board of Directors through the Audit Committee.

On the basis of Spanish legislation concerning countries classified as tax havens (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January), Gas Natural Fenosa has interests in only two companies incorporated in such territories:

- 95.0% of Buenergía Gas & Power, Ltd., domiciled in the Cayman Islands. This company indirectly owns only one industrial holding, in a company that engages in power generation by means of a combined cycle gas turbine plant in Puerto Rico (Ecoeléctrica, L.P.), whose income is taxed in that country and which does not provide Gas Natural Fenosa with any tax benefits.

- 52.2% of Gasoducto del Pacífico (Cayman), Ltd., domiciled in the Cayman Islands. This company, which is dormant, was acquired by the Group as a consequence of the acquisition of the CGE group and does not provide any tax advantage for Gas Natural Fenosa.

In 2016, the domicile of the 47.5% holding in Ecoeléctrica Holding, Ltd. and the 47.5% holding in Ecoeléctrica Limited was changed from the Cayman Islands to Puerto Rico; accordingly, they have ceased to be classified as holdings in tax havens.

Intragroup transactions with these entities relate to dividends received, as follows:

Receiving subsidiary	Distributing subsidiary	Amount (thousand Euros)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	6,036

Tax contribution

Gas Natural Fenosa is aware of its responsibility for the economic development of the communities in which it conducts its business. The taxes it pays represent a significant part of the economic contribution made to the countries in which it operates. Therefore, Gas Natural Fenosa pays priority attention to fulfilling its obligation to pay taxes under the laws of each territory.

The taxes paid by Gas Natural Fenosa have considerable economic importance and involve a major compliance effort under formal obligations and cooperation with the tax authorities.

The total tax contribution of Gas Natural Fenosa amounted to Euros 3,423 million in 2016 (Euros 3,636 million in 2015). The following table details the taxes actually paid by Gas Natural Fenosa, by country, segmenting those that represent actual expenditure by the group (called group taxes) and those that are withheld or charged to the end taxpayer (called third-party taxes):

	Group taxes						Third-party taxes									
Country	Corporate income tax[1]		Others[2]		**Total**		VAT		Tax on hydrocarbons		Others[3]		**Total**		**Total**	
	2016	2015	2016	2015	**2016**	**2015**	2016	2015	2016	2015	2016	2015	**2016**	**2015**	**2016**	**2015**
Spain	199	347	512	549	**711**	**896**	1,007	1.169	352	362	229	200	**1,588**	**1,731**	**2,299**	**2,627**
Argentina	10	4	42	40	**52**	**44**	13	13	–	–	22	16	**35**	**29**	**87**	**73**
Brazil	38	51	49	44	**87**	**95**	58	56	–	–	9	18	**67**	**74**	**154**	**169**
Colombia	75	69	78	78	**153**	**147**	7	9	–	–	14	22	**21**	**31**	**174**	**178**
Chile	42	48	11	16	**53**	**64**	117	99	–	–	18	22	**135**	**121**	**188**	**185**
Mexico	31	33	3	4	**34**	**37**	39	32	–	–	11	12	**50**	**44**	**84**	**81**
Panama	89	8	7	11	**96**	**19**	–	–	–	–	3	4	**3**	**4**	**99**	**23**
Rest LatAm	12	11	1	1	**13**	**12**	2	3	–	–	3	2	**5**	**5**	**18**	**17**
Total LatAm	297	224	191	194	**488**	**418**	236	212	–	–	80	96	**316**	**308**	**804**	**726**
Italy	19	14	7	5	**26**	**19**	27	30	42	34	5	5	**74**	**69**	**100**	**88**
Rest	10	10	23	35	**33**	**45**	128	112	49	32	6	6	**183**	**150**	**216**	**195**
Total	**525**	**595**	**733**	**783**	**1,258**	**1,378**	**1,398**	**1,523**	**443**	**428**	**320**	**307**	**2,161**	**2,258**	**3,419**	**3,636**

[1] Corporate income tax actually paid during the year. Does not include accrued amounts. Information on the reconciliation between the recognised corporate income tax amount and the amount that would result from applying the nominal income tax rate currently prevailing in the country of the parent company (Spain) to pre-tax profits is detailed in Note 21 (Tax Situation) to the consolidated annual accounts.
[2] Includes energy taxes which in Spain amounted to Euros 244 million in 2016 (Euros 262 million in 2015), local taxes, employer social security contributions and other taxes specific to each country.
[3] Basically includes employee income tax withholdings and employee social security contributions.

4. Main risks and uncertainties

4.1. Operating risks

4.1.1. Regulatory risk

Gas Natural Fenosa and its subsidiaries are required to comply with legislation governing the natural gas and electricity sectors. In particular, gas and electricity distribution are regulated activities in most of the countries in which Gas Natural Fenosa performs them.

Legislation applicable to the natural gas and electricity sectors in the countries in which Gas Natural Fenosa operates is generally revised on a regular basis by the competent authorities. Any amendments may affect the current remuneration system for regulated activities, adversely impacting Gas Natural Fenosa's business, profits, grants and financial position.

In the event that competent public or private bodies interpret or apply such regulations based on criteria that differ from those of Gas Natural Fenosa, its compliance might be questioned or appealed and, in the event that an infringement were proven, there might be a material adverse impact on Gas Natural Fenosa's business, prospects, profits, grants and financial position.

Regulatory risk management is founded on smooth communication between Gas Natural Fenosa and regulators. Additionally, in the course of its regulated activities, Gas Natural Fenosa ensures that its costs and investments are aligned with the rates of return recognised for each business.

4.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Gas Natural Fenosa is obligated to purchase certain annual volumes of gas ("take-or-pay" clauses). Under such contracts, even if Gas Natural Fenosa does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulate gas volumes in line with Gas Natural Fenosa's estimated needs. However, actual needs may be below the volumes estimated when the contracts were arranged. In the event of significant departures from the estimates, Gas Natural Fenosa will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Gas Natural Fenosa's operating costs.

In the electricity business, Gas Natural Fenosa's results are exposed to a reduction in the amount of electricity generated, which is shaped by trends in demand for electricity. Additionally, in view of the major role played by CCGT technology in Gas Natural Fenosa's generating fleet, the amount of power generated might be reduced because of the growing importance of power generation from renewable sources.

A decrease in volumes generated would increase uncertainty as regards the achievement of generation/supply objectives.

Gas Natural Fenosa manages contracts and assets on a globally integrated basis to optimise energy balances, enabling it to correct any deviation in the most profitable manner possible.

4.1.3. Operational risk

a) Insurable risks

Gas Natural Fenosa's activities are exposed to a variety of operational risks such as faults in the distribution network, in electricity generation facilities and in gas carriers, explosions, polluting emissions, toxic spillage, fire, adverse weather conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that might cause bodily harm and/or material damage, affecting or destroying Gas Natural Fenosa's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering loss of profit and material damage, Gas Natural Fenosa's financial situation and results could be affected to the extent that any losses are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid to insurers.

Gas Natural Fenosa might also have to respond to third-party claims for bodily harm and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Gas Natural Fenosa operates, which could have a material adverse impact on the business, prospects, financial position and results if the its third-party liability insurance policies not cover the amount of the indemnities.

Gas Natural Fenosa prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, our approach to insurance coverage is based on optimising the total cost of risk.

b) Image and reputation

Gas Natural Fenosa is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting its own reputation or that of the industry. Such impacts might cause medium-term financial damage by increasing regulatory demands or funding costs or by requiring additional expenditure to win customers.

Gas Natural Fenosa is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Gas Natural Fenosa's activities are subject to extensive legislation on environmental protection.

Gas Natural Fenosa and its subsidiaries must comply strictly with extensive environmental protection regulations requiring, among other aspects, the preparation of environmental impact analyses, obtainment of authorisations, licences and permits, and fulfilment of certain requirements. Considerations include:

- Environmental authorisations and licences might not be granted or might be revoked due to failure to comply with the attached conditions;

- The regulatory framework or its interpretation by the authorities might be amended, resulting in higher costs or deadlines for compliance with the new requirements.

In order to mitigate this risk, Gas Natural Fenosa has adopted an integrated environmental management system and has emergency plans for facilities where there is a risk of accidents with an environmental impact. Specific insurance policies have also been arranged to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to the weather. A significant part of gas consumption during the winter months is driven by electricity generation and space heating, while summer consumption depends basically on electricity generation for air conditioning. Gas Natural Fenosa's revenue and results from natural gas distribution and supply activities might be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity might also fall if summers become milder, due to a decline in demand for air conditioning. Additionally, hydroelectric generation plant utilisation depends on rainfall in the plant locations and might be affected by drought.

European policies and measures to combat climate change could affect Gas Natural Fenosa's results in the event that the competitiveness of the Company's generation mix is altered.

Gas Natural Fenosa forms part of a number of work groups at European level, enabling strategy to be adapted to new regulations in advance. Gas Natural Fenosa also forms part of clean development projects designed to reduce CO_2 emissions.

e) Geopolitical exposure

Gas Natural Fenosa has interests in countries with different political, economic and social environments; in this regard, two main areas are particularly relevant:

- Latin America

  A large part of Gas Natural Fenosa's operating profits are generated by its Latin American subsidiaries. Latin American operations are exposed to a number of risks inherent in investment in this region. Risk factors linked to investment and business in Latin America include:

  - Considerable influence of local governments on the economy;

  - Significant fluctuation in the economic growth rate;

  - High inflation;

  - Devaluation, depreciation or overvaluation of local currencies;

  - Controls or restrictions on the repatriation of earnings;

  - Fluctuating interest rates;

  - Changes in financial, economic and fiscal policies;

  - Unexpected changes to regulatory frameworks;

  - Social tensions and

  - Political and macroeconomic instability.

- Middle East and Maghreb

  Gas Natural Fenosa has both its own assets and major contracts for the supply of gas from various Maghreb countries and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Gas Natural Fenosa's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

Gas Natural Fenosa has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries that supply gas (Latin America, Africa, Middle East, Europe). Diversification minimises the risk of expropriation and of supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been arranged for these risks.

4.2. Financial risks

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

On 23 June 2016, the United Kingdom voted to withdraw from the European Union ("Brexit"). Although the UK's withdrawal will be accompanied by a process of negotiation over a period of time that cannot be determined as yet, the decision has already had consequences in the capital and foreign exchange markets. Gas Natural Fenosa's exposure to Brexit risk is practically non-existent.

4.3. Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- Generation mix: Gas Natural Fenosa's generating fleet, consisting mainly of CCGT facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.

- CO_2 market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract climate change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.

- Natural gas and LNG procurement portfolio: Management of gas pipelines, investment in plants and the fleet of gas carriers enable the Group to meet its business needs in a flexible, diversified manner, optimising its approach to different energy scenarios. Specifically, the fleet of gas carriers makes Gas Natural Fenosa one of the world's leading LNG operators and a principal in the Atlantic and Mediterranean.

- A balanced structural position in terms of businesses and geographies, many with stable flows, irrespective of commodities prices, making it possible to take the maximum advantage of growth in energy demand and of new business opportunities in new markets.

5. Group outlook

5.1. Strategic priorities

In order to achieve its objectives, Gas Natural Fenosa defines medium-term strategies that are updated periodically to adapt to current and future circumstances, taking into consideration the specific features of each of the Company's business lines.

In May 2016, Gas Natural Fenosa presented its updated Strategic Vision 2016-2020, establishing the Group's strategic priorities for the period.

5.2. Financial priorities

The strategic priorities for the period 2016-2020 are based on a financial policy consistent with growth and dividend targets:

- Strict financial discipline.
- Sustained dividend growth based on sustainable cash flow (70% payout commitment).
- Execute the efficiency plan.
- Manage the business portfolio.
- Maintain a solid business model with regulated or contracted activities accounting for approximately 70% of EBITDA and more than 80% of future capital expenditure.

The strategic objectives for 2018 are detailed below (Euros billion):

	2018 targets
Ebitda	~ 5.4
Net profit	~ 1.6
Dividend (Pay-out)	~ 70%
Deuda Neta/ Ebitda	~ 3.0x

5.3. Group outlook

The updated Strategic Vision 2016-2020 is based on three lines of growth (networks, power generation, and supply) that will enable Gas Natural Fenosa to continue expanding in the future:

- Networks: in gas networks, the investment in gas networks in Chile, Mexico and Colombia, the entry into the distribution business in the region of Arequipa in Peru, new licences, and additional growth derived from the conversion of the newly-acquired LPG distribution points in Spain; in electricity networks, investment in smart grids in Spain, investments to meet the additional demand in Chile and Panama, and electricity subtransmission in Chile driven by new renewable energy facilities.

- Electricity generation: improve the efficiency and performance of the generating fleet by adding 3,500 MW overall, of which 2,500 MW renewable (Spain and International) and 500-1,000 MW CCGTs that will contribute to the downstream development of the LNG business. Growth and development of the international power generation business through GPG.

- Gas supply: new gas supply contracts totalling approximately 11 bcm relating to the two Cheniere projects (Sabine Pass and Corpus Christi), the Yamal LNG project in Russia, and the Shah Deniz II project in Azerbaijan; additionally, existing gas supply contracts will be adapted and renegotiated to reflect benchmark market conditions. The gas carrier fleet will be expanded by adding four new carriers (two of which were added in 2016) and a mobile regasification unit. That expansion will increase capacity by almost one millon cubic metres EBITDA is expected to increase by about 10%.

As a result, Gas Natural Fenosa is expected to maintain its organic growth trend in 2017 and beyond.

6. R&D&i activities

Innovation is one of the drivers of Gas Natural Fenosa's development; consequently, senior management is implementing an innovation model as part of the Group's updated Strategic Vision 2016-2020.

This model consists of a vision and a focus on innovation, project management methodology and a strong innovation culture within the company to ensure the most appropriate response to a changing situation.

Investment in technological innovation is analysed below:

	2016	2015
Total investment (million euro)	**59.2**	**15.7**

The innovation plan is structured through five multidisciplinary networks: Power Generation, Networks, Customers, Liquefied Natural Gas (LNG) and Automation and information management.

- Power generation:

  - Renewable energy: The company has a balanced generation mix that is able to respond appropriately to the demand for energy in the societies where it operates, and it always seeks the most environmentally-friendly generation technologies. Its priorities in this area include notably: developing new technologies to increase the percentage of renewable energy in its portfolio and integrate it into the power grid, and optimising the use of renewable facilities already in service, for example, by extending their useful lives or harnessing wind more efficiently.

  - Hydroelectric power: Gas Natural Fenosa's main innovation activities in the area of hydroelectric power are conducted through the Centro Internacional de Excelencia Hidráulica (CIEH). That institution's mission is to promote and channel R&D and innovation initiatives to harness conventional and marine hydroelectric energy that can be scaled up for application at the company's facilities around the world.

  - Storage: Innovation in the area of energy storage focuses primarily on storing electricity in batteries, both large installations that enhance power grid operations and small-scale facilities for distributed use.

  - Thermoelectric generation: Gas Natural Fenosa is working on two main lines of innovation in this area: improving power plant performance and reducing emissions from power generation.

- Networks: The main challenge in gas grids is to optimise safety and durability, as well as to increase the degree of optimisation and improve interactions with customers. In electrical networks, it continues to devote considerable efforts to optimising the electricity distribution network, focusing particularly on workplace safety, environmental aspects and supply quality. The goal is for electricity networks to be increasingly more intelligent.
- Customers: In the recently-established Smart Client area of innovation, the company is focused on offering value-added products and services to different categories of end customer.
- Liquefied Natural Gas (LNG):The overall objective is to strengthen LNG transportation, storage and distribution infrastructure, at all levels, so as to promote its use as an alternative to petroleum derivatives and as a more environmentally-friendly propulsion solution for shipping.
- Automation and information management is a horizontal area that seeks to agglutinate existing projects so as to reap synergies and enhance outcomes

7. Annual Corporate Governance Report

Attached as an Appendix to this Director’s Report, and forming an integral part of it, is the Annual Corporate Governance Report for 2016, as required under article 526 of the Spanish Capital Companies Act.

8. Treasury shares

On 14 May 2015, the General Meeting of Shareholders authorised the Board of Directors, for a period of not more than five years, to purchase, for good and valuable consideration, fully paid-up Company shares on one or more occasions, up to a total maximum amount of 10% of the share capital or the maximum figure applicable under the legislation in force at the time of acquisition, provided that the shares acquired directly or indirectly plus those already held by the Company and its subsidiaries never exceed 10% of subscribed capital or such other limit as may be established by law.

The minimum and maximum purchase price is the share price listed on Spain's electronic market, plus or minus 5%.

The variations in the treasury shares of Gas Natural SDG, S.A. in 2016 and 2015 are as follows:

	Number of shares	Amounts in million euro	% Share capital
At 1 January 2015	–	–	–
Acquisitions	2,899,180	58	0.3
Disposals	(2,899,180)	(58)	(0.3)
At 31 December 2015	–	–	–
Acquisitions	3,049,189	53	0.3
Disposals	(2,298,644)	(40)	(0.2)
At 31 December 2016	**750,545**	**13**	**0.1**

Transactions with own shares of Gas Natural Fenosa in 2016 resulted in a gain of Euros 0.4 million, recognised under "Other reserves" (a gain of Euros 2 million in 2015).

For complete information about treasury shares see Note 13 to the Consolidated Annual Accounts.

9. Events after the reporting date

Events after the reporting date are described in Note 38 to the Consolidated Annual Accounts.

Glossary of terms

Alternative performance metrics	Definition
EBITDA	EBIT + Depreciation and amortisation + Period provisions - Other income
Gross financial debt	Non-current financial liabilities + Current financial liabilities
Net borrowings	Gross financial debt - Cash and cash equivalents - Derivative financial assets
Leverage	Net borrowings/(Net borrowings + Net equity)
Cost of net borrowings	Cost of borrowings - Interest revenues
Liquidity ratio	Current assets/Current liabilities
Solvency ratio	(Net equity + Non-current liabilities)/Non-current assets
ROE	Attributable net income/Attributed net equity
ROA	Attributable net income/Total assets
Market capitalisation	No. of shares at end of period X Market price at end of period
Earnings per share	Net income for the period / No. of shares at end of period
Attributable net equity per share	Attributable net equity / No. of shares at end of period
P/E	Closing share price / Earnings per share in the last four quarters
EV	Enterprise value, calculated as: Market capitalisation + Net borrowings
Net capital expenditure	Investment in property, plant and equipment, intangible assets and financial assets - Receipts for divestment of property, plant and equipment and intangible assets - Other investing receipts/payments
Personnel expenses, net	Personnel expenses - Capitalised personnel expenses
WACC	Weighted average cost of capital

A. Ownership structure

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

Date of last change	Share capital (€)	Number of shares	Number of voting rights
22/06/2012	1,000,689,341	1,000,689,341	1,000,689,341

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

No

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

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

Name or corporate name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation	40,092,780		0	4.01
Repsol, S.A.	200,964,920		0	20.08
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	0	Criteria Caixa, S.A.U.	244,557,521	24.44
		Caixabank, S.A.	208	0
Global Infrastructure Partners III	0	Gip III Canary 1, S.À R.L.	200,137,868	20.00

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

Name or corporate name of the shareholder	Date of transaction	Descripción de la operación
Repsol, S.A.	21-09-2016	10% of capital stock has fallen
Criteria Caixa, S.A.U.	21-09-2016	10% of capital stock has fallen
Gip III Canary 1, S.À R.L.	21-09-2016	15% of capital stock has exceeded

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

		Indirect voting rights		
Name or corporate name of the director	**Number of direct voting rights**	**Direct holder of the interest**	**Number of voting rights**	**% of total voting rights**
Mr. Isidro Fainé Casas	17,426			0.00
Mr. Josu Jon Imaz San Miguel	2,100			0.00
Mr. William Alan Woodburn	0			0.00
Mr. Rafael Villaseca Marco	13,055	Ravifa 2013, S.L. B66079922	8,917	0.00
Mr. Ramón Adell Ramón	5,000			0.00
Mr. Enrique Alcántara-García Irazoqui	8,339			0.00
Mr. Xabier Añoveros Trías de Bes	350			0.00
Mr. Marcelino Armenter Vidal	12,600			0.00
Mr. Mario Armero Montes	0			0.00
Mr. Francisco Belil Creixell	7,128			0.00
Mrs. Benita María Ferrero-Waldner	0			0.00
Mr. Alejandro García-Bragado Dalmau	0			0.00
Mrs. Cristina Garmendia Mendizábal	0			0.00
Mrs. Helena Herrero Starkie	0			0.00
Mr. Miguel Martínez San Martín	0			0.00
Mr. Rajaram Rao	0			0.00
Mr. Luís Suárez de Lezo Mantilla	18,156			0.00
% total voting rights held by the board of directors				**0.00**

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

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

Related individual or company name	Type of relationship	Brief description
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	Contractual and commercial	Commercial or corporate relationships between Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona (la Caixa) and Repsol, S.A. are expressed in the reports of these companies. Previous shareholders agreement was finished on September 21, 2016. See par. A.6.
Repsol, S.A.	Contractual and commercial	Commercial or corporate relationships between Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona (la Caixa) and Repsol, S.A. are expressed in the reports of these companies. Previous shareholders agreement was finished on September 21, 2016. See par. A.6.

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

Related individual or company name	Type of relationship	Brief description
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	Commercial	Existing relationships derive from ordinary commercial traffic and are referred to in par. D.2 and in annual accounts.
Repsol, S.A.	Commercial	Existing relationships derive from ordinary commercial traffic and are referred to in par. D.2 and in annual accounts.
Société Nacionale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures	Commercial	Existing relationships derive from ordinary commercial traffic.

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

Yes

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement
Criteria Caixa, S.A.U Repsol, S.A. Gip III Canary 1, S.À R.L.	64.52	Participants have agreed some commitments related to the Corporate Governance of the Company whose purpose is the composition of the Board of Directors and its Committees as detailed below.

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

No

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

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

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

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

In this agreement, these companies assumed certain commitments related to the corporate governance of the Company. In particular, the companies committed to make their best efforts to ensure, to the extent legally possible: (i) That each one of them has a representation in the Board of Directors proportional to the percentage of its participation in the share capital; (ii) that the chairmanship of the Company is non-executive and corresponds to one of the Directors appointed by the party that has a stake in the Company's capital significantly higher than the rest, which is currently Criteria, and that there are two Vice-Presidents Non-executive directors who are employed by appointed Directors at the proposal of Repsol and GIP respectively, while the presidency is occupied by a director on a proposal from Criteria; (iii) that the Executive Committee be made up of 10 members, 2 appointed by Criteria (including, where appropriate, the Chairman of the Board), 2 by Repsol, 2 by GIP, 3 Independent Directors and 1 Executive Director; (iv) the Audit Committee has 7 members, 1 appointed by Criteria, 1 by Repsol, 1 by GIP and 4 by Independent Directors; (v) that the Appointments and Remuneration Committee is made up of five members, 1 appointed by Criteria, 1 by Repsol, 1 by GIP and 2 by Independent Directors and (vi) that in the event of changes in the total number of members of the Board of Directors of the Company or in the participation of the Parties in the Company's share capital, the Company shall adopt the necessary measures to adapt the composition of the Board of Directors So as to maintain the balance between the directors appointed by each of them in accordance with the principle of proportional representation.

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

No

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

As of year-end:

Number of direct shares	Number of indirect shares*	Total % of share capital
750,545	0	0.08%

*Through

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

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

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

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

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

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

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

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

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

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

Ten

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

2) The Board of Directors, with power of substitution in the Executive Committee, is expressly empowered to exclude, in whole or in part, the pre-emptive subscription right in relation to any or all of the issues that it may agree upon based on this authorization.

3) As a result of the previous agreement, to amend the Transitory Article of the Articles of Association, which will be drafted as follows:

"Temporary Article Delegation to the Board of Directors

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

A.9 bis Estimated free-float:

	%
Estimated free-float	31.39

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

Yes

Description of restrictions
As a company that includes certain regulated and quasi-regulated assets and activities in the Group, the acquisition of shares of Gas Natural SDG, S.A. may be subject to the provisions of Additional Provision Nine of Law 3/2013, of June 4, creating the Comisión Nacional de los Mercados y Competencia (National Commission on Markets and Competition). Due to its nature as main operator in the gas and electricity markets, the holding of its shares is subject to the restrictions established in article 34 of Decree-Law 6/2000 of Urgent Measures to intensify competition in the markets of goods and services.

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

No

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

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

No

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

B. General Shareholder's Meeting

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

No

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

No

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

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

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

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

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

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

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

1) That the Board of Directors or, where appropriate, the shareholders responsible for the proposal, draw up a written report to justify the proposed amendment.

2) The notice of the Shareholders' Meeting must clearly set out the proposed amendment and state that all shareholders are entitled to examine the full text of the proposed amendment and the report in connection with same at the registered offices and on the corporate web site, and to obtain a copy or have it delivered to them free of charge.

3) The decision must be adopted by the Shareholders' Meeting as provided in these Articles of Association.

4) The decision must be expressed in a public instrument, registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

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

	Attendance data				
			% absentee voting		
Date of General Shareholders´Meeting	% of shareholders present in person	% of shareholders represented by proxy	Electronic voting	Others	% Total
14/05/2015	68.57	11.96	0	0	80.53
04/05/2016	68.67	8.77	0	0	77.44

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

Yes

Number of shares required to attend the general shareholder's meeting	100

B.6 Section deleted.

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

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

Information regarding the general shareholders' meeting of the Company can be accessed at this address:
www.gasnaturalfenosa.com – General Shareholder's Meeting.

C. Structure Of The Company's Management

C.1 Board of directors

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

Maximum number of directors	20
Minimum number of directors	10

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

Individual or company name of the director	Repre-sentative	Type of director	Position on the board	Date of first appointment	Date of last appointmen	Election procedure
Mr. Isidro Faine Casas	–	Proprietary	President	18/05/2015	18/05/2015	General Shareholder's Meeting
Mr. Josu Jon Imaz San Miguel	–	Proprietary	Vicepresident 1°	21/09/2016	21/09/2016	Cooptation
Mr. William Alan Woodburn	–	Proprietary	Vicepresident 2°	30/09/2016	30/09/2016	Cooptation
Mr. Rafael Villaseca Marco	–	Executive	Chairman/Ceo	28/01/2005	14/05/2015	General Shareholder's Meeting
Mr. Ramón Adell Ramón	–	Independent	Director	18/06/2010	14/05/2015	General Shareholder's Meeting
Mr. Enrique Alcántara-García Irazoqui	–	Proprietary	Director	27/06/1991	11/04/2014	General Shareholder's Meeting
Mr. Xabier Añoveros Trías de Bes	–	Independent	Director	20/04/2012	14/05/2015	General Shareholder's Meeting
Mr. Marcelino Armenter Vidal	–	Proprietary	Director	21/09/2016	21/09/2016	Cooptation
Mr. Mario Armero Montes	–	Proprietary	Director	21/09/2016	21/09/2016	Cooptation
Mr. Francisco Belil Creixell	–	Independent	Director	14/05/2015	14/05/2015	General Shareholder's Meeting
Mrs. Benita María Ferrero-Waldner	–	Independent	Director	14/05/2015	14/05/2015	General Shareholder's Meeting
Mr. Alejandro García-Bragado Dalmau	–	Proprietary	Director	21/09/2016	21/09/2016	Cooptation
Mrs. Cristina Garmendia Mendizábal	–	Independent	Director	14/05/2015	14/05/2015	General Shareholder's Meeting
Mrs. Helena Herrero Starkie	–	Independent	Director	04/05/2016	04/05/2016	General Shareholder's Meeting
Mr. Miguel Martínez San Martín	–	Proprietary	Director	14/05/2015	14/05/2015	General Shareholder's Meeting
Mr. Rajaram Rao	–	Proprietary	Director	21/09/2016	21/09/2016	Cooptation
Mr. Luis Suárez de Lezo Mantilla	–	Proprietary	Director	26/02/2010	11/04/2014	General Shareholder's Meeting
Total number of directors						**17**

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

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
Mr. Salvador Gabarró Serra	Executive	21/09/2016
Mr. Emiliano López Achurra	Independent	04/05/2016
Mr. Antonio Brufau Niubó	Proprietary	21/09/2016
Mr. Demetrio Carceller Arce	Proprietary	15/09/2016
Mr. Heribert Padrol Munté	Proprietary	21/09/2016
Mr. Juan Rosell Lastortras	Proprietary	20/09/2016
Mr. Miguel Valls Maseda	Independent	21/09/2016

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

Executive Directors

Individual or company name of director	Position within the company's structure
Mr. Rafael Villaseca Marco	Chairman & ceo
Total number of executive directors	**1**
Total % of the board	**5.88**

External proprietary director

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment
Mr. Enrique Alcántara-García Irazoqui	Criteria Caixa, S.A.U.
Mr. Marcelino Armenter Vidal	Criteria Caixa, S.A.U.
Mr. Isidro Faine Casas	Criteria Caixa, S.A.U.
Mr. Alejandro García-Bragado Dalmau	Criteria Caixa, S.A.U.
Mr. Josu Jon Imaz San Miguel	Repsol, S.A.
Mr. Miguel Martínez San Martín	Repsol, S.A.
Mr. Luís Suarez De Lezo Mantilla	Repsol, S.A.
Mr. Mario Armero Montes	Gip III Canary 1 S. À R.L.
Mr. Rajaram Rao	Gip III Canary 1 S. À R.L.
Mr. William Alan Woodburn	Gip III Canary 1 S. À R.L.
Total number of proprietary directors	**10**
% total directors	**58.82**

External independent directors

Individual or company name of director	Profile
Mr. Ramón Adell Ramón	Professor of Financial Economics and Accounting at the University of Barcelona
Mr. Xabier Añoveros Trías de Bes	Doctorate in Law
Mr. Francisco Belil Creixell	Senior Engineer
Mrs. Benita María Ferrero-Waldner	Doctorate in Law
Mrs. Cristina Garmendia Mendizábal	Doctorate in Biology
Mrs. Helena Herrero Starkie	Degree in Chemical Sciences
Total number of independent director	**6**
Total % of the board	**35.29**

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business re lationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship.

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

Other external director

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

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

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

	Number of female Directors				% of total directors of each class			
	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	3	2	0	0	17.65	11.76	0	0
Other external	0	0	0	0	0	0	0	0
Total	**3**	**2**	**0**	**0**	**17.65**	**11.76**	**0**	**0**

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

Explanation of the measures

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

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

Explanation of the measures

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

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

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

C.1.6 bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.

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

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

Of the four significant shareholders that the Company currently has, only three of them have proprietary Directors. Criteria Caixa, S.A.U. has four Proprietary Directors, Repsol, S.A. And Gip III Canary, 1 S À R.L. each of them has three Proprietary Directors and Société Nationale pour la Recherche, la Production, le Transport, Transformation et la Commercialization does not have any proprietary Director. This representation is fully consistent with the principle of proportional representation.

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

Individual or company name of the shareholder	Reason

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

No

C.1.9 State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:

Name of director	Reason for withdrawal
Mr. Salvador Gabarró Serra	Change in the shareholding structure
Mr. Heribert Padrol Munté	Change in the shareholding structure
Mr. Antonio Brufau Niubó	Change in the shareholding structure
Mr. Demetrio Carceller Arce	Change in the shareholding structure
Mr. Juan Rosell Lastortras	See paragraph H
Mr. Miguel Valls Maseda	Change in the shareholding structure

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

Name or company name of Director	Brief description
Mr. Rafael Villaseca Marco	He has delegated broad powers of representation and administration according to the characteristics and needs of the position of CEO.

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

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

Individual or company name of the director	Name of listed company	Position
Mr. Isidro Fainé Casas	Telefónica, S.A.	Vicepresident
Mr. Isidro Fainé Casas	The Bank of East Asia	Director
Mr. Isidro Fainé Casas	Suez Environnement Company, S.A.	Director
Mr. Josu Jon Imaz San Miguel	Repsol, S.A.	Ceo
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director
Mr. Marcelino Armenter Vidal	Abertis Infraestructuras, S.A.	Director
Mr. Mario Armero Montes	Compañía Logística de Hidrocarburos, S.A.	Director
Mrs. Benita Ferrero-Waldner	Munich Reinsurance CO	Director
Mrs. Cristina Garmendia Mendizábal	Compañía de Distribución Integral Logista Holdings, S.A.	Director
Mrs. Cristina Garmendia Mendizábal	Corporación Financiera Alba, S.A.	Director
Mrs. Cristina Garmendia Mendizábal	Sygnis AG	President
Mr. Luis Suárez de Lezo	Repsol, S.A.	Secretary of the Board/Board Memeber

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

No

Explanation of rules

C.1.14 Section deleted.

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

Remuneration of the board of directors (thousands of euros)	7,655
Amount of pension rights accumulated by the directors (thousands of euro)	3,241
Amount of pension rights accumulated by former directors (thousands of euro)	0

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

Name or company name	Position/s
Mr. Carlos Javier Álvarez Fernández	Chief Financial Office
Mr. Sergio Aranda Moreno	Managing Director for Latin America
Mr. Carlos Ayuso Salinas	Director of Internal Audit, Compliance and Control
Mr. Antonio Basolas Tena	Managing Director of Strategy and Development
Mr. José María Egea Krauel	Managing Director of Energy Planning
Mr. Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
Mr. Manuel García Cobaleda	Legal Services General Manager and Company Secretary
Mr. Jordi García Tabernero	Managing Director of Communication and Institutional Relations
Mr. Daniel López Jordà	Managing Director of Retail Energy Business
Mr. Antoni Peris Mingot	Managing Director of Regulated Business
Mrs. Rosa Mª Sanz García	Managing Director of People and Resources
Total senior management remuneration (in thousands of euros)	**9,445**

C.1.17 Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:

Individual or company name of director	Company name of the Significant shareholder	Position
Mr. Josu Jon Imaz San Miguel	Repsol, S.A.	CEO
Mr. Josu Jon Imaz San Miguel	Repsol Oli & Gas Canada Inc.	President
Mr. Isidro Fainé Casas	Criteria Caixa, S.A.U.	President
Mr. Marcelino Armenter Vidal	Caixa Capital Risc S.G.E.C.R., S.A.	President
Mr. Alejandro García-Bragado Dalmau	Criteria Caixa, S.A.U.	First Vice President
Mr. Luís Suárez de Lezo Mantilla	Repsol, S.A.	Secretary of The Board/Board Member

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

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relat ionship
Mr. Isidro Fainé Casas	Fundación Bancaria Caixa D'estalvis i Pensions de Barcelona (la Caixa)	Chairman of The Board of Trustees
Mr. Luis Suarez De Lezo Mantilla	Repsol, S.A.	Secretary of The Board
Mr. Miguel Martínez San Martín	Repsol, S.A.	Cfo and Corporate Development
Mr. Marcelino Armenter Vidal	Fundación Bancaria Caixa D'estalvis i Pensions de Barcelona (la Caixa)	Managing Director Criteria Caixa, S.A.U.
Mr. Rajaram Rao	Global Infrastructure Partners III	Shareholder
Mr. William Alan Woodburn	Global Infrastructure Partners III	Shareholder

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

Yes

Description of changes

Modifications have been introduced in September 2016 which have affected two areas:

1. Establishment of reinforced majorities for the adoption of agreements on certain matters (art 10): acquisition or disposal of assets for more than 500 million euros, approval of budgets and strategic plan, dividend policy, financing agreements or contracts of Gas supply of more than 500 million euros, other material contracts or CAPEX investments of more than 200 million euros, material modifications in accounting or tax policies and reformulation of accounts. Art. 5 establishes a reservation of these matters to the full Council.
2. The number of members of the Executive Committee and the ¿? Committee has been modified to make compatible the principle of proportional representation of shareholders with full respect for the requirements contained in the Law of Capital Companies regarding the presence of independents in said Committees. To this end, the maximum number of members of the Executive Committee (Article 30) and the number of members of the Executive Committee (Article 32) have been extended to 10. (See Section C.2.5 below).

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

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

1.- Appointment of Board Members:

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

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

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

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

2. Re-election of Board Members:

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

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

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

3. Evaluation:

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

4. Removal of Board Members:

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

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

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

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

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

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

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

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

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

Description of changes

The Board of Director's self-assessment has not led to major changes in the internal organization and procedures applicable to its activities. The Board concludes in its report that during the 2016 financial year it has functioned with expected normality, fully exercising its powers with respect to the legislation and the regulations governing the organization and functioning of the Board Regulations.

Irrespective of the fact that the Chairman of the Board and the Managing Director have intervened in all matters submitted to the Board, it is worth noting that the diversity of profiles of the different members of the Board of Directors has resulted in their interventions highlighted in matters such as:

Mr. Antonio Brufau Niubó: monitoring of investments, special attention in foreign countries.

Mr. Ramón Adell Ramón: audit and annual accounts.

Mr. Enrique Alcántara-García Irazoqui: rating of the Company.

Mr. Xabier Añoveros Trías de Bes: Strategy Plan.

Mr. Francisco Belil Creixell: growing businesses.

Mr. Demetrio Carceller Arce: international investmentes.

Mrs. Benita María Ferrero-Waldner: commitments in EU and business in Asia and India. Electricaribe.

Mrs. Cristina Garmendia Mendizábal: investments in IT. Electricaribe.

Mr. Emiliano López Achurra: political and economic worldwide background.

Mr. Miguel Martínez San Martín: Brent and dollar development, as well as Company rating.

Mr. Heribert Padrol Munté: Tax policy.

Mr. Joan Rosell Lastortras: Dividend policy.

Mr. Luis Suárez de Lezo Mantilla: Strategy Plan.

Mr. Miguel Valls Maseda: Remuneration policy.

Mr. Mario Armero Montes: Legal strategy in Colombia.

Mr. Marcelino Armenter Vidal: Economic issues.

Mr. Rajaram Rao: reporting to the Board and economic information.

Mr. Josu Jon Imaz San Miguel: medium- and long-term development of markets.

Mr. William Alan Woodburn: health and safety, environmental and operational efficiency.

Mr. Alejandro García-Bragado Dalmau: corporate governance.

Mrs. Helena Herrero Starkie: technology and operational innovation.

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

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

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

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

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

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

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

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

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

C.1.22 Section deleted.

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

Yes

If so, describe the differences.

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

e) The formalization, modification, renewal, non-renewal or termination by the Company of any material contract, other that the contracts provided for under paragraph d) hereinabove, the amount of which exceeds 500,000,000 Euros in the case of gas procurement contracts and which exceeds 200,000,000 Euros in the case of other contracts.

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

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

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

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

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

No

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

No

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

No

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

No

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

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

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

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

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

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

Number of meetings	0

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

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

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

Number of meetings with the attendance of the directors	9
% in attendance of total votes during the financial year	94.51

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

Yes

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

Name	Position
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer

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

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

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

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

3.- The Board of Directors shall use their best endeavors to draft the accounts in such a way so that the accounts auditor of the Company is not required to include any qualifications whatsoever to the accounts. Notwithstanding the foregoing, when the Board of Directors considers that it must maintain its own criteria, the Board shall publicly explain the terms and scope of the discrepancy"

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

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

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

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

No

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

Individual or Company name of the Secretary	Representative
Mr. Manuel García Cobaleda	

C.1.34 Section deleted.

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

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

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

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

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

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

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

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

No

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

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

Yes

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	0	233	233
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	0	5.8	4.7

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

No

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

	Company	Group
Number of continuous financial years	26	26
Number of years audited by the current audit firm/ Number of years in which the company has been audited (%)	100	100

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

Yes

Describe the procedure

Article 21 of Regulations of the Board of Directors provides as follows:

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

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

Yes

Describe the procedure

Article 9, points 2 and 3, of the Regulations of the Board of Directors:

"2.- The notification of the ordinary meeting sessions of the Board shall be carried out by the Chairman, or by the Secretary or Deputy Secretary, under the instructions of the Chairman, and shall be carried out by any of the notification channels that are provided for under the Articles of Association, and said documentation shall be forwarded by way of e-mail, provided that the recipient Board Member has provided an e-mail address for said purposes. The meeting notification shall include the place at which the meeting is to be held and the agenda thereto and shall be issued, except in exceptional cases, at least 48 hours prior to the meeting. Prior to each meeting, the Board Members shall be provided with the information and documentation considered to be pertinent or relevant in relation to the matters to be discussed at the meeting of the Board. Furthermore, the Board Members shall be provided with the Minutes of the previous meeting, whether or not approved. The Chairman shall be responsible for establishing the agenda for the meetings, except in the case of the compulsory meeting pursuant to paragraph 1 hereinabove, in which case the agenda for the meeting shall include the aspects set out by the Board Members that have requested the meeting of the Board. The constitution of the Board shall be valid, without the prior notification thereof, if all of the Board Members are either present or duly represented and provided that they unanimously accept the holding of the meeting of the Board. The meeting sessions of the Board of Directors shall normally be held at the registered office of the Company, however may also be held at any other place that may be determined by the Chairman and must be set out in the meeting notification.

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

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

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

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

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

Yes

Explain the rules

Pursuant to Article 16.3 (e) of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in current legislation and, in particular, the Director shall inform the Company of any kind of judicial, administrative or Any nature in which it is implied that, because of its importance, could seriously affect the reputation of the Company. The Board shall examine the matter and take such measures as may be desirable in the interest of the Company with the required urgency.

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

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

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

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

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

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

No

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

No

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

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

On the other hand, most of the debt that includes a change of control clause, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of the members of the Board of Directors of Gas Natural, are subject to additional conditions such as a significant reduction in the credit rating or rating caused by the change of control; material damage to the creditor; entails a material adverse change in the solvency or ability to perform the contract. These clauses represent the repayment of the debt, although they usually have a longer period than the one granted in cases of early ruling; in some cases the granting of guarantees is contemplated as an alternative to reimbursement.

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

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

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

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

Number of beneficiaries	30
Type of beneficiary	Description of agreement
Management Committee and other officers	The Chief Executive's contract was amended in October 2016 regarding the causes and termination regime, with the said clause of the contract being amended and extending its duration to its entire mandate as a Director of the Company. The CEO's contract establishes an indemnity in the amount of three annuities of the total remuneration at the date of the contractual modification for certain cases of extinction of the contractual relationship: by decision of the company, unless very serious breach and culpable of his professional obligations which causes serious prejudice to the interests of Gas Natural SDG SA, by decision of the Chief Executive Officer or by termination of the contract. In addition, and in the case of a post-contractual non-competition agreement for one year, an indemnity equivalent to one full compensation annuity is established. The contracts signed with the members of the Management Committee contain a clause that establishes a minimum indemnity of two annual remuneration in certain cases of extinction of the relationship, which include certain cases of change of control, dismissal unfairly or the assumptions contemplated in the articles . 40, 41 or 50 of the Workers' Statute. Likewise, the contracts signed with the members of the Management Committee and the Director of Internal Audit contain a clause that establishes an indemnity equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period of two years. On the other hand, compensation agreements exist with sixteen other managers, equivalent to a fixed annuity for non-post-contractual competition for a period of two years. In addition, twelve directors who partially agree with the previous ones have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed annuity in one case and two annual remuneration in others in certain cases of termination of the relationship, which include unfair dismissal or the assumptions contemplated in arts. 40, 41 or 50 of the Worker's Statute.

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

	Board of directors	General Shareholder's Meeting
Decision-making body approving the provisions	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	Yes	No

C.2 Committees of the board of directors

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

Executive Committee

Nombre	Cargo	Tipología
Mr. Isidro Fainé Casas	Chairman	Proprietary
Mr. Ramón Adell Ramón	Member	Independent
Mr. Marcelino Armenter Vidal	Member	Proprietary
Mr. Francisco Belil Creixell	Member	Independent
Mrs. Benita María Ferrero-Waldner	Member	Independent
Mr. Josu Jon Imaz San Miguel	Member	Proprietary
Mr. Miguel Martínez San Martín	Member	Proprietary
Mr. Rajaram Rao	Member	Proprietary
Mr. Rafael Villaseca Marco	Member	Executive
Mr. William Alan Woodburn	Member	Proprietary

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

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

a) Functions of the executive committee:

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

a) The approval of the management objectives, the annual financing plan, the investments and financing policy, the corporate social responsibility policy.

b) The determination of the policy for the control and management of risks, including tax risks, and the supervision of the internal information and control systems.

c) The determination of the corporate governance policy of the Company and of the Group of which the Company is the parent company; the organization and functioning thereof and, in particular, the approval and modification of the Regulations thereof.

d) The approval of the financial information that, by reason that the Company is a listed company, must be periodically published by the Company.

e) The definition of the structure of the group of companies of which the Company is the parent company.

f) The approval of all types of investments and operations that, by reason of the significant sum or the special characteristics thereof, constitute strategic operations or are the subject of special tax risks, unless the approval thereof corresponds to the General Shareholders Meeting.

g) The approval of the creation or acquisition of shareholdings in other special purpose entities or companies registered in countries or territories that are considered to be tax havens, as well as any other analogous transactions or operations that, by reason of their complexity, may undermine the transparency of the Company and its Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In relation to the aspects set out under paragraphs b), c), d), e), g), h) and i), the approval of the Board of Directors or the Executive Committee shall be required in relation to the resolutions or decisions that, by reason of the nature or amount thereof, are of special relevance for the Group. An operation shall be deemed to be of special relevance when the economic importance of the operation exceeds 15 million Euros, except in relation to paragraphs h) and i), in which case said limit shall be that of 5 million Euros and in respect of paragraph j), for which said limit shall be that of 200,000 Euros.

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

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

b) Procedures and rules of organization and operation:

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

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

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

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

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

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

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

The foregoing shall also be applicable to the matters that the Board had forwarded to the Executive Committee for the study and analysis thereof, whereby the Board reserves the right to adopt the final decision in relation thereto.

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

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

c) Most important activities during 2016

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

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

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

Yes

Audit Committee

Nombre	Cargo	Tipología
Mr. Ramón Adell Ramón	Chairman	Independent
Mr. Enrique Alcántara-García Irazoqui	Member	Proprietary
Mr. Xabier Añoveros Trías de Bes	Member	Independent
Mrs. Cristina Garmendia Mendizábal	Member	Independent
Mrs. Helena Herrero Starkie	Member	Independent
Mr. Rajaram Rao	Member	Proprietary
Mr. Luís Suárez de Lezo Mantilla	Member	Proprietary

% proprietary directors	42.86
% independent directors	57.14
% other external directors	–

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

a) Functions of Audit Committee:

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

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

- Prepare the report on the independence of the Auditor.
- Prepare the Report on the functioning of the Audit Committee.
- Prepare the Report on related-party transactions.
- Prepare the Report on corporate social responsibility policy.
- Ensure that the Board of Directors seeks to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the Audit Report and that, in the exceptional cases in which there are qualifications, both the Chairman of the Committee and the Auditors, clarify to shareholders the content and scope of such limitations.
- In relation to information and control systems:

  a) To supervise the preparation process and the integrity of the financial information relating to the company and, as the case may be, to the group, reviewing compliance with regulatory requirements, adequate delimitation of the consolidation perimeter and correct application of the accountant criteria.

  (b) Ensure the independence of the unit that assumes the internal audit function; Approve the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of society; Receive periodic information on their activities; And verify that senior management takes into account the conclusions and recommendations of its reports. To propose to the Chairman of the Board of Directors the selection, appointment, re-election and dismissal of the person in charge of the internal audit service, as well as to propose the budget for that service, with the last decision corresponding to the Chairman of the Board of Directors.

  (c) Establish and supervise a mechanism that allows employees to communicate, on a confidential basis and, if it is possible and considered appropriate, anonymous, irregularities of potential significance, especially financial and accounting, that they notice within the company.

- In relation to the external auditor.

  a) In case of resignation of the external auditor, examine the circumstances that motivated it.

  (b) Ensure that the remuneration of the external auditor for their work does not compromise their quality or independence.

  (c) Supervise that the company reports as a relevant fact to the National Securities Market Commission the change of auditor and accompany it with a statement on the possible existence of disagreements with the outgoing auditor and, if they existed, on their content.

  (d) Ensure that the external auditor holds a meeting with the board of directors annually to inform him of the work performed and of the evolution of the accounting and risk situation of the company.

  (e) Ensure that the company and the external auditor comply with the current rules on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, the other rules on the independence of auditors.

- Call any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

- Analyze and inform the Board of Directors about the economic conditions and the accounting impact and, in particular, where applicable, on the exchange ratio, in relation to the operations of structural and corporate modifications that, by their nature or quantity, have special relevance. Those transactions whose net value exceeds the value of 25% of the assets included in the last approved balance sheet of the Company shall be deemed to be relevant.

- In relation to the supervision of compliance with the corporate governance rules, the Codes of Conduct and the corporate social responsibility policy.

  a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.

  (b) Supervision of the communication strategy and relationship with shareholders and investors, including small and medium shareholders.

  (c) The periodic evaluation of the adequacy of the corporate governance system of the company, in order to fulfill its mission of promoting social interest and taking into account, as appropriate, the legitimate interests of the remaining interest groups.

  (d) Monitoring and evaluation of the processes of relationship with the different stakeholders.

  (e) The evaluation of all matters related to non-financial risks of the company - including operational, technological, legal, social, environmental, political and reputational.

  (f) Coordination of the non-financial information and diversity reporting process, in accordance with applicable regulations and international reference standards.

b) Procedures and rules of organization and operation

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

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

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

c) Most important activities during 2016

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

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

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

Name of director with experience	Mr. Ramón Adell Ramón
Number of years during which chair has held the position	2

Appointments and remuneration committee

Name	Position	Class
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Alejandro García-Bragado Dalmau	Member	Proprietary
Mrs. Cristina Garmendia Mendizábal	Member	Independent
Mr. Miguel Martínez San Martín	Member	Proprietary
Mr. William Alan Woodburn	Member	Proprietary

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

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

a) Functions of the Appointments and Remuneration Committee:

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

The Board of Directors has entrusted the following duties:

- Prepare the report on the functioning of the Appointments and Remuneration Committee.
- Verify the policy for the selection of Directors and report it in the Annual Corporate Governance Report.
- By delegation to be given by the Chairman of the Board, organize and coordinate the periodic evaluation of the Board and the first executive manager of the Company.
- Prepare the report on the functioning of the Board of Directors.
- To propose to the Board of Directors the basic conditions of the contracts of the senior managers.
- Verify compliance with the remuneration policy established by the Company.
- Periodically review the remuneration policy applied to directors and senior managers, including remuneration systems with actions and their application, as well as to ensure that their individual remuneration is proportionate to the remuneration of other directors and senior executives of the company.
- Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the commission.
- Verify information on the remuneration of directors and senior executives contained in the various corporate documents, including the annual report on directors' compensation.
- By agreement of the Board of Directors of January 29, 2016, it was entrusted to exercise all the powers in matters of corporate social responsibility that until that date were exercised by the Audit Committee.

b) Procedures and rules of organization and operation:

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

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

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

c) Most important activities during 2016:

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

- Annual report on the remuneration of Directors.
- Degree of achievement of the Group's objectives.
- Remuneration of employees.
- Quality and efficiency of its operation.
- Re-election, ratification or appointment of Directors.

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

	Number of female directors							
	Financial year 2015 Number	%	Financial year 2014 Number	%	Financial year 2013 Number	%	Financial year 2012 Number	%
Executive Committee	1	10	0	0	0	0	0	0
Audit Committee	2	28.57	0	0	0	0	0	0
Appointments and Remuneration Committee	1	20	1	33	0	0	0	0

C.2.3 Section deleted.

C.2.4 Section deleted.

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

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

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

During 2016, the following articles related to said Committees have been modified: Articles 5, 30 and 32 of the Regulations of the Board of Directors, with a view to making the principle of proportional representation of shareholders compatible with the existence of an adequate number of independent Directors in full Respect to the current legislation.

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

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

C.2.6 Section deleted.

D. Related-party transactions and intragroup transactions

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

Procedure for the approval of related-party transactions

According to art. 5.II of the Regulations of the Board of Directors, powers of the Board which may not be delegated but may be adopted by the Executive Committee or by the Chief Executive Officer on duly justified grounds of urgency and which shall be ratified by the first Board of Directors following the adoption of the decision, one of them is the approval, following a report by the Audit Committee, on the operations carried out by the Company or its group companies with directors, under the terms established in current legislation, or with shareholders holding, individually or in concert with others, of a significant shareholding, including shareholders represented in the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.

Moreover, art. 6.5 of the Regulations of the Board indicates that the Board of Directors will include in the Annual Report and in the Annual Corporate Governance Report information on transactions with significant shareholders (total volume of transactions and nature of the most relevant ones) so that other shareholders may know its scope and importance.

On 30 September 2011 the Board of Directors, following a favorable report from the Appointments and Remuneration Committee (then competent), agreed to grant a generic authorization to the related polyethylene network purchase transactions of Repsol Butano, S.A. which are carried out under normal market conditions. This authorization is executed by the General Director of Regulated Businesses.

The Board of Directors on 25 May 2012, following a favorable report from the Nominating and Compensation Committee (then competent), granted a generic authorization for ordinary operations carried out under market conditions with Caixabank, S.A., or with any entity belonging to "la Caixa" Group relating to: opening of current bank accounts, temporary financial investments generated by cash surpluses from current operations, management of receipts at collection, various payments related to usual operations (payroll, Taxes, social security, suppliers and others of a similar nature), issuance of VISA and equivalent cards, purchase and sale of currency in cash or in advance before payment and collection of invoices in foreign currency approved, confirmation of letters of credit, of interest rate derivatives, as well as ISDA and CMOF contracts, as well as any other of a similar nature, which cover all or some of the foregoing transactions). This authorization is executed by the Economics and Finance Director General.

Following a favorable report from the Audit Committee, the Board of Directors on July 22, 2016 adopted the agreement on the realization under the ISDA framework of operations with Repsol, S.A., relating to OTC of electricity, gas and CO_2. This authorization is executed by the General Director of Wholesale Energy Businesses.

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

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Interest charged	2,752
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Interest accrued but not paid	47
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Contributions to pension plans and life insurance	24,541
Fundación Bancaria Caixa d'estalvis I Pensions De Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Services received	15,160
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Interest paid	247
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Provision of services	462
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Sales of finished or non-finished goods	1,243
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Financing agreements: other	513,062
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural Sdg, S.a.	Commercial	Sales of intangible assets	274,528
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Financing agreements: loans	123,316
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Guarantees	100,000
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Management contracts	480,720
Fundación Bancaria Caixa d'estalvis i Pensions de Barcelona (la Caixa)	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed benefits	424,923

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Services received	8,853
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of finished or non-finished goods	236,845
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	1,363
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of finished or non-finished goods	694,196
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of fix assets or goods	424,651
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed benefits	367,291
Gip III Canary 1, S.À R.l.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed benefits	66,045

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

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

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

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

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
Global Power Generation, S.A.	Dividendos percibidos de Buenergía Gas & Power, Ltd.	6,036

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

0 (thousands of Euros)

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

1. Directors:

According to the Regulations of the Board of Directors:

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

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

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

The Board Members must abstain from carrying out activities, either on their own behalf or for any third party, that would constitute effective competition, whether real or potential, with the Company or that, in any other way whatsoever, would create any permanent conflict of interest with the Company. In particular, Board Members must not perform, either directly or indirectly, any positions of any nature at competitor companies or entities of Gas Natural SDG S.A. or of any company of its Group, and must not provide, in favour of said companies or entities, any representation or advisory services whatsoever. A company or entity shall be deemed to constitute a competitor of Gas Natural SDG, S.A., when it is engaged, whether directly or indirectly, or through its Group companies, in activities included within the corporate activities of Gas Natural SDG, S.A.

2. Directors and senior officers:

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

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

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

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

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

3. Significant shareholders:

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

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

No

Identify the subsidiaries listed in Spain:

E. Control systems and risk management

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

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

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

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

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

Audit Committee

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

Risk Analysis Committee

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

Risk Units

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

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

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

The Businesses

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

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

Other corporate areas

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

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

	Description	Risk Management
Market risk		
Price of gas	Volatility in international markets that determine the price of gas.	Physical and financial hedging.
Price of electricity	Volatility of electricity markets in Spain and Portugal.	Physical and financial hedging. Optimisation of the electricity generation assets.
Volume of gas	Deviation between the supply and demand of gas.	Optimisation of contracts and assets. Trading.
Volume of electricity	Reduction of the available thermal generation gap.	Optimisation of the electricity marketing/generation balance.
Regulation	Exposure to the review of the recognised criteria and of profitability levels for regulated activities.	Intensification of the communication with regulatory authorities. Adjustment of efficiencies and investments at recognised rates.
Exchange rate	Volatility in the international currency markets.	Geographic and macro-economic diversification through inflation rates. Hedging by way of financing in local currencies and derivatives.
Interest rate and credit spread	Volatility in the financing facility rates.	Financial hedging. Diversification of the financing sources.
Tax	Ambiguity or subjectivity in the interpretation of the applicable tax regulations, or by the substantiation modification thereof.	Queries to independent expert bodies. Contracting of first tier consultancy firms. Ratification of the Code of Good Tax Practices. Allocation of provisions with prudent criteria.

	Descripción	Gestión
Credit risk		
Credit	Potential increase of payment default, conditional upon economy recovery in Spain.	Analysis of the solvency of customers to define specific contractual terms and conditions. Debt recovery procedures. Systematization of the calculation of the economic capital.
Operational risk		
Operational risk: image and reputation	Deterioration of the perception of Gas Natural Fenosa from different interest groups.	Identification and monitoring of potential reputational events. Communication transparency.
Operational risk: insurable	Accidents, damages or unavailability of the assets of Gas Natural Fenosa.	Continuous improvement plans.
Operational risk: the environment	Damages to the natural and/or social environment. Trends of environmental regulation.	Emergency plans in facilities subject to risk of environmental accidents.
Operational risk: climate change	Trends of environmental factors as a result of climate change. Regulation to combat climate change.	Participation in clean Development Mechanisms. Frequent communication with regulatory authorities.

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

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

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

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

a) Position at risk: Definition and characteristics.

b) Impact variables.

c) Qualitative and quantitative severity in the case of the occurrence of the risk.

d) Probability of the risk taking place.

e) Risk mitigation controls and mechanisms used and the efficacy thereof.

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

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

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

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

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

The risks regarding the performance of Gas Natural Fenosa are set out in the Risks Map of the Company. Said map is the main communication instrument for the Audit and Control Committee in respect of its risks supervision functions of the Company.

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

F. Internal Risk Control And Management Systems In Relation To The Process For The Issue Of Financial Reporting (ICSFR)

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

F.1 Control of the Company

State, including the main characteristics thereof, at least:

F1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICSFR; (ii) the implementation thereof; and (iii) the supervision thereof.

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

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

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

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

- Audit Committee: This Committee is, *inter alia*, responsible for the supervision of the ICSFR. Article 32, paragraph 2 of the Regulations of the Board of Directors states that the Committee shall have the powers that are provided for under the Corporate Enterprises Act and the powers that are generally or specifically conferred by the Board of Directors. Thus, the Corporate Enterprises Act, at Section 529 *quaterdecies* thereof, states, at paragraph 4.b), that the Audit Committee shall have the function of supervising the efficacy of the internal control of the company, the internal auditing and the risk management systems, as well as the function of discussing with the accounts auditor the significant weaknesses of the internal control system detected during the audit. In particular and in relation to the reporting and control systems, the Audit Committee is responsible for, *inter alia*, the supervision of the process for the drafting and for the integrity of the financial reporting of the Company and, as the case may be, the group, and for reviewing the compliance of the required guidelines, the adequate delimitation of the scope of the consolidated accounts and the correct application of the accounting criteria. For the carrying out of part of the foregoing functions the Audit Committee is supported by the Internal Auditing, Compliance and Control Unit.

- Economic and Financial Department: Is responsible for the design, implementation and functioning of the ICSFR. For the carrying out of this function, the Economic and Financial Department is supported by the Internal Control on Financial Reporting Unit.

- Internal Auditing, Compliance and Control Unit. In general, this unit is responsible for supporting the Audit Committee in the supervision and continuous assessment of the efficacy of the Internal Control System in all aspects of Gas Natural Fenosa, by providing a methodical and rigorous approach for the monitoring and improvement of the processes and for the assessment of the operational risks and controls associated thereto, including the risks and controls that correspond to the ICSFR and to the Crime Prevention Model.

- Business units and corporate units involved in the process for the drafting of financial reporting. They are responsible for executing the processes and for maintaining the daily operations and ensuring that the implemented control activities are performed.

F1.2 Whether, especially in relation to the process for the drafting of the financial reporting, the following elements exist:

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

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

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

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

(i) the information necessary for the drafting of the financial reporting;

(ii) the persons responsible for the source or the application of the financial reporting and

(iii) the distribution of tasks among the different organisational units

(iv) the scope of said distribution to all of the companies within the group

(v) the frequency of the reporting of the information

(vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

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

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

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

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

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

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

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

- Respect for legality, human rights and ethical values. (Section 4.1)

  "Gas Natural Fenosa is committed to acting at all times in accordance with applicable legislation, with the internal Regulatory System established with internationally accepted ethical practices, with complete respect for human rights and public liberties (…)"

- Treatment of information and knowledge (Section 4.11):

  "All employees who enter information of any type into the group's computer systems must ensure its rigour and reliability.

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

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

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

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

In July 2005 the Code of Ethics Committee of Gas Natural Fenosa was established with the principal mission of promoting the dissemination and application of the Code of Ethics within the entire group and for providing a communication channel for all employees in order to receive queries and notifications regarding breaches of the Code and of the Anti-Corruption Policy.

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

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

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

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

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

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

- Externally: the corporate website of Gas Natural Fenosa.

- Internally, on the Naturalnet group platform.

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

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

Gas Natural Fenosa, in order to promote the knowledge of the Code of Ethics among its suppliers and collaborating companies includes in its General Contracting Terms and Conditions a clause that promotes among its suppliers practices in harmony with the conduct guidelines included in the Code of Ethics of Gas Natural Fenosa, and the suppliers are notified of where they may obtain a copy of the Code of Ethics of the group, and are also provided with information regarding the queries and notifications channels for aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of suppliers, contractors and external collaborators of Gas Natural Fenosa. Said Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Gas Natural Fenosa.

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

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

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

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

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

The aforementioned communication channel constitutes an open channel (e-mail, fax, postal mail and internal mail) between the Code of Ethics Committee and all of the employees of Gas Natural Fenosa in order to notify of aspects related to the Code. This channel enables all of the employees of the group, suppliers and collaborating companies to obtain or provide information regarding any aspects related to the Code of Ethics and Anti-Corruption Policy. Said parties may also contact the Code of Ethics Committee in order to notify the Committee confidentially and in good faith of conduct that breaches the Code. And all of the foregoing outside the normal reporting mechanisms for employees.

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

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

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

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

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

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

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

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

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

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

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

On the other hand, the specific knowledge for the economic and financial has several objectives, including, to homogenise the economic and financial processes carried out within any ambit of the organisation; the updating of the accounting, tax, financial, risk management and management control criteria as well as the international regulations and technical knowledge of the tax area; as well as to provide sufficient knowledge regarding the valuation of companies, financial derivates and the analysis of financial statements.

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

F.2 Risk assessment of the financial reporting

State, at least:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With the exception of the definition matrix of the scope, the ICSFR model of Gas Natural Fenosa is integrated within SAP GRC Process Control. This tool identifies the General Environment Controls and the General Computer Controls, together with the critical processes, their associated risks, as well as the control activities that mitigate said risks, that are set out in the aforementioned risks and controls matrices. Furthermore, the units responsible for the carrying out of the control activities are identified and integrated in the processes structure.

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

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

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

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

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

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

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

Which governing body of the company supervises the process.

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

F.3 Control activities

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

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

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

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

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

Furthermore, the Economic and Financial Department also reports on:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a) Access security:

A series of measures have been defined at different levels in order to guarantee the confidentiality and to avoid the unauthorised access both to the data as well as to the applications. The management and authentication of the majority of the internal users is centralised in the Directories of OIM (Oracle Identity Manager), that ensures the confidentiality thereof.

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

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

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

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

b) Change control:

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

The main aspects thereof are set out hereinbelow:

- Approval by the Technical Committee, Changes Committee and Business.
- Carrying out of tests in different environments, prior to the production phase.

- Specific environments for the development and test tasks.
- Rollback procedures.
- Segregation of functions in the majority of the environments between the development and production equipment.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Periodic maintenance of the documentation regarding changes.

c) Operability:

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

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

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

d) Availability and continuity:

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

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

e) Segregation of functions:

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

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

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

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

- Registering the files at the Spanish Data Protection Agency ("AEPD") of all of the files that include personal data.
- Ensuring that the data is adequate and accurate and is managed proportionally in relation to the purpose for which it was obtained.

- Guaranteeing the due compliance of the duties of secrecy and security.

- Notifying the interested parties of the compilation thereof and obtaining the consent thereof for the processing of the data.

- Guaranteeing the exercise of the rights of access, correction, cancellation and challenge.

- Ensuring that all legal provisions are complied with in relation to the relationships with third parties that provide services with access to personal data, establishing by means of contract that the data processor shall process the data in accordance with the instructions of the data controller of the file, shall not apply or use the data for any other purposes other than that which is set out in the contract, shall not disclose said data, not even for the purposes of the storage thereof, to any other persons (the same security measures as applied by the data controller must be applied thereto).

- Compliance with the sector legislation applicable to Gas Natural Fenosa.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F.4 Information and communication

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

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

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

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

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

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

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

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

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

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

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

As part of the ICSFR of the group, the map of interrelationships regarding the drafting of the financial reporting of Gas Natural Fenosa has been defined. Said map sets out, among other things, the computer systems that are involved in the process for the drafting and issue of the financial reporting both from the perspective of the individual accounting close as well as from the consolidated accounting close perspective.

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

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

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

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

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

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

F.5 Supervision of the functioning of the system

State, including the main characteristics thereof, at least:

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

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

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

- Supervise the efficacy of the internal control of the Company, the internal auditing and the risk management systems, including the tax risks, as well as to discuss with the accounts auditor the significant weaknesses of the internal control system detected during the carrying out of the audit.

- Notify the General Shareholders Meeting regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.

- To forward to the Board of Directors the proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the terms and conditions for the contracting thereof and to regularly obtain from the external auditor information regarding the audit plan and the execution thereof, and furthermore to preserve the independence thereof in the exercise of its functions.

- Establish the necessary relationships with the external auditor in order to obtain information regarding the questions that may jeopardise the independence thereof, for the examination thereof by the Committee, and any other questions related to the accounts audit process, as well as any other communications provided for under applicable accounts audit legislation and in the audit regulations. In any event, the Committee must receive, annually, from the external auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the external auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.

- Annually issue, prior to the release of the accounts audit report, a report that sets out an opinion regarding the independence of the accounts auditor. Said report must contain, in any circumstances, the valuation of the provision of the additional services referred to under the preceding paragraph, both individually and as a whole, other than for the legal audit and in relation to the regime of independence or the audit regulations.

- Ensure the independence of the unit that assumes the internal auditing functions; approve the orientation and the work plans thereof, ensuring that the activities thereof are mainly focused toward the relevant risks of the Company; to receive periodic information regarding the activities thereof; and to verify that senior management take into account the conclusions and recommendations of its reports. To propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the internal auditing service manager, as well as to propose the budget for said service, however the final decision shall be adopted by the Chairman of the Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

- Validating the correct design of the ICSFR, in accordance with the basic principles of the model approved by the Audit Committee.
- Supervising the efficacy and suitability of the control policies and procedures implemented (with the complete implementation thereof over five years).
- Reviewing and assessing the conclusions regarding the compliance and efficacy of the ICSFR from the internal certificates of the business and corporate units responsible for the controls (with the complete implementation thereof over five years).
- Assessing and communicating the results obtained in the general supervision process of the ICSFR and from the controls over the ICSFR processes.

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

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

- Business processes
    - Gas Distribution: Meter Reading and Determination of Consumption, Customer Acquisition and Commissioning, Construction of Networks, Emergency Responses, Gas Distribution Warehouse Management, Management of Irregularities and Fraud.
    - Electricity Distribution: Electricity Distribution Warehouse Management, Operations, Service Provision, Medium and Low Voltage Development, Network Maintenance, Meter Reading.
    - Electricity Generation: Operation and Maintenance of Electricity Generation Assets, Warehouse Management.
    - Retail Market: Customer Acquisition and Electricity Facilities Contracting.
    - Wholesale Market and Global Accounts: Management of the Loss of Industrial Customers, Management and Optimisation of Gas Logistics
    - Provisioning and Transport: Procurements of GNL
    - Exploration and Production: Exploration/Production.
    - Energy Management: Estimation of the demand and Purchase of Retail Electricity, CO2 Markets, Electricity Generation Sale
- Strategic and support processes
    - Customer Services: Collection, Billing, Debt Collection Management, Customer Support, Meter Reading and Marketing Measures
    - Management of Physical Resources: Procurements within and outside the scope of consolidation, Accreditation and Monitoring of Suppliers, Counterparty Due Diligence.
    - Internal Control Management: Monitoring of corrective actions, ICSFR, Data Protection Act
    - Information Systems Management: Guarantee of continuity and availability of the Information Systems, Information Security, Management of Information Systems Projects.
    - Human Resources Management: Human Resources Administration and Services, DPO
    - Communication Management and Foreign Relations: Sponsorship, Foundations, Corporate Responsibility
    - Management of Economic and Financial Resources: Treasury Stock
    - Legal Consultancy and Support Services: Legal Consultancy and Support Services
    - Review of the Regulatory System of the Group
    - Code of Ethics
    - Update of the operational risks map.

- Review of the assessment and implementation of the Productivity Plan

- Crime Prevention Model.

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

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

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

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

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

Furthermore, Article 9 of the Regulations provide that:

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

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

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

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

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

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

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

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

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

Furthermore, the foregoing unit shall also present:

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

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

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

- the efficacy and efficiency of the Internal Control System on Financial Reporting (ICSFR) and the certification process regarding the key controls, as well as the action plans for improvements that have resulted from said process.

- the Risks Control Policies and Systems at Gas Natural Fenosa, as well as the relevant aspects associated to the drafting, definition and conclusions of the Corporate Risks Map of Gas Natural Fenosa.

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

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

F.6 Other relevant information

As is described in section F.3.1. hereinabove, as part of the assessment model of the Internal Control System on Financial Reporting of Gas Natural Fenosa, an annual internal certification process has been defined by means of which, and through SAP GRC Process Control, the business and corporate units involved in the process for the drafting of the financial reporting certify that within their processes the identified controls are applied and that said controls are valid and sufficient. Moreover, said units report to the Internal Control on Financial Reporting unit of the weaknesses and/or deficiencies that they detect as well as the changes that take place within their processes in order to analyse whether said changes imply the need to develop new controls or modify the exiting controls.

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

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

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

F.7 Report of the external auditor

State:

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

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

G. Degree of compliance with the Corporate Governance Recommendations

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

In the case that any recommendation is not complied with or is only partially complied with, a detailed explanation must be included of the reasons thereof, in order that the shareholders, investors and the market in general have sufficient information in order to assess the decisions of the company. General explanations shall not be accepted.

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

   Compliant

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

   a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;

   b) The mechanisms in place to resolve possible conflicts of interest.

   Not applicable

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

   a) Changes taking place since the previous General Shareholders Meeting.

   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures applied in respect thereof.

   Compliant

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

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

   Compliant

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

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

   Explain

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

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

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

   a) Report on auditor independence.

   b) Reports of the operation of the Audit Committee and the nomination and remuneration committee.

   c) Audit committee report on related party transactions.

   d) Report on corporate social responsibility policy.

   Compliant

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

   Compliant

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

   Compliant

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

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

   Compliant

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

    a) Immediately circulate the supplementary items and new proposals.

    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.

    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.

    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

    Not applicable

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

    Not applicable

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

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

    Compliant

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

    Explain

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

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

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs; and.

c) Favours a diversity of knowledge, experience and gender.

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

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

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

Partially compliant

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

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant

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

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the Board of Directors but not otherwise related.

Compliant

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

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

Explain

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

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

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a Board Member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant

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

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Compliant

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

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

    Compliant

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the Board of Directors of any criminal charges brought against them and the progress of any subsequent trial.

    The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

    Compliant

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

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

    The terms of this recommendation also apply to the Secretary of the Board of Directors, even if he or she is not a director.

    Compliant

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board of Directors. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

    Compliant

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

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

Partially compliant

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

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

Partially compliant

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

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

Compliant

28. **When Directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Compliant

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

Compliant

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

Compliant

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

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

Compliant

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

Compliant

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board of Directors a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board of Directors and, where appropriate, the company's chief executive officer; exercise leadership of the Board of Directors and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant

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

Not applicable

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

Compliant

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

a) The quality and efficiency of the Board's operation.

b) The performance and membership of its committees.

c) The diversity of Board Membership and competences

d) The performance of the Chairman of the Board of Directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the Chairmen of Board committees.

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

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

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

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

Partially compliant

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

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

Compliant

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

Partially compliant

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

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

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

Compliant

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

Partially compliant

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

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

Compliant

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

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial reporting prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV (Spanish Securities and Exchange Commission) as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the plenary session of the Board of Directors to inform it of the work undertaken and developments in the company's risk and accounting positions.

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

Compliant

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

Compliant

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

Compliant

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

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

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

Compliant

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

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

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

Compliant

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

Compliant

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

Explain

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

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

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

Compliant

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

a) Propose to the Board of Directors the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officer's pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant

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

Compliant

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

a) Committees should be formed exclusively by non-executive directors, with a majority of independent directors.

b) They should be chaired by independent directors.

c) The Board of Directors should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first plenary session of the Board following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all Board Members.

Not applicable

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

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant

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

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant

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

Compliant

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

Compliant

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

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

Compliant

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

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

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards on-going achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant

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

Compliant

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

Explain

The variable remuneration of the Managing Director does not expressly take into account the qualifications that may exist in the external auditor's report and that reduce the sum thereof, nor is the foregoing a situation that has existed at the Company in the past. Notwithstanding the foregoing, the Appointments and Remuneration Committee only established the degree of compliance with the variable remuneration objectives after the audited accounts of the Company have been received, and accordingly the Committee is able to take into account any qualifications that exist therein, if applicable, when determining the degree of compliance of the objectives.

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

Explain

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

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

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

Not applicable

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

Explain

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

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

Explain

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

H. Other information of interest

1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.

2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive

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

3. The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto.

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

Note to C.1.2

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

Note to C.1.9

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

Note to C.1.12.- Clarification of the position

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

Note to C.1.16

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

Note to C.1.45

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

The Managing Director's contract has been approved by the Company's Board of Directors.

Nota al G 10

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

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

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

No



2016 Integrated Annual Report

2012-2016 Consolidated Data

Operating Statistics

	2016[3]	2015	2014[2]	2013[1]	2012
Gas distribution (GWh)	**458,265**	**473,831**	**463,802**	**422,352**	**409,775**
Spain (Sales-TPA)	184,619	177,391	171,816	191,189	195,769
Regulated gas sales	–	–	–	–	–
TPA	184,619	177,391	171,816	191,189	195,769
Latin America (Sales-TPA)	270,068	292,619	288,579	227,377	210,359
Regulated gas sales	158,608	203,657	198,207	144,323	131,408
TPA	111,460	88,962	90,372	83,054	78,951
Italy (Sales-TPA)	3,578	3,821	3,407	3,786	3,647
Regulated gas sales	0	0	0	0	2,754
TPA	0	0	0	0	893
Gas supply (GWh)	**325,384**	**316,268**	**310,628**	**308,010**	**328,058**
Spain[4]	178,916	185,851	190,068	210,506	238,450
Retail commercialisation in Italy	3,034	3,110	2,773	2,992	2,844
International	143,434	127,307	117,787	94,512	86,764
UF Gas (GWh)[5]					
Commercialisation	–	–	–	–	55,683
Trading	–	–	–	–	28,200
Gas transportation/EMPL (GWh)	111,720	112,861	120,558	122,804	116,347
Gas distribution network (km)	**142,187**	**138,220**	**133,741**	**123,689**	**120,760**
Spain	51,956	51,016	48,931	47,678	46,541
Latin America	82,966	80,036	77,710	69,053	67,334
Italy	7,265	7,167	7,100	6,958	6,885
Increase in gas distribution points (thousands)	**374**	**355**	**348**	**284**	**292**
Spain	47	40	54	47	75
Latin America	325	314	292	231	208
Italy	2	1	2	6	9
Gas distribution points (thousands) as at 31/12	**13,546**	**13,171**	**12,816**	**11,948**	**11,663**
Spain	5,313	5,266	5,226	5,172	5,124
Latin America	7,773	7,448	7,134	6,321	6,090
Italy	460	458	457	455	449

Operating Statistics (continuation)

	2016[3]	2015	2014[2]	2013[1]	2012
Contracts per customer in Spain as at 31/12	**1.5**	**1.5**	**1.5**	**1.5**	**1.4**
Employees as at 31/12[6]	**17,937**	**20,641**	**22,652**	**15,062**	**17,270**
Electricity generated (GWh)	**46,552**	**49,548**	**48,282**	**51,080**	**56,248**
Spain	28,504	31,568	30,542	32,897	37,144
International	18,048	17,980	17,740	18,183	19,104
Electricity distribution (GWh)	**68,258**	**68,731**	**66,978**	**51,247**	**54,362**
Europe	34,697	34,676	34,262	34,804	36,288
International	33,561	34,055	32,716	16,443	18,074
Electricity distribution supply points (thousands) as at 31/12	**8,202**	**10,622**	**10,415**	**7,439**	**8,309**
Europe	4,580	4,550	4,529	4,514	4,608
International	3,622	6,072	5,886	2,925	3,701
Electricity transmission (GWh)	**18,106**	**17,642**	**18,934**	**2,925**	**3,701**
Latin America	14,484	14,497	15,902	–	–

[1] Restated under IFRS 11.
[2] Does not include swap transactions.
[3] 2014, 2015 and 2016 incorporates figures from CGE Group.
[4] Includes wholesale and retail.
[5] Figures at 100%.
[6] 2015: includes 7,791 employees of CGE. 2016: does not include the workforce of Electricaribe which totals 1,478 employees.

Financial Statistics

Balance Sheet Figures (millions of euros)

Assets	2016	2015	2014	2013[1]	2012[1]
Gross tangible and intangible fixed assets	44,765	43,168	42,838	34,969	34,877
Consolidation goodwill	5,036	4,962	4,959	4,495	4,568
Provisions and accumulated depreciation	(15,254)	(13,912)	(12,747)	(11,133)	(9,992)
Net tangible and intangible fixed assets	**34,547**	**34,218**	**35,050**	**28,331**	**29,453**
Financial investments	**3,482**	**3,117**	**3,323**	**3,811**	**3,475**
Net equity attributed to the parent company	**15,225**	**14,367**	**14,141**	**13,444**	**13,261**
Non-controlling interests	**3,780**	**4,151**	**3,879**	**1,523**	**1,579**
Deferred income	**842**	**853**	**832**	**919**	**868**
Non-current financial liabilities	**15,003**	**15,653**	**17,740**	**15,091**	**17,530**
Current financial liabilities	**2,599**	**2,595**	**2,804**	**3,351**	**2,291**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the consolidated balance sheet at 1 January 2013 and 31 December 2012 for the intents and purposes of comparison.

Profit and Loss Account Figures (millions of euros)

	2016	2015	2014[2]	2013[1]	2012
Net turnover	23,184	26,015	24,697	24,322	24,904
Other operating income and allocation of subsidies	481	326	553	252	284
Operating income	**23,665**	**26,341**	**25,250**	**24,574**	**25,188**
Gross operating profit	**4,970**	**5,264**	**4,845**	**4,849**	**5,080**
Net operating profit	**3,006**	**3,261**	**3,185**	**3,022**	**3,067**
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(825)	(894)	(799)	(803)	(874)
Results from disposal of financial instruments	–	–	–	–	–
Financial profit/loss	**(825)**	**(894)**	**(799)**	**(803)**	**(874)**
Profit before tax	**2,083**	**2,363**	**1,912**	**2,157**	**2,203**
Consolidated profit for the financial year	**1,711**	**1,824**	**1,658**	**1,658**	**1,657**
Consolidated profit for the financial year attributed to the parent company	**1,347**	**1,502**	**1,462**	**1,445**	**1,441**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the Consolidated Profit and Loss Account at 31 December 2013 for the intents and purposes of comparison.
[2] The consolidated statement of income for 2014 has been re-expressed, reclassifying the liquefied petroleum gas (LPG) business in Chile as a discontinued operation in application of IFRS 5.

Cash Flow Statement Figures (millions of euros)

	2016	2015	2014	2013[1]	2012
Cash flow statements of operations	**3,375**	**3,500**	**2,808**	**3,305**	**3,437**
Payments for investments in tangible and intangible fixed assets	**2,147**	**1,894**	**1,353**	**1,381**	**1,441**
Payments for other investments	**409**	**171**	**2,855**	**1,067**	**697**
Collection for divestitures	**653**	**436**	**1,076**	**1,280**	**933**
Payments for dividends and remuneration from other equity instruments	**1,526**	**1,070**	**1,125**	**1,057**	**566**
Collection/(payment) for financial liabilities	**(1,857)**	**(3,023)**	**(322)**	**(2,352)**	**(1,020)**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the Consolidated Cash Flow Statement Figures at 31 December 2013 for the intents and purposes of comparison.

Stock Market Statistics

	2016	2015	2014	2013	2012
Number of shares traded (millions)	620	795	713	795	576
Funds traded (millions of euros)	10,821	16,075	15,044	12,161	6,726
Final share price (euros)	17.91	18.82	20.81	18.69	13.58
Maximum (euros)	19.72	22.90	24.44	18.80	13.97
Minimum (euros)	14.69	16.76	17.83	13.22	8.36
Book value per share (euros)	18.99	18.51	18.01	14.96	14.93
Ebitda per share (euros)	4.97	5.26[1]	4.84[1]	4.85	5.10
Net profit per share (euros)	1.35	1.57[2]	1.46	1.44	1.45
Capitalisation-book value ratio	0.9	1.0	1.2	1.2	0.9
Enterprise value-Ebitda ratio	6.7	6.5	7.8	6.8	5.8
Capitalisation-profit ratio	13.3	12.5	14.2	12.9	9.4
Dividend-stock market capitalisation ratio (%)	5.6	5.0	4.4	4.8	6.6
Dividend-profit ratio (%)	74.3	66.6	62.1	62.1	62.1
Share capital (number of shares as at 31/12)	1,000,689,341	1,000,689,341	1,000,689,341	1,000,689,341	1,000,689,341
Average number of shares	1,000,689,341	1,000,689,341	1,000,689,341	1,000,689,341	996,402,474
Stock market capitalisation (millions of euros)	17,922	18,828	20,824	18,708	13,589
Dividend (millions of euros)	1,001	1,001	909	898	895

[1] The 2015 and 2014 income statements are restated through the discontinuance of the LPG business in Chile, without any effect on the net result.
[2] Profit (loss) at 31 December 2015 adjusted in accordance with IAS 33 for the excess of the book amount of the preferential shares over the amount paid in their buyback, net of the tax effect.

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