

2017
Corporate
Responsibility
Report

1843-2018





1843
2018

years full of history
and energy

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

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

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

175

1843
2018

years of facts



2017 Corporate Responsibility Report

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2017 Corporate Responsibility Report

Letter from the Chairman

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Dear readers,

It is my pleasure as the Chairman of Gas Natural Fenosa to present you with our 2017 Corporate Responsibility Report. This report contains the company's performance in the field of corporate responsibility over the last year, focusing on those issues that have been identified as most relevant, according to the Global Reporting Initiative guidelines.

In a society where there is a need to combat the effects of climate change, and in a sector undergoing a complete technological transformation, renewable energies and natural gas have emerged as key vectors on which our ability to meet world's growing energy demand must be based. The technological evolution taking place in renewables, through gradual reduction in production and operating costs, make them the energy of the present and the future, although they require an effective, clean and safe supporting energy source that will guarantee security of supply. Hence, the combination of renewable energies and natural gas is the appropriate energy mix for this new era in which there is great awareness of the need to respect the environment.

Gas Natural Fenosa, whose commitment to sustainability is one of the pillars of the group's strategy, closely monitors the trends which mark the sector, and which represent excellent opportunities for creating value for each and every one of our stakeholders.

2017 was an especially significant year for the company's sustainability management, given that the Board of Directors – through the Appointments and Remuneration Committee – approved the Sustainability Plan with a horizon of 2020. After a thorough materiality analysis, which identified 50 key issues requiring response by the group, the plan set out 39 lines of action and 178 specific projects.

In order to meet our targets, innovation is a key lever. For this purpose, a new innovation planning model was identified in 2017, which will be materialised through a management system which is already under development. This system incorporates the policies, methodologies, processes and tools required to carry out the innovation activity in the group, in an approach that seeks to fully digitalise this activity. Progress is being made towards a highly flexible model that is able to incorporate best practices and to update them as appropriate.

As far as managing people is concerned, the Gas Natural Fenosa strategy is centred on the levers of cultural transformation, employee “experience”, strategic planning of people and new models of organisational performance, by focusing efforts on the issues of gender, age and ability.

The strong commitment of Gas Natural Fenosa to health and safety in the workplace was consolidated in 2017, permitting the excellent evolution of indicators when compared to the previous year: a 31% fall in work-related accidents with sick leave and a 24% reduction in incidence rate. These efforts have recently been acknowledged, with the company being ranked first on the Health and Safety Monitoring and Excellence Index (MEPS2) of the Spanish Health and Safety Managers’ Association, with the participation of more than 100 large multinational companies operating in Spain.

With regard to responsible supply chain management, we should point out the progress made with the new supplier classification model, which was extended to our subsidiaries in Argentina, Mexico and Panama, and which will be effectively implemented in early 2018.

In our interest in providing value to society and effectively contributing to meeting its main challenges through energy, Gas Natural Fenosa has bolstered its social innovation programmes. These actions in Spain have been intensified through the Energy Vulnerability Plan, approved by the Board of Directors in January, and which incorporated more than 20 specific measures for vulnerable customers, the government entities that administer them, and the third sector. Since then and to date, the company has dealt with 30,000 cases of vulnerable customers throughout the country, providing solutions tailored to their needs.

In order to deepen and intensify responsible environmental management, the company defined its Environmental Strategy in 2017, setting out four drivers: climate and air quality, water, natural capital, and circular economy.

In turn, the lines of action in the field of climate change are the result of Gas Natural Fenosa’s positioning and strategic planning, with special attention given to actions directed towards the gradual reduction in emissions, promotion of energy efficiency, development of sustainable products and services, incorporation of the climate variable into decision-making processes, and determining impact and performance. For the purpose of being able to identify, quantify and report the risks and opportunities related to climate change, Gas Natural Fenosa has adopted the recommendations of the Task Force on Climate-related Financial Disclosures of the Financial Stability Board, submitted in a report published in July 2017 at the G20 Summit.

Gas Natural Fenosa is involved with the United Nations’ commitments to its global development agenda, which is why this report reflects the contribution made by the company to achieving the different Sustainable Development Goals in which our activity has or may have direct impact.

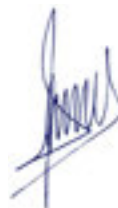
A feature of the financial plan is the fact that the company formalised its first issue of green bonds in 2017, to the value of 800 million euros, coherent with our commitment to the use of funds, emissions prevented and reporting. More detailed information is presented in this report.

The advances made in corporate responsibility, together with the implementation of the Sustainability Master Plan, have allowed us to continue at the forefront in this area, as acknowledged by the Dow Jones Sustainability Index World, where Gas Natural Fenosa is a leader in the gas utilities sector. Likewise we continue to feature on the FTSE4Good index.

Moreover, the different sustainability rating agencies have acknowledged the company’s excellent performance in environmental, social and good governance matters, such as MSCI – which rated Gas Natural Fenosa with a triple A and a place on the MSCI ESG Leaders Index – and Vigeo, with a presence on their Eurozone 120 and Europe 120, respectively. Other agencies whose ratings placed the company in significant positions were Oekom and Sustainalytics. The company also remained within the Carbon Disclosure Project’s leadership band A.

Furthermore, I would like to especially mention the part played by involvement and oversight of the Board of Directors in meeting the commitments of the Corporate Responsibility Policy and achieving its objectives. Its support and commitment have been critical to achieving them.

I invite you to become familiar with our actions as explained in the following pages, which are a faithful reflection of our performance in the fields of sustainability and corporate social responsibility.



Francisco Reynés
Chairman & CEO

1843

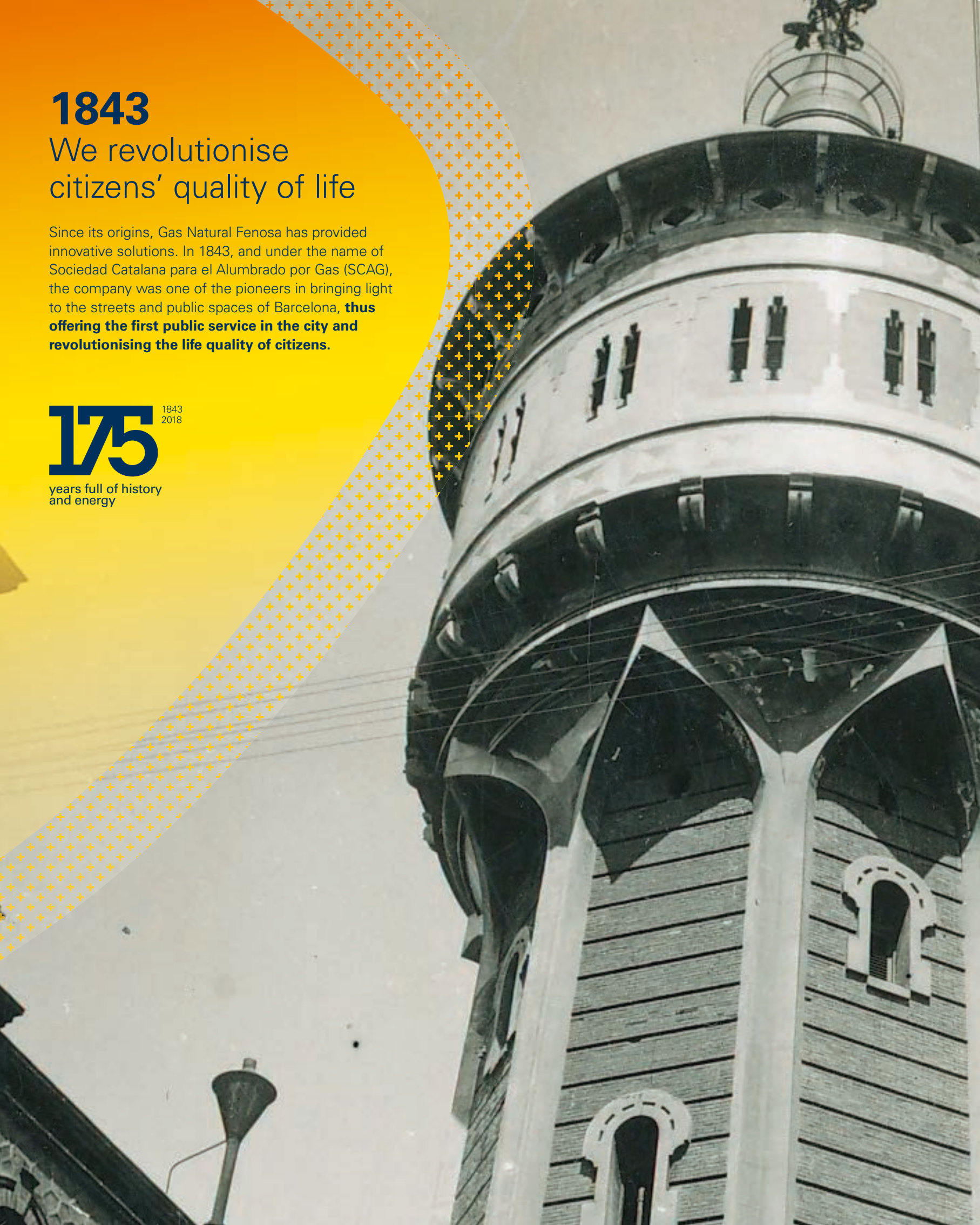
We revolutionise citizens' quality of life

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

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2017 Corporate
Responsibility Report

About this Report

About this Report

Gas Natural Fenosa has produced its sixteenth Corporate Responsibility Report in accordance with the new standards of the Global Reporting Initiative (GRI), known as GRI Standards in accordance with the comprehensive option of the GRI Standards.

The structure of this report is based on the Corporate Responsibility Policy of Gas Natural Fenosa, updated in 2015, and noting the recommendations of the Code of Good Governance of the CNMV on corporate social responsibility, such as the definition of

roles and responsibilities, the definition of targets and the monitoring of extra-financial risks that allows the company to ensure compliance. The issues identified in the materiality analysis, which is the baseline for compiling the report, set the specific content of the same.

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

In 2017 we proceeded to update the materiality analysis to bring it into line with the commitments and strategy of the company in corporate responsibility. In addition, a notable fact is the connection of the materiality analysis with the meeting of the Sustainable Development Goals. Gas Natural Fenosa's activities are closely linked to the main pillars set out in the global sustainable development programme for many geographical areas. They offer an ideal opportunity to contribute to their achievement by evaluating their completion.

Process of a materiality analysis



> Material issues identified by order of priority

- 1 Access to energy

- 2 Emissions and climate change

- 3 Occupational health and safety

- 4 Energy efficiency and consumption

- 5 Social action and development of local communities

- 6 Assessment of the supply chain

- 7 Employability and employment

- 8 Biodiversity

- 9 Customer care and satisfaction

- 10 Assessment of human rights



In this report, as a new item, we have followed the recommendations on how to report risks related to climate change from the Task Force on Climate-related Financial Disclosures of the Financial Stability Board, presented in July 2017 at the G20 Summit.

In addition, it includes information on how the company contributes to the achievement of the 17 Sustainable Development Goals.

We are currently delving further into the external consultations, by identifying expectations and by checking with

stakeholders (for further information, see the chapter Process for drafting this report).

1846

Commencement of listing on the stock exchange

Variable income securities appeared for the very first time that year. There were only eight companies that published their listings in the Register of Price Listings and Changes; the Barcelona Stock Market was not officially set up until 1915. Of those companies, we are the only company that still remains and also the only one that has maintained its listing uninterrupted to date. Since 1846, we have been complying with our commitment to investors.

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Business Model

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A brief look at Gas Natural Fenosa

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

Gas Natural Fenosa operates in over 30 countries with more than 18 million customers, and almost 50% of its employees work outside Spain. Its international presence puts it in an ideal position to be able to capitalise on the growth of new regions which are in the process of economic growth, making it one of the world's most important operators.

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 1.8 Mn customers) and generation (2,035 MW, combined-cycle and 234 MW, wind).

Jamaica

NG/LNG commercialisation.

Costa Rica

Generation (101 MW, hydraulic).

Panamá

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

Peru

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

— Gas flow.

— Maghreb-Europe gas pipeline (Empl).

— Medgaz gas pipeline.

○ Liquefaction plant.

○ Regasification plant.

○ Leased regasification plant.

○ Long-term gas contracts.

Chile

Gas distribution (18 provinces and 0.6 million customers), electricity distribution and transportation (13 provinces and 2.9 million customers). Wind and solar generation projects.

Brazil

Gas distribution (Rio de Janeiro state, São Paulo South and 1.1 million customers). NG/LNG commercialisation and generation (68 MW solar).

Argentina

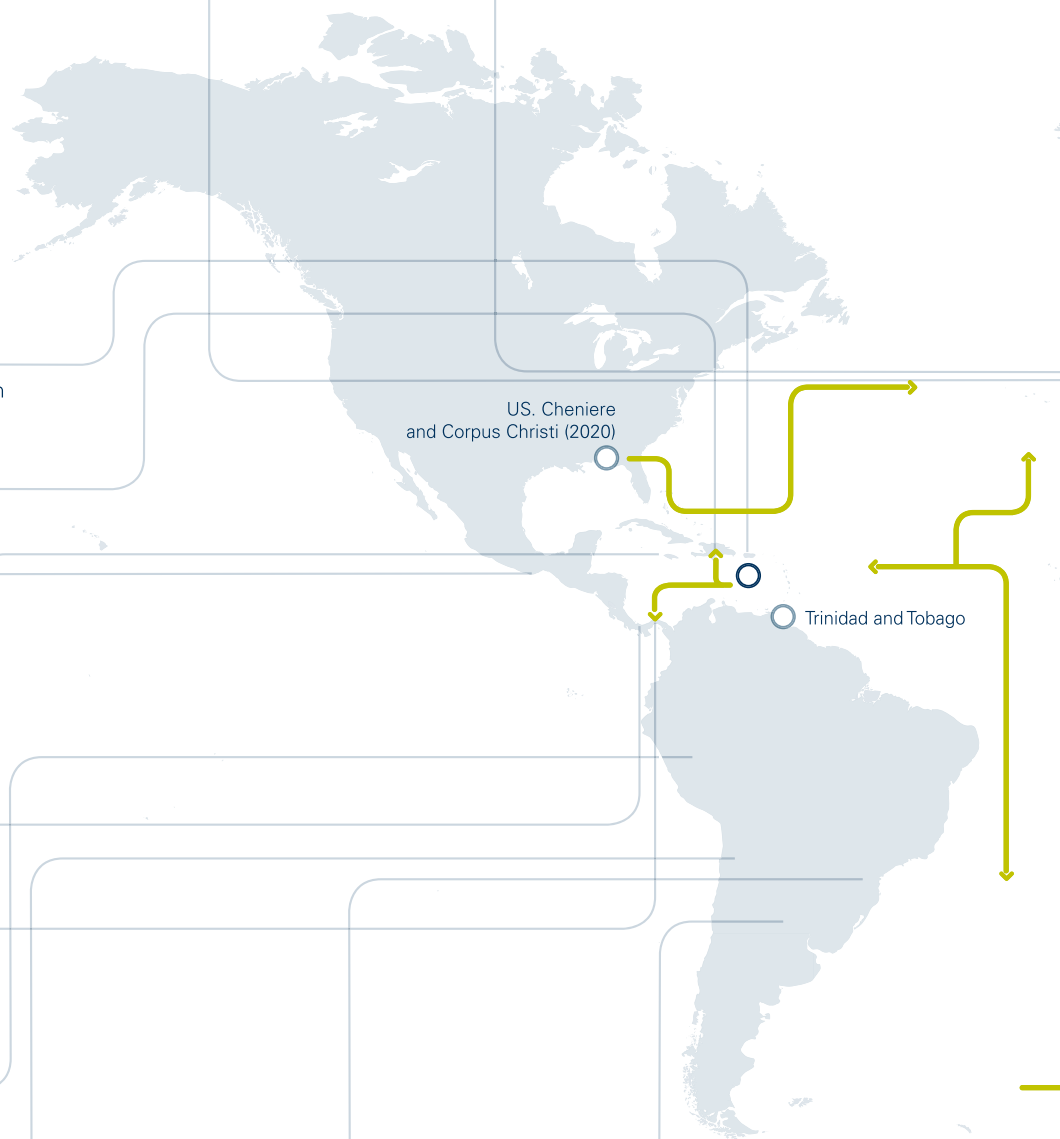
Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.6 million customers) and electricity distribution (0.2 million customers).

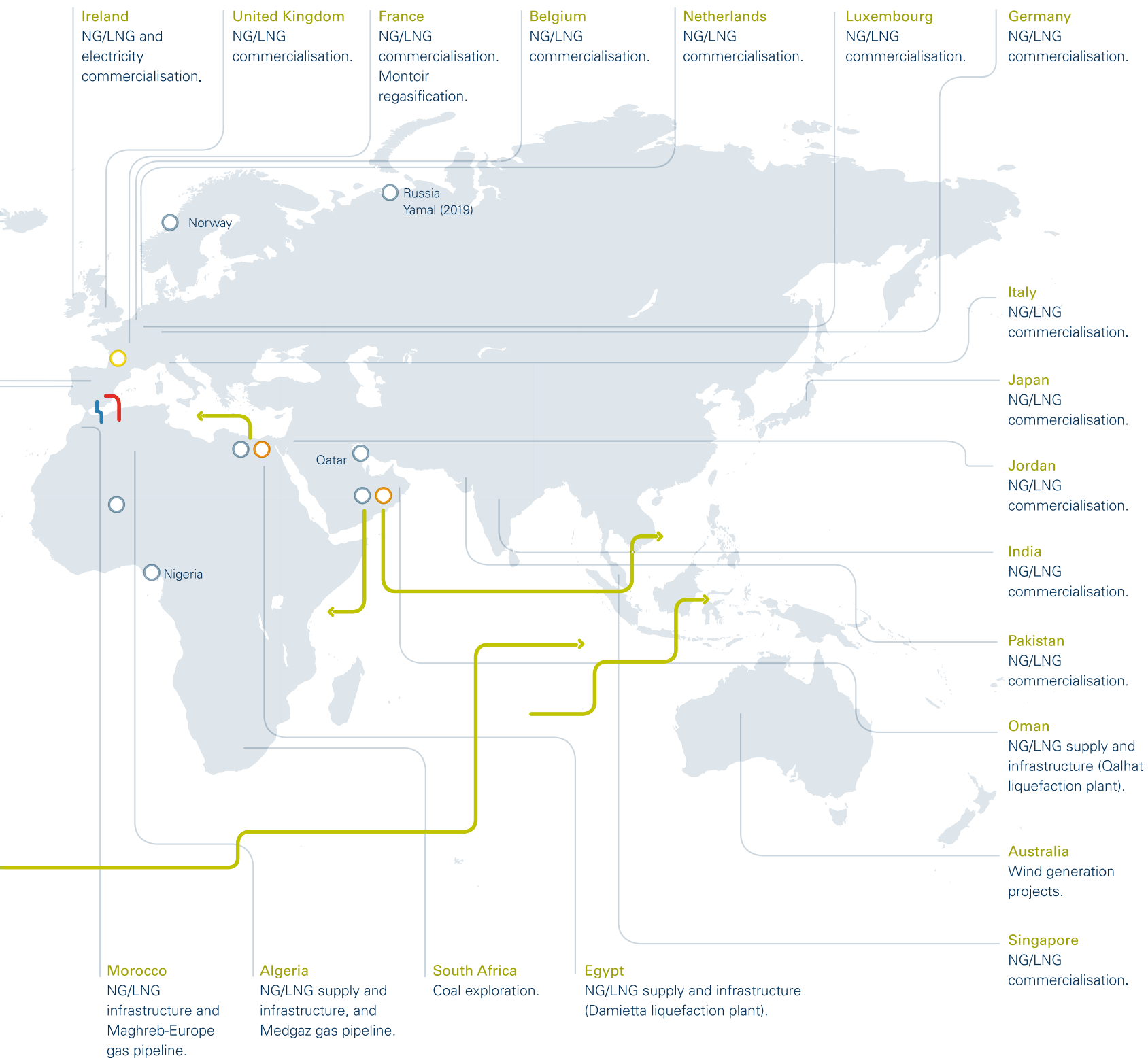
Portugal

NG/LNG and electricity commercialisation.

Spain

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





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



Presence in the world

Spain

Gas Natural Fenosa is the largest integrated gas and electricity company in Spain. It is a leader in gas distribution, distributing gas to over 1,000 municipalities in nine autonomous regions and has over five million customers. In the electricity business, it is the third largest company in Spain, with 3.7 million customers and a major presence in different technologies: combined-cycle, hydroelectric, coal-fired, co-generation, wind, photovoltaic and nuclear power stations. Total adjudicated power in the two renewable auctions held in 2017 (667 MW wind and 250 MW photovoltaic), allows us to almost duplicate renewable power in operation in Spain.



Rest of Europe

- > **Germany, Belgium, France, Holland and Luxembourg.** The company has its headquarters in Paris and operates in these countries through its subsidiary Gas Natural Europe, which engages in energy commercialisation in the European market.
- > **Ireland:** in 2016 the company acquired Vayu Limited, with a gas trading share of 17% of major industrial and commercial clients, while electricity commercialisation is around 5%.
- > **Italy.** Since 2002, the company has had a commercial presence in the central and southern regions of the country.
- > **Portugal.** It operates in the gas and electricity markets, through its subsidiaries Gas Natural Comercializadora and Gas Natural Servicios SDG.





Presence in the world

America

Gas Natural Fenosa is the leading gas distributor in Latin America, with almost 7.5 million customers, twice as many as its nearest rival. As regards the electricity business, it distributes electricity to 3.7 million customers. It operates in some of the most important cities in Latin America.

- > **Argentina.** Natural gas distribution (in 30 municipalities in the north and west of the province of Buenos Aires, (1.6 million customers), and electricity distribution (0.2 million customers).
- > **Brazil.** Since 1997, the company has operated through the companies Ceg, Ceg Río and Gas Natural SPS, which distribute gas to 1.1 million customers in the state of Rio de Janeiro and in the south of São Paulo. In 2017 we set up two solar generation projects with installed power of 68 MW.
- > **Chile.** Gas Natural Fenosa has the largest electricity and gas distributors in Chile. It distributes gas in 18 provinces, catering to almost 0.6 million customers, and performs electricity distribution and transport in 13 provinces, where it has 2.9 million customers. Gas Natural Fenosa, through the subsidiary company Global Power Generation (GPG), continues to develop two projects awarded in 2016: the Cabo Leones II wind farm (204 MW) and a solar power plant (120 MW).
- > **Mexico.** The company is the leading gas distribution operator in Mexico. It provides services to ten of the country's states, including Mexico City, accounting for a total of 1.8 million customers. It also takes part in the country's electricity production sector, with more than 2 GW of installed power in combined-cycle and 234 MW in wind energy.
- > **Panama.** It has a presence in the electricity distribution market in the areas of Panama Central, West, Inland and Chiriquí, with more than 0.6 million customers, as well as in the electricity production market, through hydroelectric power stations with installed power of 22 MW.
- > **Puerto Rico.** It operates through the company Ecoeléctrica, which has a combined-cycle power plant with 263 MW of installed power (which cannot be consolidated in accordance with the accounting methodology) and a regasification plant.
- > **Peru.** Commencement of commercial operation in December 2017, with four thousand customers at the year-end. Gas distribution and commencement of gas supply in Arequipa and in the south-west area.
- > **Jamaica.** The company has a presence in this country through the sales of liquefied natural gas.
- > **Dominican Republic.** The company is present in the production market through two thermal power stations with installed power of 198 MW.





Presence in the world

Africa

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

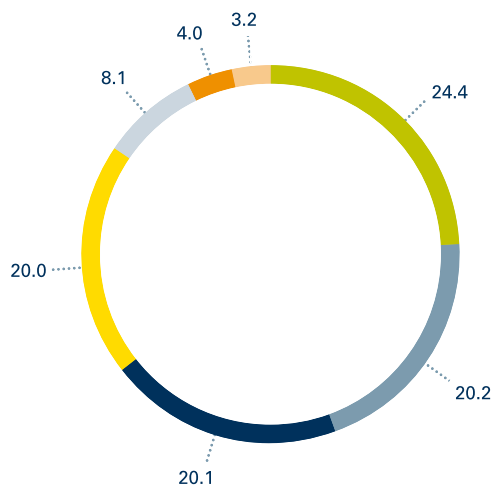


Asia and Oceania

- > **Australia.** It operates through the company Unión Fenosa Wind Australia Pty. Currently has no commercial activity, although the company is developing different wind energy projects. Gas Natural Fenosa, through the subsidiary company Global Power Generation (GPG), continues to develop the 96 MW wind farm in Australia, set to come into operation in 2018
- > **India, Japan, Jordan, Pakistan and Singapore.** The company has a presence in these five countries through the commercialisation of liquefied natural gas (LNG).
- > **Oman.** Its subsidiary Unión Fenosa Gas has a 3.7% stake in the Qalhat liquefaction plant, in the Sultanate of Oman.

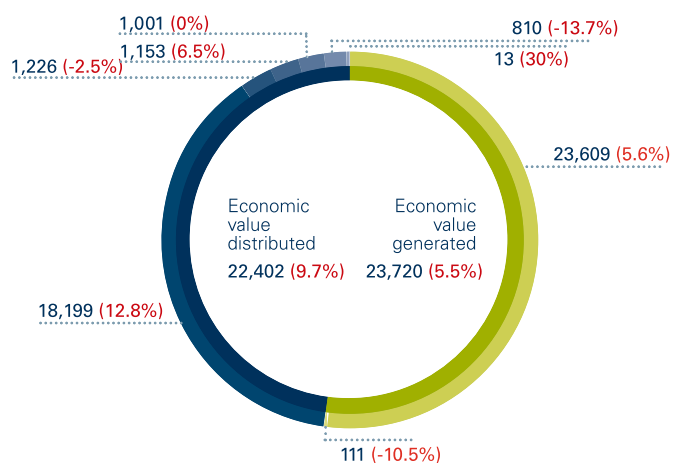


Shareholders and investors of Gas Natural Fenosa (%)
[102-5] and [102-7]



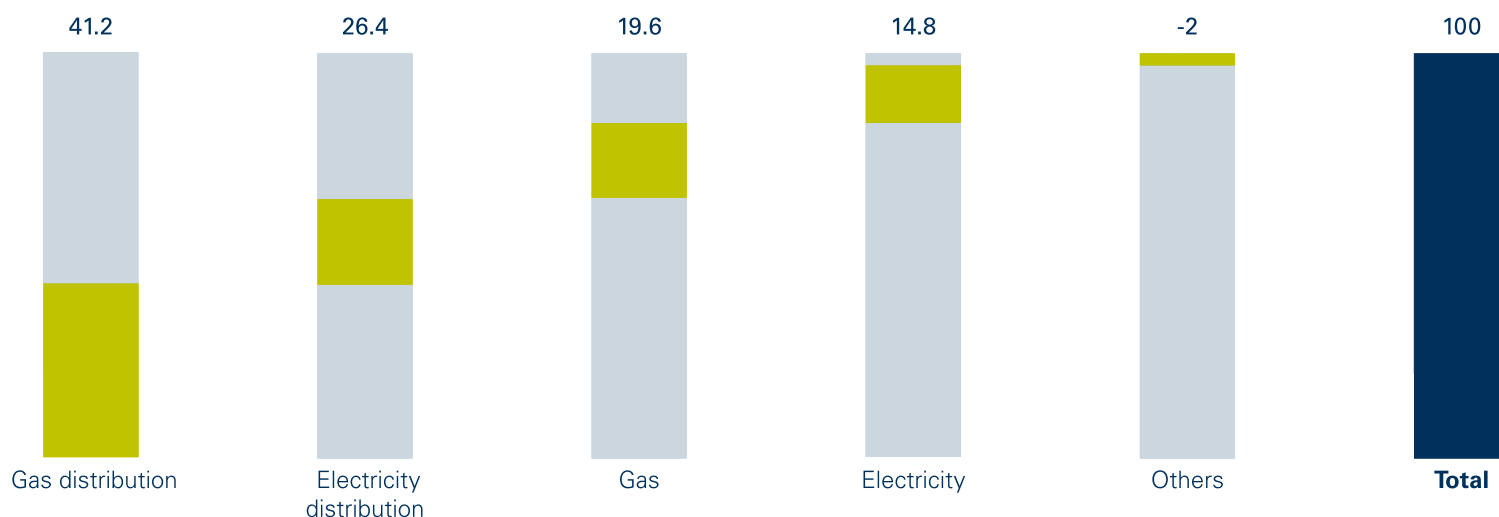
- "La Caixa" Group.
- International institutional investors.
- Repsol Group.
- Global Infrastructure Partners.
- Retailers.
- Sonatrach.
- Spanish institutional investors.

Contribution to society
(in millions of euros)



- Economic value generated.
 - Economic value distributed.
 - Operating income.
 - Financial income.
 - Suppliers.
 - Public administrations.
 - Employees.
 - Financial expenses.
 - Shareholders.
 - Social action.
- Change against 2016.**
Economic value retained: 1,318 (-36.3%).

Contribution to Ebitda by activity (%)



NB: The financial information of Gas Natural Fenosa contains figures drawn up in accordance with the International Financial Reporting Standards (IFRS), as well as those known as Alternative Performance Measures (APM) that consider adjusted figures with regard to those submitted in accordance with the IFRS. The definition of the APMs used is given in the annex to the consolidated management report.

The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

Main figures of Gas Natural Fenosa [102-7]

Operations	2017	2016	2015
Gas distribution sales (GWh)	460,014	426,510	473,831
Gas transportation/EMPL (GWh)	100,371	111,720	112,861
Gas distribution supply points (in thousands)	10,491	10,224	13,172
Electricity distribution supply points (in thousands)	7,447	7,324	10,622
Gas distribution network (km)	116,181	113,083	138,219
Length of electricity distribution and transportation lines (km)	214,399	215,894	302,705
Electricity generated (GWh)	46,389	46,361	49,548
Personnel	2017	2016	2015
Number of employees	15,375	17,229	20,641
Financial (millions of euros)	2017¹	2016¹	2015¹
Net turnover	23,306	21,908	26,015
Gross operating profit (Ebitda)	3,915	4,664	5,264
Total investments	1,826	2,901	2,082
Net profit	1,360	1,347	1,502
Dividend	1,001	1,001	1,001
Classification evolution on the DJSI	86	91	89
Stock information (euros /share)	2017	2016	2015
Share prices as at 31 December	19.25	17.91	18.82
Profit	1.36	1.35	1.57

¹ The financial information of Gas Natural Fenosa contains figures drawn up in accordance with the International Financial Reporting Standards (IFRS), as well as those known as Alternative Performance Measures (APM) that consider adjusted figures with regard to those submitted in accordance with the IFRS. The definition of the APMs used is given in the annex to the consolidated management report.

At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

The consolidated income statement and operating income for 2016 have been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.



A competitive and integrated business model

[102-2] and [102-6]

The business model of Gas Natural Fenosa is based on two pillars: gas and electricity, which provides more than 99% to its Ebitda. On the one hand, Gas Natural Fenosa operates throughout the entire gas value chain, from exploration and supply to distribution and commercialisation. On the other, it operates in the generation, distribution

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

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

and commercialisation of electricity. Then there are other business areas, such as trading on the gas and electricity markets, the O&M services rendered, the provision of engineering services and the construction of energy facilities, as well

as operation of the Savmore coal mine and the salt marsh underground storage Marismas project.

Current situation of the gas business at Gas Natural Fenosa

	Grids	Gas		
	Gas distribution	Infrastructures	Procurement	Commercialisation
Our positioning	<p>10.5 million supply points. 116,181 km of network.</p> <p>Spain</p> <p>Leader in Spain with a market share of 69%, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million of customers.</p> <p>Latin America</p> <p>Leading distribution company in Latin America, where it distributes to over 5.1 million customers.</p> <p>Presence in Argentina, Brazil, Chile, Mexico and Peru and in six of the ten largest cities in Latin America.</p>	<p>Six methane tankers.</p> <p>Two gas pipelines Maghreb-Europe (Empl) and Medgaz.</p> <ul style="list-style-type: none"> > Six methane tankers (0.9 Mm³). > Management of the main gas pipeline supplying the Iberian Peninsula Maghreb-Europe (Empl) and 14.9% stake in Medgaz. > Participation in four regasification plants of Ecoeléctrica and two liquefaction plants (Damietta and Qalhat). > Own storage capacity of 0.5 bcm, and leased capacity of 1 bcm. 	<p>~ 30 bcm supply portfolio.</p> <p>A business model based on diversification and flexibility, that have converted Gas Natural Fenosa into a global operator with a major international profile.</p> <p>Gas Natural Fenosa has procurement contracts with suppliers all over the world in both gaseous state (NG) and liquefied natural gas (LNG).</p>	<p>360 TWh of gas supplied.</p> <p>Unique access to markets: almost 11 million customers and LNG sales in a multitude of countries.</p> <p>Global operator with flexibility to exploit markets that offer attractive margins.</p> <p>40% market share in Spain.</p> <p>Competitive supply to combined-cycle plants. (CCP).</p>
	Our strength	<p>Gas Natural Fenosa has a leading position in the markets where it operates, which means a platform for organic growth, by winning new customers in municipalities with gas, and expanding networks to areas without gas.</p>	<p>Gas Natural Fenosa has an integrated gas infrastructure focused to provide the business with high level of stability, making operations more flexible and allowing gas to be transported towards the best business opportunities.</p> <p>Its storage capacity enables a steady supply to be ensured, avoiding the impact of seasonal changes or demand peaks.</p>	<p>A diversified and flexible portfolio of supply contracts that allows us to capture markets with high value-added.</p>

Gas Natural Fenosa has a leading position in the markets where it operates, which means a platform for organic growth.

Current situation of the electricity business at Gas Natural Fenosa

	Grids	Electricity	
	Electricity distribution	Generation	Commercialisation
	7.4 million supply points. 214,399 km of network.	15.5 GW of generation capacity.	35.2 TWh commercialised.
Our positioning	<p>Spain</p> <p>Third-ranking operator in the Spanish market, where it distributes electricity to 3.7 million customers.</p> <p>Latin America</p> <p>Presence in Argentina, Chile and Panama (3.7 million customers).</p>	<p>Spain</p> <p>12.8 GW capacity with an important presence in five technologies: 7 GW combined-cycle plants, 2 GW hydraulic, 2.1 GW coal-fired, 1.1 GW renewable and 0.6 GW nuclear.</p> <p>Gas Natural Fenosa has a 17.1% market share in the non-renewable generation regime and 2.1% in the renewable regime.</p> <p>International</p> <p>2.7 GW capacity: 2.1 GW combined-cycle plants (Mexico), 0.2 GW fuel oil (Dominican Republic), 0.1 GW hydroelectric (Costa Rica and Panama) and 0.3 GW renewable energies (Mexico and Brazil).</p>	<p>Leading in large consumption and residential segments with a total market share of 14.1% in Spain.</p> <p>One of the most important agents on the Spanish market.</p> <p>Dual energy offer and broad range of value added services.</p>
	Our strength	<p>Gas Natural Fenosa has a leading position in the markets where it operates.</p> <p>Gas Natural Fenosa is an efficient operator in terms of operation and maintenance costs in the electricity distribution business.</p>	<p>The company has far-reaching knowledge in all generation technologies in which it operates and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country.</p> <p>Gas Natural Fenosa has a good positioning in Spain and Latin America, which will allow us to take advantage of investment opportunities in generation.</p>

Gas procurement and transportation

The company acquires natural gas, in its gaseous state as well as in the form of liquefied natural gas (LNG). In the former case, transport is by pipeline, and in the latter, by ship. It also has a range of regasification and liquefaction plants required to move the gas from one state to

the other, and thus facilitate transportation and reintroduction into the gas system. The company also develops a range of worldwide projects that involve drilling, research, production and transport of hydrocarbons. All this enables it to guarantee coverage of the needs of different businesses in a flexible and diversified way.

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

Gas Natural Fenosa has a flexible, diversified and competitive 30 bcm portfolio of supply. The company has unique and integrated gas infrastructure featuring the management of sections of pipelines and an own fleet of 6 methane

tankers. It is one of the largest LNG operators worldwide and a benchmark in the Atlantic and Mediterranean basins. It has a privileged position to develop new markets, mainly in the Mediterranean area, Latin America and Asia.

Countries in which Gas Natural Fenosa performs this kind of activity

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

> Supply guarantee

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

Gas Natural Fenosa has procurement contracts with suppliers all over the world in both gaseous state (NG) and liquefied natural gas (LNG), providing great flexibility from the volume standpoint, and with regard to the destination where the gas is to be positioned.

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

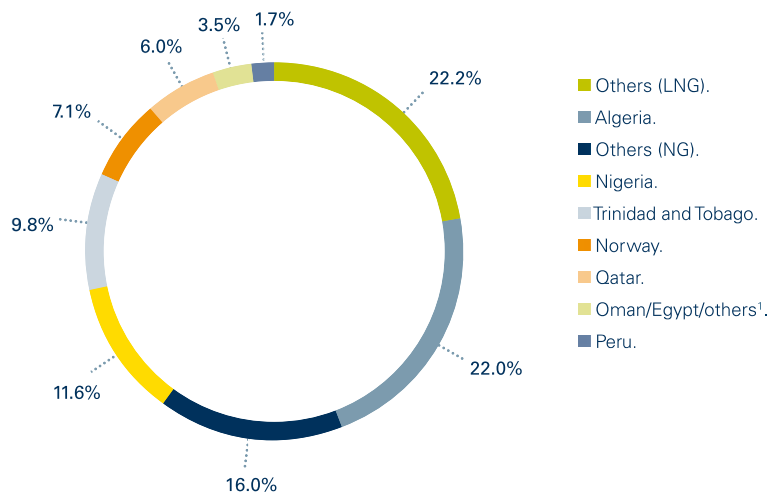
Furthermore, in order to cope with short-term changes in demand or supply issues, it has contracts for the use of underground storage space in most of the countries where it operates. In Spain, it develops underground storage facilities and operates the Marismas (Huelva) underground storage facility.

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

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

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

Diversification in the sources of supply (%)



¹ Gas deriving from Unión Fenosa Gas.



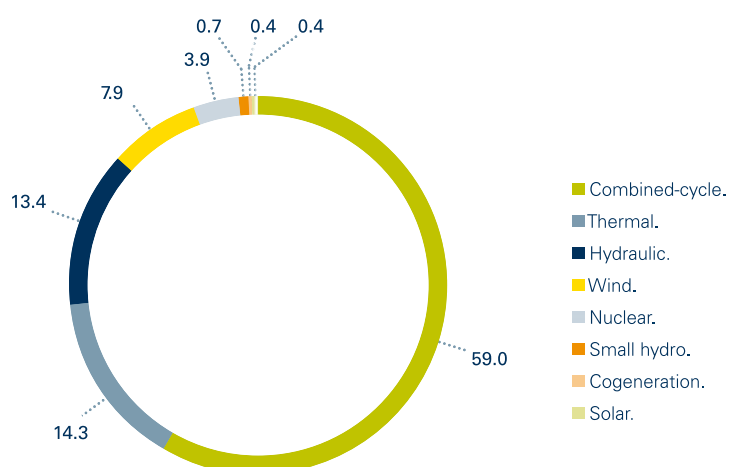
Generation of electricity

The electricity production capacity of Gas Natural Fenosa is 15.5 GW and is based on a balanced, competitive and environmentally-friendly generation mix, mainly comprising combined-cycles of natural gas, which represent the cleanest fossil fuel power plants that exist. Moreover, the company has nuclear power plants, coal-fired and oil/gas-fired power plants, hydroelectric and windfarm plants.

Countries in which Gas Natural Fenosa performs this kind of activity

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

Gas Natural Fenosa energy mix (%)



NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

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

	2017	2016
Power installed in ordinary system. Spain	11,569	11,569
Hydraulic	1,954	1,954
Nuclear	604	604
Coal-fired	2,010	2,010
Combined-cycle	7,001	7,001
Power installed in special system. Spain	1,147	1,147
Wind	979	979
Small hydro	110	110
Cogeneration	58	58
Total installed power. Spain	12,716	12,604
Power installed in ordinary system. International	2,732	2,590
Hydraulic	123	123
Fuel-oil	198	198
Combined-cycle	2,109	2,035
Wind	234	234
Solar	68	–
Total power	15,448	15,306

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

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

	2017	2016	2015
Production in ordinary system. Spain	25,668	26,046	29,468
Hydraulic	1,126	3,933	2,457
Nuclear	4,578	4,463	4,544
Coal-fired	5,953	5,687	7,973
Combined-cycle	14,011	11,963	14,494
Production in special system. Spain	2,285	2,458	2,100
Wind	1,801	1,844	1,601
Small hydro	407	562	448
Cogeneration	77	52	51
Total production. Spain	27,953	28,504	31,568
Production in ordinary system. International	18,436	17,857	17,980
Hydraulic	467	496	481
Fuel-oil	925	920	1,130
Combined-cycle	16,340	15,648	15,519
Wind	656	793	850
Solar	48	–	–
Total production	46,389	46,361	49,548

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

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

	2017	2016	2015
Costa Rica	369	398	408
Spain	3,334	6,339	4,506
Mexico	656	793	850
Panama	98	98	73
Brazil	48	–	–
Total	4,505	7,628	5,837

Average efficiency by technology and regulation system (GWh)

System	Technology	Efficiency* (%)
Ordinary. Spain	Combined-cycle	53.7
	Coal thermal	34.2
International	Combined-cycle	53.7
	Fuel-oil	40.2

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

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

Average availability factor by technology and regulation system [EU30]

System	Technology	2017 (%)	2016 (%)	2015 (%)
Ordinary. Spain	Hydraulic	93.28	92.64	91.97
	Coal thermal	91.50	89.65	93.87
	Nuclear	92.98	90.60	91.94
	Combined-cycle	94.36	86.41	91.61
Special. Spain	Wind	97.65	97.19	96.84
	Small hydro	99.22	98.66	99.14
	Cogeneration	93.00	89.00	97.56
International	Hydraulic	96.25	93.45	94.15
	Fuel	92.11	89.41	93.40
	Combined-cycle	96.61	93.43	91.19

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

Gas and electricity distribution

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

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

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

Countries in which Gas Natural Fenosa performs this kind of activity

- > Gas distribution: Argentina, Brazil, Chile, Spain, Mexico and Peru.
- > Electricity distribution: Argentina, Chile, Spain and Panama.

General gas distribution indicators

	Argentina	Brazil	Chile	Spain	Peru	Mexico	Total	Variation 2016/17 (%)
Gas activity sales (GWh)	72,084	89,079	45,647	195,586	1	57,617	460,014	7.86
Network renewal (km)	24	45	109	2	0	47	119	29.81
Distribution network (km)	25,865	7,536	7,211	53,369	260	21,940	116,181	2.74
Increase with regard to 31/12/2016 (km)	202	90	245	1,413	260	888	3,098	-11.49
Regulatory inspections	0	0	420	921,544	0	31,550	953,094	81.86
Network overhauled (km)	17,149	5,218	3,128	24,143	0	11,793	58,304	-4.76
Renewal of connections (units)	12,646	1,788	0	1,410	0	4,868	20,712	19.32

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

Electrical distribution facilities by country [EU4]

Countries	Step-down transformers		
	Number	Capacity (MVA)	Length of power lines (km)
Chile	80,300	7,941	62,653
Argentina	5,874	1,229	9,472
Spain	40,794	14,358	105,404
Panama	51,395	3,327	24,626
Total low- and medium-voltage	178,363	26,855	202,155
Chile	452	8,441	3,669
Argentina	6	435	64
Spain	848	26,178	8,355
Panama	103	1,604	156
Total high-voltage	1,409	36,658	12,244
Total	179,772	63,513	214,399

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

Electrical energy losses in transport and distribution (%)

	2017	2016	2015
Ordinary regime. Spain	8.58	8.90	8.57
Argentina	7.03	9.40	11.40
Chile	8.44	8.55	8.10
Panama	11.74	11.95	11.63

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.

Gas and electricity commercialisation

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

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

Countries in which Gas Natural Fenosa performs this kind of activity

- > **Gas commercialisation:** Germany, Belgium, Brazil, Spain, France, Holland, India, Ireland, Italy, Jamaica, Japan, Jordan, Luxembourg, Pakistan, Portugal, Singapore and UK.
- > **Electricity commercialisation:** Spain, Ireland and Portugal.

Other lines of business

- > **Trading:** Gas Natural Fenosa is particularly well-positioned in the upstream and downstream gas and electricity markets, enabling it to extract additional margins in the markets through an appropriate trading activity. In this market, it manages the price risks of the raw materials affecting the business and also create opportunities associated with the availability and flexibility of the group's gas, electricity and coal assets.
- > **Operation and maintenance:** the company provides operation and maintenance services for electricity production facilities and industrial plants to third parties in Europe, America, Africa and Asia. To minimise the risks of projects it has developed operational tools and improvements such as Cesom, an innovative centre for operation monitoring and supervision based on big data.
- > **Engineering and construction services:** the company performs services of engineering and the construction of energy facilities in the fields of generation, transport and distribution of gas and electricity. It has built over 1,000 projects in 50 countries, and integrates all development stages of a project of this kind: from their conception and design through to putting them into operation, and subsequently the development of operational enhancements or the decommissioning of the facilities.
- > **Operation of the Savmore coalmine:** Gas Natural Fenosa has a 70% stake in the company Kangra Coal, owner of the Savmore coalmine in South Africa, where it is responsible for the operation of this mine, located in the Mpumalanga region, 315 kilometres to the south-east of Pretoria.
- > **Marismas project:** this project has provided continuity to the activity, for the last 30 years, the company carries out in the Valle del Guadalquivir area, in Spain. This involves removing additional reserves of gas, and once the gas has been exhausted the site will recover its storage function. The stored gas is injected from the Enagás grid and will be managed according to the needs of the Spanish system.

The commercialisation activity of Gas Natural Fenosa takes in the wholesale and retail gas and electricity segments in liberalised energy markets, both in Spain as well as the rest of the world.

Value creation and sustainable management

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

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



The defining characteristics of Gas Natural Fenosa

> Experienced company.

> Efficient company.

> Responsible company.

> Innovative company.

- **Company with experience:** for over 175 years, Gas Natural Fenosa has worked towards improving so as to be able to offer services to society through the use of the most advanced technologies available. The company's experience, coupled with its competitive positioning, makes it a company that is ready to successfully tackle the challenges of a globalised market.

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

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

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

Key Corporate Responsibility Indicators

Service excellence	2017	2016	2015
Satisfied customers (%)			
Spain ¹	7.27	7.11	6.92
Latin America	8.30	7.63	7.83
Chile CGE ²	5.60	5.48	5.31
Italy ¹	7.75	7.86	7.88
Moldova	8.04	7.94	8.06
Portugal	7.29	7.06	7.22
Commitment to results³	2017	2016	2015
Net turnover (millions of euros) ⁴	23,306	21,908	26,015
Gross operating profit. Ebitda (millions of euros) ⁴	3,915	4,664	5,264
Total investments (millions of euros) ⁴	1,826	2,901	2,082
Net profit (millions of euros) ⁴	1,360	1,347	1,502
Dividend (millions of euros) ⁴	1,001	1,001	1,001
Evolution of Gas Natural Fenosa's classification on the DJSI	86	91	89
Responsible management of the environment	2017	2016	2015
Direct greenhouse gas emissions (GHC) (Mt CO ₂ e)	20.5	19.5	22.4
Emission factor (t CO ₂ /GWh)	431	411	445
Methane emissions in transportation and distribution (t CO ₂ e/km grid)	9.6	9.6	9.6
Emissions of SO ₂ /electricity produced (g/kWh)	0.46	0.43	0.55
Emissions of NO _x /electricity produced (g/kWh)	0.70	0.73	0.83
Emissions of particles/electricity produced (g/kWh)	0.04	0.04	0.05
Generation of hazardous waste (kt)	9.8	9.4	8.1
Recycling and energy recovery of hazardous waste (%)	86	86	76
Interest in people	2017	2016	2015
Staff rate (number of employees) ⁵	15,375	17,229	20,641
Men/Women (%) ⁵	71/29	71/29	72/28
Women in management posts (%)	26.2	25.7	25.1
Personnel costs (millions of euros)	1,031	1,013	973
Training hours per employee ⁶	38.4	51.0	61.4
Annual investment in training (euros)	14,322,806	14,014,713	10,493,080
Employees covered by collective bargaining agreements (%)	77.2	79.5	79.6

¹ Figures for residential customers.

² Figures measured on a scale of 1 to 7.

³ The financial information of Gas Natural Fenosa contains figures drawn up in accordance with the International Financial Reporting Standards (IFRS), as well as those known as Alternative Performance Measures (APM) that consider adjusted figures with regard to those submitted in accordance with the IFRS. The definition of the APMs used is given in the annex to the consolidated management report. The consolidated income statement for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, the electricity distribution in Moldova, the gas commercialisation in Italy and generation of electricity in Kenya, in application of IFRS 5.

⁴ Indicators are from the group's audited Consolidated Annual Accounts.

⁵ Workforce at the end of the period under centralized and decentralized management.

⁶ The Corporate University remained closed for 3 months for the set-up of new corporate systems, and accordingly the final indication of training hours has been affected by this occurrence.

Key Corporate Responsibility Indicators (continuation)

Health and safety	2017	2016	2015
Accidents requiring medical leave	45	65	125
Days lost	1,708	2,424	3,674
Mortalities	0	0	1
Frequency rate	1.30	1.72	3.08
Severity rate	0.05	0.06	0.09
Incident rate	2.65	3.48	6.33
Absenteeism rate through common illness and non-occupational accident (%)	2.18	2.15	2.02
Responsible supply chain	2017	2016	2015
Suppliers with contracts currently in force	9,877	12,072	7,370
Total purchase volume awarded (millions of euros)	3,428	3,599	3,009
Purchasing budget targeted at local suppliers (%)	90.75	91.9	92.3
Suppliers assessed according to environmental, social, and working practice criteria (number)	9,891	9,689	6,997
Social commitment	2017	2016	2015
Evolution of the contribution from Gas Natural Fenosa (millions of euros)	12.86	9.98	9.89
Breakdown by type of action (%)			
Social	61.36	33.76	33.34
Environmental	7.89	7.24	14.71
Cultural	30.75	59	51.95
Sponsorship and social action activities	361	403	437
Integrity and transparency	2017	2016	2015
Correspondence received by the Code of Ethics Committee	141	178	135
Correspondence received per 200 employees	1.67	1.92	1.37
Geographical origin of correspondence (%)			
Argentina	2.8	1	4
Australia	0	–	–
Brazil	7.1	3	4
Chile	19.2	16	14
Colombia	12.1	25	14
Spain	36.2	34	43
France	0	–	1
Italy	0.7	1	3
Kenya	0	–	–
Morocco	0	–	–
Mexico	17.7	13	6
Moldova	0.7	1	1
Panama	0.7	1	1
Puerto Rico	0	–	–
South Africa	2.8	4	9
Average time for resolving correspondence (days)	44	63	47
Audit projects analysed on the basis of the risk of fraud	77	88	94
Communications received in the area of human rights	0	0	0
Number of persons trained on the Human Rights Policy	10,132	10,180	13,883



Integrated Management System

Within the context of the Integrated Management System for quality, environment and health and safety (IMS), the adaptation of the IMS to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards has been completed, and this recognition is reflected in the new certificates. At the same time, the scope of Gas Natural Fenosa's multisite certificate for quality, environment and health & safety has been expanded with the addition of the gas distribution and commercialisation activities in Chile, as well as the addition of three new companies within the scope of the electricity distribution and commercialisation certificates in Chile.

Certified processes:

- > Extraction and injection of natural gas.
- > Transport and operation of the Maghreb-Europe gas pipeline.
- > Electricity generation (thermal, hydraulic and renewable sources origin).
- > Distribution of natural gas and electricity.
- > Wholesale and retail commercialisation of natural gas and electricity.

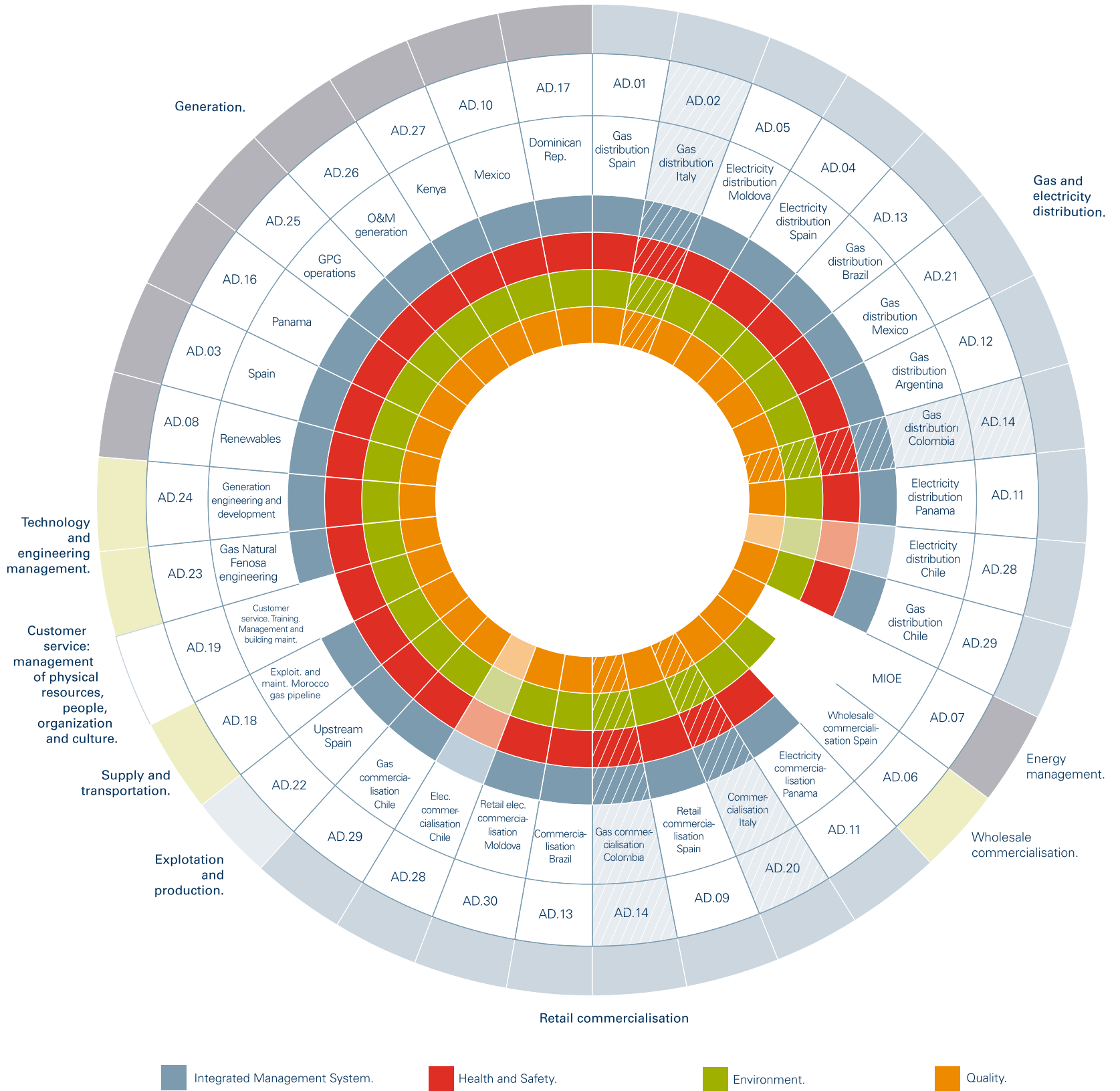
- > Development and execution of engineering projects.
- > Energy management in the organised Iberian electricity markets.
- > Corporate activities involving customer service, billing and collection and training.

During the year, with the support of the IMS, the work of implementing the ISO 50001 standards for Energy Management Systems and ISO 39001 standards for Road Safety Management Systems began for certification in 2018.

In addition, other activities expected for 2018 include the completion of the certification of the electricity distribution and commercialisation activities in Chile, the unification of the quality, environmental, and health and safety scopes and the acquisition of IMS recognition; the expansion of the scope of the generation certificate with the addition of the Bii Hioxo wind farm in Mexico, wind farms in the Canary Islands and Torito hydroelectric power station in Costa Rica; and the addition of the new LPG distribution and commercialisation scope in Spain. Due to the divestments that have occurred in Italy and Colombia, their certificates will be separated from the group's multisite certificate.

Certified processes included in the Integrated Management System of Gas Natural

Quality, environment and health certifications chart (31/12/2017)



NB: Stripes: Certifications to be segregated from the IMS in 2018.

Group's foreseeable evolution

Foundations of strategy

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 strategic planning cycle

> Strategic reflection

Formalisation of the group's vision in the medium term.

Top-down approach.

> Monitoring and reporting

Single-source reporting on group, business unit and corporate management.

Strategic reporting management to support decision-making.



> Business plans

Formalisation of business unit and corporate targets.

Bottom-up approach. Integrated business plan.

Formalisation of group's targets by integrating business plans.

> Budget

Operating budget.

Investment budget.

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

The company’s strategic vision for the 2016–2020 period set out a series of commitments for meeting targets for 2018 and aspirations for 2020 and defined the prospects by business division and the group’s financial targets for the period. Gas Natural Fenosa expects to present the 2018-2020 Strategic Plan during the first half of 2018, updating the group’s targets.

Within the framework of monitoring the evolution of the environment, the Strategic Plan sets out:

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

The Strategic Plan is translated into the different business plans.

Pillars of the 2016-2018 Strategic Vision

The 2016-2018 strategic vision was built upon three lines of growth (grids, power generation and gas commercialisation), with the aim of enabling Gas Natural Fenosa to continue to grow in the future:

The pillars of the Gas Natural Fenosa Strategic Plan are:



- > Grids: with regard to gas networks, investment in gas supply in Chile and Mexico, entry into the distribution business in the Arequipa region of Peru, new licences and additional growth from the conversion of new liquefied petroleum gas (LPG) points in Spain; in electricity grids, investment in smart grids in Spain, investment to cover additional demand in Chile and Panama, electricity subtransmission in Chile driven by new renewable energy facilities.
- > Power generation: improving efficiency and performance of the generation pool with the incorporation of 3,500 MW to the total pool, 2,500 MW of which is from renewables (Spain and international) and 500-1,000 MW from combined-cycle projects contributing to the downstream development of the LNG business. Growth and development of the international business through GPG.

> Gas commercialisation: new gas supply contracts for a total of approximately 11 bcm, corresponding to the two Cheniere projects (Sabine Pass and Corpus Christi) and the Yamal LNG project in Russia; additionally, the existing gas supply contracts will be adapted and

renegotiated to reflect benchmark market conditions. Furthermore, capacity of the methane tanker fleet will be increased with the addition of four vessels (two already incorporated in 2016), and a mobile regasification unit. Their larger size will mean an overall added capacity

of close to one million cubic metres. Ebitda is expected to be increased by about 10%.

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

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

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

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

2018 outlook

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

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

Deregulated activities: Positive outlook in commercialisation of gas explained by the ordinary review of gas supply contracts and improving international LNG prices.

Recovery of Spain electricity supported by return to normal hydroelectricity generation and recovery of commercialisation prices.

The financial outlook for 2018 is explained in the following:

Activities	2018 outlook	Main levers
2018-2020 Efficiency Plan	^	- Accelerated implementation of 2018-2020 Efficiency Plan ~100 million euros restructuring costs forwarded from 2018 to 2017. - Estimated accumulated savings of ~105 million euros net of restructuring costs for 2018.
Cost of debt	^	- Progressive positive impact of liability management efforts in financial results. - Greater reduction in current debt cost by 3.5% estimated in 2017.
Tax rate	●	- Held at 21.5% (recurring tax rate).
Effect of currency conversion	∨	- Unfavourable outlook for exchange rates (USD, CLP, BRL, MXN, ARG).
Capital gains (Italy)	^	- Expected capitals gains after tax of ~190 million euros at year end (1\$18).

Significant positive contribution of operating efficiencies and debt/tax efficiencies, only compensated by relatively unfavourable outlook for exchange rates.

The 2018–2020 Strategic Plan will update the strategic lines to be implemented in order to enable Gas Natural Fenosa to continue its trajectory of organic growth in 2018 and the forthcoming years.

Planned capacity to satisfy forecast future demand (MW)

Technology	Planned capacity(MW)
Projects at an advanced stage	265
Cogeneration	-113
Renewables	378
Projects at a permitting stage	1,004
Wind	734
Small hydro	–
Hydraulic	–
Others (Photovoltaic)	270

1895

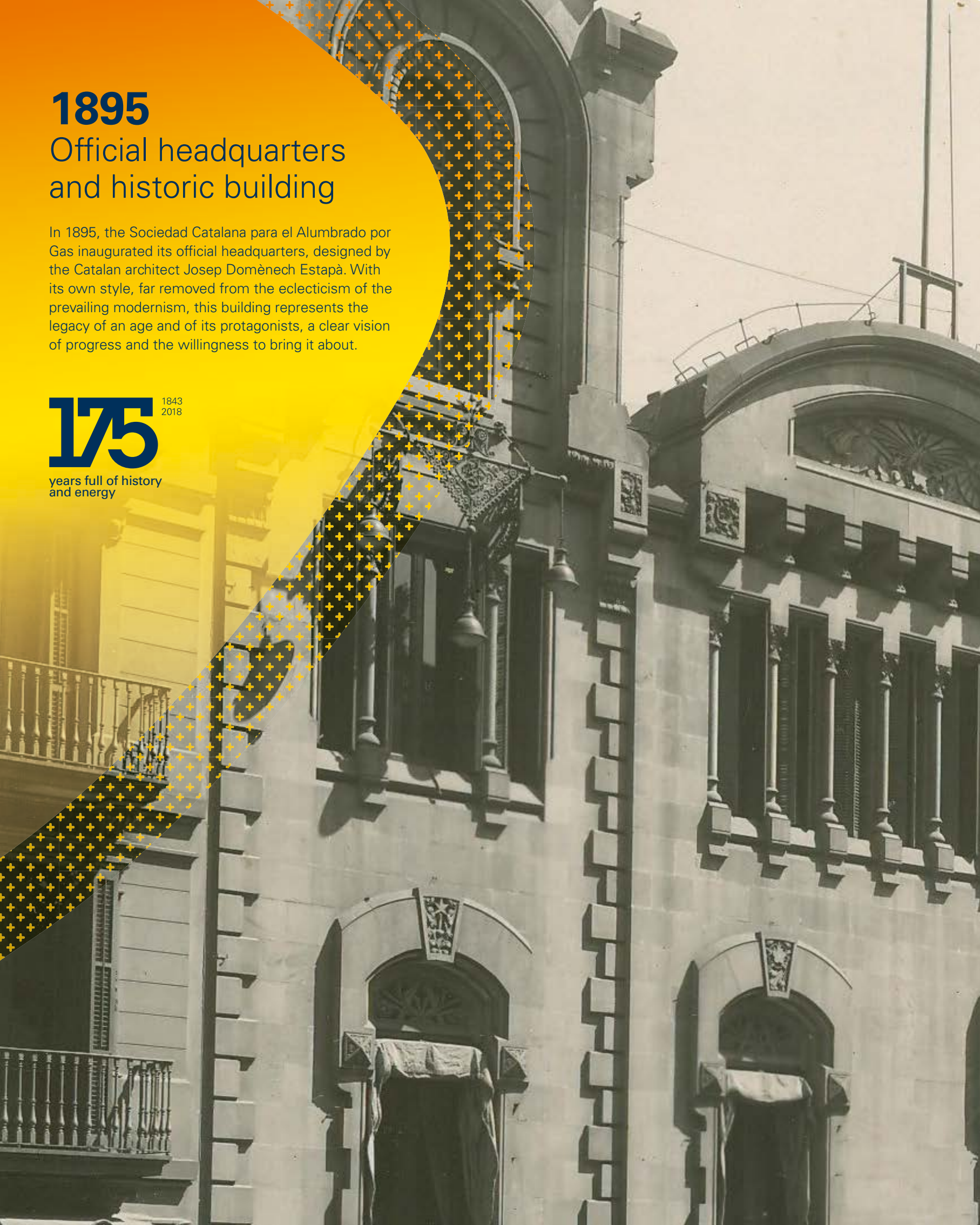
Official headquarters and historic building

In 1895, the Sociedad Catalana para el Alumbrado por Gas inaugurated its official headquarters, designed by the Catalan architect Josep Domènech Estapà. With its own style, far removed from the eclecticism of the prevailing modernism, this building represents the legacy of an age and of its protagonists, a clear vision of progress and the willingness to bring it about.

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Sustainable Innovation

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Innovation overview

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

The most innovative companies are generally those that best respond to the new challenges of the environment and do so by using technologies, processes and business models that give them an advantageous position in their markets. Moreover, innovations often arise, become

cheaper and spread at a rate leading to significant disruptions that have a huge impact on these markets.

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

This model comprises the innovation overview agreed with the businesses and responds to the technological changes that the sector is facing, a robust methodology for technological monitoring

and management of the portfolio of innovation projects and a strong innovative culture at the company. It is also based on intrapreneurship programmes and tools to encourage innovation, ensuring the most appropriate response to the changing dynamics of the environment.

Gas Natural Fenosa places a matrix approach on innovation, classified in accordance with two criteria: the type of innovation and the part of the value chain the innovation affects.

In line with best market practices, the company develops the following five kinds of innovation:

Social innovation	New ways of satisfying social needs that are not appropriately covered by the market or the public sector, or in producing the required changes of behaviour to resolve society’s major challenges.
Marketing innovation	Implementation of improvements in processes directly related with the marketing of a product or service.
Organisational innovation	Implementation of new methods in the company’s business practices or in the organisation of work and/or foreign relations.
Product innovation	The introduction of a product or service that is new or significantly improved with regard to its previous features or applications. This includes significant improvements in technical specifications, components and materials, software incorporated, ease-of-use and other functional characteristics.
Process innovation	Implementation of new or significantly improved processes of manufacture, logistics or distribution. Major changes in the way of producing or delivering the products or services.



In the same way, according to the company's value chain, an innovation plan is defined as a result of work performed by different work groups midway through 2016, with the managers from all business and corporate areas, covering all geographic areas. The result of these working networks has been defining innovation priority areas for Gas Natural Fenosa as well as a dedication of efforts to focus on priority areas. The development of the innovation plan is carried out on the cross-sectional work networks established on the basis of workshops for each of the priority lines.

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

Therefore, it shares its challenges through partnerships and by taking part in the forums for technology

mobilisation, guiding the technological chain and helping to secure common goals. It also works with public administrations in identifying the general needs of technological development in their business and in the definition of the relevant plans.

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

Gas Natural Fenosa, aware that we live in a rapidly changing world and that this will change even more rapidly, believes that open innovation is the only way of moving forward and attracting new ideas and products to the market. Accordingly, it values both external and internal talent very highly and develops

entrepreneurial programmes that enable it to innovate more flexibly and thus maintain leadership in the markets where it is present and to transform itself as and when it needs to.

This year we have continued collaborating with different enterprises and institutions. Of particular note is our presence on Eurelectric, American Gas Association (AGA), Eurogas, International Gas Union (IGU), as well as the different technological platforms such as the Spanish Technological Platform of Electrical Grids (FutuRed), the Spanish Energy Efficiency Technological Platform (PTE-EE), the Smart Cities Interplatform Working Group (GICI) and the Alliance for Energy Research and Innovation in Spain (ALINNE), among others.

With regard to sustainable innovation, Gas Natural Fenosa is committed to decent work and economic growth through innovation activity by applying technology and knowledge to create value.



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

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

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



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

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

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



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

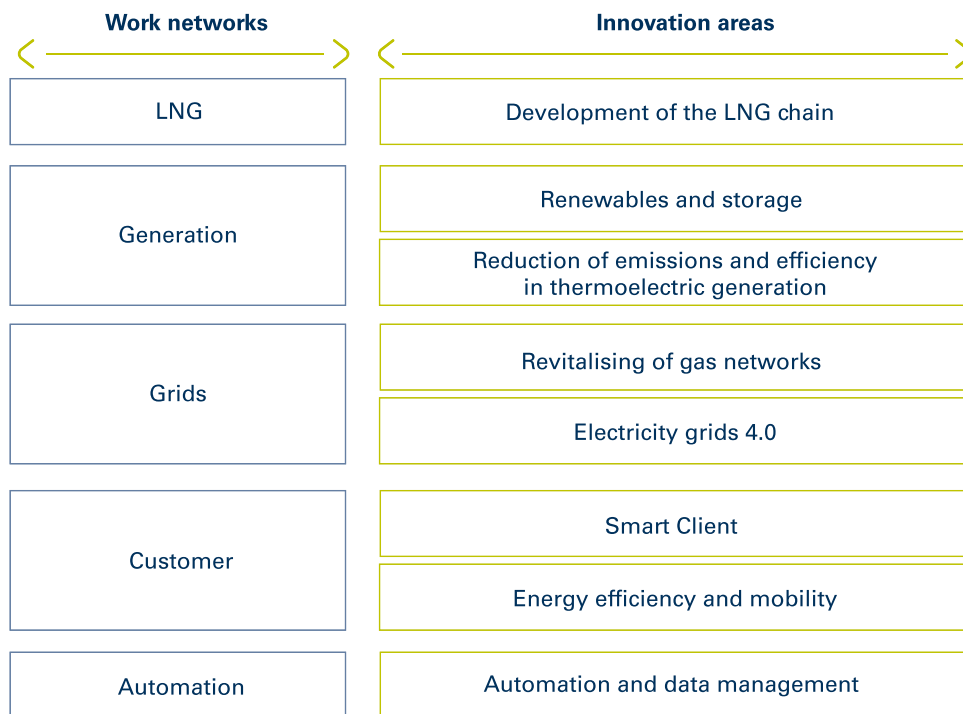
The ninth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that “sustained growth must include industrialization that first of all, makes opportunities accessible to all people, and two, is supported by innovation and resilient infrastructure”.

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

Innovation focus

The Innovation Plan of Gas Natural Fenosa, which accompanies the Strategic Vision until 2020, seeks to introduce operational improvements and to adopt those technologies that provide greater value to the company's businesses. This plan is structured around five major work networks: Liquefied Natural Gas (LNG), Generation, Grids, Customers and Automation.

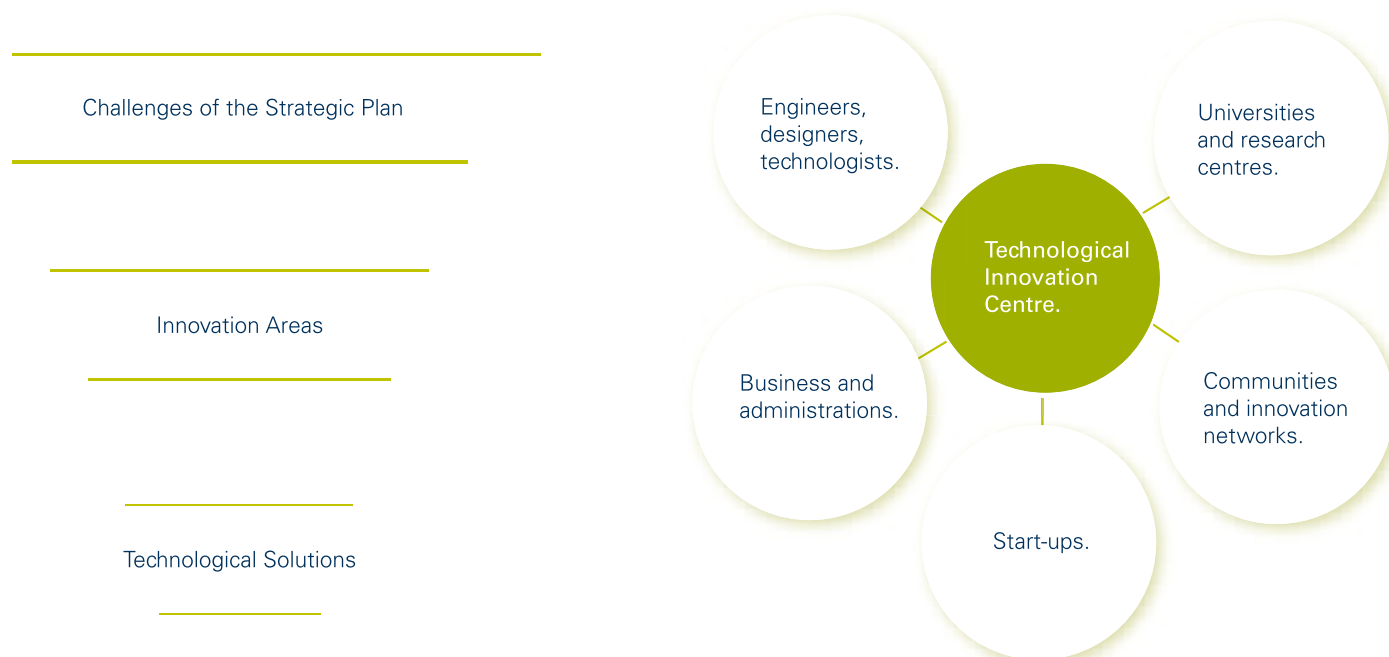
To develop this plan, the company uses a twin-focus Push & Pull innovation model. The former, which focuses on the development of own technological solutions that respond to the challenges set out in the aforementioned Strategic Vision. The latter focus seeks the pull of the open innovation ecosystem to find business opportunities, ideas and talent.



Push: Developing technological solutions

Pull: Promoting an open innovation ecosystem

Encouraging innovation by responding to the challenges of the Strategic Plan



Leveraging resources of business and in the external community

Innovation and technology are key in transforming the way in which we perform our activity and anticipate the needs of clients and transform ideas into services that ensure an efficient, sustainable and safe energy supply.

In addition to these priority lines that represent part of the key processes of its value chain, Gas Natural Fenosa, in accordance with best market practices, is aware that innovation does not only come about with technological progress in products and technological processes, rather that innovation can be found in all spheres of the company and in all those cross-sectional areas and support to the key processes. In this regard, Gas Natural Fenosa has introduced a more complete focus on speaking about innovation that in addition to addressing the innovation in products and processes also includes organisational innovation, marketing innovation and social innovation.

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

Social innovation

In its interest to transform itself and provide value to society through energy, Gas Natural Fenosa has driven **social innovation** to resolve society's current challenges.

In this regard, the company has been working on energy vulnerability since 2014 with prevention actions, through agreements with local and regional governments, and activities to raise awareness with participation on forums and chat groups about poverty. These actions intensified during 2017 through the Vulnerability Plan, approved by the

Board of Directors in January 2017, and have been introduced nationwide. This plan encompasses 20 measures divided into a twin approach: an operational one and a social one. The aim of all of these is to reinforce and systematise management of vulnerable customers and to help social services and third sector enterprises in their work with the most vulnerable persons.

The Energy Vulnerability Plan is a project that came about from the need to help people in a situation of energy poverty and is the first plan of this type on Spanish territory. The project is not only innovative because it attempts to relieve the country's energy poverty, but also because of its characteristics as a CSR initiative. Gas Natural Fenosa is the first company that has a plan with a financial allocation, with a cross-sectional management model that guarantees its introduction into the organisation's day-to-day work. This plan is also perfectly coordinated with the Foundation and has a volunteer programme for its employees.

The plan is pioneering as a whole, but many of the measures that the plan comprises are also pioneering. Initiatives such as the Energy School, the study into low-cost measures to introduce into vulnerable homes or the creation of the Unit to deal with vulnerability for the purpose of monitoring those cases of customers that may be in a situation of risk, reveal the innovative nature of the plan.

Among the operational measures that have been introduced is the creation of the Unit to deal with vulnerability, a specific area to deal with those cases of customers that may be in a vulnerable situation. A 24-hour free phone numbers also been created, as well as a

Special Collectives Management Group which will monitor these customers. Moreover, the payment instalment system has been made more flexible, and we continue collaborating with municipal entities and the third sector to create constant communication mechanisms. Accordingly, we are introducing a shared register that helps all those involved to be able to closely monitor those persons that fall within the parameters of energy poverty. In turn, we have extended the company's participation on forums, panels and municipal and other working groups involved in energy vulnerability in order to continue to monitor the issue and work jointly to improve the situation of these people.

Within this operational aspect, the Vulnerability Plan includes a set of social measures to be performed together with third sector enterprises and public administrations. This work is carried out by the Gas Natural Fenosa Foundation, and among the key initiatives are:

- > Energy School. Launched to provide training in energy issues - billing, prevailing regulations, energy efficiency, savings - especially related with vulnerability, to social workers of public enterprises and NGOs to improve the life quality of vulnerable people. It is also open to vulnerable families.
- > Rehabilitation of the homes of vulnerable groups. A study has been conducted with more than 75 low-cost rehabilitation measures that will represent home improvements and therefore a better life quality for vulnerable customers.

- Energy volunteer work: Solidarity and commitment are what moves our voluntary employees, who have the opportunity to provide direct advice to persons in a situation of energy vulnerability.
- Aid to the third sector: We have open financial assistance facilities for social enterprises that work with vulnerable groups and a team to provide support and to intensify our collaboration with the third sector.

This block also includes the Natural Capital project, which involves a concept of emerging sustainability, to complement the financial results with the natural resources used by a specific organisation, company or country. Its aim is to identify, manage and assess the natural capital for the purpose of providing information that helps in decision taking. We are currently working on the international stage to develop protocols and methodology for calculating natural capital. Given the importance for a company like ours of managing this concept and including it in decision taking, we have performed a pilot project. The project goals have been to review the state-of-the-art of existing methodologies and to select the most suitable one. Once the methodological framework has been set, the methodology has been applied to the Bolarque Hydroelectric power station, identifying all of the environmental impacts and dependencies, selecting the most significant ones and monetising them.

Marketing innovation

This particular line encompasses all of the company's efforts to find out the actual and specific needs of each one of its customers, and to make sure that they have at their disposal cutting-edge products

that help them in their day-to-day life. As a result of the projects tackled in this area of innovation, new energy advisory services have arisen through hourly curves to offer each customer products that adapt to their needs along with proposals for energy savings. The implementation of technological support tools, such as CRM (Customer Relationship Management) or the development of modules for campaign generation through the pre-definition of variables which, combined with products and tariffs already available in the Gas Natural Fenosa systems, contribute to the expansion of the businesses.

One of the major initiatives within this kind of innovation is the CEX (Customer Experience) project through which the company introduces a new methodology in which the customer is the starting point and the centre of activity, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience with the company. (Further details about this project can be found in the "Service Excellence" section).

In addition, we live in an increasingly digital world where users seek to perform a lot of their day-to-day tasks through Internet so that they can carry these out from any place, with any device and at any time, thus saving time. This is the reason why another of the areas where we have focused particular efforts is on improving the digital experience of the customer with projects targeted at improving usability and access to applications, including new ways of meter reading through the mobile app.

Of particular note are those actions targeted at ensuring that the end customer is able to self-manage the

products and services contracted, increasing the amount of online formalities and completing the operations available once customers are registered in the private area. One of the key activities in this regard has been the development for Latin America of a platform (both for iOS as well as Android) which copies data from the transactional system that enables the client's data to be available 24x7 through digital channels. These initiatives form part of the Smart Client technological line, which is included in this report.

Organisational innovation

In the framework of organisational innovation we consider those actions targeted at covering the needs that arise with regard to new business models, those that have entailed a new organisation in the work and those that have been for the purpose of minimising risks and increasing quality and safety in the organisation's practices. Of particular importance within this sphere is the Apolo project that aims to define and introduce a new platform that supports the entire commercial process in Latin America.

This project represents a complete change in commercial philosophy, one that manages the new commercial process of deregulated products and services, whether recurrent or one-shot, and management of third-party products (insurance policies), and we expect to evolve the model of operations and back-office in subsequent stages.

The change management associated to the processes involved has required a complete redesign of the commercial process, which introduces commercial planning, addresses markets from the standpoint of dealing with the potential in the systematised way and by batches, management of the portfolio of products, services and commercial campaigns, and the introduction of a completely new process of controlling quality and verification of the commercial action through calls to new customers, all under the premise of customer centricity, quality in what we do and commercial offers, traceability and sustainability. From the technological standpoint, it includes integral management of the deregulated market on a single platform and the incorporation of the mobility of sales forces.

Also within this sphere we should mention the Óptima project, a management model to integrate different applications in the ERP (Enterprise Resource Planning) into a platform with unified access, seeking to improve the user's experience and have greater interactivity and variety of the work resources.

Óptima is a transformational programme that aims to improve the group's decision-taking model, integrating business information with its economic impact and strengthening the predictive, ongoing review, simulation and analysis capability.

To this end, several core actions have been established to address the objective model of the processes of planning, control, reporting and data governance of the group:

- More flexible and ongoing processes of planning and review, thanks to PxQ modellings of the main business indicators. Allowing us to anticipate and simulate impacts in light of scenario, regulatory and business-estimate changes.
- Improving the information of Gas Natural Fenosa management through a corporate database that integrates the operational information of the businesses required for senior management to take decisions.
- Optimising the exploitation of information management through scorecards and the digital reporting platform.

As a consequence of the plan to transform the organisation to focus it on data, the position of CDO (Chief Data Officer) has arisen. Data governance is a key element for the extraction of value from data and for decision-taking, and consequently we have defined a new role in the organisation, the Chief Data Officer, whose mission is to guarantee quality through the design of standard data dictionaries, oversee traceability through uniform rules of access and internal security and ensure accessibility to data at the organisation. In addition, we have also defined a data governance organisational model that incorporates the roles of Data Officer by General Management and the Data Architect at the Information Systems Department.

The management of information through the Internet continues to represent a challenge for all organisations; in this regard, Gas Natural Fenosa continues to take on projects in the sphere of Cybersecurity, to reduce risks and improve security of all apps and devices used. These kinds of initiatives are particularly relevant this year, in which we have introduced new processes of communication and supply of information with the Public Administration, which also involve new methods of identification and authentication through different digital technologies.

Lastly, we can highlight the Delfos (Delivering Forecasting System) project, for the purpose of developing a delivering forecasting tool that can also be a channel of communication with internal customers in issues related to the supply of materials. The project focuses on efficiency of processes, representing a significant improvement in the planning and performance of works. In addition, it enables shipments to be managed and all of the documentation associated to the delivery of material.

The Innovation Plan of Gas Natural Fenosa seeks to introduce operational improvements and to adopt those technologies that provide greater value to the company's businesses.

Product innovation

The company has made strenuous efforts in product innovation. One key project in 2017 has been the design of the Direct Link floating platform. This is a singular initiative as part of the innovation plan and as a response to the need for solutions for small-scale LNG transfer and bunkering from ship to shore.

Other relevant project is the PIDIM (Smart Platform for the Sizing and Design of Multigeneration Facilities) project for the purpose of designing, developing and introducing a smart platform for the sizing and design of facilities for the distributed generation of heating and cooling electricity that operates in the cloud by receiving data such as the customer's consumption. With this initiative we aim to promote the energy rehabilitation of buildings and to characterise the energy demand of these buildings to calculate the baseline of consumption of the building and to forecast savings.

In this sphere we should also highlight development of the Sustainable Logistics Train (SLT) in the quest for a feasible and economic solution for the sustainable management of the so-called "last mile" logistic, where the dissemination of services for customers is often in places where there is restricted traffic access. The solution we are working on involves a very new vehicle comprising a tractor head which will be a hybrid extended-range vehicle that runs on CNG, trailers with batteries and solar panels, and an electrical and mechanical connection between the foregoing that enables a 90° turn between trailers and the control system of each trailer. These vehicles will have a load capacity equal



to or greater than a small van or truck, and simultaneously represent a sustainable and environmentally friendly solution that extends to the areas of protected heritage.

Further details on product innovation can be found in section 3 of the Technological Innovation Plan.

Process innovation

As an example of innovation in process, we can point to the hydro power Integrated Control Centre (ICC), headquartered in A Batundeira (Velle - Ourense), which allows centralised and remote-control management of the exploitation, operation and maintenance of all the company's power station and dams in Spain. The new

ICC uses latest-generation control systems that incorporate the most advanced technologies, committed to technological innovation and including new tools and systems to support the operator, which enables an expeditious and efficient response to new requirements of the national electricity system, with the utmost respect for the requirements governing safety of people, facilities and the environment.

Another project which Gas Natural Fenosa has continued to develop this year has been the Metrology for LNG III (a collaborative project developed within the framework of Euramet) which is for the purpose of the development and validation of analysis techniques to reliably determine the quantity, composition and physical properties of LNG and LBG that enable the large-scale roll-out of their use as a fuel for transport, contributing to one of the pillars of the European clean fuel strategy.

In the customers sphere, we have defined a new global customer service model that is materialising in different Latin American countries and in Spain.

Among the key activities that have been developed during 2017 are:

Design of the customer service model.

On the basis of the Global Customer Attention Model, we have defined work methodologies at operational and training level that enable us to improve customer satisfaction through the ongoing improvement of operations.

Implementation of the New Technological Platform at the Call Centre (ININ).

This new technological platform improves and provide new functionalities for the routing of customer calls, improving the way in which these calls are dealt with. The tool is based on an All in One that enables us to improve the time to market and the latest technology available in the market.

Advanced Analytics. This is a work methodology based on advanced data analysis of our customer contacts, to find innovative levers of change in the customer care processes.

Robotics and cognitive solutions.

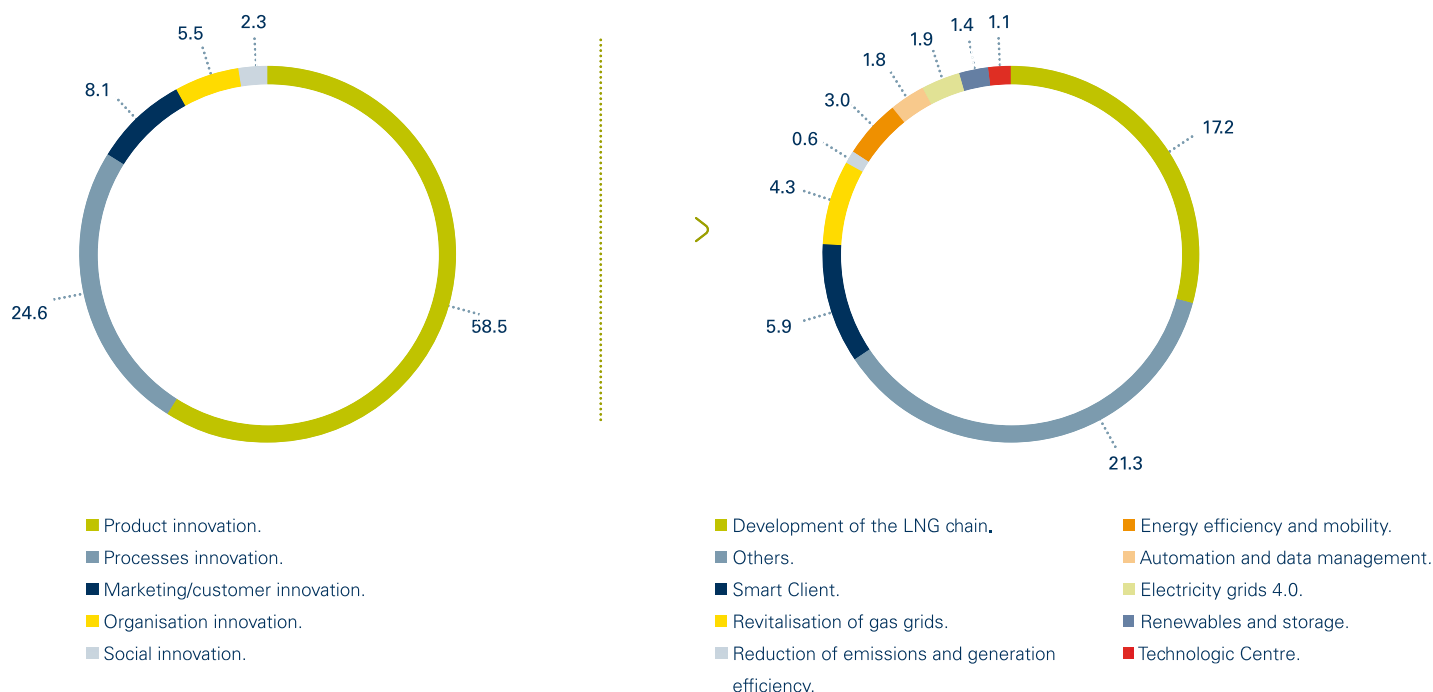
We are exploring different robotics tools and cognitive solutions, and are carrying out the first definitions of pilot tests.

Innovation in processing is explained in greater detail in section 3 of the Technological Innovation Plan.

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).

Investment in innovation (millions of euros)

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



Innovation Plan

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

Liquefied Natural Gas (LNG)

The main objective of the company in this line is to strengthen transport infrastructure, storage and distribution of LNG, at all levels, to promote its use as an alternative fuel to traditional oil derivatives. LNG has significant advantages as it helps reduce environmental pollution by decreasing the emissions of carbon dioxide (CO₂), sulphur dioxide (SO₂) and contaminating particles. For this reason, the role that LNG can represent as a transition fuel towards a decarbonised economy is crucial, as endorsed by the European Union in its latest strategic plans.

Optimisation of the LNG logistics chain. Small Scale

Currently, the existing LNG transfer facilities are ever more robust and safe, yet these features simultaneously involve a cost increase associated to the facilities. We should give a special mention to the marine infrastructure costs, which take on greater importance in the overall investment in small-scale projects, compared with the projects for large traditional liquefied natural gas plants (liquefaction or regasification).

Accordingly, Gas Natural Fenosa is working on the development of innovative solutions with greater flexibility than the traditional ones and with lower investment and operation costs, without lowering the safety standards of the facilities.

Development of LNG as a cleaner and more efficient transport fuel. Bunkering

The company's main objective in this field is to promote its use as an alternative fuel in road, rail and maritime transport.

Of particular interest is the use of LNG as a maritime fuel, due to the huge fuel power and consumption required by this sector and the increasingly demanding environmental restrictions that are faced.

To be able to compete and to displace oil derivative fuels, it is essential to develop the bunkering logistics, which would lead to greater use of LNG-run vessels in the future. Gas Natural Fenosa is working on the development of new bunkering solutions that will enable us, in the short, medium and long term, to equip ports with a suitable LNG supply logistics infrastructure.

Development of the LNG measure

The development of the LNG logistics in the transfer and sale of energy operation requires an appropriate metrology, both with regard to the quantity as well as the quality of the product. Currently, we need to respond to major challenges such as the accuracy of measurements, the absence of LNG-specific calibration banks, the high cost both with regard to CAPEX as well as OPEX, and also to introduce measurement procedures and standards accepted by the sector agents. In this regard, Gas Natural Fenosa participates along with major metrological centres in the development of several initiatives. During 2017, the company has continued its involvement in different projects of worldwide relevance, which will also permit us to introduce a new stable metrological framework that will facilitate commercial operations.

The development of the LNG logistics in the transfer and sale of energy operation requires an appropriate metrology, both with regard to the quantity as well as the quality of the product.



Projects to develop new LNG distribution logistics solutions

DirectLink LNG – Floating Universal Transfer System (UTS) (2016-2017).

This is an integral patented solution for the transfer and bunkering of LNG from ship to shore, an alternative to the costly traditional infrastructures (port and jetties) and with minimum environmental impact.

The UTS is a new patented innovative system that makes use of the latest market technologies and comprises two basic elements:

- > A floating platform, where the LNG transfer lines are located (and boil-off gases/ BoG) together with all the process, control and safety elements. The vessel-platform union is carried out through a mooring vacuum (first offshore application in the world), thus guaranteeing a safe and quick LNG transfer.
- > The LNG transfer from the platform to land is carried out using some especially designed floating cryogenic hoses.

Among the advantages of this system we can highlight:

- > Economic benefits: as the investment costs are significantly reduced compared with traditional solutions (jetty).
- > Flexibility and universality: the system is compatible with a wide range of vessels and land terminals without the need for any modification. Its great flexibility allows it to be adapted to the specific requirements of the final site.
- > Mobility: given that the system is floating, if necessary it can be relocated to a new place. In addition, this mobility means it is protected against adverse weather conditions, as it can be located in a safe place during this period and operations can recommence once the weather conditions have ended.
- > Environmental: as it has very little environmental impact compared with traditional systems, by avoiding the need to dredge the seabed.

- > Quick installation: the complete process from preliminary engineering through to installation is considerably reduced compared with traditional facilities.
- > Safety: it has been designed and manufactured under the very strictest quality assurance and safety standards, and is classified overall by the certification agency DNV GL. Where necessary it can be quickly uncoupled from the vessel, maintaining the integrity of all its components and systems. In turn, it makes it possible to discharge from methane tankers at greater distances than traditional facilities, thus reducing the risk of collisions.

With the development of this system, Gas Natural Fenosa complies with its goal of providing a unique and differential tool that makes it possible to have swift development of a small- and medium-scale LNG supply, enabling end users to access a cheap, safe and environmentally-friendly energy source.

A flexible and scalable solution that will satisfy the current and future demands of our customers.

At the end of 2017, the UTS was successfully tested, transferring a total of 400 m³ of LNG from the vessel Coral Energy (Skangas) to the Skagerak Naturgass land terminal, located in the industrial park of Herøya (Norway).

LNG on Wheels (2017-2018).

The project involves a LNG tanker vessel able to resupply itself from a small carrier off-shore, anchored near to the closest port to the customer. Once in the port, the LNG is distributed directly through tanker lorries.

This solution enables LNG to be distributed in remote locations that have no kind of existing infrastructure.

The key objective of this project is to make it possible to have a reliable supply of LNG from industrial customers of up to 50 MWe, in which there is no onshore support infrastructure, with acceptable exploitation costs.

LNG projects (continuation)

Quality measurement projects

GERG. Raman spectroscopy (2016-2018).

The main purpose of this project is to analyse the feasibility of measuring the LNG composition directly in liquid phase, without the need to vaporise. To do this we are testing Raman spectroscopy technology, currently applied in the chemical and pharmaceutical sector

but not in cryogenics. Last year we conducted tests at the Zeebrugge Terminal (Belgium), in collaboration with important companies from the sector. To date we have performed the recalibration of the sensor by temperature and the results are extremely positive.

Development of new bunkering solutions

Multiple Truck to Ship (2015-2017).

Among the methods of providing natural gas to ships, the most common is the so-called Truck to Ship (TTS). This type of truck supply involves the direct connection from a tanker or container parked on the dock, using the drive system of the truck itself. In order to maintain the advantages of this traditional system of supply of natural gas to vessels and to solve its limitations, Gas Natural Fenosa is working on

the Multiple Truck to Ship concept (MTTS), based on the discharge of several tankers simultaneously and flow rates that allow acceptable loading times for maritime operations. This project finalised in 2017, and among the findings we should mention the technical feasibility of this concept, the design of which has been ratified by the certification agency DNV-GL.

Generation: renewables and storage

Renewable energy

Gas Natural Fenosa has a commitment to a balanced energy mix and efficient management of fossil fuels and renewable resources, so that the emission-free generation technologies (renewable and hydraulic) and the low-emission technologies (combined-cycle and co-generation) represent a significant volume of the total installed capacity.

Wind energy

The initiatives that the company is developing in this sphere are focused on two key areas: firstly, on monitoring the condition of the assets, through measurement systems, smart models and

data processing to improve monitoring and diagnostics of the wind farms; and also maintaining and optimising the performance of the facilities through the implementation of improvements or tests.

Hydroelectric energy

During 2017, the company has maintained its commitment to the introduction of new technologies both in areas of environmental control as well as in the establishment of mobility systems and remote monitoring, without overlooking improved performance of its hydraulic facilities.

Storage

Innovation activities in the area of storage have focused on an even greater increase in quality and reliability of supply, on

developing joint solutions with customers and also on allowing a greater and easier integration of renewable-source electricity into the grid.

In addition, the company is a member of the EASE (European Association for Storage of Energy), a meeting point to find out and support technological developments in energy storage as an instrument to lend flexibility to the European energy system.

Gas Natural Fenosa actively takes part in different working groups where the use of storage technology is debated in the areas of interest for the company.



Generation projects: renewables and storage

Renewable generation projects: wind

SIAR (2013-2017).

SIAR (Renewable Energy Environmental Information System) is for the purpose of having a system that centralises the existing environmental information of renewable facilities (wind farms and hydraulic power stations), so that these are accessible in real time and so that results and trends, etc. can be consulted and analysed. Among the environmental information that forms part of the project, we can highlight the environmental studies and authorisations (they mark the environmental conditioning factors that have to be complied with), the regular environmental monitoring reports (actual measurements of the environmental impact of projects, for example, noise), etc. Thus, the environmental information conditions the operation of the facilities and measures their level of environmental impact, and is therefore directly related to the company's reputation.

Prior to this initiative, the environmental information of the facilities was stored in a disperse manner in hard copy format and was not accessible to all stakeholders. With this IT application based on a multi-user geographic information system, all project information is centralised. SIAR enables efficient and real-time monitoring of the environmental requirements, and to perform analysis of historic data to define trends and to reduce impacts (for example, the mortality of birdlife and fauna). In addition, it makes it possible to have a real-time clear vision of the environmental effects of the facilities, which means we can improve the information provided to the public administration and other stakeholders. This project can be extended to other kinds of facilities.

Windex (2017-2019).

This project involves the application of sensor systems and development of information-processing tools to increase the useful and structural life of wind farms in a safe way.

To this end, we are developing a technology to measure vibrations and other parameters, using fibre-optic, focusing efforts on achieving a product that can compete with the existing systems. Its objectives include:

- Monitoring the standard wind turbines through Bragg sensors and analysis of their structural behaviour.
- Performance of an aeroelastic model able to study the thresholds that can be reached by the different parts of a wind turbine based on the measurements obtained.

- Development of a model able to predict the structural behaviour of the critical parts of wind turbines.

Renewable-storage hybridisation La Vega I & II wind farm (2017-2020).

- This is a system to manage the energy generated at a wind farm for the purpose of conducting a pilot using the hybridisation of storage with generation and to complement the services of a conventional plant with new capacities to participate in services of adjustment, displacement of the load curve and other tests targeted at improving the results of renewable plants.
- At the same time, storage technologies will be tested to find actual evidence of the possibilities of energy management that can be incorporated.

During the development of this project, we expect to carry out different tests and diagnostics to find out the scope of the electricity storage technologies available at these times to help improve the response of wind farms to the demands of the system operator, both with regard to the amount of energy demanded as well as the quality of this energy.

These developments will be integrated together with the battery storage pilot for renewable hybridisation described in the storage area.

Wind turbine load monitoring (2017-2018).

Development of a simple platform that enables monitoring of displacements at the base of the wind turbine and the variation concerning loads in different modes of performance to determine the appropriateness of a change of settings of the machine to increase its performance.

LORA wind turbine sensor systems with technology (2017-2019).

Low cost platform (<€100) that enables monitoring of different variables, including vibrations, and that the equipment itself, with a previously configured model, is able to give warnings if it departs from specific safe contour conditions, improving the monitoring of the status of wind turbine components.



Generation projects: renewables and storage (continuation)

Renewable generation projects: PV

Big Data / IoT in cogeneration and photovoltaic (2017-2019).

Introduction of a system to acquire big data from the PLCs of the cogeneration and photovoltaic power stations. The data collected (control data, cogeneration weather data, etc.) are uploaded and processed in the cloud which, through a mathematical model, creates patterns of behaviour for the main purpose of automating processes and performing predictive maintenance.

The data systems are currently being compiled and introduced in order to perform analyses of the patterns of behaviour and to create rules to actions.

Thermal optimisation of photovoltaic farms (2016-2017).

The project involves optimisation of the performance of photovoltaic panels through passive refrigeration. To improve and to increase production, different design parameters related to refrigeration are being introduced. This project also has a production forecast component, given that introducing the weather forecast that directly affects refrigeration of the panels is extremely useful in offering energy in the markets.

Solar-photovoltaic laboratory (Durango, Mexico) (2017-2018).

This project came about as a solution to the new needs to produce electricity in an environmentally sustainable way and strengthening the company's participation in the new energy markets that are cropping up in countries such as Mexico.

This photovoltaic laboratory allows us to evaluate the most important parameters both of operation as well as maintenance of the most distributed solar panels in the worldwide market.

The purpose of this laboratory is to obtain all of the information that subsequently enables prominent participation in the energy auctions and in the new projects in which the company decides to take part worldwide.

The main activities performed at the Solar Laboratory are:

- > Trials of photovoltaic modules, comparison between technologies.
- > Methods of cleaning modules.
- > Analysis of the effect of height and refrigeration of the modules.
- > Trials on the effect of orientation of the modules.
- > Trials of hydrophobic products to avoid the accumulation of dirt.



Generation projects: renewables and storage (continuation)

Hydroelectric energy projects

Hydro power Integrated Control Centre (ICC) (2014-2017).

During 2017 Gas Natural Fenosa inaugurated the hydro power Integrated Control Centre (ICC), which enables centralised and remote management from Ourense of all of the company's power stations and dams in Spain.

The proposed architecture comprises a single control centre located in the Batundeira building (Ourense) and a back-up centre in the Technological Park of Galicia (Tecnopole II), approximately 15 km apart. The centres are far enough apart from each other not to be affected by the same external risks, but also sufficiently close enough to guarantee travel between centres and the synchronisation of all equipment, and they are connected by several roads to guarantee the deployment of operators in the event of a contingency at the main ICC.

The new ICC of hydraulics uses the most advanced technologies to centralise management and remote supervision of the 51 hydroelectric power stations and 23 large dams that the company has in Spain. Control systems and latest generation tools have been incorporated that enable a swift and efficient response to be given to the new demands of the electricity system, 24/7, with the utmost respect for the safety requirements of people, facilities and the environment.

The Control Centre, which manages more than 2,100 MW, collects more than 200,000 signals in real time from the different assets that are controlled and supervised, although it has the capability to analyse up to 800,000 signals, which will enable it to increase its capacity to

new plants, thus guaranteeing its future utilisation. This development represents a qualitative leap as it integrates technology and R&D&i to bring together the aspects associated to reliable and safe exploitation of the facilities within a single decision-taking environment.

Integral Monitoring of Reservoirs System (IMRS) (2014-2018).

Replacement of the current campaigns of collecting water samples from the reservoirs with an autonomous system that conducts the analysis in an autonomous way and sends the results by electronic means.

The analysis of the results of the samples by an expert system allows us to model the biological and physicochemical behaviour of the reservoir and to predict environmental events.

Condition Based Maintenance (CBM): Belesar and Bolarque. (2015-2018).

The aim is to apply new methodology to reduce the workload and maintenance costs, focused on replacing preventive maintenance tasks with predictive maintenance for those items of equipment that are technically and economically suitable.

During 2017 we prepared the specifications of the new instrumentation to be introduced and have assessed the maintenance ranges and inspections affected through the implementation of CBM.

Storage projects

GranSolar Vanadio Battery (2016-2017).

The project involves the introduction of a new energy storage system at an already existing wind farm, to test the performance of this system under real conditions and thus be able to explore the real possibilities that this could offer to achieve improvements both in the management of these kinds of plants as well as similar ones. The installation of

batteries at the wind farms enables us to use the energy stored in the batteries at those times when the kWh price is higher or when there is insufficient wind and additional energy is required. These batteries are installed at the La Vega I & II wind farms, located close to the municipality of Monfarracinos, in the province of Zamora.

Generation: reduction of emissions and energy efficiency

Thermoelectric power generation

In its commitment to minimise the impact that its industrial activity could have, the company is carrying out a range of technological developments at its facilities.



Projects to reduce emissions and efficiency in thermoelectric generation

Optimisation of fuel through lasers (2017).

A new system of fuel optimisation based on laser technology, which helps to significantly reduce NO_x at the Meirama thermal power station.

Additional benefits are obtained, such as better performance and a potential increase to the useful life of the boiler.

This laser system measures the absorption of light from certain wavelengths, in the combustion gases and using algorithms it determines the temperature, humidity and concentrations of oxygen (O₂) and carbon monoxide (CO) of the gases at these points.

The data obtained with the laser system are processed in the new specific control system, using full digital modelling of the combustion process, thus enabling real-time, ongoing and automatic modification of the carbon combustion control parameters for the purpose of minimising emissions of NO_x.

Optimisation of the carbon combustion process in the boiler using new neural networks (2017-2018).

The project is being undertaken at La Robla thermal power station and is focused on the installation of an expert system based on neural networks, for the purpose of reducing the values of NO_x caused by combustion. This system analyses a multitude of parameters related to the distribution of air and coal in the boiler, correlating all these parameters with the NO_x produced during combustion and it "learns" the best combinations of said parameters in order to minimise emissions of NO_x.

Reduction of NO_x emissions at the Narcea thermal power station (2017-2018).

The aim of this project is the adaptation of the group three facilities of the Narcea thermal power station, modifying their combustion system to reduce the emissions of NO_x and extend the range of coal currently used, guaranteeing the safety of the facilities at all times.

Thus far, the following activities have been completed:

- > Redistribution of the contribution of combustion air.
- > Decrease of the output temperature of the mills.
- > Exchanging the burners for others of a new design that minimise emissions of NO_x.
- > Installation of a system to clean the transport conduits to burners (to avoid possible self-combustion through the presence of highly volatile coal in the conduit).
- > Inerting of the mills (for the same reason as the previous point).
- > Adaptation of the control software.

Grids

Revitalising of gas networks

The main company's challenges in this line are focused on achieving greater automation of the grid (remote action, reduction of cut-offs and interruptions, improved operational efficiency and maintenance and increased energy performance) and greater interaction with the customer (energy efficiency and active management of demand).



Gas networks action lines

Renewable gas.

During this year the company has continued working on the principles of operation and on the advantages of the technologies available for the production of biomethane from biogas and solid biomass to promote the use of renewable natural gas.

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

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

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

Automation of gas distribution networks.

Gas Natural Fenosa works in collaboration with technological partners in the development of new low-consumption sensors that can be deployed in the different types of network that it has, taking into consideration the materials and optimising these so that the system can be automated. Likewise, and with the help of the new data-processing techniques and technologies, different solutions are being undertaken that will enable predictive operations.

Energy control.

Development of solutions that allow energy control, to guarantee the proper balances of energy in the gas networks. The aims include improving the detection of fraud, lowering the costs of this detection, and the transfer of the best results to the different pilot schemes.

Small-scale gas distribution.

The development of small-scale networks allows us to supply small nuclei that are not close to the transport infrastructures. Similarly, the possibility of introducing non-conventional gases into the networks will allow us to achieve circular economy situations also using the gas networks.

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

Projects to revitalise gas networks

Projects to introduce sensor systems and automation of gas networks

GERG Methane Emissions (Smart Greenhouse Gas Emissions) (2016-2018).

This is the second phase of the Greenhouse Gas Emissions project, which seeks to analyse the methods used in Europe to estimate methane emissions from the gas distribution network, and identify best practices in order to compile a common European focus with regard to this calculation. The project will finalise midway through 2018 with the final report on the calculation method developed.

The activities performed during 2017 mainly include identification of the requirements of the different European authorities involved and in final development of the calculation and measurement system of homogeneous emissions for Europe based on these regulations.

EnSO (Energy for Smart Objects).

EnSO is a major European demo project of micro-battery and harvesting solutions that will enable management of energy on autonomous IoT devices based on a series of technologies previously developed by some partners of the consortium and for which they already have pre-series manufacturing capacity.

The aim of this project is to develop a hardware platform and a common ecosystem to obtain three kinds of products:

- > Smart seal: we propose a seal that has certain information on traceability at the time of assembly and any attempts at manipulation, able to detect different types of fraud.
- > Meter supervisor: the idea is to have a low consumption device that enables the output pulses of the meter to be counted and also to monitor the status, detecting possible fraud cases. This equipment would also include the possibility of energy harvesting and make the equipment self-sufficient with regard to energy, as well as being able to use external batteries.

The equipment requires RF communications (BLE, NFC, RFID, etc.), through which both the company as well as the consumer will be able to read the stored consumption values. The data can be consulted through apps.

- > Padlock / smart lock: we propose having traceability in access to certain areas such as work centres, regulation and measurement stations, etc. Through the use of this device, the aim is to have sensor systems governing access and to require permission from third parties, without the use of a standard key like now. The device will also be fitted with batteries and communications, and shared hardware development that will be used as a common platform for any of the developments.

Connection valve (2014-2017).

Design of a new valve and elevator set to facilitate the transition connections that can be dismantled between the valve and the polyethylene (PE) tube. The new solution reduces the number of connections and accessories needed and therefore the possible gas leak points.

Once installed, the valve + elevator set is currently anchored to the floor through a PVC pod that protects the length of PE that connects to the valve. This type of fastening is flexible, meaning that the entire set is exposed to sideways movements and accidental traction that have a repercussion on the connections, leading to possible leaks. Similarly, on occasions the PE tube has deformations and cracks caused by the inadequate process of installation that can eventually lead to leakages.

The new solution improves safety by reducing the risk of leaks, as well as improving the construction times and the construction costs.



Projects to revitalise gas networks (continuation)

Renewable natural gas projects

Renewable gas mixed unit (2016-2019).

The renewable gas mixed unit is for the main purpose of increasing awareness in the production of biomethane (renewable gas) in the urban waste water treatment plants (WWTP) and food industry WWTP sector, with a special focus on the feed-in of this. During this year, activities have commenced to install a biogas upgrading plant at the WWTP for the purpose of producing biomethane from 2018 onwards.

Metamorphosis.

This is a technology demo project that pursues the same goals as the LIFE+ programme, in particular the mitigation of climate change thanks to the increase of renewable energy and, more specifically, biomethane from waste treatment plants, which favours the reduction of greenhouse gases versus other fuels.

Elsewhere, biomethane is set to become an energy alternative in the future. Its injection into the natural gas network or use as a fuel in different types of vehicles is already a reality.

LIFE Methamorphosis aims to demonstrate, industrial scale, two innovative waste treatment systems:

- > Umbrella, treating urban effluents through a combination of anaerobic digestion (without oxygen) with biological membrane reactors, followed by autotrophic elimination of nitrogen. The biogas produced is upgraded to biomethane (BM) adapting it to the vehicle standards.
- > Methagro, a system developed by Gas Natural Fenosa for the production of high-quality biomethane from agro-industrial waste and other organic waste. The biogas is pretreated to remove the water and contaminating products and is subsequently compressed to be able to separate the carbon dioxide (CO₂) from the methane (CH₄) in the membranes of the upgrading plant.

The purpose of the Methagro system is to permit and ensure the reopening of the slurry treatment plants through the adaptation and optimisation of upgrading technologies using membranes, to remove the current environmental impact of the slurries dumped into the fields and to generate waste recovery by producing vehicle-grade biomethane.

One of the major benefits expected is the development of a methodology of application and implementation of the systems described in the METHAGRO system, as this is an optimum system for the treatment of biogas generated from agro-industrial and food waste and to obtain high-quality biomethane.

Gas Natural Fenosa has commenced activities to install biogas upgrading at a slurry plant in Lérida, which will come into operation in 2018.

Arazuri project (2017).

During 2017 we successfully finalised the pilot project for biomethane production at the water treatment station in the municipality of Arazuri (Navarre). In this project, the biomethane has been used as a green fuel in heavy vehicles. More specifically, three buses have been successfully fuelled with 100% biomethane on different lines of the district network of Pamplona, and two refuse collection trucks.

Smart Green Gas (2014-2018).

This project, which will extend until the end of 2018, studies the treatment of biogas obtained at the waste treatment plants and its conversion into high quality biomethane, with a concentration of 95%, to be able to be fed into the gas network or used as vehicle fuel.

In this project, the company's main goal is to obtain a smart system to measure the quality of biomethane during the integrated production process.

This year we have carried out the specifications and acquisition of the necessary measuring equipment, and we have conducted the laboratory tests necessary along with the tasks related to integration of the equipment signals. We have also commenced validation of this equipment at the FCC waste water treatment plant in Jerez de la Frontera scheduled for the second half of 2017.



Projects to revitalise gas networks (continuation)

Renewable natural gas projects (continuation)

Power 2 Biomethane (2016-2019).

This involves development of a biomethane generation system that is completely renewable based on CO₂ and electricity from renewable effluents through a Microbial Electrochemical System (MES) bio-electrochemical process.

The main aim of this project is to develop an energy storage system, explicitly from the excess of renewable energy production, in the form of biomethane produced from a CO₂-rich effluent (biogas) through a bio-electrochemical process. In this way, Power2Biomethane offers a solution to manage excess production of renewable energy and decrease CO₂ emissions by generating completely renewable and sustainable biomethane.

During the development of this project a prototype will be produced made up of a system that will solubilise the CO₂ in waste waters, coupled to bio-electrochemical batteries, and a power control system to integrate the prototype into a micro-network of renewable energies.

The “Power to Gas” (P2G) concept, on which the project is based, opens up a range of industrial possibilities to transfer surplus electricity to renewable natural gas, and which will therefore enable greater penetration of renewable energies, reducing emissions of greenhouse gases and reducing energy dependency.

Elena project (2017-2018).

The company has launched a project to use the biogas generated at the Elena de Cerdanyola del Vallès landfill site (Catalonia), which involves the manufacture of biomethane to be fed into the medium pressure natural gas network. The initial studies on the biogas quality and implementation of the project have commenced. The plant is scheduled to come into operation at the end of 2018. This project is expected to produce 199 GWh biomethane in 20 years.

The key goals for Gas Natural Fenosa in the sphere of energy rehabilitation are the development of new business models as an energy services company, The benefits for end users include improved comfort and a reduction of energy consumption.

Grids: electricity grids

The company continues its dedication, focusing on digitalisation of the electricity distribution grids, moving forward in the management of operation and maintenance of the grid, and integrating the customer into the information flows, whilst simultaneously improving the levels of safety at work and the quality of supply. These efforts seek to transform the electricity grids into increasingly smart grids. In addition, we are actively working on different initiatives for the integration of the electric vehicle and its recharging infrastructure in the distribution grids, so that the impact on these is minimal.



> Action lines for electricity grids 4.0

Integration of renewable generation into the electricity grid.

The paradigm shift of electricity distribution and the appearance of two-way energy flows means that the distributor has a new role in the grid operation. The improvement in what can be observed and controlled of these grids is crucial for the integration of these energy flows, enabling the distributor to perform optimum management of the same.

Automation of electricity grids.

The automation of the electricity grids together with technological innovation and interaction with the customer give rise to a new model of digital grid in which the digital infrastructure deployed is showcased, improving the accuracy of grid information, performing active management of the infrastructure and including the customer in the information processes.

Energy control.

As with the gas networks, the company is working on developing solutions to have control of the energy and therefore guarantee the proper balances of energy in the electricity grid. The goals that are sought with this line include improving the detection of fraud by reducing detection costs and the transfer of the best results among the different pilot schemes.

Electric vehicle.

Gas Natural Fenosa continues to work to make electric vehicles a reality and help maintain cleaner air in cities.

Throughout 2017, the focus has been on the following objectives:

- > Analysis of the impact of EV on the distribution grid.
- > Development of business models to offer EV recharging.

Focus on the electricity grids 4.0 projects

The digital grids are displaying the evolution necessary to respond to emerging needs in the distribution grids, complying with the environmental and energy objectives required by the European Commission. In addition, the company is committed to integrating the customer into the information flows, interacting with the customer in the reporting of faults, proactive notification of events, and including online grid information during the telephone contact.

Another important action line is the performance in partnership with other distributors of the company, taking

advantage of synergies and improving grid operation and customer interaction.

Furthermore, over the last year we have worked actively on different initiatives related to the electric vehicle and its recharging infrastructure, along with the definition of associated services.

The innovation activities conducted in 2017 in the field of digital grids revolve around the following areas:

- > Remote reading of meters.
- > Automated operation of the grid.
- > Integration of distributed energy resources.

- > Assets management.
- > Electric vehicle.
- > BIM. (Building Information Modeling).

The progress achieved in these action lines assists the digitalisation of the grids and the distributor's change of role.

Electricity grids 4.0 innovation projects

Technological innovation projects finalised in 2017

OSIRIS "Optimisation of smart supervision of the distribution network" (2014-2017).

This project sought to optimise the functionalities provided by smart

grids, learn about incidents in communications of remote meter-reading equipment and improve the quality of the electricity supply in the event of malfunctions.

The company is committed to integrating the customer into the information flows, interacting with the customer in the reporting of faults, proactive notification of events, and including online grid information.

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

Technological innovation projects undergoing implementation

SEDA project.

The SEDA project (Segovia Advanced Distribution) is a pioneering initiative that is being developed in the city of Segovia. This is one of the most advanced electricity supply systems in the world, offering new services to customers, strengthening the quality of supply and reporting incidents that take place in the grid.

The project involves 15 initiatives targeted at increasing automation of management of the medium and low voltage electricity grid, those closest to the point of consumption; improve monitoring of the transformation centres and lines; analyse data that the new smart meters capture, and offer more information and new services to users that are connected to these grids.

In recent years, the necessary technology has been deployed in Segovia to convert the city's electricity grid into a smart infrastructure. Almost 100% of the city's household meters, 34,340, are smart meters and in recent years we have carried out operations on 225 transformation centres where we have installed the monitoring and automation equipment required to monitor the grid and transmit the data from the meters to the company's information system.

This year, Gas Natural Fenosa won an award for this project at the Innovation and Technological Awards for Energy Efficiency in the Digital Age, which are granted by the enerTIC platform.

SEDA was selected as the most transforming and innovative project from among the 90 projects presented, in different categories: Smart Cities, Smart Grids, Smart IT Infrastructure, Smart Cloud, etc.

Red ACTIVA "Innovation in the automation of the isolated neutral distribution network" (2015-2018)

The purpose of this project is to develop knowledge, tools and equipment to optimise the automation of the smart grid, improving its efficacy, providing solutions to operational changes identified and adding functionalities to equipment already deployed.

During 2017 we conducted the first automation pilot tests on the low voltage grid.

Panama automation project (2017-2019)

This project focuses on improving what can be observed and controlled of the distribution grid, improving automation of the grid and introducing remote reading of meters. Accordingly, work takes place on three action lines:

- > Obarrio automation project: using the overhaul of the distribution grid of the Obarrio sector, we will introduce the equipment necessary to automate the medium and low voltage.
- > Pilot testing of Smart metering / Energy control: we are undertaking the pilot testing of a remote reading solution based on smart meters with terminals with a serial connection to existing sockets, and introducing this in two areas of Panama.
- > Detection and location of malfunctions on medium-voltage overhead lines: this is a pilot project for the detection and location of malfunctions on 34.5 kV medium-voltage overhead lines in a rural area of the distribution grid of EDEMETEDECHI in Panama.

BIM (Building Information Modelling) (2017-2019).

BIM (Building Information Modelling) is a work methodology that generates and manages data from a building or infrastructure project from the time when the design process begins, optimising both documentary and project management. It enables problems to be detected before they occur during performance of the work, with the subsequent cost saving.

This application of BIM technology is used in the process of digital management of assets during the life cycle of such assets.

At Gas Natural Fenosa it is initially being applied to the design of substations, where the following concept tests have been conducted:

- > New substations modelled on BIM from the start.
- > Existing substations modelled on BIM as reverse engineering.
- > Use of this technology in building supervision.

Compact substation project (2016-2017).

The ultra-compact substation project addresses the challenges of building substations that optimises the building, adapting itself to the space available. In addition, as the solution is based on modular systems that can be joined together, this facilitates its enlargement, minimising civil engineering costs and improving performance quality and reducing work deadlines whilst increasing safety during construction.

In 2017, the solution has been evolving into version 2.0 (UK2), optimising the insulation and improving performance of the field installation.

The first ultra-compact substation in Spain has been carried out, at the Villa de Agüimes substation.



Technological innovation projects undergoing implementation (continuation)

Remote reading of meters projects

Italic@ (2016-2018).

Project for the roll-out, operation and exploitation of the infrastructure of meters with added functionalities that should give coverage to the legislative mandate of Italy, through which at least 50% of household meters are to be deployed before 2018.

The project is divided into milestones that mark the numbers to be installed each year and the functionalities that need to be available in each of them.

Legislation also marks the type of communications technology and protocols.

This is a key project for Gas Natural Fenosa, given that it will provide knowledge of solutions, equipment, technologies, etc., that are available in the market and that the company will be able to use in other countries, whether in Europe or Latin America.

Customer: Smart Client

In the Smart Client area, the company is focusing on providing products and services with high value-added for different types of end customers. This innovation area promotes initiatives based mainly on three core actions:

GEDIS and self-consumption

This action line is based on the implementation and validation of solutions targeted at optimising both energy management of residential and tertiary customers as well as the use of flexibility of these to provide services to the network.

The European Commission, through the Winter Package, has proposed a set of measures targeted at achieving the 2030 climate targets, which require changes in issues of market design and self-consumption to facilitate efficient integration of renewable energies, without prejudice to the safety of the system, which in turn increases the power of consumers as active agents and fundamental vectors of the energy transition.

In this regard, the Smart Client area is developing and introducing an energy management system that will incorporate optimisation tasked with deciding the optimum strategy of operation of assets during each period. This will be based on forecasts of renewable generation, electricity prices and load curves obtained through self-learning algorithms. In the future, strategies could include local optimisation services of the building (self-consumption, arbitrage, supply continuity) as well as services to the grid (postponing investments in distribution grids, taking part in adjustment services, etc.). In addition, we are analysing and developing technology that is capable of adding the flexibility of future consumers so that they can take part in the energy market.

Integration of new solutions

IoT digital solutions and products that enable us to segment and know better our customers in order to offer them recommendations and customised products and services.

As part of this area of action, we can highlight the solutions related to monitoring electricity consumption, recognition and learning habits and timetables, thermal management of a home, management of heating and cooling solutions and the measurement of devices associated to safety, among others. In all these initiatives we promote and try to integrate the information of data from our customers through the corporate mobile apps.

Data Analytics

The main purpose is to provide the importance necessary to the data through innovative tools and to achieve usage cases that are highly beneficial to the company's different business.

By way of innovative solutions, we can highlight machine learning tools (self-learning algorithms). In this way, using some initial data, very useful information can be obtained in accordance with each case of applied use and business in question.



Smart Client projects

GrowSmarter (2015-2019).

During 2017 we carried out specific actions, in different action areas, chief among which were the energy rehabilitation of residential and tertiary buildings, the installation of photovoltaic panels with battery storage in communal areas of residential buildings, the installation of Smart Home equipment in residential buildings and the development of our own information management platform that allows data to be analysed.

The key goals for Gas Natural Fenosa in the sphere of energy rehabilitation are the development of new business models as an energy services company, highlighting new models in residential environments, experimentation of Smart Home equipment for commercial development and the testing of energy management platforms. The benefits for end users include improved comfort and a reduction of energy consumption thanks firstly to a more efficient construction in energy terms, and also thanks to monitoring and control of consumption through the use of connected smart devices and the development of data management platforms that enable in-depth analysis of customers' consumption.

Residential energy rehabilitation addresses 3 types of construction and around 19,500 m² of constructed surface area in Barcelona distributed over 4 buildings, of which 90% of the works have been carried out by the end of 2017. This action includes measures such as the exterior insulation of façades, the change of windows and blinds, connection to the district grid for heating, changeover of boilers and installation of Smart Home equipment. More than 25 Smart Home packs have currently been installed in different neighbourhood associations taking part in the project and close to 60 packs have been installed in different volunteer homes throughout Barcelona. In turn, technical follow-up of all of these installations is being carried out, focused on finding out the user's behaviour and assessing the product at commercial level for the development of future services

Energy rehabilitation in the tertiary sector is being carried out at an educational centre, at a hotel and at a sports complex, with a total of more than 10,000 m² of constructed surface area. All the tertiary buildings taking part in the GrowSmarter project have been equipped with an energy consumption management platform, and the works are scheduled to finalise at the beginning of 2018.

In the sphere of photovoltaic generation with storage, we have constructed a residential facility to cover consumption in the community with a generation of 2.6kWp and lithium-ion storage. We are planning a further three facilities both in residential as well as tertiary, including the installation of photovoltaic pergola in the Mare Nostrum building of Gas Natural Fenosa in Barcelona. A control system is being integrated into these facilities, minimising the building's energy cost. Through an app, the consumption coverage ratio of the properties can be monitored based on rooftop generation. Next year we expect to introduce three facilities.

The company is also developing its own platform for the collection, management and analysis of information from all data collected from the project, by developing large-scale data analysis and processing modules. This development is based on the use of open communication protocols and standards in order to ensure the interoperability of different solutions.

inteGRIDy (2017-2020)

The inteGRIDy project is a "Horizon 2020" project focused on validation of management solutions of demand, storage and distributed generation.

Among the objectives is the validation of a tool that firstly enables the integration of energy optimisation at building level, including storage and generation, and also that allows the flexibility of assets to be added for participation in the electricity markets. One further objective is the definition and validation of the business model, that will enable the inclusion of new services related to demand management and grid services.

During 2017, the participation in a project of a sports complex has been confirmed as a pilot scheme for integration of the platform and in which we expect to install photovoltaic generation and lithium-ion storage.

Stardust (2017-2022).

This is a Horizon 2020 Smart City European project introduced in the cities of Pamplona, Trento (Italy) and Tampere (Finland). Other associated cities are Cluj-Napoca (RU), Derry (UK), Kozani (GR) and Litomerice (CZ).



Smart Client projects (continuation)

Among the key targets of this project we can highlight the development of smart integration measures, testing and validating technical solutions and innovative business models, as well as establishing the guidelines to be developed both in Europe and outside Europe. Its challenges include the demonstration of different “innovative islands” as urban incubators of social and regulated technological solutions which, once validated, could help towards achieving the transformation of our cities into Smart Cities. The idea is to establish the roadmap towards cities with a low carbon index, energy efficiency and smart cities focused on citizens.

DiPCa Project (2015-2018).

The DiPCa project is a project focused on predictive diagnostics of errors affecting gas wall-mounted boilers in the residential sphere. The aim of this project is based on the implementation of a predictive diagnostics system for the most frequent malfunctions affecting domestic boilers, based on multi-variable sensor systems that can be introduced into a wide range of models and manufacturers to improve and optimise the service offered to our customers. During 2017, most of this project has commenced and been developed and the tasks of technical definition and application scenarios have been carried out. Moreover, we have experimentally characterised different boilers in a test bank and

developed the predictive models and the logical algorithms that provide intelligence to the physical device, which is the product of this project.

From 2018 onwards, we expect to perform the final stage of tests and validation and we will obtain the final results of this initial demo stage.

Remote Building Analytics Platform (RemBAP (2017-2020)).

The RemBAP project is based on the development of an energy management tool (virtual audit) for customers of the SMEs market. Data from smart meters are fed into the tool and these data allow us to define specific segmentation of customers for the purpose of proposing energy efficiency measures and actions en masse, as well as segmentation of customers based on their energy efficiency indices.

During 2017, we developed a large part of this demo pilot by carrying out the management and standardisation of initial data, development of the comparison and recommendations module, as well as development of certain data processing and management interfaces. During 2018, the initial stage of this project will finalise, and we will obtain the aforementioned models developed and validated in a pre-commercial stage for 3 categories of customers (HoReCa, Retail and Offices).

Customer: energy efficiency and mobility

Energy efficiency

Energy efficiency continues to be a key area for Gas Natural Fenosa and we have therefore reinforced several action areas:

- > The development of energy management projects and improved energy efficiency of customers.
- > The contribution to a more efficient use of energy by consumers, providing them with solutions that help them improve their energy efficiency and to reduce the environmental impact of their energy consumption and habits.
- > The introduction of energy control and monitoring systems for the residential and tertiary sectors.
- > Driving the development and fine tuning of innovative applications and technologies that improve energy efficiency and which are economically competitive.
- > Constant update of the catalogue of products that provide efficient solutions.
- > Collaboration with public and private research and development enterprises in technological pilot demo projects.

Likewise, the company is focused on improving procedures to increase energy efficiency in all links of the energy chain,

and is determined to provide customers with information and services to help them improve their energy efficiency and to reduce the environmental impact of their energy consumption and habits.

The European Union defines the sector of buildings, in particular rehabilitation, as the one with the highest potential for savings. Accordingly, Gas Natural Fenosa, through different projects, develops new passive solutions (insulation of buildings) and active solutions (heating and cooling facilities) to adapt the catalogue of products by anticipating new efficiency requirements that will define the regulations expected for 2018.

Heat recovery in the industrial sector has been the object of different developments during 2017, and this will continue to be the case.

As part of the energy solutions to improve energy efficiency of buildings, for some years now the company has been working with solutions that combine improved management of heating and hot water facilities, the reduction of energy consumption, the integration of renewable sources and improved comfort.

Mobility

Gas Natural Fenosa continues with its commitment to mobility solutions based on natural gas and other renewable sources, given that they help improve the air quality in cities and reduce emissions in the transport sector. Gas Natural Fenosa is implementing

a natural gas loading infrastructure for public use at national level, for the purpose of bringing this technology to all members of society. The company is also taking part in a range of EU programmes for the purpose of providing Europe with transport corridors that make it possible for road transport using trucks that run on liquefied natural gas.

Natural gas in vehicles, both compressed and liquid, is seen as an efficient alternative to sustainable mobility as it combines major environmental benefits (by reducing emissions and lower acoustic contamination) and economic benefits, as it is the sole alternative to those derived from oil in all kinds of transport.

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

In addition to extending the supply network, the company pays special attention to improving energy and economic efficiency of the service stations, to make them more sustainable.

In the rail sector, Gas Natural Fenosa is working on an initiative to introduce the first railway traction pilot test with liquefied natural gas (LNG) in Europe. The main objective will be to analyse the feasibility of adapting railway vehicles to work with LNG engines and tanks and the corresponding technical, legal, economic and environmental analysis for the deployment of the Spanish and European railway network.

Heat recovery in the industrial sector has been the object of different developments during 2017, and this will continue to be the case.

LNG and CNG fleets and service stations

	2017	2016	2015
Vehicles of public stations	3,030	2,070	1,352
Public service stations	30	27	25
Private service stations	20	17	18

LNG and CNG sales at service stations (GWh)

	2017	2016	2015
	626	605	678



Energy efficiency and mobility projects

Energy efficiency projects

PIDIM Smart Platform for the Sizing and Design of Multigeneration Facilities (2017-2019).

This project has the purpose of designing, developing and introducing a smart platform for the sizing and design of facilities for the distributed generation of heating and cooling electricity. The computer program will operate in the cloud, receiving data such as customer consumption (building or set of buildings).

This initiative promotes energy rehabilitation of existing buildings in the tertiary sector with significant energy consumption, such as hotels, offices, schools, sports complexes and business premises, by enabling the simple and flexible design of electricity multi-generation, heating and cooling facilities that include high-efficiency innovative technologies and/or provide major contribution of renewable energies supported by heat and electricity storage systems.

PIDIM will also allow to characterise the energy demand of these buildings. The characterisation of the said demand allows to calculate the baseline consumption of the building and to forecast savings.

Buildings that use virtually no energy (2016-2020).

Within the European Directive on energy in buildings, and for the purpose of offering better possible options to our customers, we are characterising innovative solutions for the energy rehabilitation of

buildings. The objective is for the rehabilitations to minimise energy demand and maximise the contribution of renewable and residual energies.

In 2017 we have analysed passive technologies, new insulation materials and new construction techniques that make it worthwhile to focus efforts on the preservation of energy. In 2018 we will define pilot test projects of those solutions or components considered to be most in line with the business goals.

REUSEHEAT (2017-2021).

This project is framed within the lines of reducing conventional energy demanded by buildings through the use of residual heat. REUSEHEAT, which is supported by the EU H2020 programme, seeks to develop and to demonstrate heat recovery technologies in urban environments. Gas Natural Fenosa is spearheading the heat upgrade and recovery sub-project of the refrigerators of La Paz University Hospital Complex and the injection of this heat into the district network, reducing consumption of natural gas and improving the seasonal performance of heat production.

The project was launched in 2017 and we monitored the residual heat available, as the essential basis for identifying the most appropriate upgrade technology and sizing of the facilities.



Energy efficiency and mobility projects (continuation)

Energy efficiency projects (continuation)

Dual heat pump (2017-2018).

As a result of the agreement with EPRI (Electric Power Research Institute), we are developing a series of operation control models that enable dual heat pumps (natural gas/electricity) to compete with machines that run only on electricity. The appropriate exploitation of the twin energy source benefit enables us to reduce operational costs, CO₂ equivalent emissions as well as active management of the electricity demand in the grid.

The commercial equipment with which to perform the tests was chosen in 2017, along with the laboratory where the tests will take place, and we have also developed the control strategies (minimum cost, minimum CO₂), as well as the control architecture.

COFAST (2014-2018).

This is a European project for the purpose of development and launch onto the market of a new comprehensive and standardised solution of rapid charging stations for electric vehicles. The electricity that will be supplied to vehicles in these new stations will come from a small-scale cogeneration system fed on natural gas. Given that at the same time as electricity is produced to supply vehicles, heat energy is also obtained, the COFAST charging stations will be installed at sites where there is a consumer, such as shopping centres or hotels, where the surplus electricity and heat generated can be used.

Gas Natural Fenosa is introducing the first pilot test in Mataró, in the metropolitan area of Barcelona.

Mobility projects

HYGEN (2014-2018).

The company has sealed a deal with the technology company HYGEN to install and test 5 small-scale natural gas compression machines, suitable for the residential sector and small fleets. The difference with regard to the commercial equipment is the storage capacity of the new GAS DROID, which enables vehicles to be charged quickly and its lower consumption of energy due to the compression technology based on a hydraulic pump. HYGEN can cover a market niche which hitherto did not have an appropriate supply for the use of CNG.

In 2017 we signed the agreement with the technology company for the encapsulating system for outside installation and preparation of the documentation required to apply for the permit for the first pilot installation.

HE-GNV (2017-2018).

HE-GNV is the hybridisation of refuelling stations for vehicles that run on gas, with fast electricity charging, to optimise the use of existing infrastructures and reduce operational costs, in particular the power.

In 2017 the CTM station (Madrid) was identified as the VNG station where the hybridisation pilot would take place. We have performed the design, obtained the authorisations, invited bids and awarded the contract. The hybrid station will come into operation in the first quarter of 2018. At that time the development stage of the electricity demand management strategies will commence.

Energy efficiency and mobility projects (continuation)

Mobility projects (continuation)

Sustainable Logistics Train (SLT) (2017-2018).

The aim of the project is to provide a feasible and cheap solution for sustainable management of the so-called “last mile” logistics, where the dissemination of services for customers is frequently required in areas where access is restricted to traffic, such as the old historic city centres or pedestrian areas.

The solution under development involves a new vehicle comprising a tractor head, which will be an extended range hybrid vehicle running on CNG, trailers with batteries and solar panels, and an electrical and mechanical connection between the foregoing designed in a way that enables a 90° turn between trailers, and a control system for each trailer. The trailers and the electrical batteries of the tractor head will be charged in movement from the CNG support kit, which will enable virtually continuous operation. Moreover, the trailers will be able to be separated from the motor part to enable the container to be parked while the rest of the vehicle can be used for another service.



These vehicles will have a charging capacity equal to or greater than a small van or light truck, and will simultaneously represent a sustainable solution and be friendly with both the environment as well as areas of heritage protection.

LNG railway mobility projects

Railway mobility with LNG (2014-2018).

In 2017 the pilot test with an LNG engine fitted to a self-propelled train of the diesel fleet of Feve (2600) took place over a stretch of 20 km between Trubia station and Baiña station in Asturias. In line with this initiative we have launched a second project for trains of the

1600 series, a project that has been selected as part of the CEF 2016 (Connecting Europe Facility), targeted at favouring investments in innovative projects that reduce the environmental impact of transport systems in the European railway corridors considered a priority.

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 in the company to gain synergies and enhance results.



Automation and management of information action lines

Energy control.

Development of solutions that enable control of energy to guarantee the correct balances of energy throughout the gas and electricity network. The aims of this line include improving the detection of fraud, lowering the cost of this detection and transferring the best results among the different pilot schemes.

Work assisted with robots and drones.

The main objective of this line involves use of automatic solutions to perform certain operations, mainly heavy, repetitive and hazardous ones, autonomously to facilitate the tasks of Gas Natural Fenosa employees.

The key areas for implementation of the solutions are:

- > Generation: speed up the tasks of review and risk prevention at facilities.
- > Grids: analysis of defectology and forecast of the useful life of infrastructures.
 - Commercialisation: assistance to operators, automation of processes.
 - Communication: dissemination tools to expand knowledge within the company.

Complementary services of the system and the role of renewable generation.

Analysis of the role of renewable generation in the market of complementary services.

Wind farm monitoring architecture.

Design of the monitoring architecture and development of the model to lengthen the useful life at wind farms.

Virtual reality / Augmented reality and BIM.

This line seeks the cross-sectional involvement of the whole company in the evaluation of the application of VR/AR and BIM technologies in the sphere of activity, taking into account that these technologies are in constant evolution.

This line focuses on two objectives:

- > Assessment of the applicability of VR/AR technologies to optimise tasks or reduce personnel risks.
- > Assessment of the applicability of BIM technology in the life-cycle of asset management (from design through to O&M).



Projects for the digitalisation of gas networks

Energy Harvesting UP4 (2017-2018).

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

To date, the design of the test facility has been carried out, the necessary materials have been acquired and the measurement and control software application has been developed.

Projects for the digitalisation of electricity grids

Optimum flight (2017-2018).

Pilotless flight with LIDAR technology to identify optimum flight characteristics to obtain information from the electricity grid in order to measure the distances of the same from things like vegetation or highways.

Work projects assisted with robots and drones

Pepper(2016-2017).

Development of communication tools that enable interaction with the robot. The project initially began as a demo tool for different functions of innovahub Madrid but in subsequent stages its use has been extended to corporate events and open days where the main purpose has been to allow the robot to act as a channel of dissemination of the innovation activity at Gas Natural Fenosa.

Customer service bot (2017).

Creation of bot of the company's online channel. With this logical robot, customers are accompanied and informed about two specific processes, change of ownership and the change of commercialisation company.

Energy control projects

Gas energy control in Argentina (2017-2018).

Development of a gas consumption forecast model for domestic customers of Gas Natural Fenosa in Argentina that helps to relate the information on the consumption volumes that customers expect and the reality of such consumption. To this end different mathematical models have been used, unassembled (classification trees and neural networks) and assembled models (bagging, boosting, random forest and GBM).

Energy control of MV/HV Spain (2017).

This is a characterisation tool of the MV/HV electricity grid in Spain, as well as an electricity consumption forecast model. The project has employed techniques such as machine learning, graph analysis, data discovery as well as the enrichment of data using external sources that enable us to complement the information from the businesses.

Energy control at VNG stations Brazil (2017).

Development of a predictive model at the vehicular natural gas stations in Brazil, which provides full control over the energy supplied and the energy consumed. The following types of models have been used for this: Logistics, neural networks, random forest.



Complementary services projects of the system and the role of renewable generation

Sibila (2016-2018).

The aim of the project is to encourage renewable energies by providing generation companies and managers and the electricity system itself with control and management tools that enable electricity power stations based on renewable energies to participate in the markets under optimum conditions.

A multi-technology AGC (Automatic Generation Control) system will be developed during the project which will include both conventional technologies for electricity production as well as renewable technologies, and a predictive system that helps take decisions at the generation plants with regard to the optimum strategy of their participation in the electricity markets.



Virtual reality and augmented reality projects

Application of VR to training at Gas Natural Fenosa.

Sensory immersion into a virtual world, based on real or otherwise environments, that have been artificially generated and which can be perceived thanks to virtual reality goggles and their accessories.

One of the uses is the training of qualified personnel by making the student interact in a virtual environment created for training in a hazardous task or handling without the inconvenience of training in a real environment.

Using virtual reality to create a simulator targeted at the training operators in three use cases, each one belonging to a business:

- > Use case 1. Gas distribution: Unloading operation with and without pump.
- > Use case 2. Electricity distribution: Replacing a fuse on a support.
- > Use case 3. Shared services: Changing a gas meter.

Innovation Planning

During 2017 we introduced a new innovation planning model, which involves an innovation management system the development of which has already started. This system incorporates the policies, methodologies, processes and tools required to carry out the innovation activity at the group, in an approach that seeks to fully digitalise this activity. Progress is being made towards a highly flexible methodology that is able to incorporate best practices and to update these as appropriate.

Technology support and transfer

The technology support and transfer aims to provide support to the group's businesses in the optimisation of their exploitation, by incorporating new technology and technological knowledge. In this regard, it is essential to be aware of business needs, in particular those that

require going beyond the usual channels with manufacturers and suppliers. It is also key to actively seek and be aware of the technological supply and the possibilities that the innovative environment can offer the company.

In the field of business needs, in 2017 a process commenced for the compilation, updating and reassessment of the relevant transfer and support challenges for Gas Natural Fenosa's business units.

As regards the search for solutions to the challenges and needs identified, we can highlight the ongoing collaboration with technological enterprises and institutions, including those that target their activity at the collaborative development and demonstration of technology. Of particular importance among these enterprises is the EPRI (Electric Power Research Institute) in the sphere of generation, transport, distribution and use of electricity; GTI (Gas Technology Institute) in the field of using natural gas in new or improved business equipment and models; and AGA (American Gas Association) in all areas of transport, storage and

distribution of natural gas. In more general spheres of knowledge, we can also make reference to the IEEE (Institute of Electrical and Electronics Engineers) and the MIT (Massachusetts Institute of Technology).

Both areas are integrated through support activities that cross-reference needs and possibilities, and through transfer activities to obtain the appropriate expertise and incorporate the most up-to-date technology. These activities require ad hoc groups to evaluate technologies, obtain the desired results in each case (in partnership with the original source of the knowledge or technology) and apply them to the group's assets. During 2017 the technology transfer and support efforts were assisted by 43 groups, among which we can highlight the following:

- > Plastic materials committee, which studies the use of polymers in the gas distribution networks and the technologies and methods for construction, operation and maintenance of the resulting infrastructures.

- > Occupational Health and Safety Committee, which performs a wide range of activities in the sphere of health, safety and hygiene of workers in the gas sector activities, not only from the viewpoint of exchanging best practices or the valuation of standards, techniques and technologies, but also collecting and analysing statistics, etc.
- > Steam turbine generators plus auxiliary systems programme, to optimise exploitation of the foregoing systems and our combined-cycle power stations, in both Spain and Mexico.
- > Wind generation programme, to optimise exploitation of the wind turbines and wind farms.
- > Exchange of best practices programme in the exploitation of gas networks.
- > Cybersecurity and privacy programme, used to find out the evolution of standards, protocols, software and communications systems and support to the validation of protection in service for the group's assets, communications and systems versus international best practices.
- > Programme on development of gas utilisation technology, to develop projects to improve existing domestic gas devices or the development and validation of new equipment, to stimulate greater and more efficient use of natural gas.

- > Chemical evaluation project of the cycle at the Norte-Durango combined-cycle power station.

Technology Watch and Observatory

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

The watch activities enable us to anticipate changes, appropriately assess the importance of new technologies and integrate them into the business in a fluid way, optimising means and resources. In summary, it enables a company that uses technology intensely to consolidate and facilitate growth of competitiveness.

At Gas Natural Fenosa, it is achieved through the activity deployed by the Technology Observatory that represents the tool to articulate, coordinate and develop all these actions. Around this, a network of innovation has been created, comprising different groups called specific Technological Observatories, featuring participation by experts from the company's different units, and turning these into authentic think

tanks of their respective spheres, targeted at technological innovation at Gas Natural Fenosa. The participation by these experts, numbering some 160 persons, enables the company to get involved in innovation from the very outset and to strengthen the mechanisms of development and deployment of innovation within the group. Active participation in innovation prepares staff members to adopt new technologies naturally in the different businesses.

They are set up as groups with a particular collaborative nature in which participation of all of the company's units involved in each of the technological areas is encouraged. The participation of business units and cross-sectional support units encourages the analysis of technology with a wide spectrum, ranging from aspects that are purely technical to those of commercial, regulatory, social or market nature that have an influence on the deployment and adoption of the same.

The specific technological observatories deal both with the priority lines of innovation as well as the remaining technologies related to Gas Natural Fenosa's activity, following the guidelines of the Innovation Plan:

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

Specific Technology Observatories



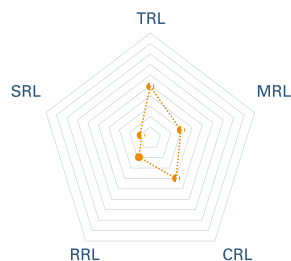
Disruptive environment



Market dynamics



An integrating system.
Contribution of all areas of the company (> 160 participants)



- > Wind
- > Gas networks
- > New gas resources
- > Solar
- > Consumption point solutions
- > Electricity grids
- > Coal and gas
- > H₂ technologies
- > Mobility to gas
- > Nuclear
- > Blockchain
- > Electric vehicle
- > CO₂
- > LNG
- > Storage
- > Renewable gas
- > Hydraulic



Innovation Plan.
Technological spheres, lines and programmes



- Technological positioning and Roadmaps • Technological Business Case
- Quarterly Newsletter dissemination • Data mining studies • Relevant news • Radar
- Technological newsletters • Analysis of disruptive technologies • State of the art
- Participation on forums and associations • Analysis of market trends and dynamics
- Expert Analysis • Exchange and Analysis of information • Think Tank

An efficient system.
Centralised search and decentralised analysis

Strengths, Weaknesses, Opportunities and Threats



Get more and better knowledge to get in right and be more competitive

During 2017, the activity of these groups has been rolled out, gradually increasing their activities and contributions of value, from analysis of trends and market dynamics in the technological environment and the analysis of how the competition are performing, which represent the basis for the creation of technological road maps in each area. These road maps, which will be updated regularly, enable innovation activities to be focused in line with the interest of the different businesses, marking the efforts in each area pursuant to the targets set.

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

We should also highlight the issue of a regular newsletter, prepared by each different Observatory, targeted at senior management. This newsletter summarises key trends and the way in which they evolve, as well as their impact on applicability to the company and the opinion of the company experts involved.

In addition, the Technology Observatory analyses new technologies through technological Business Case, coordinating data mining studies focused on the state-of-the-art of each technology, in accordance with the activities of the different Specific Technology Observatories, and serves to support and coordinate this entire monitoring system.

Encouraging innovation

The company maintains an open and innovative attitude to observe and identify opportunities and trends, be aware of the status and progress of new business models and services, so we can find new ideas to meet market and customer demand.

During 2017, Gas Natural Fenosa has promoted various initiatives that encourage entrepreneurship and the development of innovative projects. The momentum of open innovation has favoured collaboration with start-ups, universities, research organisations, entrepreneurs and public administrations, for the purpose of speeding up the development of new products and services considered to be of interest to the company.

Intrapreneurship

The company is aware of the importance of developing intrapreneurship programmes within the company, which has led it to introduce and to strengthen this model, to make the most of internal talent. The aim of intrapreneurship is to seek new business models, of services and creation of value, as well as to improve the competitive capability through ideas that arise within the company.

Throughout 2017 we developed the EmprendE programme as a channel to favour entrepreneurship among employees. The success of this programme lies both in the excellent disposition and proactiveness of participants as well as the support and clear involvement of the company's decision-taking bodies.



Key among the advantages that these programmes offer are:

- > More growth: given that validated value proposals are discovered that can be transformed into businesses or learning to explore new businesses through a successful process that covers all of the stages prior to the launch of a pilot test, from the generation of ideas through to the rapid prototyping of business models.
- > Facilitate the development of professionals, given that it helps towards the development of entrepreneurial leadership, understood as the capability to transform ideas into reality by making participants the entrepreneurs of their projects.
- > Learn and put into practice flexible innovation methodologies.
- > Promote the culture of innovation in a global way aligned with the company's strategy, as responsibility that is shared by all employees, facing up to global and strategic challenges.
- > Promote the development, networking and teamwork among employees, their visibility and internal/external positioning by creating collaboration spaces between multidisciplinary and international teams at different times during the programme.



Intrapreneurship programmes

EmprendE programme.

During 2017 we finalised the first corporate intrapreneurship programme, in which employees, through the creation of cross-cutting teams and different methodologies, have worked from the generation of ideas through to the development of different projects aligned with the company's strategic targets.

In this edition, the main subject matters dealt with in pilot tests are: Distributed and Renewable Generation, Social Commitment, Energy Efficiency, Sustainable Mobility and Robotics and Automation.

Our Energy Awards.

Our Energy Awards keep playing a major role, as they represent acknowledgement of the best ideas that can be applied to the company's activities and businesses. Around 600 ideas have been submitted during the six editions.



Open innovation

Open innovation is a new model of relations of companies with external players such as universities, start-ups, research centres and entrepreneurs, to promote collaboration and the exchange of ideas.

The company is introducing a sweeping change, increasing its resources in all areas of innovation and, in particular, making a commitment towards the open innovation strategy with a range of initiatives for the purpose of continuing to make progress in this direction, making the walls of the company ever

more permeable so that our products and services contribute greater value-added, and positioning our customers as the source and focal point of innovation.

Programmes of collaboration with the entrepreneurship ecosystem and open innovation

In 2017, Gas Natural Fenosa has launched a range of programmes for the purpose of identifying, promoting and speeding up the development of new products and services that resolve the company's future needs and help it respond to sector challenges.

In the development of these programmes we have been assisted by market experts and advisers from all areas of the company.

These programmes have given the company the advantage of being able to have cutting-edge solutions that stand us apart from our competitors, whilst ensuring that its businesses are more efficient, reducing the time to market of new products and services.

Programmes (Accelerator/Corporate Incubator)

Foment Up.

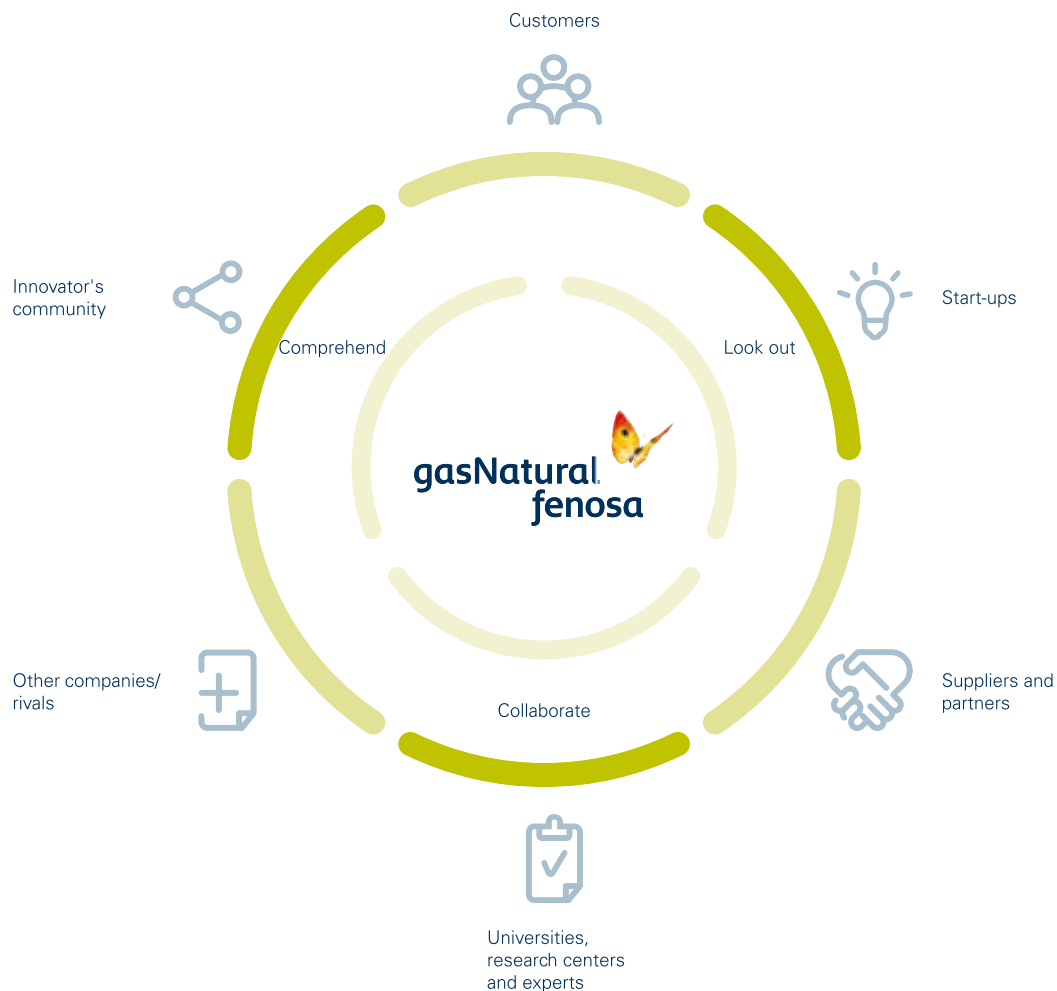
The vertical acceleration program, Foment Up, in which Gas Natural Fenosa, together with Foment del Treball, has launched the Energy & Data challenge, the main aim of which is to assist innovative start-ups in the Big Data and IoT sector, to contribute to the evolution both of business projects as well as the development of technologies in which the company works.

Through an advanced programme of training and mentoring of the entrepreneur team, the assignment of spaces for the development of their activity during the programme and the possibility of performing a pilot test of their technology, we have attempted to optimise and perfect the project for the market.

A pilot test is currently being developed to improve, through machine learning techniques, the service that we provide to our residential gas customers.

CleanTech Camp.

This is a start-up acceleration programme launched in tandem with Innoenergy, a European company that promotes the integration of areas of education, business and entrepreneurship as a channel to strengthen the culture of innovation in the field of sustainable energy. This initiative supports entrepreneurship in the field of clean energies for the purpose of transforming projects into business realities. During 2017, we selected 14 start-ups with initiatives related to energy efficiency, smart cities, renewable energy, sustainable mobility, smart grids and IoT energy.



innovaHubs

Gas Natural Fenosa has created two open innovation spaces targeted at strengthening the company’s relationship with the remaining innovation and entrepreneurship ecosystem.



innovaHubs Barcelona and Madrid.

innovaHubs are innovation spaces created to encourage open innovation at the company through the opening and traction of the technological and digital ecosystem. With these, the company is seeking to identify new solutions and business models that provide the company with a competitive advantage and place it in a position of leadership.

innovaHub Barcelona (innovaHub@bcn) is the meeting point with players from the digital and technological ecosystem that are having an impact on the energy sector. It is the ideal place to find out the latest technological trends from experts, to connect with entrepreneurs, innovators and academics involved with the ecosystem of Barcelona and of the world, and co-creating solutions that redefine the energy sector’s future.

innovaHub@bcn can be found at Pier01 of Barcelona Tech City, the cluster of digital businesses. Here it operates alongside leading technological companies in their sector, investment funds, start-ups and other corporate spaces. It is without doubt a key location to enable Gas Natural Fenosa to strengthen its position in within the innovation ecosystem and achieve synergies with other players.

As part of innovaHub@bcn, we have defined a full programme of monthly activities targeted at attracting and capitalising on the opportunities offered by the ecosystem, fundamentally start-ups.

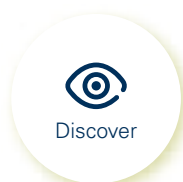
The main activities that are being developed focus on the latest digital and technological trends, and on how these have an impact on the energy sector. Every month, a technology of interest is chosen and a Tech Breakfast is organised, where experts and successful entrepreneurs from the energy and digital sector can share their experience in a pleasant setting.

Other activities worth highlighting are the Experience Day, practical sessions with a specialist in the subject matter selected to experience, and also dynamic meetings with experts in Design Thinking called Start-up Meetings, where the most innovative start-ups and professionals from Gas Natural Fenosa explore the challenges of the energy sector to co-create solutions.

innovaHub Madrid

At the end of 2017 we finalised the creation of the innovaHub Madrid space (innovaHub@mad) where, as with innovaHub@bcn, we plan to carry out revitalising and innovative activities related to the start-up ecosystem, etc.

Value offer of innovaHub



Discover

We offer a network of discovery on the latest digital innovation trends of the energy sector and similar sectors



Co-create

We provide a space for working and connecting with the main players of the digital and technological ecosystem



Connect

We provide the network of energy experts that support entrepreneurs in the development of projects that have an impact of the energy sector

Sponsorship and participation in open innovation initiatives

In addition to the spaces created in open innovation, the company complements the search for start-ups through other activities such as meetings and events to gain first-hand knowledge of start-ups and entrepreneurs, as these help the company to identify trends and collaborators that can be of interest and usefulness in its businesses.



Sponsorship and open innovation initiatives

South Summit and South Summit Pacific Alliance.

This is the largest entrepreneurship meeting in southern Europe and Latin America, held in Madrid. Over the last two years, Gas Natural Fenosa has participated as innovation partner, presenting its initiatives related to entrepreneurship and its open innovation model, and building close relationships with start-ups and entrepreneurs as a source of solutions to technological challenges.

South Summit Pacific Alliance

In 2017, the very first South Summit Pacific Alliance took place, targeted at the entrepreneurial world of Colombia, Chile, Peru and Mexico.

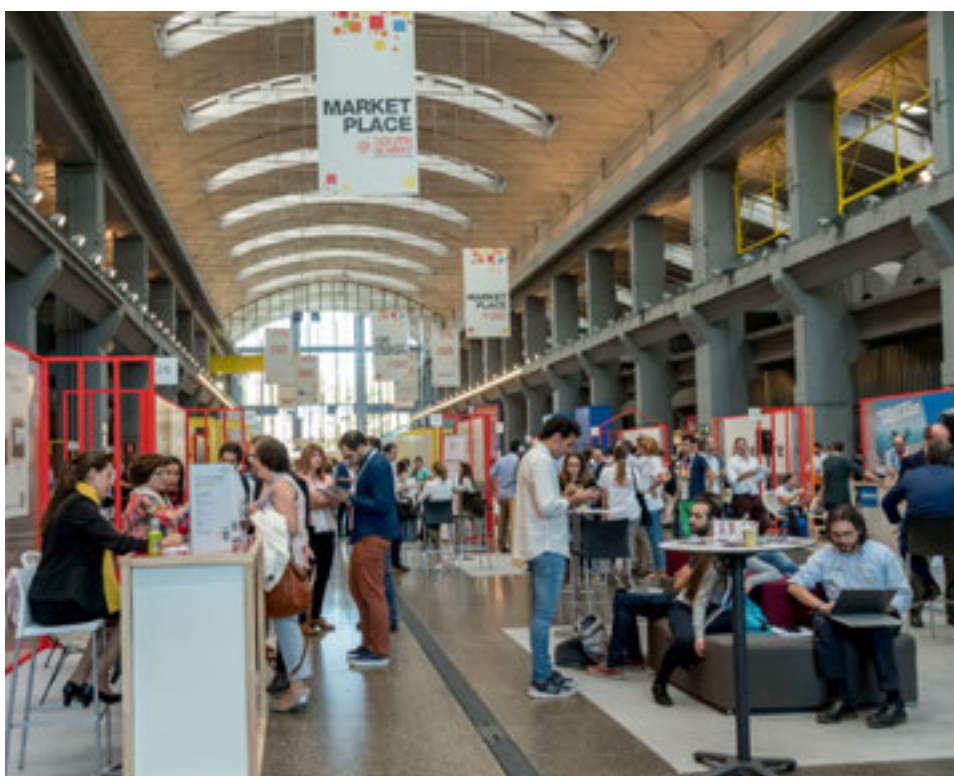
At this event, held in Bogotá, Gas Natural Fenosa, as Global Partner, has actively taken part on many forums, identifying start-ups that develop interesting products or services for its businesses.

MIT Innovators Under 35 Summit Europe (Massachusetts Institute of Technology) and MIT Iu35 LatAm.

This event brings together at innovaHub Barcelona the most brilliant minds in Europe, winning awards from the MIT Technology Review.

Summit Europe is an annual gathering of the European community of innovators under 35, a space created for reflection, debate and the exchange of ideas and knowledge concerning the most important problems that affect Europe, to find solutions based on innovation and technology.

During this year's event, the Spanish 10 Top Talents submitted their projects to be analysed by experts from the innovation community of MIT Technology Review as well as exploring some of the most important challenges and technological trends in areas of energy, health and finance.



This summit, supported by Gas Natural Fenosa for the second consecutive year, provides first-hand knowledge of trends and fields in which these innovators are working.

In addition, Gas Natural Fenosa laid down a challenge for these young innovators, targeted at improving air quality in the cities through mobility solutions, and obtained some interesting ideas and different points of view on how to address this problem.

In 2017, the company was Global Partner at the MIT Iu35 LatAm, held at the end of November in Mexico City. This event, as with the MIT Iu35 in Barcelona, brought together the key innovators of the LatAm area, where Gas Natural Fenosa has had the opportunity to meet them, see the projects they are developing and explore areas of future collaboration.

Technology Centre

The mission of the Technology Centre is to serve as an initiator and facilitator of innovation at Gas Natural Fenosa and it has three core objectives:

- > The creation and management of environments for meeting with the technological ecosystem.
- > The introduction and exploitation of resources for technological development, through experimentation and pilot schemes for technological solutions.
- > Demonstration of the company's innovation activity.

The activity of the Technology Centre falls within the framework of open innovation where work is promoted in partnership with the technological ecosystem made up of the businesses of Gas Natural Fenosa and developers of technology similar to its activity: innovation centres, start-ups, university, technology centres and industrial partners. In this regard, the fundamental purpose of the Technology Centre is the creation of a collaboration network between innovation and technology centres of Gas Natural Fenosa and its benchmark ecosystem.

In 2017, the Technology Centre developed the innovaHub Madrid project, creating a new innovation space at the head office of Gas Natural Fenosa at Avenida de San Luis. This space features a new meeting zone prepared to take on the different revitalising activities performed through Encourage Innovation as mentioned previously.

Moreover, there are areas available for informal meetings placed at the disposal of the company for unrestricted, open and organised use.

innovaHub Madrid also has three experimentation spaces:

- > AutoLab is a robotics, sensor system and IoT laboratory. The core activity of this laboratory involves the development of quick hardware and software solutions as support to projects in the Automation and Data Management line. Furthermore, this is made available to any part of the company as an area for development of these scopes. The laboratory commenced its activity in November 2017.
- > Smart Home Living Lab (SHoLL) is a pilot and demo area for Smart Home technology. The aim of this environment is, on the one hand, to have a resource for quick pilot tests without the need to compromise the relationship with the customer; in addition, its status as a laboratory enables work to be carried out in a controlled environment, and this therefore allows more intensive experimentation than in an actual facility. Moreover, the SHoLL represents an opportunity to demonstrate the solutions of residential customers of interest to Gas Natural Fenosa.
- > The Operation and Simulation Centre (O&SC) is a space that emulates one of the company's control centres. In reality, this resource is a showcase of the communications and systems infrastructure that has been developed at the Technology Centre. In this project, we have developed a communications network that is isolated from the corporate network and which is equipped with systems architecture that enable the integration of those pilot schemes that do not require the robustness and security that would guarantee their integration into the corporate network and which, however, require a flexible and open approach to the participation of third parties. Through this infrastructure, the Operation and Simulation Centre is also a demo setting for innovation projects that can benefit from this approach. In addition, it facilitates the integration of the monitoring and control systems and

of the simulation tools of the laboratories that are not physically located at the innovaHub of Madrid, such as, currently, the Self-consumption Laboratory and the Cooling and Heating Solutions Laboratory.

In its vocation to create a collaboration network between innovation centres of Gas Natural Fenosa and agents of the technology ecosystem, the Technology Centre has commenced a project to provide innovation resources to the innovaHub of Barcelona and to the CAMPUS Puente Nuevo. This project encompasses audiovisual tools, such as the Immersive Cube, and communications, such as the implementation of the Activu management tool, which will allow communication between the different innovaHubs and the hosting of multi-site innovation events. This enables us to contribute towards the conception of innovaHub as a virtual space for innovation.

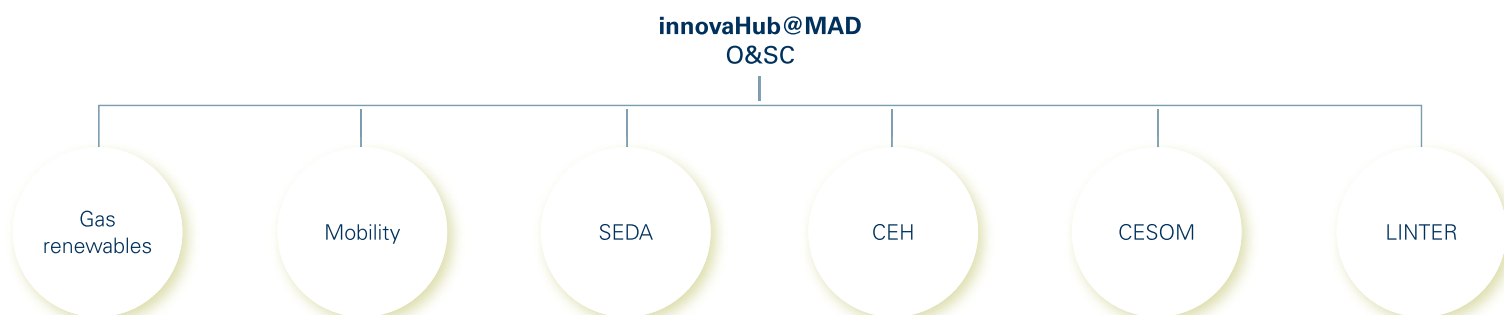
In September 2017, the Technology Centre also introduced the Cooling and Heating Solutions Laboratory service (LASOL). This laboratory has been created in partnership with the Catalonia Institute for Energy Research (IREC), thus creating a framework of long-term collaboration with a technology centre that is a benchmark for Gas Natural Fenosa. The objective of LASOL is the piloting of new air conditioning and industrial cooling solutions. Of particular relevance are those pilot schemes of devices that hybrid sources of renewable energy with natural gas, showcasing the support that gas provides to non-manageable renewable energies, and thus facilitating integration of distributed renewable energies. At this laboratory, pilot schemes such as DIPCA or Solar Cooling have been developed, which are carried out in the sections corresponding to Smart Client and Energy Efficiency.

Elsewhere, in 2017 we have continued with the Self-consumption Laboratory (LAC), which came into service in 2016, with a pilot scheme for commercial solutions of self-consumption with batteries for residential customers. In 2017, the following activities were completed:

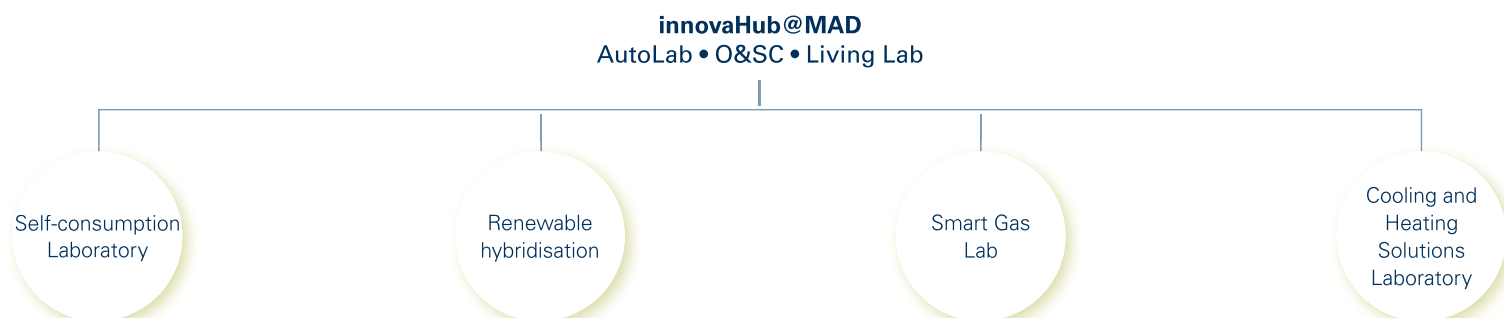
- > Technical assessment of the Square solution of Ampere Energy and the Powerwall solution of Tesla.
- > Development of an optimal battery management simulator at the end customer (Optimal Battery Management – OBAMA).
- > Development of a tool for the stochastic generation of temporary high granularity profiles for residential customers (GenPer).
- > Development of a methodology for the cost/benefit analysis of self-consumption solutions. The application of this methodology to laboratory tests for evaluation of the most promising scenarios, based on the opinion of the simulations previously carried out.
- > Battery feasibility study in cases of use for the industrial and tertiary end customer in Spain, Portugal and Ireland, as support to the businesses with interest in the design of energy solutions.
- > Integration of the energy manager developed in the IREMS project, of Smart Client, with commercial solutions of SMA and Schneider Electric.

Technology Centre

Support to business innovation projects



Technology development environments



Network of R&D&I Centres



1910

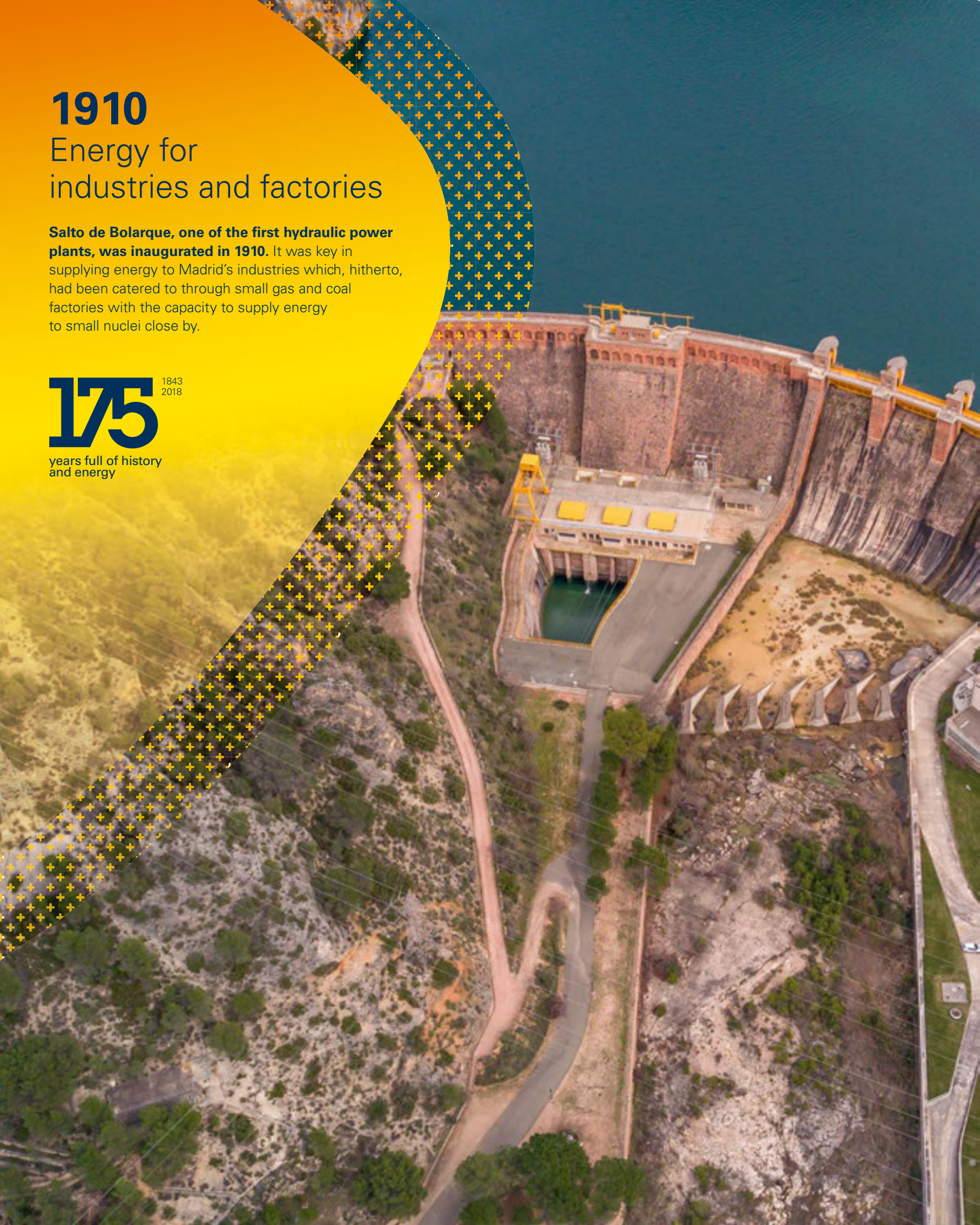
Energy for industries and factories

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

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Governance at Gas Natural Fenosa

Good governance for efficient
and transparent management. [Page 84](#)

Risk and opportunities. [Page 96](#)

Internal Auditing, Compliance
and Control. [Page 104](#)



Good governance for efficient and transparent management

[102-18]

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

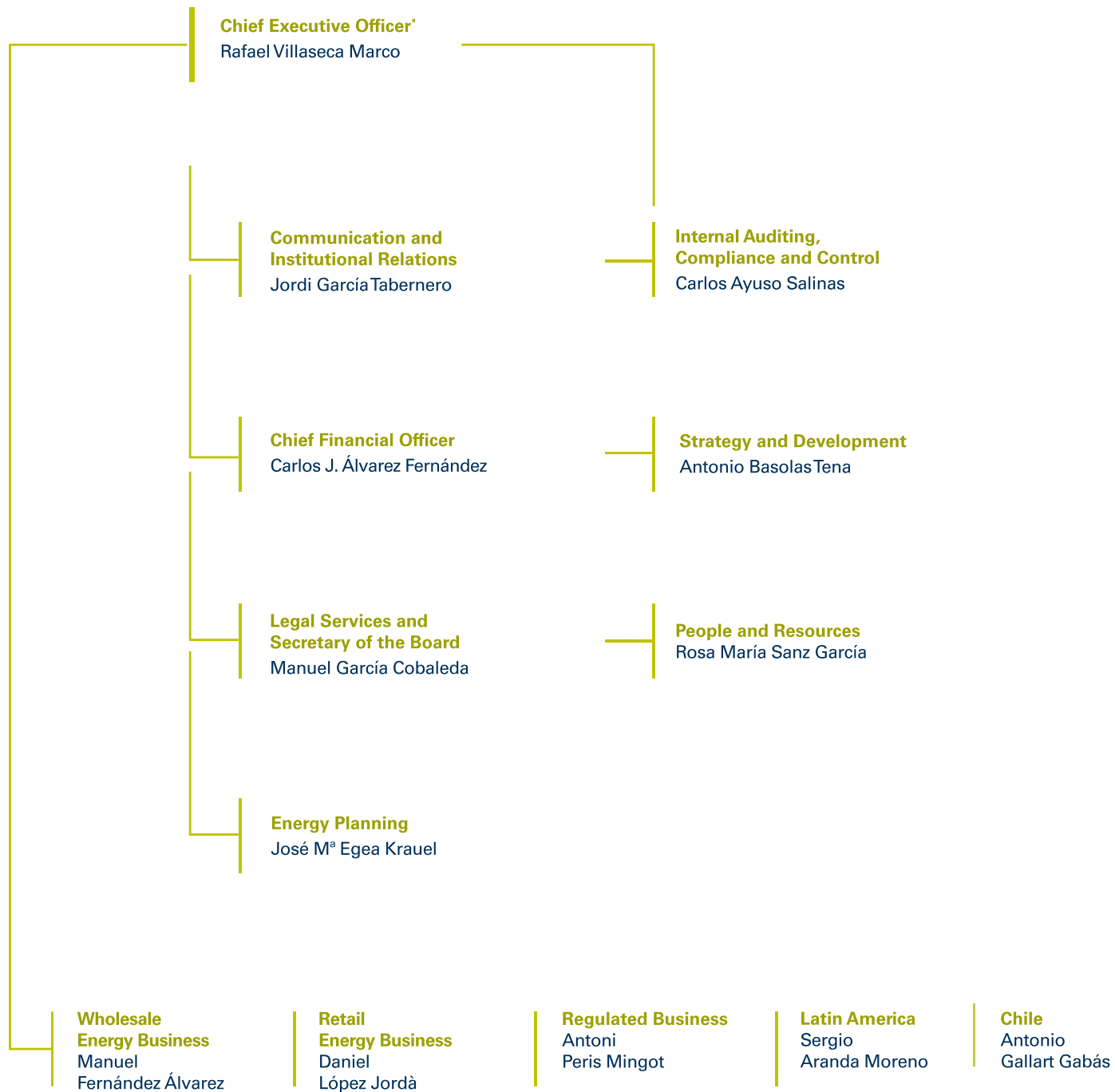
Through the Board of Directors, we perform a key good governance action, which is the yearly analysis and approval of the company's risk profile. This includes

ethical, social and environmental issues in 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 regulations to set out those practices that should lead to greater

knowledge of the company's way of working. Similarly, through the reports issued, the supreme governing body periodically assesses the quality and efficacy in procedures.

The success of the business culture of good governance, fulfilment and a focus on preventing risks is best reflected in the Gas Natural Fenosa's 175-year history of sustained growth.



* On the 6th February 2018, the Gas Natural Fenosa's Board of Directors named Mr Francisco Reynés Massanet as its executive chairman, having renounced Mr Rafael Villaseca Marco to its position as chief executive officer of the company.



Value actions

Proposed actions 2017

Collaboration with Spanish issuers for amendment of the Annual Corporate Governance Report and amendment of the Report on Remuneration of Members of the Board of Directors.



Planned actions 2018

Follow-up of new items in issues of corporate governance and the company's proposal to adapt to these.

Updating the acceptance policies at certain subsidiaries and business segments in order to adapt them to new business lines and to the credit behaviour of the portfolio.



Level of fulfilment:  Finalised.  Major progress.  Intermediate progress.  Little progress.  Not started.

Good governance, in constant evolution

[102-12]

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

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

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

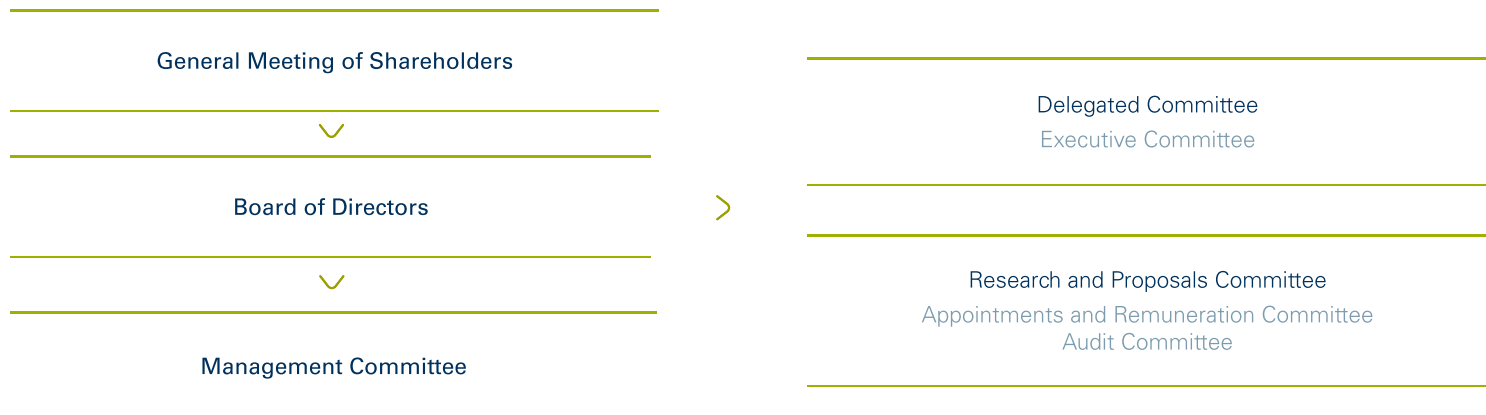
The company's corporate governance practices are reported at the General Meeting of Shareholders and are described in detail in a variety of annual reports:

- > Annual Corporate Governance Report.
- > Report on performance of the Board of Directors.
- > Report on performance of the Executive Committee.

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

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

Governing structure of Gas Natural Fenosa



Functions and composition of the Board of Directors

[102-18], [102-22], [102-23], [102-26] and [102-32]

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



Responsibilities of the Board of Directors

Strategic orientation and financial objectives.

Determining the company's strategic orientation and financial objectives and agreeing, at the proposal of top-tier management, the appropriate measures for their achievement, where the fulfilment of the said activities is subject to its control.

Strategy compliance, objectives and social respect.

Supervising and verifying that the members of top-tier management comply with the strategy and meet the targets set, and observe the corporate purpose and interest, besides guaranteeing the interests of the minority shareholders. It therefore establishes as many supervision systems as required.

Company's viability and competitiveness.

Ensuring the company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company's activity is expressly submitted to its control.

Approval of the Code of Conduct.

Approving the company's codes of conduct as well as developing the faculties set out in the Organisation and Operation Regulations of the Board of Directors and of its Committees.

Efficiency of ESG risk management processes.

Every year, to examine, debate and approve the documents that reflect the economic, environmental and social issues processes, such as: the Annual Corporate Governance Report, Annual Accounts and the Management Report (both individual and consolidated) and the Corporate Responsibility Report.

Aspects tied to corporate social responsibility.

Approving the corporate governance and corporate responsibility policies, and lead the effective integration of corporate responsibility into both the company's strategy and its daily management, thus achieving a solid culture of corporate responsibility.

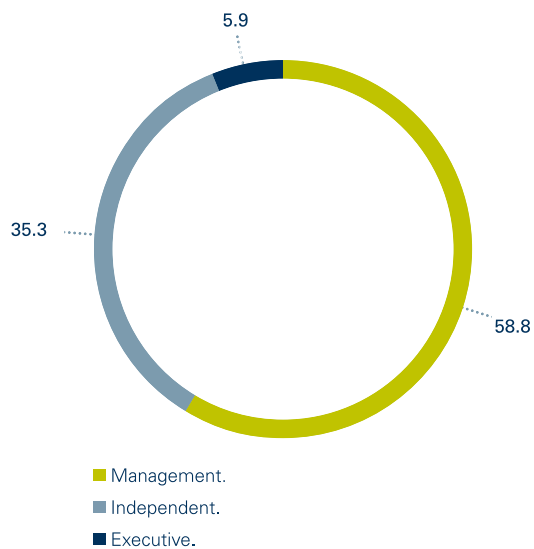
Management, representation and control set out in the Articles of Association.

Performing as many acts of management, representation and control as required or appropriate to achieve the corporate purpose set out in the Articles of Association. It shall respond for this obligation to the General Meeting of Shareholders.

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

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee	Type of Director	Seniority on Board
Chairman	Mr Isidro Fainé Casas	Chairman			Proprietary Director	14/05/2015
First Deputy Chairman	Mr Josu Jon Imaz San Miguel	Board Member			Proprietary Director	21/09/2016
Second Deputy Chairman	Mr William Alan Woodburn	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		Board Member		Proprietary Director	27/06/1991
Board Member	Mr Xabier Añoveros Trias de Bes		Board Member		Independent Director	20/04/2012
Board Member	Mr Marcelino Armenter Vidal	Board Member			Proprietary Director	21/09/2016
Board Member	Mr Mario Armero Montes				Proprietary Director	21/09/2016
Board Member	Mr Francisco Belil Creixell	Board Member		Chairman	Independent Director	14/05/2015
Board Member	Mrs Benita María Ferrero-Waldner	Board Member			Independent Director	14/05/2015
Board Member	Mr Alejandro García-Bragado Dalmau			Board Member	Proprietary Director	21/09/2016
Board Member	Mrs Cristina Garmendia Mendizábal		Board Member	Board Member	Independent Director	14/05/2015
Board Member	Mrs Helena Herrero Starkie		Board Member		Independent Director	04/05/2016
Board Member	Mr Miguel Martínez San Martín	Board Member		Board Member	Proprietary Director	14/05/2015
Board Member	Mr Rajaram Rao	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

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



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

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
Attendance quorum (%)	95.29	100	92.86	100
Number of meetings	15	3	10	5

Risk prevention management and consideration of aspects tied to corporate social responsibility rank very highly on the Board of Directors' activity, and the Board is responsible for approving the corporate governance and corporate responsibility policies.



Assessment and capacitation of the Board of Directors

[102-28]

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

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

In 2017, two Board assessments have been carried out. First, a self-assessment has taken place and, second, an assessment

by an independent third-party expert. According to these assessments, the Board of Directors and its committees operated as expected during 2017, fully exercising their powers without interference and in full observance of both current legislation and the standards for the organisation and performance of the Board's own regulations. Therefore, they have not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities.

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

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

The governing body in economic, environmental and social affairs

[102-19], [102-20], [102-26], [102-27], [102-29], [102-30], [102-31] and [102-33]

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

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

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

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

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

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

By virtue of the culture of risk prevention in all the company's operations, due diligence is performed for each country at the start of relevant operations. The Board of Directors is the body that takes the decision to cease activities in a specific country, in consideration of a range of criteria, such as the government of laws.

Diversity in the process of appointments and renewal of Directors

[102-24] and [102-25]

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

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

Without prejudice to the right to proportional representation acknowledged in prevailing legislation, the process for selecting candidates to be Board Members shall begin with

an initial assessment undertaken by the Appointments and Remuneration Committee on the needs of the company and the skills, expertise and experience required on the Board.

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

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

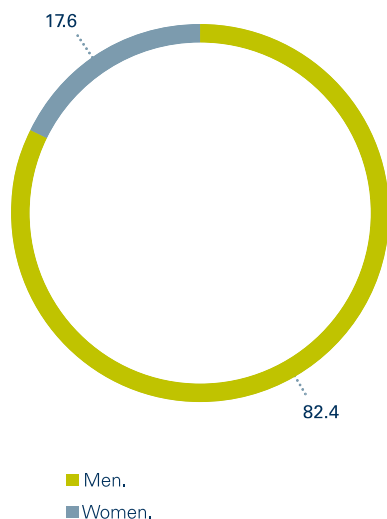
Candidates must be upstanding professionals, whose professional conduct and career path is in line with the principles set out in the Code of Ethics of Gas Natural Fenosa, and who shares the company's vision and values.

As regards incompatibilities, the following cannot be considered candidates:

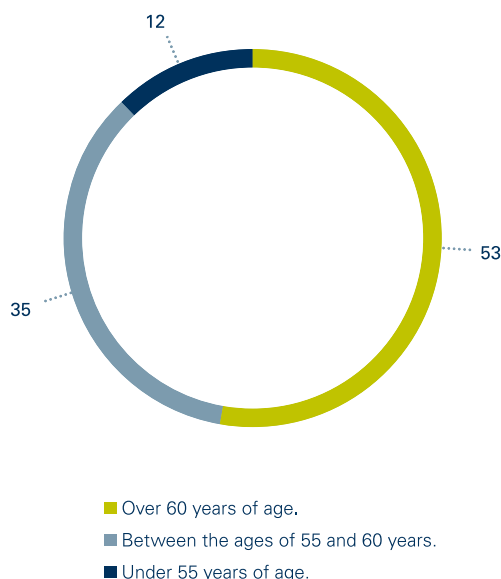
- > Those persons affected by any cases of legal, statutory or regulatory prohibition or incompatibility.
- > Those companies, enterprises or persons affected by a permanent conflict of interest with the company.

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

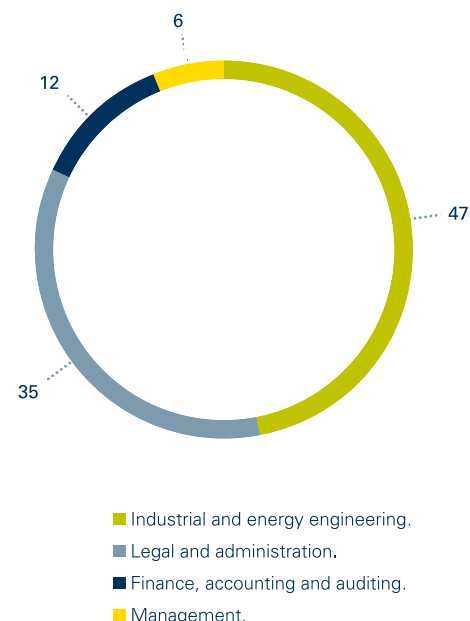
Gender diversity of the Board of Directors (%)



Breakdown of the Board of Directors by age (%)



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



Remunerative model of the Board of Directors

[102-35], [102-36] and [102-37]

Remuneration of the Board of Directors

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

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

The Annual Report on Remuneration of Directors for 2016, in compliance with the Corporate Enterprises Act, was subject to a ballot at the General Meeting of Shareholders in 2017. The company's remuneration policy is based on the principles of moderation, compensation for the time spent and in line with the profits.

Remuneration of Directors for sitting on the collegiate decision-taking bodies is considered as fixed remuneration. Only the Chief Executive Officer receives remuneration based on the executive functions he/she performs outside of sitting on the Board. The remunerations of Directors in 2017 as recompense for sitting on the Board were as follows:

- > Chairman of the Board of Directors: 550,000 euros/year.
- > Director: 126,500 euros/year.
- > Chairman of the Executive Committee: 550,000 euros/year.
- > Member of the Executive Committee: 126,500 euros/year.
- > Member of the Appointments and Remuneration Committee: 25,000 euros/year.
- > Member of the Audit Committee: 40,000 euros/year.

Remuneration of the Board of Directors (in euros) 2017

	Position	Board	Executive Committee	Audit Committee	Appointments and Remuneration Committee	Total
Mr Isidro Fainé Casas	Chairman	550,000	550,000	–	–	1,100,000
Mr Josu Jon Imaz San Miguel	First Deputy Chairman	126,500	126,500	–	–	253,000
Mr William Alan Woodburn	Second Deputy Chairman	126,500	126,500	–	25,000	278,000
Mr Rafael Villaseca Marco	Chief Executive Officer	126,500	126,500	–	–	253,000
Mr Ramón Adell Ramón	Board Member	126,500	126,500	40,000	–	293,000
Mr Enrique Alcántara–García Irazoqui	Board Member	126,500	–	40,000	–	166,500
Mr Xabier Añoveros Trías de Bes	Board Member	126,500	–	40,000	–	166,500
Mr Marcelino Armenter Vidal	Board Member	126,500	126,500	–	–	253,000
Mr Mario Armero Montes	Board Member	126,500	–	–	–	126,500
Mr Francisco Belil Creixell	Board Member	126,500	126,500	–	25,000	278,000
Mrs Benita María Ferrero–Waldner	Board Member	126,500	126,500	–	–	253,000
Mr Alejandro García–Bragado Dalmau	Board Member	126,500	–	–	25,000	151,500
Mrs Cristina Garmendia Mendizábal	Board Member	126,500	–	40,000	25,000	191,500
Mrs Helena Herrero Starkie	Board Member	126,500	–	40,000	–	166,500
Mr Miguel Martínez San Martín	Board Member	126,500	126,500	–	25,000	278,000
Mr Rajaram Rao	Board Member	126,500	126,500	40,000	–	293,000
Mr Luís Suárez de Lezo Mantilla	Board Member	126,500	–	40,000	–	166,500
Total		2,574,000	1,688,500	280,000	125,000	4,667,500

Transparent and regulated process to determine remuneration

[102-36] and [102-37]

The process for determining the remuneration of Directors is set out in the company's Articles of Association (Article 44 on "Remuneration") and in the Regulations of the Board of Directors (Article 22 on "Remuneration of the

Director" and Article 31 on "Appointments and Remuneration Committee").

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

The Ordinary General Meeting of Shareholders held in 2017 approved the Remuneration Policy for members of

the Board of Directors for 2018, 2019 and 2020, setting out the principles that govern remuneration of Directors in their status as such, and remuneration for their executive duties. This policy has to include the maximum amount of yearly remuneration payable to all Directors in their status as such.

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

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

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

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

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

In accordance with current legislation, Together with the Annual Corporate Governance Report, the Board of Directors must draw up an annual report on the Directors’ remuneration. This report must include full, clear and understandable information on the company’s remuneration policy approved by the Board for the year in progress. It also includes an overall summary of how the remuneration



policy was applied during the financial year, and a breakdown of the individual remunerations accrued by each Director. All of this is reported and put to a vote by the Ordinary General Meeting of Shareholders, not as part of the agenda.

In the Ordinary General Meeting of 2017, the Annual Report on Remuneration of Board Members for 2016 was approved by a majority vote, as follows:

Number of shares that have cast valid votes	820,593,219
Total number of valid votes cast	820,593,219
Proportion of the share capital that the valid votes represented	82
Votes in favour	717,207,037
Votes against	102,575,953
Abstentions	810,229
Quorum for attending the Shareholders' Meeting	82

Moreover, the 2017 Ordinary General Meeting of Shareholders gave a majority approval to the Remuneration Policy for 2018, 2019 and 2020 for members of the Board of Directors in accordance with the following breakdown:

Number of shares that have cast valid votes	820,593,219
Total number of valid votes cast	820,593,219
Proportion of the share capital that the valid votes represented	82
Votes in favour	714,743,462
Votes against	105,038,905
Abstentions	810,852
Quorum for attending the Shareholders' Meeting	82

The quorum of attendance at the meeting represented 82% of all shares in Gas Natural Fenosa.

Issues dealt with at the General Meeting of Shareholders

[102-21], [102-33] and [102-34]

At the 2017 General Meeting of Shareholders, information was requested from the Chairman's Office with regard to issues such as the company's GIP

plans, the storage project in Doñana, renewable energies, coal, nuclear power plants, energy poverty, service benefits for shareholders, investments in Colombia and Chile.

The quorum of attendance at the meeting represented 82% of all shares in Gas Natural Fenosa.

Issue	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and the Management Report of Gas Natural SDG, S.A.; the Consolidated Annual Accounts and the Management Report of the Consolidated Group for the financial year that closed on 31 December 2016.	Economic.	Approved by a majority.
Approval of the allocation of profits for the year that closed on 31 December 2016.	Economic.	Approved by a majority.
Transfer to the "Voluntary Reserve" account.	Economic.	Approved by a majority.
Approval of management performed by the Board of Directors in 2016.	Economic/social.	Approved by a majority.
Re-election and appointment of the accounts auditors of the company and of its consolidated group.	Economic.	Approved by a majority.
Amendment to the Articles of Association.	Economic.	Approved by a majority.
Re-election of the company's Directors.	Economic/social.	Approved by a majority.
Remuneration Policy for Directors for 2018, 2019 and 2020.	Economic.	Approved by a majority.
Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.	Economic.	Approved by a majority.
Share Distribution Plan 2017-2018 and 2019.	Economic/social.	Approved by a majority.
Authorisation for a capital increase.	Economic.	Approved by a majority.

Risks and opportunities

Risk management at Gas Natural Fenosa

[102-29] and [102-30]

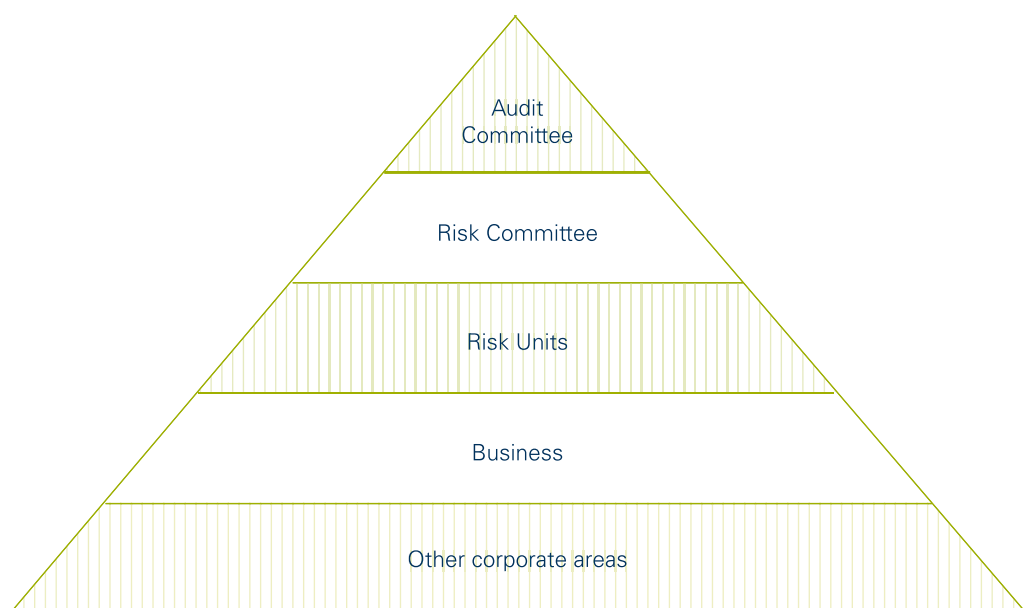
Gas Natural Fenosa identifies and quantifies the impact of the main risk factors for the company, ensuring uniformity in the criteria used in measuring these risks and proposing control and corrective measures together with the businesses affected.

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

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



Risk management bodies



Audit Committee

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

Risk Committee

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

Risk Units

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

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

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

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

Businesses

These are the parties 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.

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

Other corporate areas

These are responsible for monitoring and managing certain risks, due to their specific nature and the peculiarities of the management mechanisms. Of particular note 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.

Process for identifying, characterising and determining the risk profile

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

A model that anticipates the developing situation

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

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



An integrated management

[102-15], [102-11] and [102-31]

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

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



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

General Risk Standard

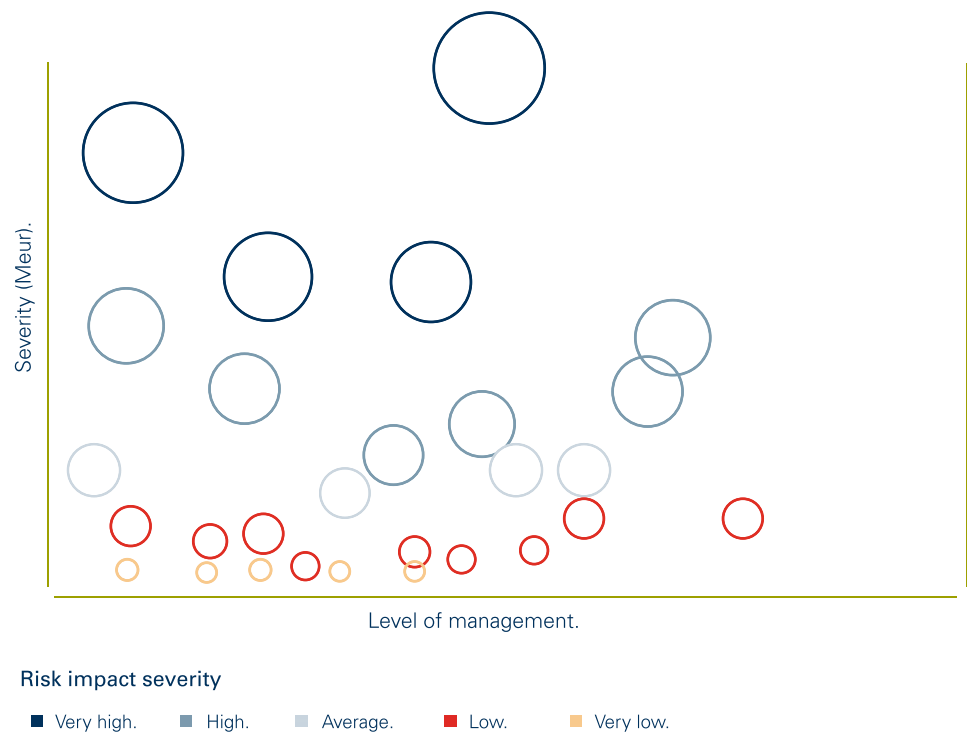
The General Risk Standard lays down the general principles and guidelines for behaviour in order to identify, inform, assess and manage the company's exposure to risk. This sets out the bases for definition of policies, regulations, thresholds and specific measurements to determine the risk profile.

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

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

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

Corporate Risk Map



Other Risk Maps

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

> **Map of reputational risks:** since 2013, Gas Natural Fenosa has been identifying its reputational risks based on the type of operations it performs in those countries in which it has a presence and of the stakeholders that are theoretically affected. Based on this system, the risks are classified by their severity and level of management. Based on this information, decisions are taken to prevent these kinds of risks. The impact that some of these risks would have on the financial parameters in the event of materialising is regularly analysed and assessed.

> **Climate change risk map:** since 2014, the impact on the company of the effects stemming from climate change has been identified, analysing both the direct consequences of this as well as the policies and regulations targeted at fighting these. The analysis is based on the criteria and methodologies of the risk management system.

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

Risk Measurement System

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

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

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

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

Description of main risks

[102-15]

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

- > **Credit risk:** modelling of the credit quality of the customer portfolio, enabling us to design ex ante corrective and control measures. The existence of these controls enables us to significantly reduce payment defaults.
- > **Market risk:** analysis of the financial statements with regard to the commodity indices that shape the price of gas, guaranteeing that exposure to these does not exceed the threshold defined by the target risk/reward profile.
- > **Operational risk:** the nature of Gas Natural Fenosa's business involves the possibility of incidents

of high severity. Modelling the operational exposure, settled on the performance of assets and contracts, enables us to design an efficient insurance programme, as well as assess the effect of the best industrial practices brought into use by the insurance market, as a result of the visits to the critical facilities carried out by industrial experts of the main insurance companies.

The risks that have materialised during 2017 have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange rate, interest rate, credit or counterpart.

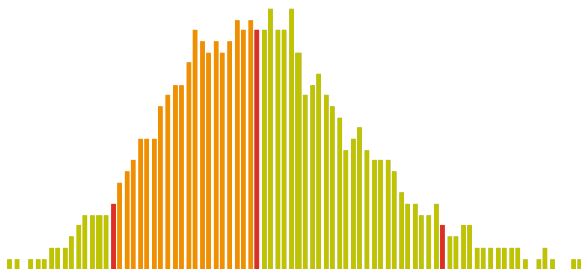
It is important to mention that on 14 March 2017 the Colombian government instructed the liquidation of Electricaribe. In effect, this is a takeover of control or expropriation following the intervention in November 2016. On 22 March 2017, Gas Natural Fenosa commenced an international arbitration procedure with the United Nations Commission on International Trade Law (UNCITRAL), in light of the situation of defencelessness and legal uncertainty in Colombia.

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

Type of risk	Description	Management
Market risk		
Gas price.	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
Electricity price.	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.
Gas volume.	Gap between gas offer and demand.	Optimisation of contracts and assets. Trading.
Electricity volume.	Reduction in available thermal gap. Uncertainty in the volume of hydraulic production	Optimisation of commercialisation/generation gap.
Regulation.	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates.	Volatility in international currency markets.	Geographic diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.
Interest rates and credit spread.	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Fiscal.	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit.	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Collection process.
Operational risk		
Operational: Image and reputation.	Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: Insurable.	Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational: Environment.	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: Climate change.	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Corporate positioning with regard to climate change. Active participation on influence forums.

Market risk

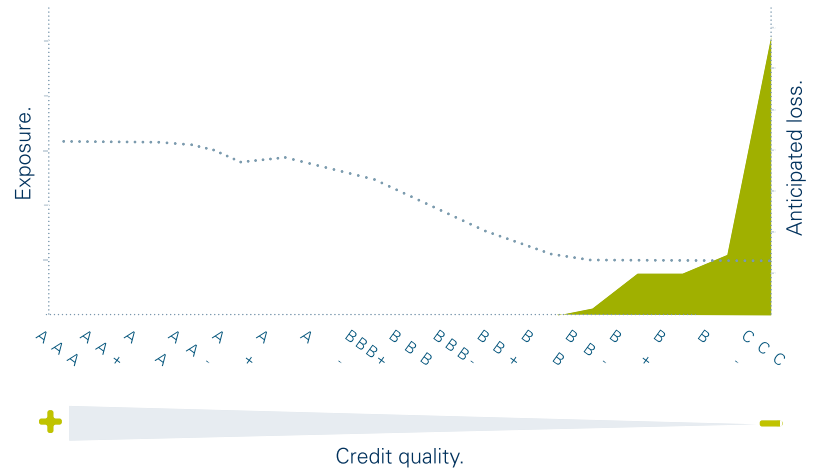
Range of values that the annual Ebitda of Gas Natural Fenosa can reach due to the evolution of market factors: price of gas, price of electricity and exchange rates.



- Probability distribution.
- Ebitda at risk.
- 5%, 50%, 95% percentiles.

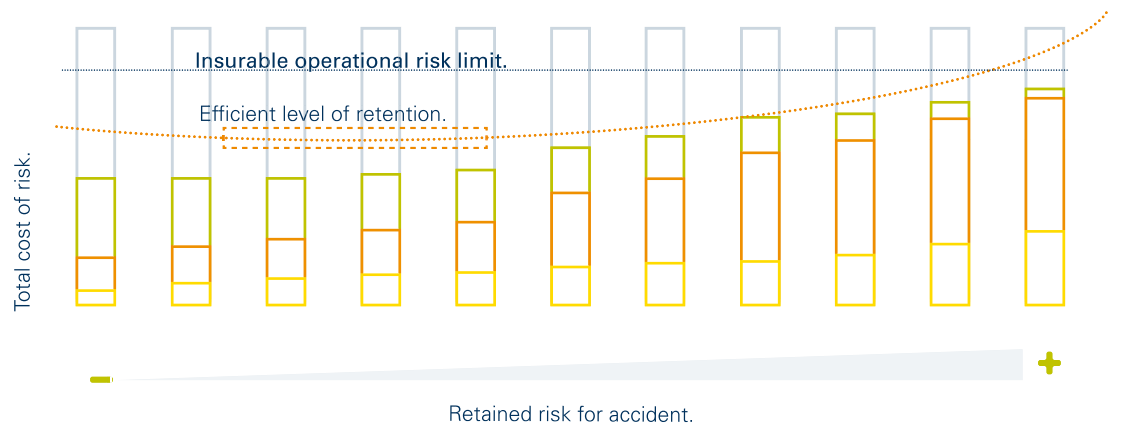
Credit risk

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



Insurable operational risk

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



- Premium.
- 95% unexpected loss.
- Anticipated loss.



> Description of main opportunities [102-15]

Opportunities for Gas Natural Fenosa

Generation mix.

The generation pool of Gas Natural Fenosa, dominated by combined-cycle power plants, has the necessary flexibility to be able to adapt to different market situations. It therefore creates a valuable asset for taking advantage of opportunities related to volatility in gas and electricity markets.

Portfolio procurement of natural gas and liquefied natural gas (LNG).

The management of gas pipelines, participation in plants and the fleet of methane tankers enables the group to cover the needs of its different business activities in a flexible and diversified way. Gas Natural Fenosa's fleet of methane 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.

International generation.

Increasing renewable generation capacity at international level, given the cost competitiveness of renewable energy and the presence of Gas Natural Fenosa in growth markets.

Internal Auditing, Compliance and Control

Responsibilities of the Internal Auditing, Compliance and Control Area

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

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

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

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Gas Natural Fenosa, in particular the



operational, legal, corruption and fraud risks, using a set of three assurance functions (Internal Auditing, Compliance and Control).

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

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

Assurance function of Internal Audit

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

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk

areas included in the Corporate Risk Map, the Internal Control System on Financial Reporting (SCIIF) scope matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit Committee and from top-tier management.

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

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

In 2017, 91 internal audit projects were carried out, 77 of which corresponded to the review of processes associated with the main operational, corruption, fraud and legal risks of the corporate and business divisions of Gas Natural Fenosa. The analysis carried out extended to 100% of the departments and placed special emphasis on those with greater probabilities of these risks materialising. In the projects performed in 2017, no significant risks related to corruption were detected.

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

Assurance function of Compliance

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

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

Assurance function of Internal Control

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

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Gas Natural Fenosa.

1927

Focused on the domestic market

From 1920 onwards, electricity started to light up the streets, and gas turned towards the domestic market. At that time advertising had a very important mission: to convince consumers of the benefits of this new source of energy. Popular advertising would show the company comparing a coal kitchen, dirty and full of smoke, with a modern gas kitchen, clean, organised and pristine. **Posters from back then display all the elegance and contemporaneous of the new times.**

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Corporate Responsibility and Gas Natural Fenosa

Corporate Responsibility
Policy. [Page 108](#)

Sustainability Plan. [Page 109](#)

Management of corporate
responsibility. [Page 110](#)

Stakeholders of
Gas Natural Fenosa. [Page 113](#)

The company's contributions to the
Sustainable Development Goals. [Page 120](#)

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

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

Value actions

Proposed actions 2017

Implementation and monitoring of lines of action and performance of specific actions of the Sustainability Master Plan.

Planned actions 2018



Implementation of the software tool Sustainability Plan.

Implementation of the non-financial reporting directive.

Level of fulfilment:  Finalised.  Major progress.  Intermediate progress.  Little progress.  Not started.

Corporate Responsibility Policy

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

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

The main purpose of this policy is to introduce the operating principles and the company's commitments to its stakeholders, in harmony with the

company's corporate strategy, as well as setting out the responsibilities and specific monitoring instruments to guarantee compliance with these.

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

The policy applies to all group companies of Gas Natural Fenosa.

Those persons or companies that work with the company and who have an influence on the company's reputation are also encouraged to be familiar with the policy and to apply it.

Action principles of the Corporate Responsibility Policy

Service excellence.

Commitment to results.

Responsible management of the environment.

Interest in people.

Health and safety.

Responsible supply chain.

Commitment to society.

Integrity and transparency.

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

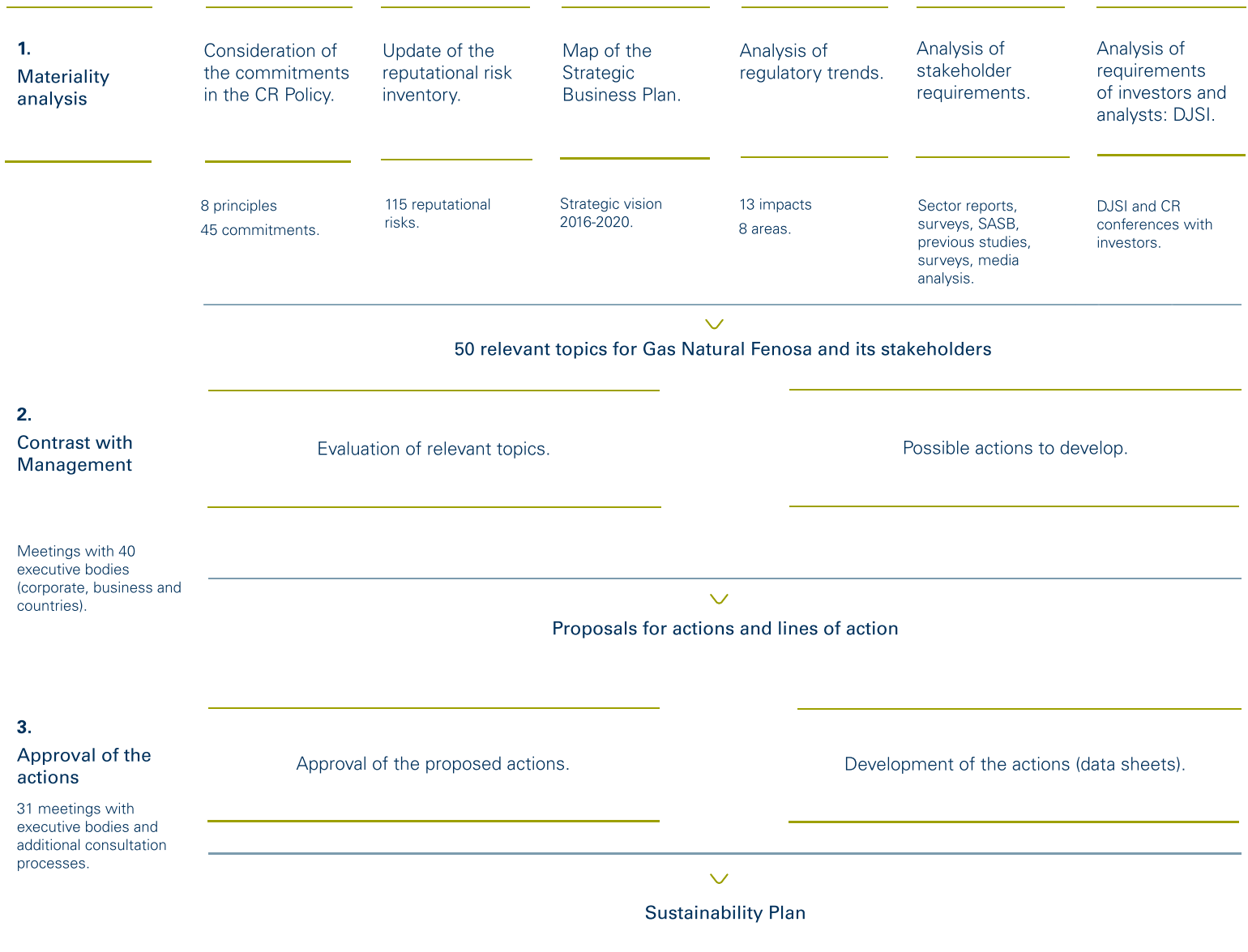
www.gasnaturalfenosa.com

Sustainability Plan

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 2017 we have drawn up a 2020 Sustainability Master Plan, which was approved by the Board of Directors.

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

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



As a result of this process we have defined the action lines for each commitment and the specific actions to be developed within each action line, for the purpose of ensuring that each area involved helps to develop them, establishing a total of 39 lines of action and 178 actions. Thus, we will obtain a series of monitoring and tracking

indicators that will enable us to track performance for each action, carried out by each area responsible, and ultimately by the Board of Directors.

To facilitate biannual monitoring of the plan by the Board of Directors, a total of 30 follow-up indicators and 4 monitoring indicators have been agreed, and these

synthesise the results of management of the different undertakings, and are most significant in the context of sustainability and of the Strategic Plan, and are considered within the GRI standard, in preparing the sustainability reports.

Model of tracking the Sustainability Plan



Management of corporate responsibility

Governing bodies

Board of Directors

The approval of Gas Natural Fenosa’s Corporate Responsibility Policy falls to the Board of Directors, in accordance with the Board regulations. Moreover, the Board must receive information on

the introduction and general monitoring of this policy at least every year, and six-monthly about the performance of the Sustainability Plan.

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

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

Management Committee

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

Departments and business units

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

Administrators, executives and remaining persons

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

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

Code of Ethics Committee

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

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

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

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



Functions of the Code of Ethics Committee

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



Members of the Code of Ethics Committee

- > Internal Auditing, Compliance and Control (Chairman's Office and Secretary of the Committee).
- > Finance and capital markets.
- > Risks, studies and projects.
- > Reputation and sustainability.
- > Labour relations.
- > Customer service.
- > Legal services.

Composition of local committees*

Argentina, Brazil, Chile, Mexico, Moldova and Panama

Chairman	Human Resources.
Board member	Internal Audit.
Board member	Communication.
Board member and Secretary	Legal Services.

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

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

Management and measurement of corporate reputation

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

The measurement of Gas Natural Fenosa's reputation in Spain and Latin America in 2017 has been carried out through the Business Monitor of Corporate Reputation (Merco), an international benchmark study that provides an overarching assessment that integrates the perception of up to

eight stakeholders with an impact on the business world and which sets out the scores of the following stakeholders with regard to the company: financial analysts, economic information journalists, government, NGOs, unions, consumer associations, influencers/social media managers, business professors.

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

In Spain, Gas Natural Fenosa, in the measurement carried out in 2017, holds 24th position in the general ranking of companies with the best national reputation, and is second in the ranking of best reputation in its sector.

We can highlight the excellent positioning obtained in the scores awarded by two of the company's main stakeholders: financial analysts and economic information journalists.

Gas Natural Fenosa has also continued measuring reputation in the general public -using its own study tools- adding Panama to the aforementioned countries, with positive and stable results.

In addition to this multi-stakeholder measurement, Gas Natural Fenosa occupies the eighth position in the Merco Talento Ranking, up two positions on 2016.

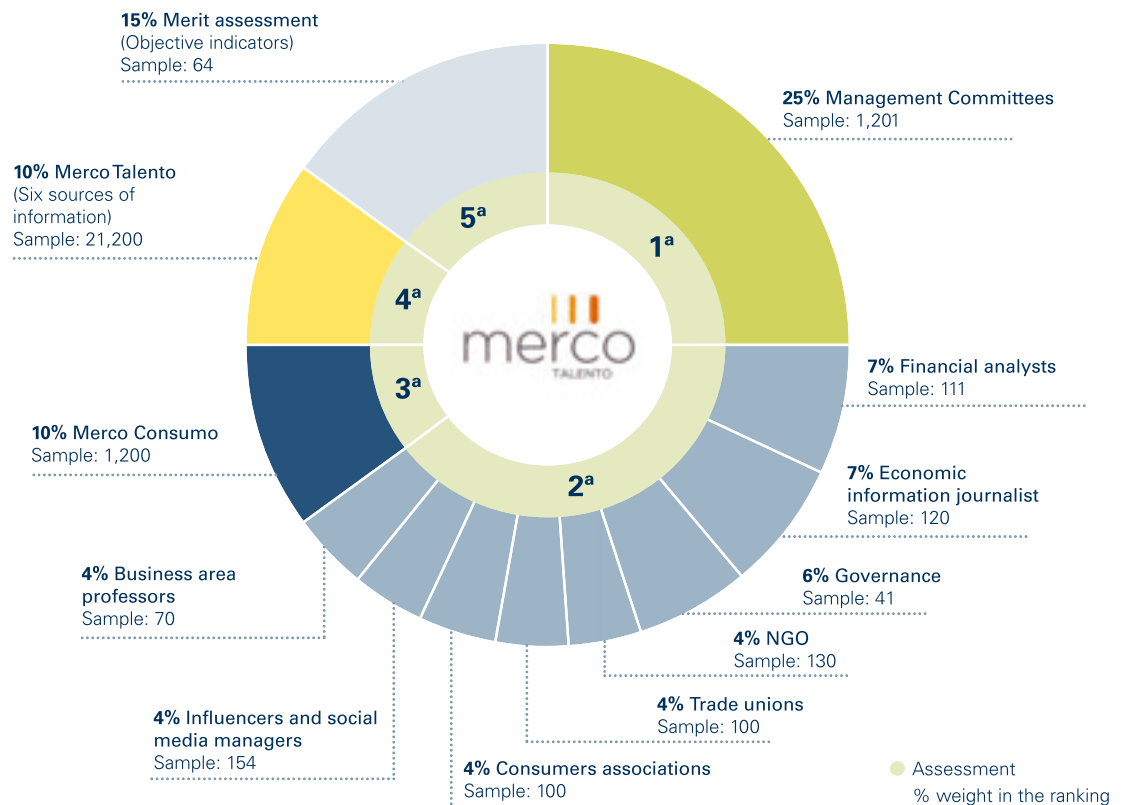
The most complete reputational assessment methodology.

5 evaluations

18 sources of information

24,531 surveys

The monitoring of the methodology established by Merco for preparation of the ranking of companies with the best reputation in Spain has been the subject of independent review by KPMG.



Stakeholders of Gas Natural Fenosa

[102-40]

For Gas Natural Fenosa, the trust and understanding of stakeholders is vital for the success of business plans. It is

therefore vital to have an appropriate identification and definition of these stakeholders.

Stakeholders

Shareholders and investors

Institutional investors. Reference shareholders. Minority shareholders. Noteholders/bondholders.

Financial groups

Institutional banks. Commercial banks.

Business partners

Natural or artificial persons with which we share a specific business project. Technological partners. Financial partners. Industrial partners.

Customers

Retailers. Wholesale. Essential customers and sensitive groups. Power Purchase Agreement customers (PPAs).

Employees

Active employees. Passive employees. Ex-employees. Workers' representatives. Representatives of pension fund participants.

Suppliers

Strategic suppliers. Works and maintenance contractors. Collaborating companies. Suppliers.

Society

Communities affected. Vulnerable social groups. Consumer associations. NGOs. National and international sector-wide associations. Media. Social networks. Academic organisations.

Administrations/ regulatory authorities

Sector regulators. Market regulators. National and/or supranational administration. Local administration.

Analysts

Financial analysts. Rating agencies. Non-financial analysts.

Insurance and reinsurance agencies

Companies that engage in the insurance of persons, properties and all kinds of products, including financial products, in exchange for a fee or a premium.

Market agents

Traders. Generators/producers. Special system generators. Transporters. Distributors. Operators.



Dialogue with stakeholders

[102-42], [102-43] and [102-44]

Gas Natural Fenosa believes that developing a climate of confidence with the stakeholders is a determining factor for the success of its business plans and for its social acceptance. Accordingly, the company carries out actions that enable it to discover the expectations and demands of its stakeholders in advance so that

it can evaluate some of the main risks and opportunities associated with the business and establish long-lasting and stable relationships with the key agents in those markets in which it has a presence.

No key problems were detected in these stakeholder participation actions.

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

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



Main dialogue actions developed by Gas Natural Fenosa in 2017

	Actions	Frequency
	Customers	
	> Implementation of a new operation in reopening supply: online payment and agreement on an immediate visit.	Constant.
	> Development of focus groups with customers to collect opinions and opportunities for improvement in services of meter reading, billing and collection.	Constant.
	> Improvement in the non-availability message to facilitate meter readings and present alternatives in the customers' area.	Constant.
	> Implementation of change of ownership without subrogation in "My customer channel".	Constant.
	> Enabling a web-based formula to request termination of supply, duplicate amounts and maturities of a split payment.	Constant.
	> Activation of a protocol to manage urgent requests for re-enlistment of customers (Portugal).	Constant.
	> Development of a subscription fees calculator to provide better information to customers.	Constant.
Consultancy actions	> Surveys of quality, resolution and satisfaction in interactions with the telephone helpdesk (Brazil, Colombia and Mexico).	Constant.
	> Surveys of quality, resolution and satisfaction in face-to-face service interactions (Mexico).	Constant.
	> Surveys of quality, resolution and satisfaction in interactions through virtual offices (Brazil, Colombia Mexico and Panama).	Constant.
	> Enabling voice mail service in Portugal for assistance in cases of service delays.	Constant.
	> Satisfaction and recommendation surveys in the process of downloading the gas contract by channel (Brazil).	Constant.
	> Performance of a study into strategic positioning of face-to-face customer service in Rio de Janeiro and São Paulo (Brazil).	Annual.
	> Quality of complaints survey.	Monthly.
	> Surveys on the customers' opinion in general and following contact.	Constant.



Main dialogue actions developed by Gas Natural Fenosa in 2017 (continuation)

	Actions	Frequency
	Customers (continuation)	
	> Explanatory press publications about the bill.	Occasional.
	> Incorporation of information on the bill concerning the National Commission of Markets and Competition (CNMC), the Spanish Institute for Energy Diversification and Saving (IDEA) and the competent body of each autonomous region, where consumers can obtain information on the energy efficiency measures available.	Occasional.
	> Regular meetings with officials and consumer protection agencies.	Monthly.
Informative actions	> Promote the use of LNG as sustainable fuel in maritime transport.	Constant.
	> Disclosure through campaigns about the availability of debit information and copy invoices at the virtual agency (Brazil).	Monthly.
	> Information on the benefits of the virtual office (Brazil, Colombia, Mexico and Panama).	Constant.
	> Information to help understand the bill (Colombia).	Constant.
	> Campaigns on the efficient use of natural gas (Argentina).	Constant.
	Shareholders/Investors	
	> Contact with the main stock market analysis firms that follow the company's evolution and issue recommendation and assessment reports.	Constant.
	> One-on-one meetings with investors.	Constant.
Consultancy actions	> Replies to the requests for information from analysts and institutional investors, and consultations with the Investor Relations Unit.	Constant.
	> Dealing with requests for information from small shareholders, online, by phone, by mail or in person.	Constant.
	> Launch of roadshows, at the initiative of Gas Natural Fenosa, visiting fixed income, equity and socially responsible investors to provide them with information on the company's performance figures, current situation and plans.	Constant.
Informative actions	> Performance of informational presentations targeted at small shareholders.	Constant.
	> Participation at sectoral conferences, attending meetings with investors and analysts.	Constant.



Main dialogue actions developed by Gas Natural Fenosa in 2017

(continuation)

	Actions	Frequency
	Customers	
	> Performance of the Work Environment and Commitment Survey 2017, made available to 100% of the workforce managed in 19 countries, both on digital support and hard copy in those countries and collectives with greater difficulty in gaining digital access. With participation of 87%, there was verification that the company met 84% of its commitments.	Biennial.
Consultancy actions	> Merco Talento survey carried out with a group of 1,300 employees in Spain with participation of almost 43%.	Annual.
	> Employee's Voice survey carried out in Chile as part of the Global FRC certification commitment. Sent to 682 employees with the response rate of 47%.	Biennial.
	> Voluntary environmental days, informative assemblies, communication and disability campaigns, among others.	Constant.
	> Disclosure of Gas Natural Fenosa's work in the field of Dual Vocational Training through specific agreements with educational centres.	Occasional.
	> Performance of 38 informative sessions in Spain as part of the Dialogue programme, in its different formats, with more than 1,500 participants.	Occasional.
Informative actions	> Performance of campaigns within the comprehensive health and welfare area focused on the community: donation of organs and bone marrow; Solidarity Day; donation of blood and Kilometres for Smiles, etc. In the international sphere activities targeted at the community in different countries are performed. By way of an example, employees and their relatives take part in the "Circuit of Stations" runs to encourage physical exercise.	Constant.
	> Application of the Aflora Plan, for guidance and support to employees with disabilities; and the Family Plan, providing advice to relatives of employees with disabilities.	Constant.
	> Health campaigns related to prevention and healthy habits (prevention of lung cancer, active aging, etc.).	Constant.
	> 11 functional meetings with general managers, featuring participation by more than 2,200 employees.	Occasional.

Gas Natural Fenosa believes that developing a climate of confidence with the stakeholders is a determining factor for the success of its business plans and for its social acceptance.



Main dialogue actions developed by Gas Natural Fenosa in 2017

(continuation)

	Actions	Frequency
	Suppliers	
	<ul style="list-style-type: none"> ➤ Continuation of the Key Account Supplier programme (KAS): relations with the most strategic suppliers to assess the structure of the current relationship, as well as to assess future actions. 	Constant.
	<ul style="list-style-type: none"> ➤ Comprehensive Contract Management (CCM) to perform closer monitoring of the most relevant contracts from both a strategic as well as an economic impact viewpoint. 	Constant.
	<ul style="list-style-type: none"> ➤ Establishment of two-way communication in the process of classification of suppliers through a questionnaire which includes the Code of Ethics, environmental, social, governance, legal, prevention of risks and quality standards. 	Constant.
Consultancy actions	<ul style="list-style-type: none"> ➤ Holding of meetings and close communication with the most relevant contracted Suppliers, to improve management of accreditation of labour and social welfare obligations of their workers. (Chile). 	Constant.
	<ul style="list-style-type: none"> ➤ Implementation of logistic operator services into the process of substantiating terms of reference and prevention of occupational risks of their workers (Chile). 	Constant.
	<ul style="list-style-type: none"> ➤ Review of suppliers' formal plans and actions in issues of health and safety (Chile). 	Occasional.
	<ul style="list-style-type: none"> ➤ Follow-up of presentation by suppliers of the Sworn Declarations of the Purchase Argentinian Work Legal Regime, with regard to participation in bids and later in the issue of orders (Argentina). 	Constant.
	<ul style="list-style-type: none"> ➤ Communication to suppliers about the Commitment to Health and Safety Project: Safety days is carried out every month, Health and Safety Coordination Meetings and Safety Panels. (Moldova) 	Constant.
	<ul style="list-style-type: none"> ➤ Communication to suppliers about the Code of Ethics, the Supplier Code of Ethics and the Anticorruption Policy of Gas Natural Fenosa (Moldova). 	Occasional.
	<ul style="list-style-type: none"> ➤ Communication to suppliers in issues of road safety - corporate tips (Moldova). 	Occasional.
Informative actions	<ul style="list-style-type: none"> ➤ Communication to suppliers about the company's corporate changes (Chile). 	Occasional.
	<ul style="list-style-type: none"> ➤ Notification to suppliers about business courtesies, in line with the corporate responsibility policy, the Code of Ethics and the Anticorruption Policy of CGE S.A. (Chile). 	Occasional.
	<ul style="list-style-type: none"> ➤ Communication to suppliers on the Commitment to Health and Safety project (Chile). 	Occasional.
	<ul style="list-style-type: none"> ➤ Prohuman Survey – in the context of Corporate Responsibility with CGE Suppliers (Chile). 	Occasional.



Main dialogue actions developed by Gas Natural Fenosa in 2017

(continuation)

	Actions	Frequency
	Society	
Consultancy actions	> Reception and analysis of 493 proposals for collaboration and services for organisations and institutions to learn more about their projects.	Constant.
	> Active participation at the Innovate4Climate, an international forum held in Barcelona which contributes climate change solutions.	Occasional.
	> Sponsorship, development and presentation of the Worldwide Status of CO ₂ Emissions Report-2015, in collaboration with the Empresa y Clima Foundation.	Occasional.
	> Active participation at the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC), known as COP23 and held in Bonn.	Occasional.
Informative actions	> Publication of 60 press releases on patronage and sponsorship activities (Spain).	Constant.
	> Participation on the workgroup of the London Benchmarking Group.	Constant.
	> Biodiversity report in digital and interactive format.	Annual.
	> Carbon footprint report in digital and interactive format.	Annual.
	> Water footprint report in digital and interactive format.	Annual.
	> Environmental footprint report in digital and interactive format.	Annual.
	> Participation as speaker at the Climate Change Cluster of Forética.	Constant.
	> Participation as speaker on the circular economy action group.	Occasional.
	> Organisation of conferences and challenges for World Water, Biodiversity and Environment Days.	Occasional.
	> Actions on the occasion of the World environmental day.	Occasional.
	> Publication of 60 press releases on patronage and sponsorship activities in Spain.	Constant.



The company's contributions to the Sustainable Development Goals

Sustainable Development Goals

In August 2015, the United Nations Organisation (UN) introduced the 2030 Agenda for Sustainable Development, establishing 17 Sustainable Development Goals (SDGs) and 169 related targets, of an integrated and indivisible nature.

The SDGs replace the Millennium Development Goals (MDGs) set in 2000 for 2015. Unlike the MDGs, which were focused on developing countries, the SDGs are universally applicable equally to developing and developed countries.

The plan is being implemented by all countries and stakeholders through a collaborative partnership, engaging leaders worldwide in a common action and endeavour.

The 17 SDGs are as follows:



The SDGs are predominantly targeted at governments and administrations. However, they also recognise the fundamental role of companies in complying with the goals.

For the second year running, this report shows how Gas Natural Fenosa contributes to achieving the SDGs. Thus, at the beginning of the relevant chapters we give a brief description of how the company contributes to these.

Furthermore, the “Additional Information” chapter specifies which SDG and targets the company contributes to, and whether this contribution is made directly or indirectly.

The table shown below represents Gas Natural Fenosa’s contribution to the Sustainable Development Goals (SDGs). Specifically, the goals are broken down by each SDG to which the company is directly or indirectly contributing.

- Direct contribution: the company carries out initiatives, programmes or actions that contribute towards said goal.
- Indirect contribution: the company carries out initiatives, programmes or actions that help achieve said goal, or contribute to this goal through a third party, such as the Gas Natural Fenosa Foundation.

In August 2015, the United Nations Organisation (UN) introduced the 2030 Agenda for Sustainable Development, establishing 17 Sustainable Development Goals (SDGs) and 169 related targets, of an integrated and indivisible nature.



Gas Natural Fenosa's contribution to the Sustainable Development Goals

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 1: No poverty	
By 2030, to eradicate extreme poverty for all people in the world, currently measured by a person having income of less than US\$1.25 a day.	Indirect.
By 2030, to halve the proportion of men, women and children of all ages living in any kind of poverty according to national definitions.	Indirect.
By 2030, to foster the resilience of the poor and of people in vulnerable situations and to reduce exposure and vulnerability to extreme climate-related events and other economic, social and environmental crises and disasters.	Indirect.
SDG 3: Good health and well-being	
By 2030, to reduce premature mortality from noncommunicable diseases by one third through prevention and treatment, and promote mental health and well-being.	Direct.
By 2020, to halve the number of deaths and injuries caused by traffic accidents in the world.	Direct.
SDG 4: Quality education	
By 2030, to ensure that all children finish their primary and secondary education, an education that must be free, fair, quality based, and produce relevant and effective learning outcomes.	Direct.
By 2030, to ensure that all children have access to healthcare and development during early childhood, and quality preschool learning so they are ready for primary education.	Indirect.
By 2030, to substantially increase the number of young people and adults who have the necessary skills, especially technical and professional, to find decent jobs and encourage entrepreneurship.	Direct.
By 2030, to ensure that all students acquire the knowledge and skills necessary to promote sustainable development, including education for sustainable development and the adoption of sustainable lifestyles, human rights, gender equality, promoting a culture of peace and non-violence, world citizenship and appreciation of cultural diversity and the contribution of culture to sustainable development, among other means.	Indirect.
To build and adapt schooling facilities that meet the needs of children and persons with disabilities and which are responsive to issues of gender, offering environments that provide safe, non-violent, inclusive and effective learning for everyone.	Direct.
By 2020, to substantially increase the number of scholarships available to developing countries worldwide, particularly the least developed countries, small island developing states and African countries, so that their students can enroll in higher education programmes, including vocational training programmes and technical, scientific, engineering and information technology and communications programmes, in developed countries and other developing countries.	Direct.



Gas Natural Fenosa's contribution to the Sustainable Development Goals (continuation)

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 5: Gender equality	
To end all forms of discrimination against all women and girls worldwide.	Direct.
To eradicate all forms of violence against all women and girls in the public and private sectors, including trafficking and sexual exploitation and other forms of exploitation.	Direct.
To ensure the full and effective participation of women and equal opportunities for leadership at all levels of decision-making in the political, economic and public life.	Direct.
SDG 6: Clean water and sanitation	
By 2030, to improve water quality by reducing pollution, elimination of dumping and minimisation of the discharge of hazardous materials and chemicals, halving the percentage of untreated sewage and a substantial increase in recycling and reuse under conditions of safety worldwide.	Direct.
By 2030, to substantially increase the efficient use of water resources in all sectors and ensure the sustainability of the extraction and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water shortages.	Direct.
By 2020, to protect and restore water-related ecosystems, including forests, mountains, wetlands, rivers, aquifers and lakes.	Direct.
SDG 7: Affordable and clean energy	
By 2030, to ensure universal access to affordable, reliable and modern energy services.	Direct.
By 2030, to substantially increase the share of renewable energy in the overall energy sources.	Direct.
By 2030, to double the worldwide rate of improved energy efficiency.	Direct.
By 2030, to expand infrastructure and to improve technology for the provision of modern and sustainable energy for everybody in developing countries, particularly the least developed countries, small island developing states and landlocked developing countries, in harmony with their respective aid programmes.	Direct.



> Gas Natural Fenosa’s contribution to the Sustainable Development Goals
(continuation)

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 8: Decent work and economic growth	
To achieve higher levels of economic productivity through diversification, technological modernisation and innovation, among other things focusing on sectors with value-added and intensive manpower use.	Direct.
To gradually improve, for 2030, the production and efficient use of global resources, and strive to decouple economic growth from environmental degradation, in accordance with the ten-year framework of programmes on sustainable consumption and production, starting with developed countries.	Direct.
By 2030, to achieve full and productive employment and ensure decent work for all men and women, including young persons and people with disabilities, and equal pay for work of equal value.	Direct.
By 2020, to substantially reduce the proportion of young persons who are not employed and not in education or undergoing training.	Direct.
To take immediate and effective measures to eradicate forced labour, end modern forms of slavery and trafficking in human beings, and secure the prohibition and elimination of the worst forms of child labour, including the recruitment and use of child soldiers, and end all forms of child labour by 2025 at the latest.	Direct.
To protect labour rights and promote a safe and secure workplace for all workers, including migrant workers, particularly migrant women and people with precarious jobs.	Direct.



Gas Natural Fenosa's contribution to the Sustainable Development Goals (continuation)

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 9 :Industry, innovation and infrastructure	
To develop reliable, sustainable, resilient and quality infrastructures, including regional and cross-border infrastructures, to support economic development and human well-being, with a special emphasis on fair and affordable access for all.	Direct.
To increase scientific research and improve the technological capacity of the industrial sectors of all countries, particularly developing countries, inter alia by encouraging innovation and substantially increasing the number of people working in the field of R&D for every one million people, and increasing expenditure on R&D of the public and private sectors by 2030.	Direct.
To facilitate the development of sustainable and resilient infrastructures in developing countries with greater financial, technological and technical support towards African countries, the least developed countries, landlocked developing countries and small island developing states.	Direct.
SDG 10: Reduced inequalities	
By 2030, to enhance and promote the social, economic and political inclusion of all persons, regardless of age, sex, disability, race, ethnic origin, religion or economic status or other factor.	Direct.
To ensure equal opportunities and reduce inequality of results, in particular by removing laws, policies and discriminatory practices, and promoting laws, policies and appropriate measures in this regard.	Direct.
SDG 11: Sustainable cities and communities	
By 2030, to ensure all people have access to housing and adequate, safe and affordable basic services and to upgrade slum areas.	Direct.
By 2030, to provide access to transportation systems that are safe, affordable, accessible and sustainable for all, and improve road safety, in particular by expanding public transport, with particular focus on the needs of vulnerable people, women, children, people with disabilities and the elderly.	Direct.
To redouble efforts to protect and safeguard the cultural and natural heritage of the world.	Direct.
By 2030, to reduce the per capita negative environmental impact of cities, even paying particular attention to air quality and management of municipal waste and other types of waste.	Direct.
By 2020, to substantially increase the number of cities and human settlements that adopt and introduce integrated policies and plans to promote inclusion, the efficient use of resources, mitigating climate change and the adaptation to this, and disaster resilience; and to develop and implement -in line with the Sendai Framework for Disaster Risk Reduction 2015-2030- the comprehensive management of disaster risk at all levels.	Indirect.



Gas Natural Fenosa's contribution to the Sustainable Development Goals (continuation)

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 12: Responsible consumption and production	
By 2030, to achieve sustainable management and efficient use of natural resources.	Direct.
By 2030, to substantially reduce waste generation through policies of prevention, reduction, recycling and reuse.	Direct.
To encourage enterprises, especially large enterprises and transnational corporations, to adopt sustainable practices and incorporate information on sustainability in their reporting cycle.	Direct.
By 2030, to ensure that people worldwide have information and knowledge relevant to sustainable development and lifestyles that are in harmony with nature.	Direct.
SDG 13: Climate action	
To strengthen resilience and adaptability to climate-related risks and natural disasters in all countries.	Indirect.
To improve education, awareness and human and institutional capacity in mitigating climate change, adaptation to this, reducing its effects and early warning.	Direct.
SDG 14: Life below water	
By 2025, to prevent and significantly reduce marine pollution from all sources, particularly pollution from land based activities, including marine debris and nutrient pollution.	Direct.

The SDGs are predominantly targeted at governments and administrations. However, they also recognise the fundamental role of companies in complying with the goals.



Gas Natural Fenosa's contribution to the Sustainable Development Goals

(continuation)

Sustainable Development Goals and aims	How Gas Natural Fenosa contributes (Direct contribution / Indirect contribution)
SDG 15: Life on land	
By 2020, to ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and the services they provide, in particular forests, wetlands, mountains and arid areas, in line with obligations under international agreements.	Direct.
By 2020, to promote the sustainable management of all types of forests, stop deforestation, restore degraded forests and increase afforestation and reforestation worldwide.	Direct.
By 2030, to ensure the conservation of mountain ecosystems, including biological diversity, to improve their ability to provide essential benefits for sustainable development.	Direct.
To take urgent and meaningful measures to reduce degradation of natural habitats to halt the loss of biodiversity and, by 2020, protect endangered species and prevent their extinction.	Direct.
To mobilise and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.	Direct.
To mobilise a significant volume of resources from all sources and at all levels to finance sustainable forest management and provide appropriate incentives to developing countries to promote such management, particularly with a view to conservation and reforestation.	Direct.
SDG 16: Peace, justice and strong institutions	
To significantly reduce all forms of violence and related mortality rates worldwide.	Indirect.
To end the abuse, exploitation, trafficking, torture and all forms of violence against children.	Indirect.
To substantially reduce all forms of corruption and bribery.	Direct.
SDG 17: Partnerships for the goals	
To mobilise additional financial resources from multiple sources for developing countries.	Direct.
To respect leadership and the regulatory margin of each country to establish and implement policies aimed at eradicating poverty and promoting sustainable development.	Direct.
To strengthen the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships to mobilise and promote the exchange of knowledge, technical expertise, technology and financial resources to secure the objectives of sustainable development in all countries, particularly developing countries.	Indirect.
To encourage and promote the creation of effective partnerships in the public, public-private and civil society spheres, drawing on the experience and the strategies to obtain resources from associations.	Direct.

1969

Llegada del gas natural a España

Until that time, the gas that was distributed was a manufactured gas that was produced in factories and which was more polluting. To introduce natural gas, it provided the impetus for the construction of a regasification plant in Barcelona port, a commercialisation network in the area and the first Spanish methane tanker: Laietà. In February 1966, liquefied natural gas from Libya began to be received.

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

175 1843
2018
years full of history
and energy



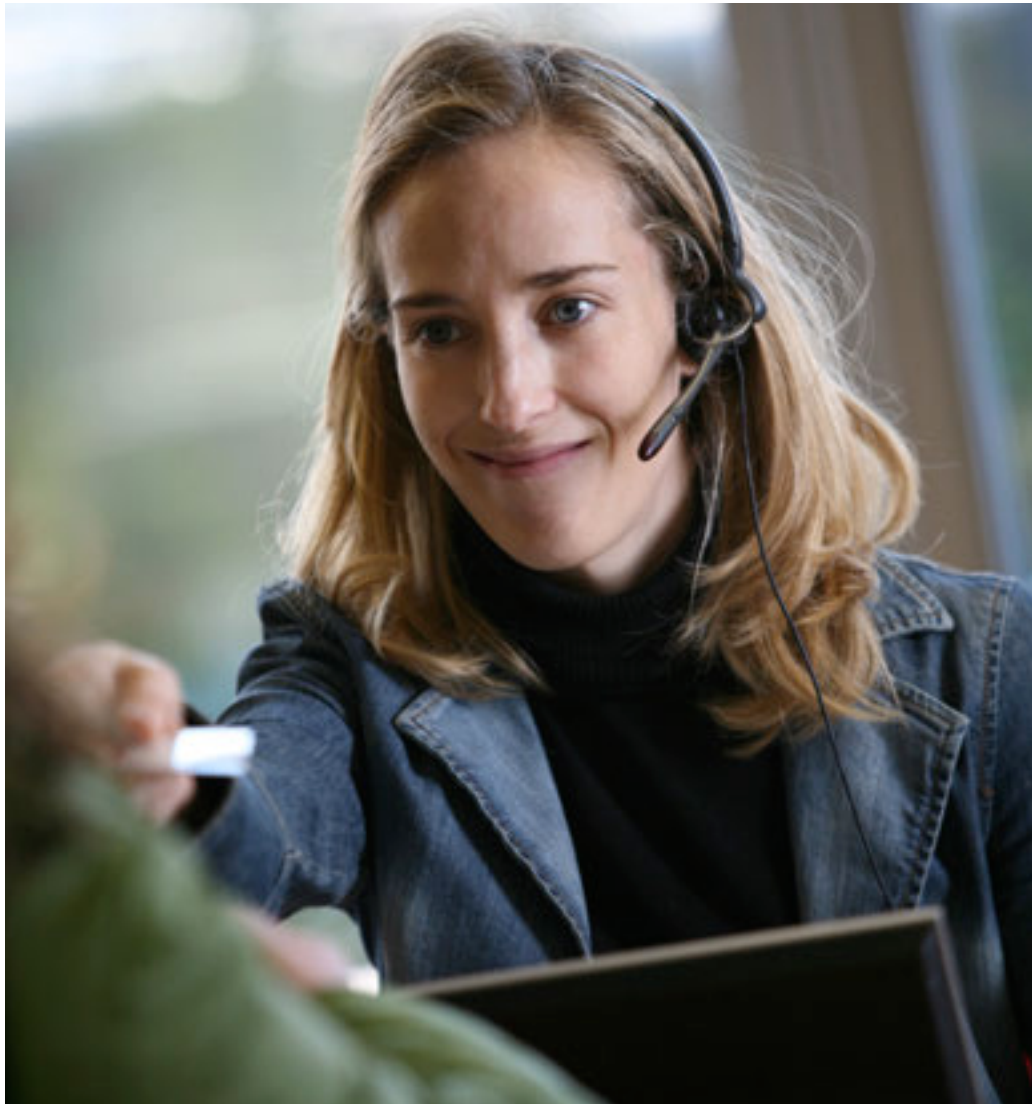


2017 Corporate
Responsibility Report

Service Excellence

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

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



Commitments and principles of responsible action with customers

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

The customer as the focal point

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

Gas Natural Fenosa seeks to distinguish itself through the development of products and services adapted to its customers'

needs, thereby being committed to innovation whilst complementing traditional products.

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

With the focus on the customer, in 2017 efforts have been made to digitalise the current services, and we have been working on the universalisation of the measurement of Net Promoter Score (NPS) at all points of contact with the customer.

Value actions

Proposed actions 2017		Planned actions 2018
Continuing to make progress in the Customer Experience and Advocacy projects and in group complaints.	+	New Wholesale Virtual Office.
Implementing the joint project with Repsol for LNG stations in the main points of the Spanish transport network.	+	CeX advanced training.
Customising management to high-value SME customers.	+	Greater dissemination of knowledge about the sector, company and products and services.
Developing new interactive tools for flexible procurement that respond to the needs of the new organised market.	+	Consolidation of personal experimentation of the customer reality.
Developing new value-added services that respond to environmental requirements driven by regulation and social awareness on energy saving and environment.	+	Visible commitment.
	+	Recognition / Pride of belonging.
		Evolution trips and measurement.
		COMeX consolidation.
Practise on improving end customer's experience.		Roll-out of the Partners programme.
		Raising awareness of the centrality of the customer to our business.
		Development of the new wholesale Virtual Office.

Level of fulfilment: + Finalised. + Major progress. + Intermediate progress. + Little progress. + Not started.



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

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

With regard to service excellence, Gas Natural Fenosa shows its commitment to this goal by carrying out projects in several areas: LNG, development of renewable energy products and services for private customers and companies.



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

The twelfth Sustainable Development Goal (SDG) set by the United Nations Organisations is upheld on the basis that "should the global population reach 9.6 billion by 2050, the equivalent of almost three planets could be required to provide the natural resources needed to sustain current lifestyles".

With regard to service excellence, Gas Natural Fenosa carries out its activity with a commitment to responsible production and consumption that goes beyond its performance as a company. Thus, Gas Natural Fenosa provide its customers with information concerning their energy consumption so that they can take decisions leading to energy savings.

Full, effective and efficient commercial supply

Gas Natural Fenosa's commercial offer is targeted at homes, businesses and major customers. The products offered are not

restricted solely to the supply of gas and electricity, but encompass other aspects.



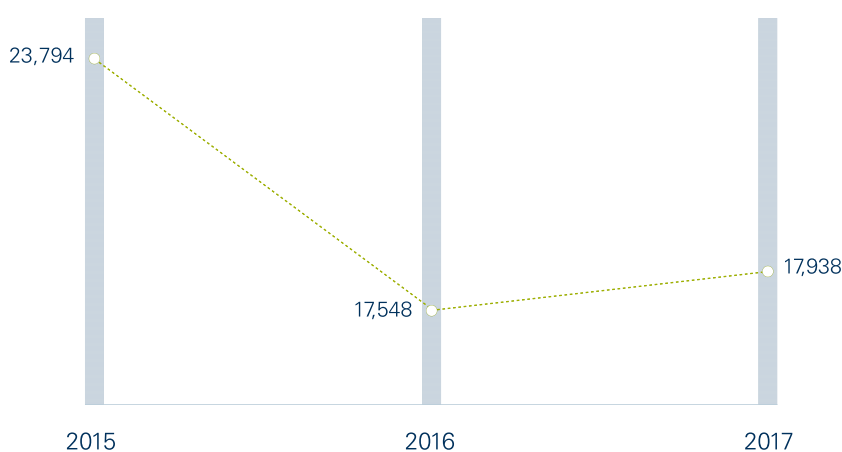
Products and services adapted to customers' needs

Homes	Businesses	Major customers
Natural gas and electricity.		Gas, electricity and LNG.
Services.		Efficiency and sustainability.
Equipment.		Services with value-added.
Energy saving and efficiency.		Customised management.
	Energy solutions.	

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

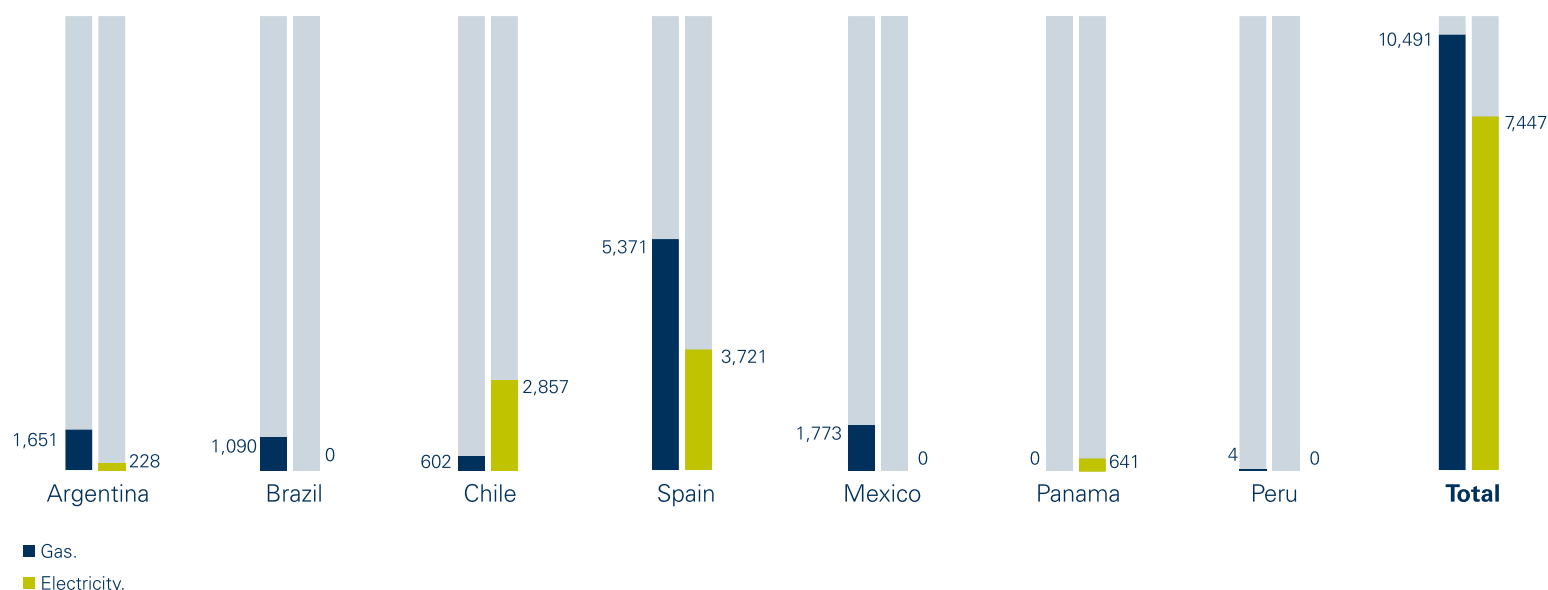
In 2017, we have completed the commercial catalogue with new tariffs and new types of services that allow us to offer the customer a broader range of choice on to find more appropriate solutions to their household needs. We have also redesigned promotions by applying benefits according to customers' characteristics and habits.

Gas and electricity supply points (thousands)



NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here. The consolidated income statement and operating income for 2016 have been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.

Gas and electricity supply points by country (thousands)



NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here. The consolidated income statement and operating income for 2016 have been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.



Gas and electricity customers (thousands)* [EU3]

Gas customers	2017	2016	2015
Last resort tariff	1,306	1,337	1,392
Deregulated market (consumption >50,000 kWh/year to 500 MWh/year in high pressure and up to 1,000 MWh/year in low pressure)	31	32	33
Deregulated market (rest consumption)	2,904	2,893	2,909
Total	4,241	4,262	4,334
Electricity customers			
Last resort tariff/PVPC	2,257	2,313	2,385
Deregulated market (power <10kW)	2,067	1,970	1,882
Deregulated market (power >10kW and sales to 0.75 GWh) (SMEs and others)	281	285	299
Total	4,605	4,568	4,567

* Figures from Spain and Portugal.

Quality and reliability of service

[103-1], [103-2] and [103-3] (energy access)

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

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

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

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

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

> Asset Maintenance Plan

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



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

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

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

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

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

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

To guarantee the demand-based supply, Gas Natural Fenosa also has demand peak management systems, including the Peak Shaving plant

that the company operates in Buenos Aires (Argentina) and which enables winter demand peaks in this city to be modulated.

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

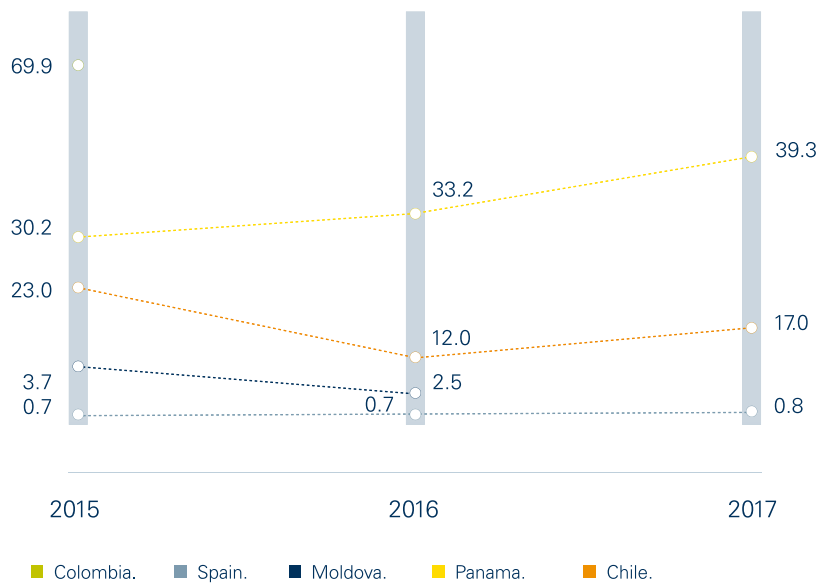
In 2017, the main investment projects undertaken in Latin America were the renewal of the gas network in Argentina (24.6 km), Mexico (46.1 km, mainly in Monterrey) and in Brazil (40 km in Rio de Janeiro); the renewal of connections in Argentina (12,481 connections in Buenos Aires), Mexico (5,190 connections) and Brazil (1,643 connections).

In Panama we continue to introduce the 2014-2018 plan agreed with the regulator to improve supply quality and increase grid capacity. In 2017, we can highlight the commissioning of the 220/115/13.8 kV Burunga substation and the 115/13.8 kV El Torno substation, along with the 34.5 kV Changuinola line.

Moreover, in Chile we continue with a project that is specifically focused on improving the quality of electricity supply, the main action lines of which are the strengthening and increase of grid automation, the application of new fault and diagnostic detection methods, and the modernisation of criteria and systems of grid operation. Specific actions also took place in 2017 to avoid possible risks of fire, and to this end improvement actions have been introduced along 7,745 kilometres of medium voltage grid that passes through forestry areas.

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

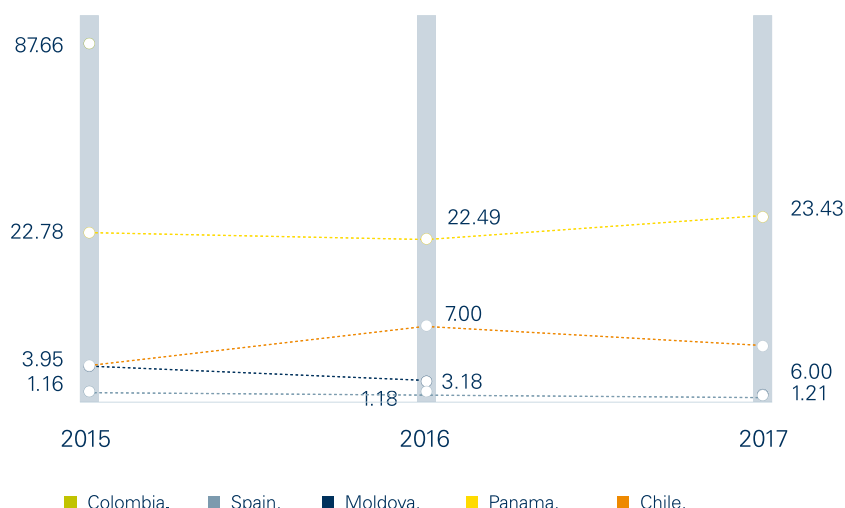
[EU-29]



*Figures relative to the electricity business.

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here. Operating income for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.

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



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

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here.
The consolidated income statement and operating income for 2016 have been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.

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 must respond with growth in customer care, innovation and covering the customer's needs with value-added proposals, both in the field of energy as well as services, incorporating new customer relation models that allow digitalisation.

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 2017 the company has continued to perform major research work to meet the needs of its customers.

During 2017 and in the constant quest for improvement, we have conducted some research work and consulted different clients of VNG, individuals and professionals. There are indicators that contribute to satisfaction with the use of our Service Stations / Gas Natural Fenosa Cards and which assist us with proposals for the study and analysis of feasibility and introduction of the same.

Standard solutions (tertiary market and retail business energy solutions)

Gascomfort is a production plant optimisation service through the renewal/transformation of the room and comprehensive management throughout the contract. This is the most important product of our portfolio, with more than 3,200 contracts. This service is targeted at both the industrial and tertiary sector as well as communities of neighbours.

Distribution/Rehabilitation & Comfort.
A service for communities of neighbours that have a centralised boiler which enables individual reading of each neighbour heating and hot water consumption, so that they only pay what

they actually consume. As well as the main methods of insulating the property.

Bio+a option. Comprehensive service that enables customers that do not have access to the natural gas network, not only to renew the facilities so that they work with biomass but also access to comprehensive management and a guaranteed supply of ENplus certified biomass.

- > Guarantee of supply.
- > 100% renewable energy.
- > Free of charge processing of subsidies.
- > Optimum consumption.
- > Improved comfort and performance.

Smart Energy Tool. It is an energy assessment service that enables the customer to analyse their energy consumption data, providing them with useful information for their business.

- > Informative alerts.
- > Regular reports.
- > Technical support.
- > Digital platform.

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 commercialisation channels. This allows us to provide a coherent, consistent and continuous offer to the customer and improve their experience in the process of buying or customer service.

Furthermore, the use of mobile devices means we can deal with the service demands of customers in the shortest possible time, by being able

to notify the field technician through the operations attention platform, thus considerably minimising waiting times. The technician has online information on the spare parts required to repair the fault as quickly as possible, and with a higher level of information. Moreover, the processing of capturing readings through a mobile phone facilitate customer management and the reliability of information to avoid estimations.

> Zeus corporate platform

Zeus is intended to provide a global and unique reference model. It is based on the homogenisation of distribution processes affecting consumers and on unifying the systems platforms that support these.

Zeus aims to improve the management of more than 18 million supplies, optimise 20 existing systems and facilitate the work of 6,000 employees and partner companies. It also integrates 36 distributors and improves the service of close to 18 million customers in Spain and in Latin America. All this thanks to a team of more than 300 people in eight countries, which for months has been working to obtain a single model based on best practices.

Zeus has been divided into two projects:

- > Zeus EPS: ensures the development, adaptation and growth of new supply points, working from the potential and pursuing the creation of opportunities before the service has been contracted through to activation as a supply point. In 2017, it became operational in the gas businesses in Spain, Brazil, Colombia and Mexico, and in the electricity business in Spain. It is scheduled to be introduced in Argentina during 2018-2019.
- > Zeus GPS: this starts from activation of the supply point, covering associated operations, seeking efficiency and optimising the time and effort that will result in a better customer experience. In 2017, it became operational in the gas business in Spain, and is gradually being introduced into the electricity business in Spain.

> Mobility Management

New mobility platform that will be introduced in all countries and which will replace the existing mobility systems. In 2017 Mobility Management is already operational in the Registration and Commissioning inspection process of the gas business in Spain, and is in the development stage in the electricity business in Spain to bring it into line with the ZEUS GPS operations.

The project aim is to minimise the times of performing operations and allow greater flexibility. It allows users to arrange their service and operation demands more efficiently in terms of date and time, reducing errors arising from the use of paper-based systems and resolving online incidents quicker.

Innovative products and services

[102-7]

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 2017, we have consolidated the catalogue of products and services for residential and SME customers with new energy tariffs and types of maintenance that include smart devices.

Customer 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.



Innovative products and services of Gas Natural Fenosa [102-2]

Residential

Eco Gas Tariff.

In 2017 we launched the first gas ECO tariff in the market, 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 and which are sustainable with the environment.

Servigas Comfort.

New type of gas maintenance that incorporates a smart thermostat service (TADO) to control

heating from a mobile phone and enable more efficient use of consumption.

Servielectric Comfort.

New type of electricity maintenance that incorporates a smart thermostat (TADO) to enable a mobile phone to be used to control air conditioning or heat pump devices, enabling more streamlined and efficient use of heating and cooling.

SMEs

ECO Business Plan.

2017 saw the launch of the ECO electricity offer for businesses that want 100% of their energy to be from a renewable source.

Fixed ECO Gas Plan.

In 2017 also launched an ECO gas offer for those customers that are more sensitive to environmental issues.

Energy saving service.

We have extended the service by adding recommendations to customers on their most

appropriate tariff based on their hourly consumption profiles, and informing them on how to distribute their consumption by periods.

Service for the adaptation of electricity facilities.

We have launched a service that offers the customer the possibility of modifying their electricity facilities to adapt them to the optimum power they need.

Wholesale

LNG Bunkering.

Product targeting at large consumers of gas in maritime transport.

Gas and electricity coverage.

Transactions agreed directly with the customer and which are settled by differences. These enable the price to be set beforehand, removing uncertainties.

CO₂ management.

Compensation of the Carbon Footprint of a product, service, event, activity or organisation, and neutralisation of the equivalent CO₂ emissions.



Customer service model

Gas Natural Fenosa has developed a new customer service model in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal.

This new model is divided into three parts:

> Operational and training model: the aim is to anticipate customers' needs.

> Technological model: this involves a major technological renewal in the implementation.

> Economic model of procurement: we have opted for a partnership model with suppliers worldwide and an alignment of objectives.



Provision of customer service at Gas Natural Fenosa

Customer service channels and personal managers.

Trained to offer the customer a customised and efficient treatment, and equipped with the most modern technologies.

Guarantee office.

Responsible for dealing with those organisations that represent customers.

Website and Virtual Office.

These enable both new customers as well as existing customers to contract energy and services online 24x7 (in Spain). In addition, they facilitate the most usual operations of customers in an accessible, expeditious, intuitive way and from any device (checking bills, reading meters, payments, modification of details, etc.) both as a registered customer as well as without the need for registration.

Sales and customer service centres.

During 2017, we have introduced the active sale of energy products and services, when in previous years these were reactive sales, so we can therefore talk about customer service and sales centres.

To ensure that this increase of commercial actions has no negative effect on the quality of customer service, we have undertaken a sales skills course at the customer service centres, together with the Extended University.

Finally, as part of the TESEO project, we have intensified actions to guarantee that the centres are accessible to the physically disabled. All centres currently have glasses for customers with visual impairments, to enable them to read small print, and 63% have access ramps. The three flagship centres will have, from October onwards, an exclusive video-conference system so that customers that have hearing impairments can communicate with the manager of the centre in sign language through a video interpreter.

As regards the number of centres, this has remained stable with regard to 2016, and we have centres in all capital cities of the provinces as well as in the major cities.

Gas Natural Fenosa has developed a new customer service model in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal.



Comercializadora Mayorista Ibérica Inmersions (CMI)

In 2017, we launched the Commercial Immersions project to propitiate a visit to the customer by all members of GNCOM.

Since the project kick-off, the team of commercial managers has planned 126 visits to customers accompanied by a back-office member, for the purpose of getting first-hand customer experience and gaining further knowledge. 79% of planned visits have been carried out.

Each visit has been scored using a personalised questionnaire to get feedback about the initiative and its objectives. Each questionnaire has been carried out by the customer, the manager and the guest back-office member. Average satisfaction obtained by participants is 9.4 out of 10.

Assessment of customers (0-5):

- > CMI customer focus: 4.44;

- > CMI ongoing improvement: 4.37.

Assessment of employees (0-5):

- > Satisfaction with the experience: 4.71.
- > Clarity of the purpose: 4.78.
- > Preparation of the meeting: 4.67.
- > Compliance with the objective 4.73.
- > CMI customer focus: 4.57.

This project forms part of the set of actions focused on raising employees' awareness about the importance of placing the customer at the centre of all activity and thus strengthening the customer experience in each of their interactions with the company.

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

In order to improve and simplify the customer service process, Gas Natural Fenosa is developing different projects that seek to provide the customer with a personalised approach that satisfies their needs. Accordingly, in the fourth quarter of 2016, we launched the Commercial Immersions project to propitiate a commercial oversight to all members of Gas Natural Comercializadora Mayorista (GNCOM).

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.

Furthermore, for the sixth year running, the company has continued to provide the Energy Class service, a pioneer in the energy sector and which offers an exclusive service to the company's major customers. In 2017, over 104,000 gas and electricity customers enjoyed preferential treatment and advice on their energy supply and management of their contracts.

It should be noted that in 2017 we introduced several improvements in Spain in the field of customer service:

- > Customer service in new languages (Galician and English).
- > Language automation in SMS.
- > Bill management through the online channel.
- > The introduction of the Interactive Intelligence (ININ), making self-service possible for meter reading and improvement of email management.
- > Specific Customer Service for vulnerable customers.
- > Identification of intensive customers and their pattern of behaviour.
- > Smart routing and problem-solving Interactive Voice Response (IVR).



Customer service improvements in Latin America for 2017

Argentina.

Within an economic context of high inflation and restrictive economic activity, the conferral of credit facilities for the financing of internal ones was implemented, targeted at sectors with fewer resources.

Several services were introduced this year for the purpose of improving customer service. Of particular importance is the possibility of paying defaulted bills through external channels, to standardise their debt situation.

Moreover, we introduced home management of debt to enable the customer to standardise their debt situation before they ceased to be a customer.

Lastly, we increased both the numbers of persons as well as face-to-face and telephone channels to provide a better service to the customer.

Brazil.

During 2017 we have introduced the complaints project, which revolves around multidisciplinary work panels that enable problems to be identified, review processes and encourage actions focused on the customer to improve the services provided by the company. The panels are formed in accordance with each subject matter.

The "Fórum de Escuta" project continues in 2017, organising committees every 15 days to analyse the demands of the telephone helpdesk and propose process improvement actions. The meetings feature participation by the areas involved in the customer care process and the recording of customer calls serves to analyse and detect any anomalies and to apply corrective, preventive and improvement actions.

In the Customer Experience project, the company set up a space targeted at the exchange of personal or third-party experiences related to the customer experience.

Throughout 2017, the group implemented telephone helpdesk units to deal with enquiries about bills and also to clear up any doubts customers have with regard to the new periodic review model.

The Open Dialogue project continues year after year for the main purpose of guaranteeing the approach and transparency in the company's dealings with consumer protection organisations, strengthening its association with consumer defence and protection organisations.

Colombia.

In Colombia we created the "Consumption Simulator" tool through which customers can calculate their household consumption online.

At the end of June 2017, we introduced the Multi-subsidiary project in the face-to-face channel under the motto "Now we are one in Face-to-Face Customer Service in Colombia", to provide service to all PQRs (Residential-Commercial Customers).

At the end of October, we opened the Supercade Engativá that benefits more than 800,000 inhabitants of the municipality based on the analysis and studies conducted by the Mayorship of Bogotá.

Mexico.

During 2017, as part of the CeX programme, specific actions focused on the customer have been introduced to show the commitment and participation of all levels of the company, such as the following: customer time, call recording forum, work panels to deal with complaints, mystery shopper, customer service process capsules, customer focus groups and "I Contract" customer journey.

During 2017 we finished building the "Simón Bolívar" flagship centre of the north zone, with more than 300 m², to provide customer service. The Centre has six automatic ATMs and a room for continuous training of our customer service staff.

We have also finished building the Mochis Sinaloa Customer Service Centre, the first centre for the new North West and Sinaloa zone.

Panama.

In 2017 we opened a new customer service centre in Almirante. We also extended the payment centres throughout the country, to facilitate access to customers, and payment can be made through the ATMs. Lastly, we increased the use of the row handlers at the customer service centres, to measure the service level of each one.

Customer service processes adapted to all customers

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

In 2017, in Latin America, we continued to give priority to ensuring easy, convenient and free-of-charge access to the company's

customer service channels. The target was achieved with the consolidation of the virtual offices, through which approximately one million registered customers performed more than 3,500,000 operations in 2017.

In Chile (MetroGAS), the sales offices are easily accessible and have a priority queue for disabled customers, the elderly or pregnant women. There is also a host inside the premises to give guidance. There are also self-service machines and an express row.

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



Reference in social inclusion in the Colombia gas business

Gas Natural Fenosa has implemented the technology of the Relay Centre, in partnership with the Ministry of Information and Communications Technologies (MINTIC). It has therefore been recognised as the first utility company in Colombia that offers this technology to people with hearing disabilities.

The company has also undertaken specific actions in partnership with the National Institute for the Blind (INCI), such as presentation of the customer guide in braille, the bill in braille and the website accessible for people with visual disabilities.

Furthermore, it has launched communication campaigns on social networks to improve accessibility for people with hearing and visual disabilities.

In addition, the company involves different entities and local administrations in order to provide information about the initiatives launched and to introduce an action plan to reach more customers with disabilities.

Customer's satisfaction and experience [102-43] and [102-44]

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

The measurement model rests on two complementary pillars:

> A general overview of all of the company's customers and of the competitors' customers, which represents the global satisfaction index.

> Contact point of view: where we analyse the experience of customers that have made recent use of the services and channels made available to them.

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

Once again this year, Gas Natural Fenosa continued to spearhead satisfaction in the retail segment in Spain, where the global satisfaction index (on a scale of 0-10) was 7.27 in the residential sphere (6.50 was

the average of our rivals) and 7.16 at SMEs (6.49 was the average of our rivals).

In the wholesale segment, the global satisfaction index stood at 7.55, while the average for our rivals was 7.18. Wholesale customers ranked the commercial manager at 8.58, with this being the most valued attribute in customer relations.

Gas Natural Fenosa constantly measures customer satisfaction and recommendation throughout the year, using different channels of contact, such as telephone, interactive voice response (IVR), SMS and email. This

allows us to interact with a large number of customers, so that their opinion and experience can be collected and analysed.

During 2017, we have extended and enhanced the Customer Experience Management (CEM) tool as an instrument to measure and manage the customer experience by adding new functionalities. Following the customer's interaction with the company, the former receives a short questionnaire to find out their level of satisfaction and recommendation, and they are asked to grade their experience.

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

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

Gas Natural Fenosa has introduced a programme of ongoing improvement, based on the Lean Six Sigma methodology. This enables the company to prioritise, analyse and act on the reasons for dissatisfaction, to identify and correct the root causes, and to promote the ongoing improvement of processes. The best ideas from employees in this and other areas of the company are recognised through Our Energy Awards, now in their sixth year, and which grow year after year both with regards to participation as well as in quality and benefits contributed through the ideas.



Customer service improvements in Latin America for 2017

Brazil.

In Brazil, the travelling customer service was maintained in 2017, making it feasible to provide face-to-face services to residential customers in municipalities that do not yet have customer service centres.

Colombia.

In Colombia, following the introduction of the Relay Centre in the customer service channels in 2017, Gas Natural Fenosa provided online interpretation service to 159 hearing-impaired persons. Our sole objective is to continue to reach as many people as possible to help contribute to providing a more equal customer service for all persons that are hearing-impaired.

Moreover, in July 2017, in partnership with the National Institute for the Blind (INCI), the bill and the guide in braille were presented, meaning that we currently provide a bill in braille to 510 customers.

In 2017, the Telephone Customer Service of Gas Natural in Colombia was developed under the guidelines of the global telephone model. This model is maintained under the following pillars: Operational and Training model, Technological model and Economic model of procurement.

Mexico.

During the seismic event that shook Mexico City in September, we redesigned a campaign to support vulnerable groups for the fundamental purpose of encouraging customer loyalty and to help them manage in difficult living situations.

We designed three campaigns that were disseminated through social networks and flyers in-situ.

1. A special tariff was designed for the elderly.
2. A special tariff was designed to help single mothers.
3. A campaign was designed to offer a free-of-charge natural gas contract at the new home for those customers of gas natural whose previous homes had been destroyed.

In addition, the Customer Service team in Mexico introduced a campaign of personalised calls to customers to find out their situation, to see if they were okay and to offer our moral support at such difficult times. Around 200 calls were made.

Panama.

In 2017 a new face-to-face Customer Service Model was designed and this will be gradually introduced throughout 2018. In 2017 we launched and awarded the service to the new face-to-face customer service supplier and the roll-out of the new model will begin with the offices in Obarrio, David, Arraijan, Chorrera, Capira, Penonome, Las Tablas, Santiago, Aguadulce and Chitre.



> Customer Experience

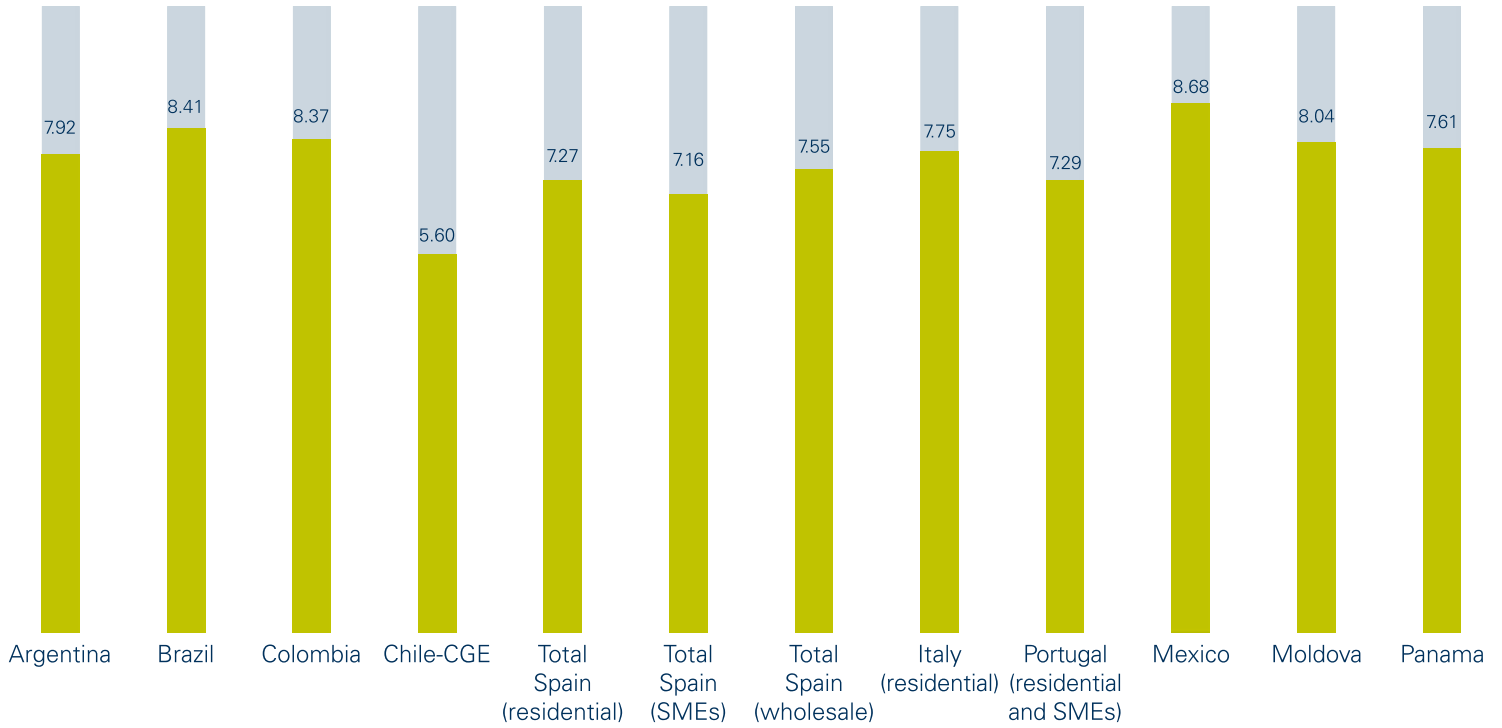
The Customer Experience programme, based on cultural transformation, was born in 2015 at group level with the purpose of making the company a benchmark at international level in customer satisfaction in the energy sector, measured in terms of recommendation.

With Customer Experience the company introduces a new methodology through which the customer is at the centre the decision-making process, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience within the company.

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

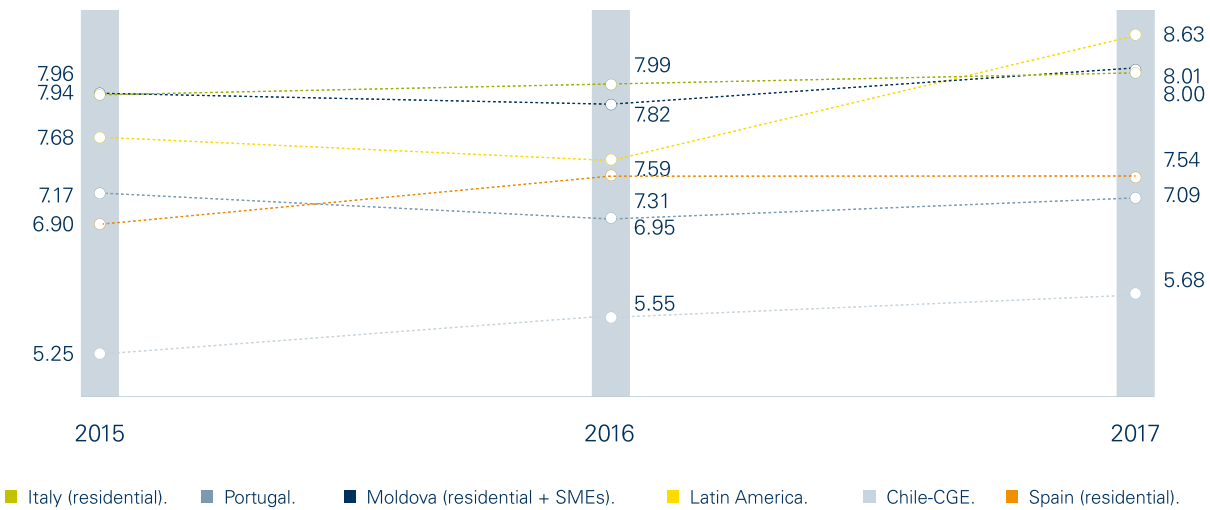
- > Unique company identity (brand and culture).
- > Organizational drive (sponsorship and commitment).
- > Programme of employees as ambassadors and partners programme.
- > Improvement of customer journey and contact points (the journey being the time necessary to cover the customer's needs, from start to finish).
- > Continuous real-time measurement of the customer's voice.

Overall satisfaction with service quality



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

Corporate image



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

Communication and transparency with customers

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.



Gas Natural Fenosa on social networks. Spain

Customer channel website.

Customers have a space where they can carry out their formalities with or without registration, making automatic management possible 24 hours a day, seven days a week with regard to the most usual operations.

There is also the possibility of making any enquiry through our online chat, without the need to make a call.

Website for procurement.

New website for procurement and information for customers and non-customers alike, with a responsive access through any device. In addition, it allows energy to be contracted and services adapted to homes and businesses 24 hours a day, 365 days a year.

It also incorporates the possibility of an online chat at the time of procurement or providing information on tariffs, for the purpose of resolving any doubts at the same time.

Social networks.

Facebook Spain, with more than 40,000 followers, and Twitter with more than 25,000 followers, means that customers and non-customers alike can be informed of any news, products and tariffs and information of interest, lending us value-added because of the immediacy in contact and the proximity.

We are also currently present on Telegram and Whatsapp for certain kinds of contracts.

Paying without a bill.

In Argentina, we have the option of paying without a bill through the company Pago Fácil and Provincia Net. This enables customers to visit the foregoing company and pay their bill without the need for a physical invoice, just by giving their customer number.

Electronic confirmation of procurement.

As an adaptation to the requirements of the new Distance Sales Act in Spain, confirmation of the contract is sent by SMS or email. The sale is not closed until the customer has accepted it.

Customers area APP.

The Customers area app with new improved features of usability and design, also including the possibility of photographic meter readings (OCR Readings) and fingerprint access to the application.

Services APP.

New services application to manage the maintenance and repair of household devices any place any time. Greater flexibility and convenience in management contact that the customer needs.

Yoleogas.

Gas Natural has launched in Spain a mobile app available to involve the customer in the gas reading process.

The company has developed and introduced a new image recognition system to read customers' meters. This system automates the process of reading and storage of the meter reading.

Among the options offered by the application is the notification settings, so that the user receives notification of the time when the meter needs to be read. In addition, the application displays previous readings so that the customer can take control of their consumption.

Smart meters.

Gas Natural has undertaken several projects in countries such as Spain and Italy in which, in addition to meeting the regulatory needs of the sector, it seeks to go further and to build a business model based on the use of meters with added functionalities.

With this new technology, the user can access accurate and detailed information in real time on their energy consumption, helping them identify ways to save energy and therefore lower their energy costs.



In 2017, the online sales of Gas Natural Fenosa in Spain consolidated the growth of previous years, with a total of 25,900 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).

During 2017, more than 12.5 million customers visited the website and received online information about Gas Natural Fenosa's products and services.

As regards customer service, a total of 6.5 million customers used the company's online platforms. The Net Promoter Score (NPS) at the close of 2017, is as follows
Sales: 41% (+14 percentage points (p.p.))
Customers area: 27% (+20p.p.)
Customers area mobile: 21% (+10p.p.)
Online customer service: 55% (+23p.p.)

The rate of online versus off-line use in servicing has increased, up to 15.3%.

In 2017, the company reached 76,000 users on social networks. Over the same period, the community managers have handled 72,500 cases, thus improving customer satisfaction levels in the after-sales service, with the NPS at 55%.

In Latin America the virtual channel was consolidated in 2017, with more than a million registered customers in virtual offices, who visited more than 2.5 million times and conducted more than 3.5 million transactions. Furthermore, in the electricity business in Chile we opened the sales service through Twitter, providing the customer with the information requested and/or re-routing them to the corporate website.

In the case of Chile, the following milestones were reached in 2017:

- > Throughout the most part of 2017, CGE was present on Twitter and on the website, and incorporated the Facebook and LinkedIn channels towards the end of the year.
- > As regards service provision, the Twitter and web pages channels were strengthened, and on Twitter we

incorporated some improvements in the tone of communication and in providing customers with the commercial service. On the web pages we included a series of features that will improve the customer's experience.

> Gas Natural Fenosa on social networks. Spain

Social network	Profile or user name	URL
	> Gas Natural Fenosa	> https://www.facebook.com/GasNaturalFenosa
	> Gas Natural Fenosa Customers Spain	> https://www.facebook.com/GasNaturalFenosa.Espana.Clientes
	> At the Cinema and at Home	> https://www.facebook.com/EnElCineComoEnCasa/
	> Gas Museum	> https://www.facebook.com/museudelgas/
	> MAC, Museum of Contemporary Art	> https://www.facebook.com/gasnaturalfenosa.mac/
	> @GNF_es	> https://twitter.com/gnf_es
	> @GNFclientes_es	> https://twitter.com/GNFclientes_es
	> @GNFcine	> https://twitter.com/GNFcine
	> @MuseodelGas	> https://twitter.com/MuseodelGas
	> @GNFprensa_es	> https://twitter.com/GNFprensa_es
	> @FundacionGNF	> https://twitter.com/FundacionGNF
	> Gas Natural Fenosa	> https://www.youtube.com/user/gasnaturalfenosa/featured
	> Gas Natural Distribución	> https://www.youtube.com/channel/UCVH2PMTWMqs6draR_4cu1GQ/featured
	> Gas Natural Fenosa	> https://plus.google.com/113333013659018992649/about
	> Gas Natural Fenosa Clientes España	> https://plus.google.com/116302927617637104566/posts
	> Gas Natural Fenosa	> https://www.linkedin.com/company/gas-natural-fenosa
	> Gas Natural Fenosa Foundation	> https://www.linkedin.com/company/fundación-gas-natural-fenosa?trk=top_nav_home
	> Gas Natural Fenosa	> http://instagram.com/gasnaturalfenosa
	> GNFcine	> http://instagram.com/gnfcine
	> Gas Museum	> https://www.instagram.com/museudelgas/
	> GNF Foundation-Gas Museum	> https://www.flickr.com/photos/museodelgas



Gas Natural Fenosa on social networks. Other countries

Argentina		@GNF_ar - https://twitter.com/GNF_ar
		https://www.youtube.com/user/GasNaturalFenosaAr
		https://plus.google.com/+GasNaturalFenosaAr/about
Brazil		https://www.facebook.com/gasnaturalfenosa.brasil/
		@GNF_br - https://twitter.com/GNF_BR
		https://www.youtube.com/user/GNF2013
Chile		http://instagram.com/gasnaturalfenosa_br
		Metroambientalistas: https://www.facebook.com/Metroambientalistas/
		Brigada metroambientalistas: https://www.facebook.com/brigadametroambientalista/?fref=ts
		Canal Metrogas Chile: https://www.youtube.com/user/MetrogasChile
		Metrogas Chile: https://twitter.com/MetrogasChile?lang=es
		Club Metrogas: https://twitter.com/Club_Metrogas?lang=es
		CGE: @cged_sos - https://twitter.com/search?q=%40cged_sos&src=typd&lang=es
	CONAFE: @conafe_sos - https://twitter.com/search?q=%40conafe_sos&src=typd&lang=es	
	EMELARI: @emelari_sos - https://twitter.com/search?q=%40emelari_sos%20&src=typd&lang=es	
	ELIQSA: @eliqsa_sos - https://twitter.com/search?q=%40eliqsa_sos%20&src=typd&lang=es	
	ELECDA: @elecda_sos - https://twitter.com/search?q=%40elecda_sos&src=typd&lang=es	
	EMELAT: @emelat_sos - https://twitter.com/search?q=%40emelat_sos&src=typd&lang=es	
Colombia		https://www.facebook.com/gasnaturalfenosa.colombia/
		@GNF_co - https://twitter.com/GNF_co
		@ElectricaribeSA - https://twitter.com/ElectricaribeSA
		https://www.youtube.com/user/gasnaturalfenosaco
France		https://www.youtube.com/channel/UCyBUV6QaT7ScECRZZFk_Itg
Mexico		https://www.facebook.com/GasNaturalFenosaMx/
		@GNF_mx - https://twitter.com/GNF_mx
		https://www.youtube.com/user/gasnatmex
Moldova		https://www.facebook.com/gasnaturalfenosamoldova/
Panama		https://www.facebook.com/gasnaturalfenosa.panama/
		@GNF_pa - https://twitter.com/gnf_pa
		https://www.youtube.com/user/GasNaturalFenosaPa



In Brazil, in 2017, the restructuring of the customer service channel of the WEB platform has facilitated quicker and more objective browsing. Visits have increased by 45% since the restructuring.

In 2017, Gas Natural Colombia achieved 46,760 followers on Facebook and 4,212 on Twitter, and dealt with 4,234 contacts through these channels.

SMS: in Mexico the SMS alerts service is established. Payment reminders are sent to customers 4 days before the bill becomes due and payable. More than 38,000 customers have registered for this service.

Online payment: in Mexico the online payment model has been developed through the OXXO commercial chain, which enables payment of the due or late bill as well as paying the reconnection charge. This allows customers to pay through a network of more than 17,000 OXXO stores nationwide, 365 days a year.

The bill as a channel of communication

Together with the use of new technologies, Gas Natural Fenosa is aware that the bill continues to be the main channel of communication with its

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

In 2017, Gas Natural Fenosa has worked on the introduction of billing methods and on the development of estimation alternatives.

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

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

other countries. In the specific case of Chile, information is given on the different payment methods and channels available, as well as telling customers how to subscribe to the electronic issuance of bills. This information is fully regulated by the Superintendencia de Electricidad y Combustibles (SEC).

In Brazil, the layout of the bill was modified to provide customers with greater assimilation about the important contents shared by the company, such as useful tips on the efficient use of gas, safety and motivating the use of virtual communication channels and online billing.

Gas Natural Colombia understands that the first channel of communication with the customer is the bill, and it identifies the opportunity to increase the company's efficiency and competitiveness and in turn increase customer satisfaction, by implementing the sending of the coupon and the bill by email. This project was introduced in August 2017, and by the end of the year there were 28,000 customers receiving the bill by email and the call channel had sent 16,188 coupons. This helped to decrease claims by 17%.

In 2017, we have introduced a range of improvements in Spain in the billing process:

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

In addition, different Customer Focus Groups have taken place in Spain to get customers' opinion and to introduce improvements in the reading, billing and payment service.

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

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

Gas Natural Fenosa website indicators (in thousands). Spain

	2017	2016	2015
Customers registered at the end of the year	1,315	1,134	1,088
Online transactions at the Virtual Office	13,019	12,192	8,094
Customers registered with the online billing service	171	165	169

Communication actions through the bill

- > **Argentina.**
Information about the Camon App.

Focusing industrial customers on the use of interactive collection system.
 - > **Brazil.**
Promoting the Virtual Office.

Promoting the online bill.

Promoting direct debit.

Communication campaign to notify customers about the new regular review model – RTR.

Useful tips on the efficient use of gas.

Safety campaigns.

Land registry update campaigns.

The company’s Facebook, Twitter and YouTube addresses, to increase communication through social networks and also so that the customer discovers matters of interest and the company’s processes.
 - > **Chile (electricity business).**
Communication campaigns on the number of customers, virtual office and external payment channels, among others.

The company’s Twitter address, to increase communication through social networks.
 - > **Chile (MetroGAS).**
Advertising campaigns.

Addresses of the different branches.

Payment methods.

The company’s Facebook, Twitter and YouTube addresses, to increase communication through social networks.

Information on the Club MetroGAS.
 - > **Colombia (gas business).**
The company’s Facebook, Twitter and YouTube addresses, to increase communication through social networks.

The reconnection cost so that the customer can see why the bill increases in the event of the power being cut off and reconnected for non-payment.

Specific helpdesk for protection of customer’s data.

Communication campaign to notify customers about the new regular review model.

Promotion of the Virtual Office.
 - > **Mexico.**
Opening times and addresses of customer service centres.

Promotion of the Virtual Office.

Customer service telephone helpdesk and timetables.

Authorised means of payment.

Emergency 24-hour telephone helpdesk.

“Don’t Queue” campaign to inform the customer that they can now pay their bill in the “Oxxo” commercial chains, even if the bill is being paid late and a reconnection fee is required.

Important information on the General Conditions for Provision of the Service.

“The 4 basics to be prepared because your peace of mind is essential” campaigns.

“Gas Appliances Promotion” campaign.

“Call before You Dig” campaign in the North zone: Promotion of damage prevention, contact telephone number **81530821**.

“Gas Natural Fenosa with Mexico” campaign in Mexico City: Promotion of support to customers that suffered damages to their property due to the seismic event.
 - > **Panama.**
Updating the data of new agents.

Information on the Web Services project.
-

Communication to raise the customer's awareness

Since 2007, the company counts with the Natural Commitment programme, which seeks to protect the environment with the help of major customers.

As part of this programme, in 2017 two actions were carried out to raise awareness of current and potential wholesale customers in issues of corporate responsibility.

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

The second action focused on promoting the development of photovoltaic facilities to encourage the use of renewable energy and the reduction of CO₂ emissions.

Privacy and security of the customer's data

Cybersecurity and information security

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.

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

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

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

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

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

The report in January 2017 shows that Gas Natural Fenosa satisfactorily complies with the security measures required in the Implementing norms of the Personal Data Protection Act, although some points for improvement have been detected and recommendations given by the auditors. The content of the report on the audit that is conducted every two years is as per articles 96 and 110 of Royal Decree 1720/2007 of 21 December, approving the implementing norms of the Personal Data Protection Act 15/1999 of 13 December.



Cybersecurity Plan (2015-2017)

Gas Natural Fenosa has a cybersecurity plan at international level, which is based on three key pillars: people, processes and technology. The following meetings concerning the plan were held in 2017:

- > Meetings every six months of the Management Committee of Gas Natural Fenosa.
- > Meetings every month of the Cybersecurity Plan Management Committee.
- > Meetings every fortnight of the Cybersecurity Plan Operational Committee.

Also in 2017 we worked on 20 projects, eight of which finalised that year:

- > Review of the security strategy.

- > Review, analysis and drawing up of the security regulations.
- > Identification, classification and processing of information.
- > Identification, classification and processing of information of Critical Infrastructures (CI).
- > Management of mobile devices.
- > Priority assets of senior management.
- > Management of logs and events (SIEM).
- > Communication. The communication project has concluded all of its tasks during the year in progress. However, it will remain active with other targets during 2018.

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

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

In addition, there are procedures for updating and correcting new vulnerabilities of systems, to propitiate better proactive conduct in the prevention of security incidents, and in the analysis and management of information security risks. Furthermore, we have introduced systems to protect the network and communications against malware and/or unauthorised access, including active monitoring of the activity, to anticipate possible problems and allow them to be resolved quickly.

In 2017, there were various incidents at the company related to malware, phishing and ransomware campaigns, with a limited scope and without significant relevance. These incidents were solved by applying the incident management methodology, scaling them up from the technical technology positions to those of security, and implementing containment measures. We also worked on retrieving information and restoring operations, and subsequently carried out forensic and investigation analyses.



Cybersecurity collaborations in 2017

Spanish National Cybersecurity Institute (INCIBE).

Collaboration in cybersecurity exercises to improve response capabilities. The Spanish National Cybersecurity Institute (INCIBE), has not performed its 2017 exercises, which are scheduled for February.

Computer Emergency Response Team for Security and Industry (CERTSI).

Collaboration in improving response capabilities, strengthening coordination between institutions, raising awareness of risks at all levels, and enhancing the company's reputation image. The CERT for Security and Industry (CERTSI), is the Response Capacity to Information Security Incidents of the Ministry of Energy, Tourism and the Digital Agenda, and the Ministry of the Interior (operated by INCIBE).

CERT-SI and the CERT-CCN.

Information exchange protocols on threats and incidents. National Cryptological Centre (CCN).

National and international associations.

Cybersecurity partnerships with associations such as the Spanish Association for the Promotion of Information Security (ISMS Forum Spain) and the Thematic Network on Critical Energy Infrastructure Protection (TNCEIP) and Industrial Cybersecurity Centre (CCI).

Industrial Cybersecurity Centre (CCI).

Collaboration with the Industrial Cybersecurity Centre (CCI), in workgroups, congresses and in a participatory way (speakers).

National Centre for Critical Infrastructure Protection (CNPIC).

Direct collaboration and official representation of the National Centre for Critical Infrastructure Protection (CNPIC).

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

> Managing cyberthreats

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

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

Throughout this year we have continued to improve the process of reporting and dealing with threats, strengthening the Cyber intelligence service, to which we have added additional sources of information:

- > The TIRESIAS report from the CERT-SI.
- > Cybersecurity Rating Service, which enables the objective assessment of the security situation from the outside, both for the company as well as for third parties.

In addition, we have started to introduce a MISP platform (Malware Information Sharing Platform) for the purpose of automating the management of threats. We have also continued with the integration of security information into the Corporate SIEM, enabling the correlation of events and the management of alerts in the internal systems and infrastructures activity.

Moreover, we have introduced a SOC for management of security operation and management of alerts in the critical infrastructures into which the first of these has already been integrated.

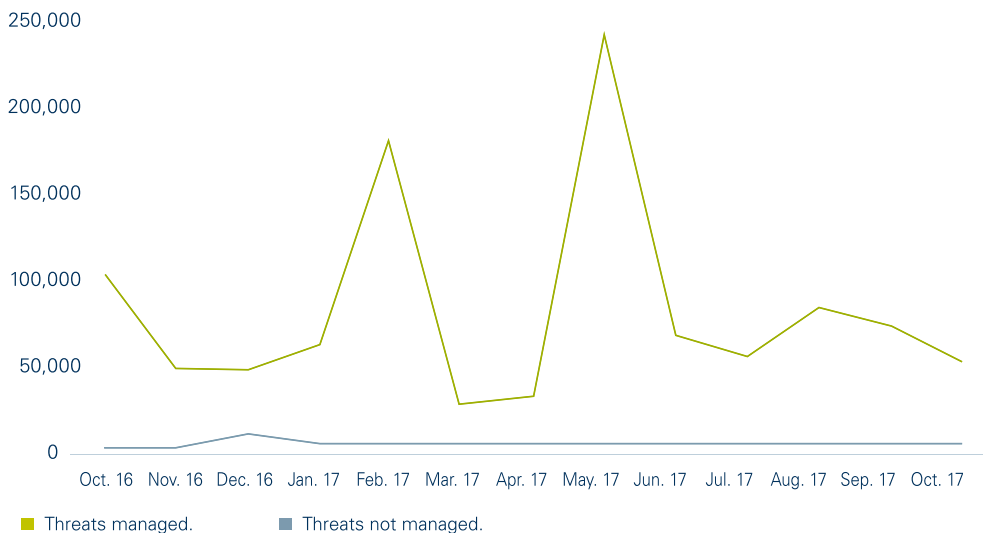
As regards the evaluation of system security, we have reinforced the Security Evaluation and Certification service and have integrated this into the life cycle of information systems and assets. We have conducted dynamic analyses of web applications, apps, code analysis, infrastructures of peripheral security, industrial control systems and critical infrastructures.

In 2017, to increase the organisation's level of maturity in matters of crisis management, we also performed several exercises/drills of partial contingency plans, including Cybersecurity crisis.

During 2017, there have been several incidents and attacks at the company related to malware, phishing and ransomware campaigns, among other, with limited relevance, and these have been managed with the tools established for this such as anti-malware, IDS, Web Application Firewall, etc.

On 12 May 2017 there was a minor incident affected by Wannacry, including the blocking (encrypted) of a very small number of computers in Spain and a few in Latin America. Under no circumstances were there any disruptions to business procedures and services and no loss of information concerning these.

Antimalware



As a preventive measure and to ensure continuation of the incident management process, technical and crisis committees were established featuring representatives, together with Security, from business areas that could be affected, such as Information and Communication Systems. There was ongoing collaboration with organisations (CNPIC, INCIBE, CERT-SI) and other companies and services to make sure that the very latest information was available at all times with regard to the characteristics of threats.

As a consequence of these attacks, some security and risk management protocols and procedures were amended to implement the lessons learned.

Cybersecurity campaigns and training

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



Four national and international campaigns have been carried out with the following information security contents and under the following title:

1. Safety at work: "Keep Your Information Secure".
2. Protection from external threats: "Protect Yourself from External Threats".
3. Classification and Processing of information: "Use and Share Information in a Secure Way".

4. Christmas. Secure purchases, browsing and social network: "Let's have a Quiet Christmas this Year".

As regards training, the following actions have been developed this year:

1. Online training courses about security in Industrial Control Systems, carried out by 966 users in Spain and other countries.
2. We have finalised the preparation of an online course about responsibility in information security, which will be mandatory for all employees throughout 2018.

3. There has been a Cybersecurity awareness course for executives, attended by 244 people in Spain and 88 in other countries.

4. There has been an in-class course on Cybersecurity for middle managers that will be included in the training plan to be given for this group (more than 2,000 people at group level) next year.

5. There have been 13 in-class sessions to raise awareness of employees in Spain and other countries, attended by more than 1,000 employees.



InCrit project

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

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

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

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

The following audits were conducted in 2017:

- > Preparation of a Specific Protection Plan (hereafter, PPE) and delivery of this to the CNPIC, corresponding to a new Critical Infrastructure, defining the specific measures to be put in place to ensure the comprehensive security of the said infrastructure.
- > Preparation and delivery to the CNPIC of the Operator Security Plan (hereinafter, PSO) updated following its review after two years.
- > Introduction of the initiatives set out in specific protection plans.
- > Creation of the Task Force as a team to reinforce the execution of projects to introduce physical protection measures, generate synergies and increase efficiency in the performance of works.
- > Holding of monthly meetings of the InCrit Operations Committee comprising the Security Area Manager and all parties involved (InCrit Project leader, InCrit Project Managers, Projects Office, Heads of the Governance Unit and Information Security & Cybersecurity, and Security Manager Spain), where the status of the project, risks and new needs are monitored.
- > Holding of two meetings of the InCrit Committee to boost business leadership in the deployment of the strategy contained in the PSO.

The creation in June of the Cybersecurity group in Yammer has propitiated a more direct relationship with users and has already reached 229 members, although any employee may at any time use this channel with regard to solve any queries, sharing experiences or receiving valuable information for their activity with regard to Information Security and Cybersecurity.

To achieve the objectives set out in the Cybersecurity Policy, it has been necessary to have the full commitment of management, which is aware that training has to be an ongoing activity that needs to be repeated and reviewed regularly in order to have a preventive effect on incidents, and that it must adapt to the new technologies that will inevitably come into use.

Protection of critical infrastructures

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

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

Security Intelligence

As a multinational group, Gas Natural Fenosa carries out a broad and diverse set of activities in dynamic scenarios that are characterised by the confluence of a great many factors of all kinds: social, economic, political, cultural, technological and legal. Some of these factors, whether structural or related, are risks that the group needs to manage. This management must be carried out through some governing principles that guarantee the minimum impact on compliance with the service mission to which the company is committed.

That is why, since 2014, the company has had a Security Intelligence service which, among other purposes, is responsible for the ongoing capture of information, the processing and analysis of this information to cover the intelligence needs of Gas Natural Fenosa.

The Security Intelligence service provides blanket coverage for the security of travellers and expatriates, the threats to business lines, operations and assets of the company.

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

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

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

In 2017, we prepared 1,263 Security Intelligence products:

- > 305 early warnings of new risks for business operations detected.
- > 714 processes of daily risk monitoring covering business operations in Spain and abroad started.
- > 231 reports of specific risks for decision-making in business operations carried out.
- > 13 specific reports of risks in areas visited by travellers finalised.

The Security Intelligence service provides blanket coverage for the security of travellers and expatriates, the threats to business lines, operations and assets of the company.

Annex of indicators

Customers disconnected due to non-payment classified by the total duration between disconnection for non-payment and payment of debt ¹ . [EU27]	Gas business	Fewer than 48 hours	
		Between 48 hours and 1 week	
		Between 1 week and 1 month	
	Electricity business	Between 1 month and 1 year	
		Over 1 year	
		Fewer than 48 hours	
Customers disconnected due to non-payment classified by the total duration between debt payment and reconnection ¹ . [EU27]	Gas business	Between 48 hours and 1 week	
		Between 1 week and 1 month	
		Between 1 month and 1 year	
	Electricity business	Over 1 year	
		Fewer than 24 hours	
		Between 24 hours and 1 week	
Average duration of electrical power cuts (hours). [EU29]	Gas business	Over 1 week	
	Electricity business	Fewer than 24 hours	
		Between 24 hours and 1 week	
Average System Interruption Frequency Index (ASIFI). [EU28]	Gas business	Over 1 week	
	Electricity business	Fewer than 24 hours	
		Between 24 hours and 1 week	
Satisfaction rate with main processes. Residential customers (on a scale of 1 to 10) ² .	2015		
	2016		
	2017		
	Satisfaction rate with main processes. Wholesale customers (on a scale of 1 to 10).	2015	
		2016	
		2017	
Customer service ratios ^{3 y 4} .	Continuity of gas supply		
	Continuity of electricity supply		
	Billing and payment		
	Telephone customer service ⁵		
	Centres ⁵		
	Emergencies		
	Inspection/review ⁵		
Volume of sales – electricity customers (GWh).	New customers/start-up ⁵		
	Global satisfaction		
	Negotiation and contracting		
	Quality of gas supply		
	Quality of electricity supply		
Volume of sales – electricity clients (thousand of euros).	Commercial management		
	Regulated		
	Third Party Access to the network (TPA)		
	Regulated		
	Customer requests solved immediately (%)		
	Average time for solving requests (days)		
	Calls answered within 20 seconds (%)		
	Regulated		
	Third Party Access to the network (TPA)		
	Regulated		
	Third Party Access to the network (TPA)		

¹ The Vulnerability project has impacted the volume of cuts made in Spain during the year.

² In Chile, the scale used for the satisfaction rate with the main processes was from 1 to 7.

³ In Spain, the calculation ratio is calculated in accordance with the calls answered within 15 seconds.

⁴ As regards the ratio of customer service in Chile, the first figure shown corresponds to the gas business (MetroGAS) and the second figure corresponds to the electricity business.

⁵ In Spain, the methodology for these procedures has changed; until 2016, measurements were taken by telephone survey, but since 2017, they have been measured using an online survey.

Argentina	Brazil	Chile	Colombia	Spain	Italy	Mexico	Moldova	Panama	Portugal	Total
37,431	80,728	30,023	231,378	269						
3,280	25,471	6,919	57,829	180						
1,406	26,877	4,569	44,353	278						
5,118	9,526	4,664	50,790	397						
8,613	0	3,256	0	146						
	-	307,293		24,951				34,774		
	-	66,146		2,427				31,701		
	-	96,115		5,007				7,567		
	-	82,660		2,408				1,828		
	-	2		0				0		
9,121	86,869	45,128	402,185	197		108,006				
46,704	40,524	4,700	25,871	622		32,675				
23	0	121	1,643	451		768				
		515,462		29,147				39,809		
		36,921		5,505				22,513		
		1,706		141				1,260		
-	-	24.00	93.31	1.02	-	-	4.40	58.38		
-	-	14.00	0.00	1.13	-	-	2.99	59.14		
-	-	-	-	1.19	-	-	-	63.09		
-	-	7.00	60.07	0.88	-	-	3.24	16.17		
-	-	6.00	0.00	0.80	-	-	2.57	17.04		
-	-			0.86				19.08		
8.89	9.19	6.66	8.79	8.80	8.93	8.7	-	-		-
-	-	5.75	-	8.06	8.26		8.87	7.49		-
7.84	8.95	5.84	8.70	7.18	7.90	8.7	-	8.47		-
7.59	8.20	5.51	7.90	8.35	8.33	7.5	-	7.96		-
7.55	8.54	5.44	8.12	9.11	8.75	8.2	-	-		-
8.24	8.80	5.27	8.82	8.18	9.27	8.8	-	-		-
-	-	-	-	8.53	-	-	-	-		-
-	-	-	-	7.18	-	-	-	-		-
7.92	8.41	5.60	8.37	7.55	7.75	8.68	8.04	7.61	7.29	7.60
				7.75						
				8.46						
				7.89						
				8.58						
20.9	83	89/19.5	82.8	89.0	94.5	99.4	85.6			
22	11	12.5/13	10.7	8.7	18.9	1.2	5.0			
80.4%	70%	80/83	78	80.4	71.2	81.56	55.4			
30,127	74,343	16,125				21,166				141,762
41,957	14,736	29,522		195,586		36,451				318,252
1,617.7		13,182		0				4,956		19,755
333.5		1,391		32,039				151.6		33,915

1992

Gas Natural Foundation, a benchmark in environmental awareness

Since 1992, the date it was founded, the Gas Natural Foundation has managed to become a benchmark in raising environmental awareness and dissemination in Spain, for the purpose of promoting the rational use of energy resources and encouraging sustainable development.

It also performs activities on the international stage, as well as the training of professionals for the sector and the preservation and dissemination of the historic and cultural heritage of the gas industry.

175

1843
2018

years full of history
and energy

museu
del gas

Fundació
gasNatural
fenosa





2017 Corporate
Responsibility Report

Commitment to Results



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

Commitments and principles of responsible action with shareholders and investors

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

Gas Natural Fenosa has a solid and stable business structure. The company is the largest integrated gas and electricity operator in Spain and Latin America. In the gas market, it is the leader in distribution and commercialisation on the Iberian Peninsula, and with regards to distribution in Latin America. Similarly, the company is one of the biggest liquefied natural gas (LNG) operators in the world, where it

is the benchmark in the Atlantic and the Mediterranean basins in terms of operation volume. It has a fleet of methane tankers that means it can supply natural gas to different regions of the planet, an aspect that facilitates diversification of the supply sources.

The excellent economic performance of Gas Natural Fenosa and the solidity of its business were boosted by the company's outstanding performance

in terms of corporate responsibility. The company aims to carry out its business in harmony with the environment and dealing with the expectations of each of its stakeholders.

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

Value actions

Proposed actions 2017

Planned actions 2018

Maintaining a presence on sustainability indices.



Hosting of an Investor Day with the financial community to launch the 2018-2020 Strategic Plan.

Technical visits to the facilities of Gas Natural Fenosa with minor shareholders.



Extension of activities with minority shareholders in A Coruña and Valencia.

Assess extending the programme of informative meetings with minor shareholders to other Spanish cities.



Improvements to the economic-financial information of the website based on best practices.

Assessment and analysis of the creation of a Shareholder Club.



Implementation of the Internal Communications Plan in issues of corporate responsibility.

Development of the Internal Communications Plan in issues of corporate responsibility.



Maintaining a presence on sustainability indices.

Level of fulfilment:  Finalised.  Major progress.  Intermediate progress.  Little progress.  Not started.



Focus on growing and sustained profitability

Overall results

Net profit.

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

Ebitda performance.

Consolidated Ebitda at 31 December 2017 was down by 749 million euros and reached 3,915 million euros, down 16.1% year-on-year, having restated the gas distribution business in Italy and Colombia, the electricity distribution in Moldova, gas trading in Italy and electricity generation in Kenya. However, we should first mention that the 2017 financial year does not include the trading figures of Electricaribe, and secondly there is an increase of non-recurrent personnel overheads basically as a consequence of the launch of the new 2018-2020 efficiencies plan for 110 million euros, meaning that in uniform terms, the decrease would only be 8.8%.

As a consequence of the natural disasters caused by flooding and wind and snow storms in Chile and Moldova, as well as the effects of Hurricane María in Puerto Rico and the earthquake in Mexico, there has been a loss of earnings of 20 million euros, registration of an amount of 25 million in the "Other operating expenses" caption corresponding to expenses and indemnifications incurred with regard to the same, and an amount of 8 million euros in the heading "Depreciation and impairment of fixed assets" corresponding to the impairment and reduced value of the property, plant and equipment affected.

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

- Ebitda from international activities of Gas Natural Fenosa fell by 4.8% and accounts for 48.5% of the consolidated total, compared with 42.8% in the previous year. In addition, Ebitda from operations in Spain fell to 24.5%, and accounted for a higher relative proportion of 51.5% in the total consolidated amount.
- Other activities in 2016 included gross capital gains of 51 million euros (net capital gains of 35 million euros) from the sale of four buildings in Madrid amounting to 206 million euros, while in 2017 there were only capital gains of 23 million euros.

Debt ratio.

At 31 December 2017, net financial debt totalled 15.154 billion euros, equivalent to a debt ratio of 45.3% (15.423 billion euros and 44.8% at 31 December 2016).

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

Sale of gas distribution and commercialisation in Italy.

On 13 October 2017 Gas Natural Fenosa finalised a deal to sell its gas distribution and commercialisation companies in Italy, in separate agreements with the companies 2i Rete Gas and Edison, for an overall amount of 1,020 million euros. Following approval from the Italian competition authorities, on 1 February 2018 the deal was secured to sell the gas distribution companies in Italy. The sale of the gas commercialisation company in Italy is expected to be completed during the first quarter of 2018. The transactions are expected to generate post-tax capital gains for Gas Natural Fenosa of approximately 190 million euros overall.

Sale of gas distribution in Colombia.

On 17 November 2017 Gas Natural Fenosa reached a binding agreement with Brookfield Infrastructure for the sale of its holding of 59.1% in Gas Natural S.A. ESP, a Colombian company that engages in retail gas distribution and commercialisation, for an amount of 1,678,927 million Colombian pesos (468 million euros). The transaction was structured in two stages, the first of which was carried out through successive operations on the Colombian stock exchange in December 2017, which involved the loss of control over Gas Natural S.A. ESP. The remaining stake would be subsequently transferred through a public offering of shares (POS), having complied with certain conditions precedent, mainly the obtaining by the company of certain administrative authorisations in Colombia, which are expected to be completed during the first half of 2018.

On 20, 21 and 22 December 2017 Gas Natural Fenosa sold 17.2% of its holding in Gas Natural S.A., ESP, down from 59.1% to 41.9%. Following this shareholding change, on 29 December 2017 the Extraordinary General Meeting of Shareholders of Gas Natural S.A. ESP approved the restructuring of its Board of Directors, which now comprises five members, of which two have been appointed by Gas Natural Fenosa, having lost the representation majority on the board.



Focus on growing and sustained profitability (continuation)

Due to Gas Natural Fenosa losing the majority voting rights and members of the Board of Directors of Gas Natural S.A. ESP, the loss of control at 31 December 2017 has been entered into the accounting records. The accounting treatment applied to this transaction has been based on the IFRS 10 with regard to the loss of control of the parent company to a subsidiary, derecognising all assets and liabilities of Gas Natural S.A. ESP for their book value, recognising the fair value of the consideration received for 17.2% and the remaining stake of 41.9% for its fair value, which in this case is the price fixed in the binding sales agreement signed with Brookfield Infrastructure. The resulting difference has been recognised as post-tax earnings of 350 million euros in the heading "Profits (losses) from prior years from discontinued operations net of tax" which includes both the capital gains through the sale of the 17.2% stake as well as the impact of the valuation at fair value of the remaining stake of 41.9%.

Moldova and Kenya.

Lastly, as a consequence of the strategic review of its businesses and positioning in different countries, Gas Natural Fenosa has decided to carry out competitive sales processes for its electricity distribution business in Moldova and electricity generation business in Kenya. These processes form part of the efforts to optimise the business portfolio of Gas Natural Fenosa and of the ongoing review of its activities and geographies considered as non-strategic. As a consequence of estimating the fair value less costs to sell required under IFRS 5, there has been a readjustment of the net book value of the investment in Kenya for an amount of 24 million euros incorporated into the post-tax profits of discontinued activities net of tax.

Investments

Material and intangible investments of 2017 total 1,782 million euros, down 29.2% year-on-year, due to the fact that in 2016 the procurement of two new methane tankers under a lease was recorded for 425 million euros along with the acquisition of new LPG supply points for 426 million euros.

The electricity distribution business represents 33.8% of the consolidated total, being the major focus for investment, and is down 7.8% year-on-year. Electricity distribution in Latin America accounts for 19.7% of consolidated total and has decreased by 9.8%.

Gas distribution represents 32.8% of the consolidated total and is down 39.7% year-on-year through the decrease of 69.4% of the investment in Spain which, in 2016, included part of the investment through acquisition of new

LPG supply points. This decrease is compensated with the 35.3% growth in gas distribution in Latin America, which accounts for 20.9% of the consolidated total and displays investment increases in all countries both with regard to maintenance as well as network growth.

In the geographic field, investments abroad rose by 13.9% and accounts for 54.0% of the consolidated total, compared with 33.6% in the previous year.

In addition, investments in Spain fell 50.9%, reducing their contribution to 46% versus 66.4% year-on-year, as a consequence of procuring a new methane tanker under a lease in September 2016.

Without this impact, investments in Spain would represent 60.0% of the total in 2016.

In the geographical sphere, foreign investments were up by 13.9%, accounting for 54% of the total, compared with 33.6% the previous year.

Stock market performance and profitability

As regards the company's stock market performance, the Gas Natural Fenosa shares closed 2017 at a price of 19.25 euros and stock market capitalisation of 19.263 billion euros, which represents a 7.5% increase versus the previous year

end, in a climate in which the Ibex 35, the main Spanish stock market index, rose 7.4%.

The proposal for distribution of 2017 profits, which the Board of Directors will forward to the Ordinary General Meeting of Shareholders for approval, is to pay 1.001 billion euros in dividends, the same

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

Stock market indicators

[102-7]

	2017	2016	2015
No. of shareholders (in thousands)	79	82	73
Share price at 31/12 (euros)	19.25	17.91	18.82
Maximum share price (euros)	22.5	19.72	20.56
Minimum share price (euros)	17.06	14.69	17.55
Earnings per share (euros)	1.36	1.35	1.57
Share price-profit ratio	14.2	13.3	12.5
Share capital (no. of shares)	1,000,689,341	1,000,689,341	1,000,689,341
Stock market capitalisation (millions of euros)	19,263	17,922	18,828

Financial Ratios

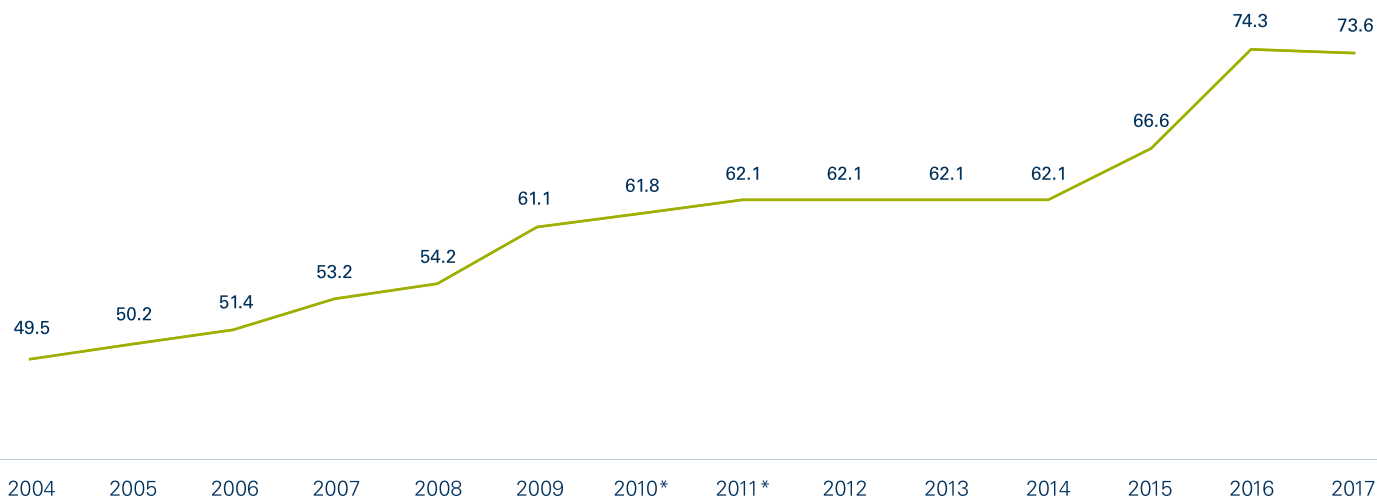
	2017	2016	2015
Debt	45.3	44.8	45.8
Ebitda/Net financial results	6.4x	6.3x	6.4x
Net debt/Ebitda	3.9x	3.3x	3.0x
PER	14.2x	13.3x	12.5x

¹ Net financial debt/net financial debt + equity.

Profit index (millions of euros)

	2017	2016	2015
Net profit of Gas Natural Fenosa	1,360	1,347	1,502

Evolution of payout (%)*



*Equivalent total amount.

Communication channels adapted to the needs of shareholders and investors

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

The company provides the same information to institutional and minority investors, guaranteeing the principles of equality and the simultaneous publication of information, under a criterion of uniformity, simultaneity and diligence.

In April, to coincide with the General Meeting of Shareholders, the company launched Energy in Action, the shareholders' club of Gas Natural Fenosa and the meeting point for its minority investors.

The aim of the club, which has its own exclusive online space, is to maintain an active relationship with shareholders, offering them services of interest and specialised information.

The company provides its shareholders with specialised financial information and invites them to corporate and cultural visits.

The Shareholder Assistance Office provides a continuous reporting service to minority shareholders through a freephone number. In 2017, the company continued to hold informative meetings, two of which were held in Madrid and a further two in Barcelona. In addition, a second visit was organised to the company's offices in Barcelona. During 2017, for the first time we organised exclusive and very popular cultural visits (5 days) for shareholders.

The website brings together the documentation required by the Transparency Act and the corresponding consolidating legislation. Therefore, it offers a space that features information of interest to shareholders and investors that includes information on the

economic and management situation and the company's results for the last five years.

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

In 2017, 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. A total of 589 meetings were organised, of which 487 were with variable-income investors, as well as with fixed-income investors and socially responsible investors.

Communication channel indicators

	2017	2016	2015
Meetings with shareholders and analysts	589	520	432



> Energy in Action

In April 2017, Gas Natural Fenosa was proactive in introducing a project for the priority purpose of getting closer to its investors and improving its relationship with them, without overlooking its firm commitment to develop an attractive and sustainable remuneration policy for the shareholder.

With this project, Gas Natural Fenosa is looking to reinforce its relationship with minority shareholders and thank them for the trust deposited in the company.

This new channel represents an exclusive space for shareholders of the company, once they have registered on the website, through which they can find specialised financial information, both with regard to the company as well as the energy sector, and gain access to exclusive contents, benefits and offers of interest to them. In addition, they can take part in corporate events, obtain discounts in the electricity supply, travel and cultural activities, as well as other promotions.



Indices featuring the presence of Gas Natural Fenosa in 2017



Inclusion in socially responsible investment indices and ratings

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

For the last 13 years, Gas Natural Fenosa has had a constant presence on the Dow Jones Sustainability Index (DJSI). In 2017, the company was once again selected as the leader of the Gas Utilities sector,

maintaining its presence on DJSI World as the only company from its sector that forms part of this index. It also forms part of the DJSI Europe. Despite its leadership position, the company has posted less positive figures both in the overall assessment as well as for each composite aspect, although it obtained the highest score in the sector in both economic and social aspects.

The company has obtained the highest scores of the Gas Utilities sector in aspects such as code of conduct, information security and cybersecurity,

innovation management, market opportunities, management of the supply chain, climate strategy, environmental information, corporate citizenship and philanthropy, development of human capital, human rights, social reporting and attracting and retaining talent.

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

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

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

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

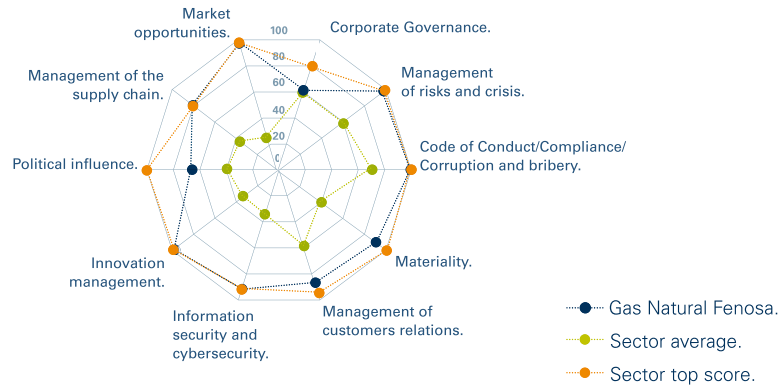
The presence of Gas Natural Fenosa on these three prestigious indices highlights the efforts made by the company in areas of corporate responsibility and transparent reporting and represents external recognition of its excellent evolution in these fields.

Green bonds and sustainable financing

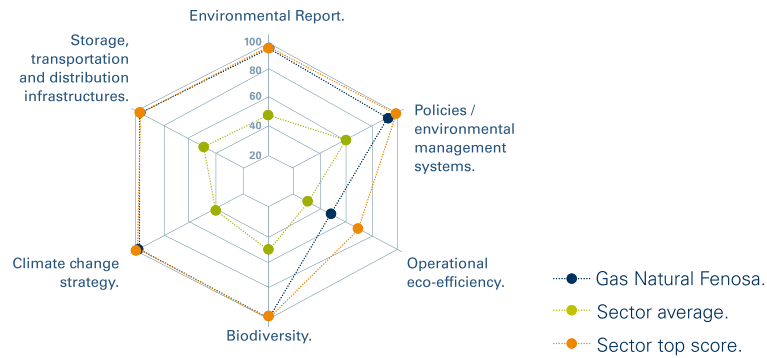
Throughout 2017 and in line with its sustainability commitment, Gas Natural Fenosa introduced a framework for the emission of green bonds targeted at financing renewable energies. Within this framework, on 15 November 2017 Gas Natural Fenosa formalised an issue of green bonds for an amount of 800 million euros with maturity in May 2025. This emission is set with an annual

Assessment of Gas Natural Fenosa on DJSI

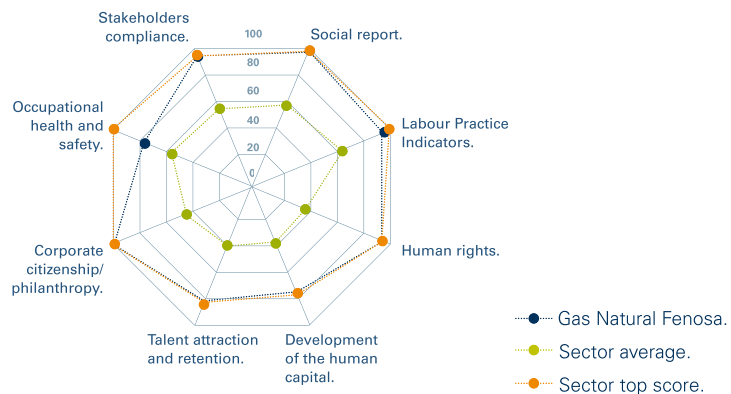
Economic



Environmental

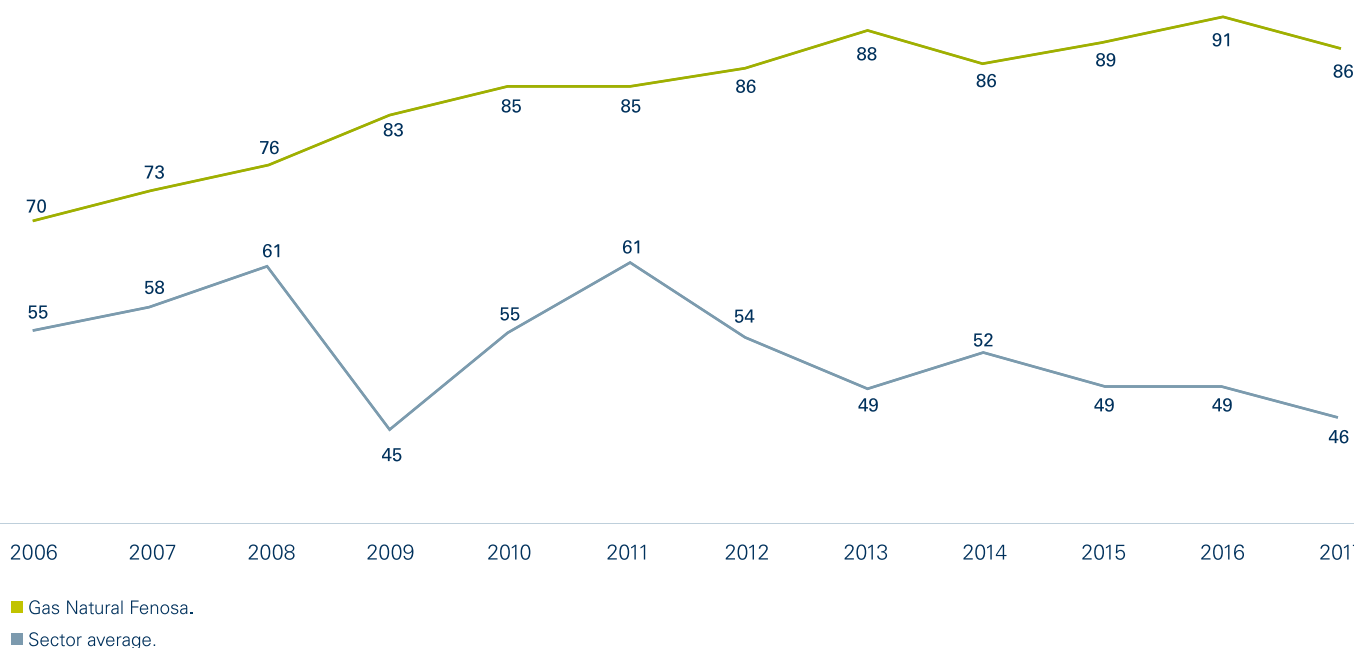


Social



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

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



coupon of 0.875%. The issue price of the new bonds was 99.77% of their face value. The issue was part of the Euro Medium Term Notes (EMTN) programme and was almost twice oversubscribed on receiving orders from around 130 institutional investors from 19 countries.

The funds received in this operation have been used to optimise the company's financial structure, increase its weight in the capitals market, diversify the base of investors with a focus on sustainability, lengthen the average life of debt and improve the maturities profile. This allowed us to increase the already ample liquidity of the company. (See the report on the framework and the issue in additional information).

In addition, to cover its financing needs and consistent with its progress in sustainability, Gas Natural Fenosa signed a sustainable credit facility with ING Wholesale Banking for an overall amount

of 330 million euros at 4 years with a possible additional year. The cost of this is partially pegged to the company's environmental, social and corporate governance conduct, based on the score awarded by the Sustainalytics ratings agency, an independent enterprise that issues a report and score in this regard. Pursuant to this, the company's score is high, among the 20 leading utilities companies worldwide. The signing of the credit facility under these conditions is further evidence of the company's commitment to ongoing improvement as set out in its Sustainability Plan.

Activity with investors that take into account ESG criteria

Since 2012, Gas Natural Fenosa has held meetings with investors that take ESG criteria into account. The company continued this activity throughout 2017, participating in the conference organised

by JP Morgan in Paris in March, where meetings were held with Edmon de Rothschild, Nordea, Axa, PGGM and LGT. In addition, in September, the first roadshow specifically directed at SRI investors was held in London. Morgan Stanley, JP Morgan Asset Management, Schroder Investment Management and Janus Henderson Investors all participated.

With the help of Nasdaq, an SRI identification project was carried out in May in order to acquire more information that would allow the proper identification of investors that could be of greater or lesser interest when organising future roadshows. This analysis was complemented twice over the course of the year by the equity position of the main SRIs provided by the Nasdaq Shareholder Analysis.

1995

International expansion: new horizons and opportunities

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

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Responsible Management of the Environment

Environmental Management. [Page 180](#)

Circular economy. [Page 189](#)

Water. [Page 193](#)

Atmospheric emissions. [Page 196](#)

Climate. [Page 198](#)

Biodiversity and natural capital. [Page 210](#)



Gas Natural Fenosa is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand.

Gas Natural Fenosa goes beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and work and encourage our stakeholders to use energy responsibly.



Commitments and principles of responsible environmental action

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

Value actions

Proposed actions 2017

Definition of the new Environmental Strategy to 2020 based on the environmental pillars of climate and air quality, water, natural capital and circular economy.

Growth in low or zero-emission renewable power in alignment with climate and air quality strategy.

Consolidation of risks and opportunities analysis in relation with climate.

Progress in the certification of new environmental management systems in compliance with ISO 14001, with adaptation to the 2015 revision of the standard.

Upholding our scores to remain in leadership band A of the CDP questionnaire in relation with climate and water.

Defining positioning and roll-out of lines of action in relation with circular economy.

Planned actions 2018

+ Programme of Environmental Strategy actions to 2020.

+ Growth in low or zero-emission renewable power in alignment with climate and air quality strategy.

+ Development of renewable gas projects.

+ Progress in the certification of new environmental management systems pursuant to the ISO 14001.

+ Promotion of sustainable mobility.

+ Extension of the Biodiversity Action Plans.

Grau de compliment: + Acabat. + Avanç elevat. + Avanç intermedi. + Avanç escàs. + No iniciat.

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

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

With regard to Responsible Environmental Management, Gas Natural Fenosa has strengthened its commitment to water management. In addition to considering this aspect in the Corporate Responsibility

Policy, the company demonstrates its commitment through the Water Strategy. This strategy permits it to be aware of the overall state of water resources and to improve management of water to local needs and environmental constraints. In addition, in 2017 the company presented the Water Management Report and every year it calculates its water footprint.



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

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

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



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

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

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



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

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

With regard to Responsible Environmental Management, Gas Natural Fenosa performs its activity with a commitment to responsible production and consumption that goes beyond the legal requirements.

The company carries out actions for the optimisation of consumption of resources, water and energy. The company also carries out educational work with its stakeholders: training employees to improve their environmental performance and raising awareness of suppliers and customers in these areas.

In relation to Responsible Environmental Management, Gas Natural Fenosa performs its activity undertaking to ensure the prevention of pollution, as well as minimisation and control of environmental risks.



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

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

Our commitment and action principle in the issue of climate change is to contribute to the mitigation and adaptation of climate change through low-carbon and renewable sources of energy, encouraging energy saving and efficiency and the application of new technologies. To this end, as part of the Environmental Strategy of Gas Natural Fenosa, we have defined the climate and air quality pillar, the main purpose of which is to reduce emissions in our operations and encourage sustainable energy.



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

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

Gas Natural Fenosa carries out its activity whilst maintaining a commitment to underwater life. In the management of dumping, studies are conducted into the quality of water from power plants once treated,

and the findings of these analyses guarantee that the company does not generate significant impacts on the aquatic ecosystems. The company also partners with third parties, especially conservation organisations and government agencies, to perform activities in this field, including the cleaning of coastal areas and the protection of marine species.



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

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

Gas Natural Fenosa carries out its activity whilst maintaining a commitment to natural capital and, accordingly, with life on land. The company carries out actions for the protection and conservation of

species and natural areas that go beyond legal requirements, performing diagnostic studies of the areas surrounding its facilities and providing education and awareness activities for its stakeholders.

Environmental management

The environmental management of processes

The environmental management of the processes carried out by our company is governed by the Environmental Strategy. It has been designed to be coherent with the company's mission and strategic vision, and with the commitments and principles of our environmental positioning, contained in our Corporate Responsibility Policy.

Environmental positioning reflects the company's mission and vision, which underscore the need to provide eco-friendly products and services and to make a positive contribution to society, through its commitment to global citizenship. This positioning, together with our environmental policy and principles, forms the basis on which to define the Gas Natural Fenosa business strategy.

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

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



The transversal pillars are necessary for integrating environmental sustainability into the decision-making process within the group's businesses:

- > Integrated management: Integrating environmental sustainability into all businesses in a coordinated manner and with leadership from company management.
- > Training and communication: Fostering awareness and internal knowledge, and supporting our external positioning.

In turn, these pillars have been transposed into 22 lines of action (16 environmental and 6 transversal). Each line of action is divided into a series of actions that sets

out the guidelines to enable each business to define objectives (specific actions).

The strategy is instrumented through the Gas Natural Fenosa's Environmental Management Model, based on the international ISO 14001:2015 standard, and forms a basic part of the company's Integrated Management System (IMS) for quality, the environment, and health and safety.

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 2017, the company retained all environmental certifications and extended the certified scope to the Chilean electricity companies EMELAT, CONAFE, CGE Distribución and Transnet Norte.

During 2017, we completed the adaptation of the IMS to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards, and this recognition is shown on the new certificates. In 2017, 87.7%¹ of Ebitda generated by impact-producing activities

was covered by the environmental management model set out in the ISO 14001 standard.

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

Pillars of the Environmental Strategy

Environmental pillars	 <p>Climate and air quality</p> <p>Reducing emissions through our operations and promoting the use of sustainable energy.</p>	 <p>Water</p> <p>Promoting the efficient and responsible use of water.</p>	 <p>Natural capital</p> <p>Minimising the impacts on ecosystems and promoting natural capital.</p>	 <p>Circular economy</p> <p>Optimising resource consumption and enhancing resource recirculation.</p>
	Lines of action	<ul style="list-style-type: none"> > Using our operations to reduce emissions (development of renewable energy sources and improvements to fossil fuels). > Reducing emissions through energy efficiency. > Developing sustainable products and services (renewable gas and sustainable mobility). > Integrating internal climate change management. > Determining impact and performance. 	<ul style="list-style-type: none"> > Optimising water consumption and reducing water discharge. > Fostering the sustainable use of water among our stakeholders. > Including water in the decision making process. > Determining impact and performance. 	<ul style="list-style-type: none"> > Reducing and compensating for our impacts, and enhancing the value of natural environments. > Determining our impact on natural capital. > Determining impact and performance.
Transversal pillars	 <p>Integrated management</p> <p>Integrating environmental sustainability into all businesses in a coordinated manner and with leadership from company management.</p>	 <p>Training and communication</p> <p>Fostering awareness and internal knowledge, and supporting our external positioning.</p>		

¹ In accordance with the new measurement methodology.

Processes by country with certified environmental management

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

+ Certified.

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

Management planning

Environmental planning is carried out within the framework of the company's Corporate Responsibility Policy and strategy. It forms part of the Quality, Environment & Health and Safety Plan (CAMASS). This plan encompasses strategies and action lines that define the working guidelines for each period, so that all businesses approve their own management programme that is included in the plan.

In 2017, 244 environmental targets were defined targeted at achieving environmental sustainability, and we managed to comply with 82.3% of the plan.

The pillars of Gas Natural Fenosa's Environmental Strategy comprise four environmental pillars (climate and air quality, water, natural capital and circular economy), defined in accordance with the key vectors in environmental management of the company, and two transversal pillars (integrated management and training-communication) required

for the integration of environmental sustainability into the decision-taking processes of the group's businesses.

The pillars are deployed in 22 action lines (16 environmental action lines and 6 transversal ones) in which we define the action areas and from there we decide the efforts to be focused on each business, with regard to each specific environmental pillar. Each line of action is divided into a series of actions that sets out the guidelines to enable each business to define objectives (specific actions).

Action lines of the Quality, Environment & Health and Safety Plan



Environmental management tools

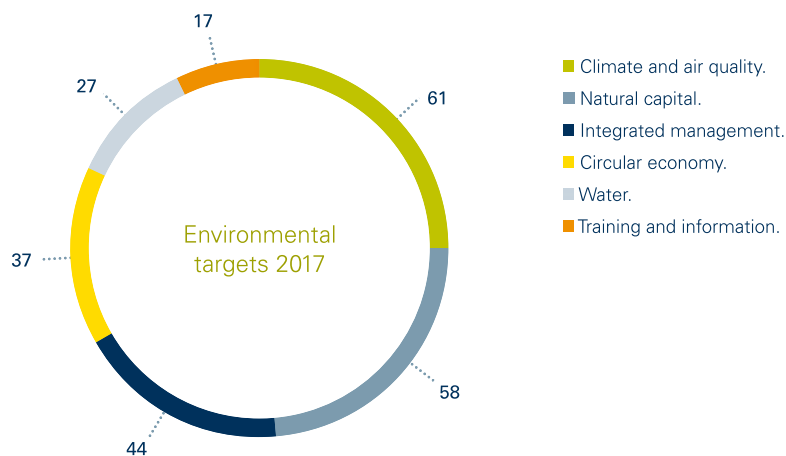
Gas Natural Fenosa has a range of different tools and methodologies in issues of the environment, prevention, health and quality, providing consistency and uniformity in the company's processes.

In 2017, the Themis tool, used for the control and management of legal requirements, was used to serve 1,200 users. It allowed them to find out and access a total of 14,300 legal requirements in issues of the environment, prevention, health and quality. This year we performed verification of the contents of this database with a three-year validity.

In 2017, we consolidated the module of findings in the Proasafety tool, for recording and handling of nonconformities, observations and opportunities for improvement required for ongoing improvement of the company's environmental management. At the year-end, it was already being used by more than 1,300 users, and has recorded more than 3,600 findings and 6,900 actions managed. The use of the tool has been streamlined.

In the field of integrated management, a total of 79 environmental audits, 36 external and 43 internal were conducted.

Distribution of targets by subject matter



Environmental methodologies

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

Moreover, we have adapted the methodology of environmental aspects, called “Environmental Aspects Document” (EAD) to the new ISO 14001:2015 standard. This means we have extended its scope to include direct environmental aspects, in other words, those which, although they are not dependent on the company, the company can still have an influence over but without the capability of having direct control.

This enables us to assess the significant environmental aspects every year in all activities and businesses that are environmentally certified. It allows us to identify the most important aspects to consider both in the environmental management of these and the environmental targets defined.

Environmental risks

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

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

During 2017, we have defined and introduced a system to make uniform the classification and reporting of environmental

events. This methodology enables us to perform appropriate and uniform monitoring of these events and the identification, analysis, development, exchange and application of preventive measures.

A total of 25 spills were recorded during 2017. Most of them were contained by internal means and where this was not possible measures were taken to ensure that the consequences were slight. Because of their volume and nature, the following spillages are worthy of mention:

Occurrence	Location	Gas Natural Fenosa action
Spillage of 1,454 litres of oil due to a traffic accident involving transport lorry from the electricity business.	Chile	Collection and storage in a sealed container for management as hazardous waste.
Spillage of 1,134 litres of oily water outside the Palamara power plant.	Dominican Republic	Cleaning and management by the waste manager of the waste produced.
Spillage of 177 litres of oil at the Algarrobos power plant.	Panama	Cleaning of the area using the anti-spillage kit and biodegradable hydrocarbons mitigating agent.
Spillage of 150 litres of oil through the fall of three transformers.	Chile	Containment, cleaning and management of the waste produced.
Spillage of 20 litres of oil into the water at the Vencías power plant.	Spain	Activation of the environmental brigade to collect the oil and assess damages.
Spillage of 20 litres of oil through the fall of a transformer.	Chile	Cleaning and management of the waste produced.
Spillage of 20 litres of crane oil during pruning in the electricity distribution.	Chile	Cleaning and management of the waste produced.
Spillage of 15 litres of oil at the Durango power plant.	Mexico	Cleaning and management of the waste produced.



Awareness and training

Training

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in our activities.

In this sense, a total of 3,826 hours of training were received by 1,572 participants in 2017, with plan objectives being met by 140% and 133%, respectively. The % increase over planning is due to the activity in hours and participants carried out in Chile and not contemplated in the initial planning.

Communication

Every year, Gas Natural Fenosa develops an Environmental Communication Plan with numerous internal and external actions that it channels through newsletters about climate change, social networks and press releases, among others.

Also, of note in 2017 was the development of audiovisual reports on biodiversity, carbon footprint reports, management of water and the environmental footprint, to inform society about what the company is doing in these issues. In issues of climate change, Gas Natural Fenosa participated at the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC), known as COP23 and held in Bonn.

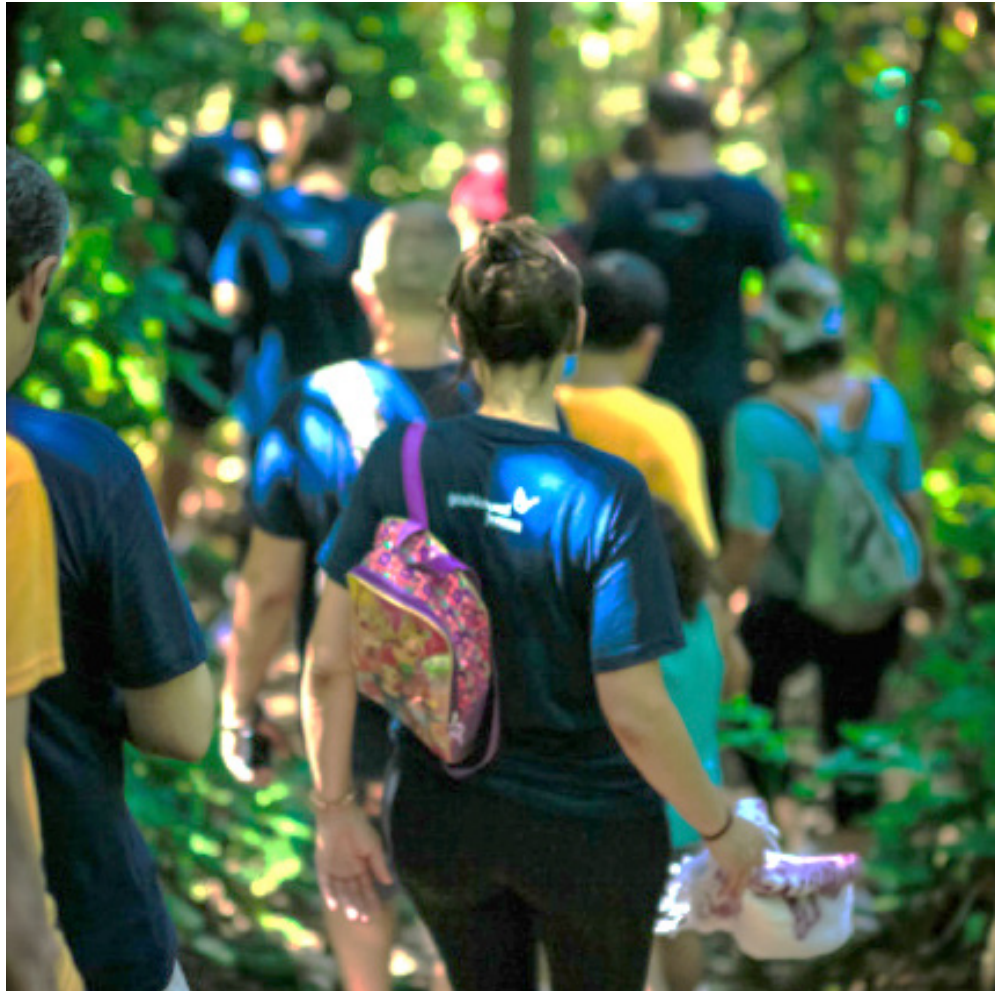
There was also a prominent presence at the Innovate4Climate, an international forum held in Barcelona which contributes climate change solutions. Elsewhere, the company partnered the Empresa y Clima Foundation in the development and presentation of the Worldwide Status of CO₂ Emissions Report-2015.

Internally, we can highlight those performed during the world days of the environment, of biodiversity, of water, etc. to raise employees' awareness about protecting the environment, through conferences and environmental good practices challenges.

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

The company has continued to encourage corporate environmental volunteer actions targeted at promoting a positive attitude among employees and their families about the preservation of nature.

In addition, the Gas Natural Fenosa Foundation organises acts, courses and seminars to provide education and to raise environmental awareness. Its activity focuses mainly on the sphere of energy and the environment, addressing issues such as climate change, savings and efficiency in the use of energy, and sustainable mobility, among others.



Corporate environmental volunteers

During 2017, 497 volunteers have participated in 30 days of environmental preservation, held in protected areas and other places of natural value.

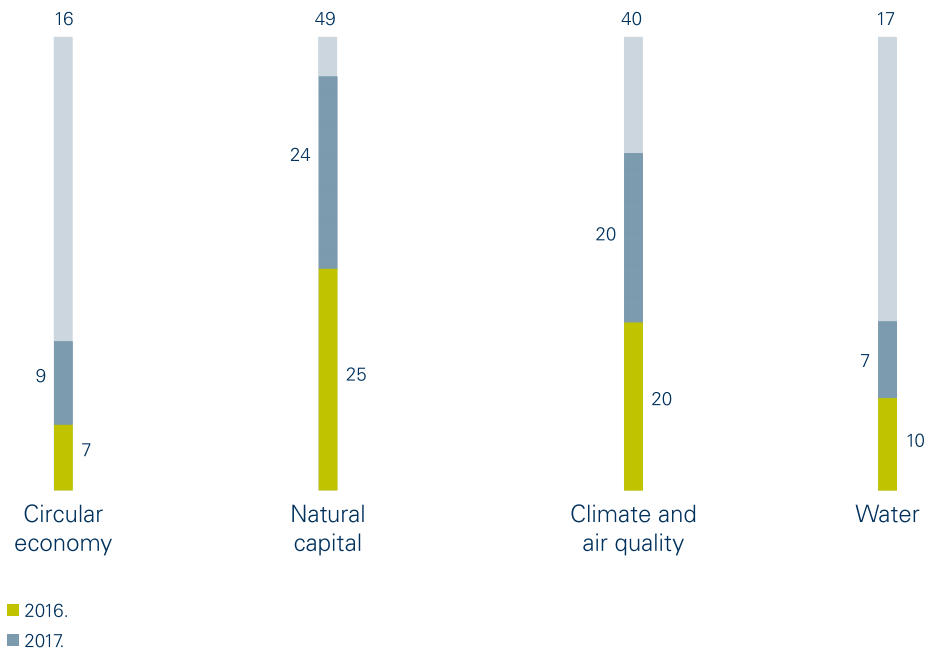
The acquisition of good conduct habits, such as saving water and energy, the proper segregation of waste, or caring for the natural environment that we enjoy in our free time, is the way each company employee can contribute value through individual responsibility with the common aim of helping towards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

In 2017, there were at least 30 environmental preservation days featuring the participation of 497 employees. These were held in

protected areas or other places of natural value, and have entailed more than 4,800 hours of dedication to this task since the programme began. We also performed a host of environmental volunteer actions in Spain, Argentina, Colombia, Mexico, Moldova, Panama, the Dominican Republic and Brazil.

The different activities carried out have focused on aspects included in the company's environmental strategy.

Environmental volunteer activities associated to the strategic pillars



Legal requirements

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

In 2017, Royal Decree-Law 18/2017 was approved in Spain, regulating the dissemination of non-financial information, duly transposing European Directive 2014/95/EU. The aim of this regulation is to increase the non-financial information provided by large companies in their financial statements, including all environmental information.

Furthermore, both within the European and international context, the development of environmental regulation is marked by the circular economy policies, targeted at reducing

waste, improving management (reuse, recycling and recovery) and optimising the consumption of resources.

In issues of climate change, in 2017 the company actively took part at the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC), known as COP23 and which was held in Bonn, where progress was made on the approval of the regulations and processes for implementing the Paris Agreement.

In 2017, the company did not receive any significant environmental sanctions, i.e., those for an amount in excess of 60,000 euros.

To guarantee effective communication with the external interested parties, there are different formal complaint mechanisms in operation. Dealing with environmental

complaints properly is of great value because these complaints represent an opportunity to improve environmental management.

During 2017, there were 121 environmental complaints or claims, 118 of which were resolved during the same period.

Environmental costs

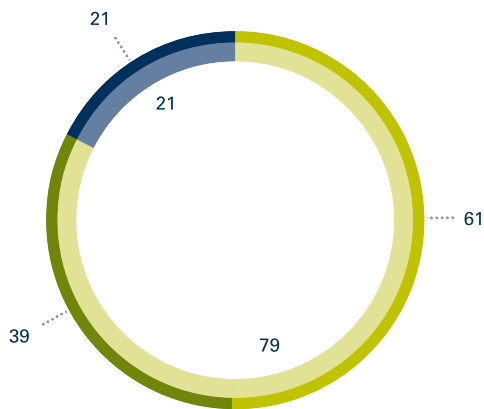
Gas Natural Fenosa makes significant efforts in issues of environmental protection, making sure its facilities are provided with the resources required to guarantee compliance with environmental legislation; to reduce the environmental impact of its activities; to prevent contamination and climate change;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

The environmental actions carried out in 2017¹ came to a total investment of 71 million euros, of which 15 million euros were for direct environmental investment and 56 million euros for expenses incurred in environmental management, excluding the emission rights. These actions include an improvement to the combustion systems at thermal power plants to reduce NO_x emissions, improving the hydraulic generation facilities as well as launching new photovoltaic energy products in the energy solutions segment.

¹ According to the CRR perimeter at 31/12/2017.

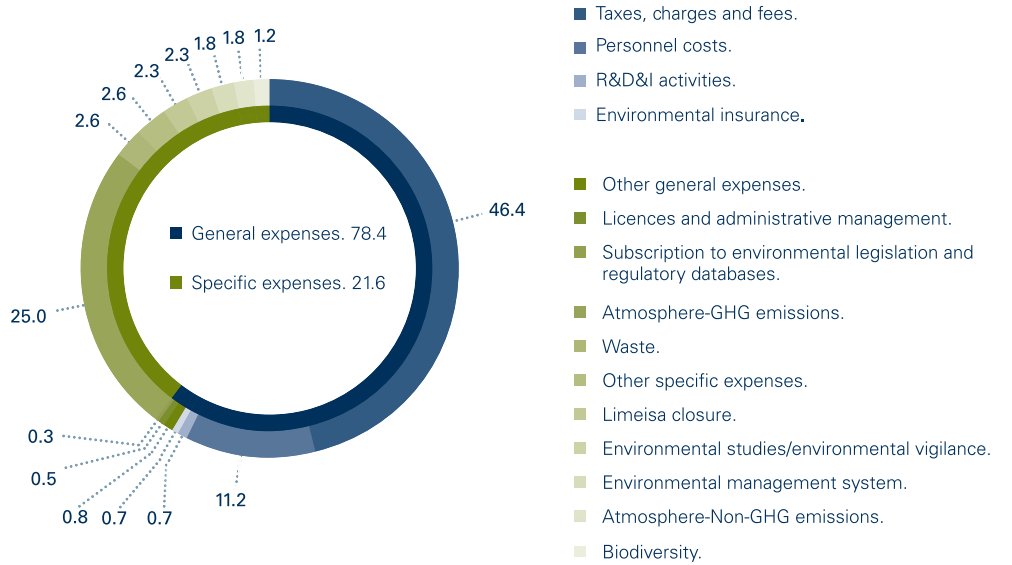
The cost of supplying the emission rights for coverage of facilities regulated by the European Directive on Emissions Trading in 2017 was 66 million euros. The accounting policy currently qualifies the emission rights as inventories.

Breakdown of environmental costs (%)

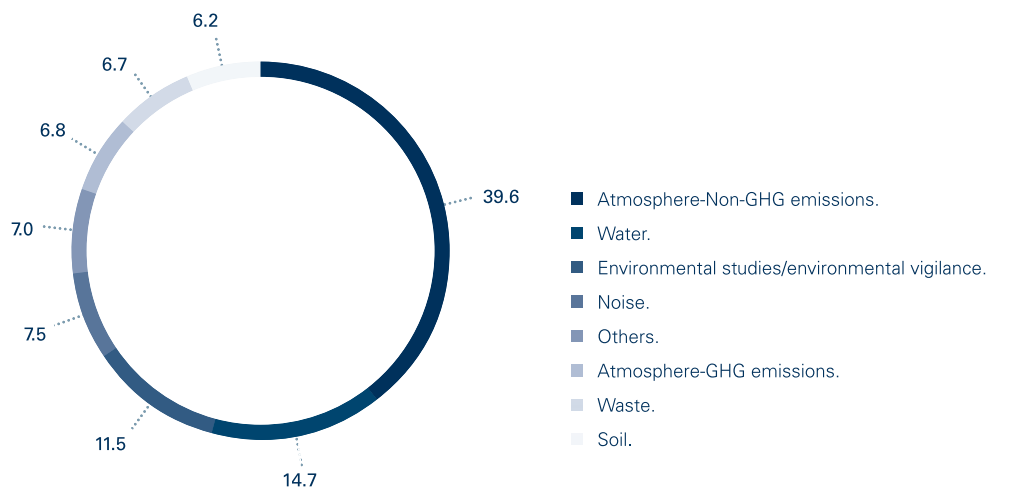


- Environmental cost.
- General expenditures.
- Specific expenditures.
- Environmental Investments.

Breakdown of environmental expenditures (%)



Breakdown of environmental investments (%)



Circular economy

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

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

Energy and material resources

[103-1], [103-2] and [103-3]

(Energy efficiency and energy consumption)

The consumption of chemical products has increased in 2017 with regard to the previous year, due to the increased operation of electricity power plants, conventional thermal plants and combined-cycle plants.



Materials used (tonnes)

	Amount
Fuels	7,569,322
Natural gas	4,637,705
Coal	2,479,534
Petroleum derivatives	452,083
Other materials	65,910
Calcium carbonate	52,364
Magnetite	8,543
Lubricant/hydraulic oil	1,704
Sulphuric acid	1,068
Nitrogen	678
Sodium hypochlorite	1,191
Calcium hydroxide	362
Total	7,635,232

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



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

	2017	2016	2015
Non-renewable fuels	321,572	305,273	341,051
Natural gas	248,228	232,723	246,440
Coal	56,566	55,245	79,236
Petroleum derivatives	16,779	17,305	15,375
Renewable fuels	0	0	0
Electricity acquired for consumption	12,523	18,569	17,718
Renewable electricity generated (not included in the consumption of fuels)	16,495	27,684	21,084
Electricity and steam sold	(151,480)	(151,556)	(162,081)
Total	199,111	199,971	217,772

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

	2017	2016
Final use of the natural gas commercialised	2,168,263	2,008,799
Final use of the coal extracted	39,187	42,302
Total consumption	2,207,450	2,051,101

The total energy consumption of the company, in 2017, totalled 199,111 TJ, with a variation of -0.4%.

The intensity of the company's energy consumption reached 46.6 TJ/million euros of Ebitda. Broken down by business segments, electricity generation is the activity with the highest energy intensity, followed by the distribution segments of mining, infrastructures, gas commercialisation, electricity distribution, and, finally, gas distribution.

Waste management

Within the framework of the integrated management system, Gas Natural Fenosa has procedures for waste control and management through which the systems for the adequate separation, storage, control and management of waste are defined.

The company prioritises management targeted at recycling and reuse over other management options, and energy recovery rather than landfill dumping.

In issues of non-hazardous waste, in 2017 the trend to reduce the generation of such waste was maintained while the recovery of waste increased with regard to 2012.

Non-hazardous waste management (kt)

Type	Amount
Soil and rubble	216.18
Fly ash	346.61
Gypsum	102.21
Sludge	71.04
Cinders	68.56
Waste plant matter	5.09
Scrap	4.54
Total	814.23

2017 energy consumption intensity ratios within the organisation by segment of activity [302-3]

	Gas distribution	Electricity distribution	Electricity	Gas	Mining	Total
Energy consumption within the organisation (TJ)	3,974	16,883	165,758	12,312	184	199,111
Ebitda (millions of euros)	1,815	1,056	597	789	11	4,269
Ratio (TJ/million euros of Ebitda)	2.2	16.0	277.7	15.6	16.3	46.6

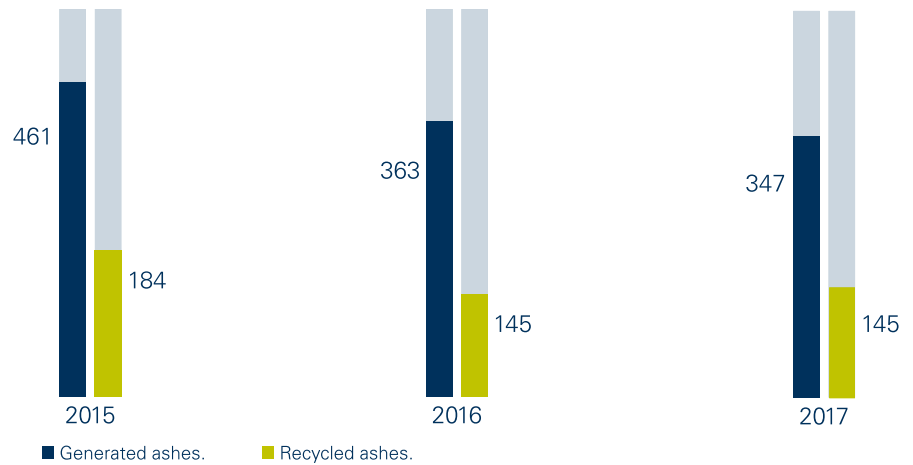
NB: The total Ebitda given in the table does not correspond to the company's total Ebitda, as it does not account for other activities that do not pertain to the displayed business areas

In 2017, generation of the most significant non-hazardous waste increased significantly compared with 2016. We should point out the reduction of 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.

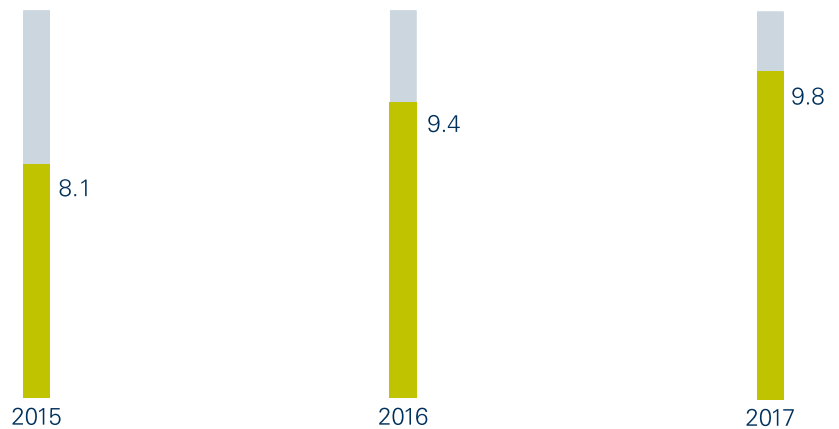
In 2017, Gas Natural Fenosa continued with the elimination of polychlorinated biphenyls (PCB), a substance that is mainly present in some of the older electricity transformers. There are currently 180 tonnes of dielectric oils to be removed, which have a low concentration of PCB (between 50 and 500 ppm).

In issues of non-hazardous waste, in 2017 the trend to reduce the generation of such waste was maintained while the recovery of waste increased with regard to 2012 (reference year), meaning we are complying with the target values established for the 2016-2020 period. As regards hazardous waste, there has been a deviation with regard to which actions have been introduced (on the basis of good practice and improved equipment) targeted at complying with the objective both with regard to production as well as waste recovery.

Generation and recycling of ashes (kt)



Production of hazardous waste (kt)



Products sold for reuse (kt)

	2017
Fly ash	146.41
Sludge from coal washing	30.43
Cinders	7.85
Sludge from oil and fuels	1.46

Hazardous waste management (kt)

Type	Amount
Hydrocarbons plus water	5.05
Sludge from oil and fuels	2.03
Solid waste contaminated with hydrocarbons	1.19
Used oil	0.72
Hydrocarbon-contaminated soils	0.58
Electric and electronic waste	0.27
Total	9.84

Management of hazardous waste (%)

	2017	2016	2015
Recycled and energy recovery	86	86	76
Incineration and landfill	14	14	24

Water

Water is a scarce natural resource which is essential to ensure life and human development. This is why water, and water management, have become a priority for international institutions, agencies and authorities, in view of the growing pressure on water resources, and the uneven way in which it is distributed and made available.

All this pressure can jeopardise the present and future supply of access to water in sufficient amounts and with the appropriate quality for the population and ecosystems.

Commitment

For the purpose of promoting the efficient and responsible use of water, the lines of action within the company's Environmental Strategy associated with this pillar are:

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

Within this context there is a set of studies and actions carried out that permit a gradual and consolidated reduction of water consumption in the medium and long term, along with the introduction of technological improvements in consumption and dumping of water, as well as control and analysis of the use of water in our operations, taking into consideration the hydric environments in which these are to be found.



We also work with our suppliers and stakeholders to raise awareness about the need to look after this resource and we develop methodologies and tools that allow us to quantify both the impacts as well as the risks and opportunities arising from the use and management of water.

Main indicators

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

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

Aware of the shortage of water in society, Gas Natural Fenosa works on a daily basis to reduce global water consumption as well as to increase the use of recycled or regenerated water for use in its activities, whether this water comes from the facilities itself or from other installations. In 2017, the percentage of reused residual water experienced an increase with regard to 2016.

The company contributes towards sustainable management of water by applying preventive measures that guarantee the maintenance of the facilities. Furthermore, in the case of thermal power stations, we perform analytical studies of the water from the environment that receives the effluent discharge, following the criteria set out under current legislation and by the company itself. The treatment equipment

and systems worked as planned in 2017, enabling effluent discharge authorisations to be met.

Furthermore, pursuant to the results of the studies conducted, the company carries out proper management of effluent discharge, and does not generate significant impacts on the aquatic ecosystems of the receiving environment. The ecological state of ecosystems

where the company is present can be classified as good, except that those that reveal deterioration on grounds that are unconnected to the company's business.

In 2017, water capture, consumption and discharge volumes remained within the predicted range and in line with the gradual reduction target for the 2016-2020 period.

Capture of water by source (hm³)

	2017	2016	2015
Surface water captured (sea)	874.19	772.49	736.65
Surface water captured (rest)	25.36	37.04	46.28
Groundwater captured	0.13	0.14	0.64
Wastewater used from another organisation	7.01	6.80	7.19
Water captured from the main water supply	0.25	0.19	0.21
Total volume of water captured from the environment	906.96	816.66	790.97

Consumption of water (hm³)

	2017	2016	2015
Consumption of cooling water	24.06	20.44	27.05
Consumption of water in water/steam cycle	0.83	0.76	1.03
Consumption of water in other processes	2.47	1.96	1.80
Consumption of water in ancillary services	0.63	0.63	0.86
Total water consumption	28.00	23.79	30.74

Water discharge (hm³)

	2017	2016	2015
Water discharged into the sea	865.22	766.39	708.82
Water discharged into waterways	14.21	16.72	28.73
Water discharged into the public sewerage system	0.23	0.23	0.26
Water discharged into septic tanks	0.01	0.005	0.03
Water discharged for use by an aquifer	0.02	0.02	0.03
Total volume discharged	879.68	783.37	737.87

Initiatives and actions

During 2017 we have performed several initiatives in all businesses and countries, targeted at improving water management. This is the case, for example, of a study carried out for the recirculation/ reuse of purge water from boilers to the desalination water tank at the Aceca combined-cycle power station, or optimisation of the regeneration cycles of the mixed beds at the water treatment plant of the combined-cycle power station of Barcelona Port to reduce water consumption for washing at the plant. A further example is the assessment carried out at the Sagunto combined-cycle power station of the possibility of reusing effluents at the water treatment plant, thus reducing consumption. Following this assessment, some of the measures identified will be put into place. At the San Roque combined-cycle power station the project that is being carried out is targeted at analysing the feasibility of reusing processing water to reintroduce it into the water-steam cycle. The aim is to achieve a technology that enables the recovery of a high-quality and high-

temperature effluent current, and which is the biggest consumer of water of an electricity power plant. Another project that is being developed at the Málaga combined-cycle power station and which will be completed, as with the previous case, during 2018, is the development of an online analyser to measure total aerobic microorganisms in the water of the cooling tower, allowing us to adjust the dosages of biocide earlier than with manual analyses.

We have also conducted aquatic studies at the thermal power stations of Meirama, Anllares, Robla, Aceca and limnological studies at the power stations of Narcea and Zorita to find out the status of the hydric environments and be able to anticipate preventive actions.

Other actions are targeted at the measurement and control of drinking water at the work centres, such as the case of Gas Natural Fenosa BAN (Argentina) where we have installed seven flow-meters, for the drinking

water at the work centres, to be able to determine the consumption of water of these establishments in Brazil, Mexico, Panama and Morocco, where campaigns have been defined to raise awareness of good environmental practices for employees to reduce water consumption in their buildings.

In addition, Gas Natural Fenosa analyses the water stress of the regions where the facilities whose activity requires greater amounts of water are located. It can thus be seen that, in regions where water stress is higher, the company uses seawater or recycled water and therefore the availability of this resource in those areas is not affected.

In addition, the company measures the water footprint of all its activities in order to analyse the impact it generates on this resource. During 2017 we have introduced an improvement into the methodology for calculating this footprint, integrating the categories for the indirect impact into the same.

Environmental monitoring at the reservoirs of Conchas and Salas (Spain)

Together with Vigo University, Gas Natural Fenosa has developed a reservoir monitoring system which allows 17 variables to be monitored at five different depths at the reservoirs of Conchas and Salas, which provide water to the hydraulic power stations of the same name. The data are sent in real-time to a server that controls the processes and programming of the system.

The measurements will be shared with the Basin Organisations and will allow the eutrophication of the water to be studied by monitoring limnological parameters such as the pH, oxygen demand, redox potential, phycocyanin, chlorophyll, turbidity, conductivity and temperature.

We have also conducted aquatic studies at the thermal power stations of Meirama, Anllares, Robla, Aceca and limnological studies at the power stations of Narcea and Zorita to find out the status of the hydric environments and be able to anticipate preventive actions.

Atmospheric emissions

[103-1], [103-2] and [103-3]
(Emissions and climate change) and [305-6]

In 2017, there was an increase in absolute emissions of SO₂, NO_x and total suspended particles (TSP) into the atmosphere, due to increased operations of the coal-fired power stations, provoked by the decrease of renewables production (hydraulic and wind) in Spain, as the appropriate environmental conditions were not in place for this.

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

The specific emissions of SO₂ and NO_x have likewise increased. With reference to other emissions, 0.1 tonnes of mercury, 0.03 tonnes of HCFC and 0.08 tonnes of freon R22 refrigerant were emitted.

We can also highlight the Up&Stream business activities that have decreased the kilometres that diesel cars travel from the base to refuelling, saving 70 refuellings, representing a saving equivalent to 2,100 km and 157.5 l of diesel. This represents a reduction of emissions of 422.13 kg CO₂.

Also, in 2017 we can point to a reduction of nitrogen oxide emissions (NO_x) at the thermoelectric generation facilities in Meirama, Narcea and La Robla, through actions fundamentally targeted at operational flexibility for a larger range of coals employed within the typology of the fuels currently used (imported coal, national coal and petroleum coke).



Notable case

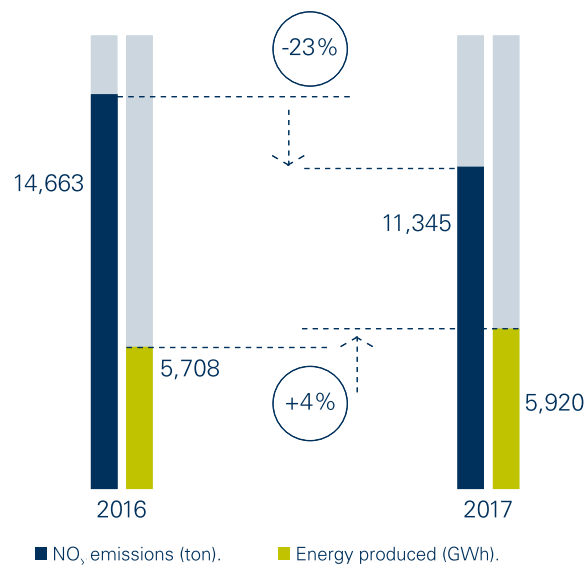
Reduction of nitrogen oxide emissions at Gas Natural Fenosa Generation's coal-fired power stations

In 2017, relevant upgrades were carried out in order to reduce nitrogen oxide (NO_x) emissions at coal-fired power stations.

Meirama thermal power station is the main Spanish power station where a new digital combustion optimisation system based on laser technology (SPPA-P3000) has been implemented. Together with operative measures, this has produced significant reductions in NO_x emissions. In turn, the Narcea thermal power station carried out a series of upgrades aimed at increasing its operative flexibility, allowing it to use fuels that emit less NO_x. Lastly, the "NeuCo" project was carried out at La Robla thermal

power station, consisting of the installation of a system based on neural networks and predictive models that adjusts particular operative parameters to limit the NO_x produced by combustion.

Thanks to the implementation of these improvements at these three facilities, NO_x emissions in 2017 were reduced by 23% on 2016, even given higher production in 2017 (4%). This may be considered a great achievement that will doubtless contribute to meeting the reductions necessary for compliance with the most stringent limits established in the Industrial Emissions Directive for these power stations.



In general, in 2017 the emissions of non-GHG substances remained in line with the 2016 values, with slight variations. Taking into consideration that the performance of the power station sector was higher in 2017, we can state that the excellent environmental performance was maintained in terms of emissions. In accordance with these values and the forecast evolution, the company's target emission values for the 2016-2020 period would be complied with.



Total atmospheric emissions (kt) [305-7]

	2017	2016	2015
SO ₂	19.2	18.2	24.7
NO _x	29.3	30.8	37.3
Particles	1.8	1.5	2.1

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

	2017	2016	2015
SO ₂	0.46	0.43	0.55
NO _x	0.70	0.73	0.83
Particles	0.04	0.04	0.05

Climate [103-1], [103-2] and [103-3]

(Emissions and climate change)

Commitment

At Gas Natural Fenosa we believe that climate change is a global environmental challenge and a major vector of economic growth. We share the vision that seeks an orderly and efficient transition of our economy towards a low carbon model, aware of the opportunity that fulfilment of this premise represents for our sector.

Our commitment and action principle in the issue of climate change is to contribute to the mitigation and adaptation

of climate change through low-carbon and renewable sources of energy, encouraging energy saving and efficiency and the application of new technologies. To this end, as part of the Environmental Strategy of Gas Natural Fenosa, we have defined the climate and air quality pillar, the main purpose of which is to reduce emissions in our operations and encourage sustainable energy.

For the purpose of being able to identify, quantify and report the risks and opportunities related to climate change, Gas Natural Fenosa has adopted the recommendations of the Task Force on Climate related Financial Disclosures of the Financial Stability Board, submitted in a report published in July 2017 at the G20 Summit. Applying these

recommendations enables the company to move forward in the integration of climate change based on the real needs of investors, and to improve the estimation of risks related to climate change.

Governance in issues of climate change

Responsibility

The body overall responsible for supervision of the company's climate change strategy is the Board of Directors.

The hierarchy of responsibilities in issues of managing climate change risks has been properly defined at the company.

Process of reporting and overseeing climate change risks of the organisation





The Climate Change Unit analyses the exposure of businesses to the different climate-change risks.

Based on this analysis:

- > It classifies the risks based on their impact.
- > It identifies business opportunities with the operating units.
- > It formulates recommendations to mitigate exposure to the risk of the operating units.

Once a year, the Climate Change Unit informs the Corporate Risk Unit of the group's aggregate risk with regard to climate change. This information is also available broken down by business and geography. The information is sent in terms of Ebitda, cash flow, present value of the business and value at risk (95%).

The business units of Gas Natural Fenosa assess the impact that the manifestation of climate-change associated risks have on the business's key indicators: potential losses and/or profits.

The Corporate Risk Unit of Gas Natural Fenosa analyses the position with regard to the risks associated to climate change. In addition, it analyses the estimated impacts of the risks based on their short-term severity and evaluates the acceptable thresholds of each of these. In those cases in which the established thresholds are exceeded, it identifies, together with the Climate Change Unit, the measures to be adopted to mitigate the exposure. Furthermore, the Corporate Risk Unit is responsible for reporting this information to the Risk Committee.

The Risk Committee provides the Audit Committee with the Corporate Risk Report and the latter evaluates the overall risk position of the corporation (including the risks associated to climate change) and decides on the measures to be adopted to mitigate these.

In addition, the Climate Change Unit regularly shares the focus and the results of the climate change risk model of Gas Natural Fenosa with other units of the corporation or business.

Climate change strategy

Risks and opportunities analysis in climate change

Since 2014, the impact on the company of the effects stemming from climate change has been identified, analysing both the direct consequences of this as well as the policies and regulations targeted at fighting these. The analysis is based on the criteria and methodologies of the risk management system. The most relevant climate change risks identified on the map are incorporated into the Corporate Risk Map, and reported to the relevant governing bodies.

Categories of impact on the Risk Map

Category	Factors
Environmental temperature.	Natural gas demand.
	Electricity demand.
	Yield by combined-cycle facilities.
Rainfall.	Generation dispatch.
	Price of the wholesale electricity market.
Rising sea level.	Floods.
	Loss of productivity.
Extreme weather events.	Variation in the frequency and intensity of extreme weather events.
	2013-2020 trading greenhouse gas emission rights scheme.
CO ₂ markets.	Intervention of the European Commission.
	Introduction of CO ₂ capture technology.
	Price of the wholesale electricity market.
	Thermal gap.
	Impact on the power generation.
Renewable energies.	Awareness of the wholesale electricity market prices.
	Natural gas and electricity demand.
Energy efficiency.	Penetration of the electric car: increased demand for electricity and increased use of installed power.
Company reputation.	Impact on the reputation of the company.

> Types of risks and opportunities

Physical parameters	Market	Regulatory	Reputational
Temperature increases, changes in precipitation, rising sea levels and extreme weather events, among others.	Risk related to the existence of CO ₂ markets and the development of other possible markets with similar features.	Development of energy policies to mitigate climate change and which revolve around fostering the use of renewable energies and promoting energy efficiency.	Affect the company's response capacity and its reporting frequency on issues related to climate change. All of this is accompanied by the force of innovation.

Having identified the risks of climate change, the company quantifies the impact of these risks for each business in order to integrate them into the businesses and reduce or mitigate them.

Main principles of the Climate and Air Quality Strategy of Gas Natural Fenosa

The climate change strategy of Gas Natural Fenosa included as part of the climate and air quality pillar of the environmental strategy focuses mainly on reducing emissions through our operations and promoting the use of sustainable energy. This strategy revolves around five action lines from which specific targets are then determined:

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

Reducing emissions in our operations and promoting energy efficiency

The main actions of this strategic line include:

- > Promoting the use of renewable generation.
- > Encouraging the gas-renewable binomial in generation.
- > Improving the generation of high emission.
- > Displacing inefficient energy through projects with a lower impact.
- > Reducing fugitive emissions.

Reducing emissions by means of energy efficiency.

The main actions of this strategic line include:

- > Increasing the energy efficiency at our facilities.
- > Increasing the energy efficiency at our customers.

Promoting the use of renewable generation.

In 2017 installed power for electricity production using renewable sources (hydraulic, wind and solar) increased by 68MW.

Encouraging the gas-renewable binomial in generation.

Combined-cycle gas plants respond rapidly, with low capital costs, high efficiency and low emissions. This makes natural gas the perfect ally for addressing the intermittency challenge facing renewable energy. The Gas Natural Fenosa generation pool has more than 9,000 MW of installed power in combined-cycle plants.

Reducing fugitive emissions.

In 2017 we continued with the renewal of pipes and connections of the gas distribution network and equipment with SF₆.

Increasing the energy efficiency at our facilities.

Gas Natural Fenosa is committed to the efficient use of energy at our facilities. In 2017, energy audits were conducted at more than 50 work centres of all of our group's businesses.

Increasing the energy efficiency at our customers.

As regards the final use of energy, the efficiency solutions of Gas Natural Fenosa targeted at customers from the tertiary sector, public administrations and industry have played a major role in reducing CO₂eq. emissions through the replacement and renewal of boilers, the sustainable mobility solutions based on natural gas, the efficient lighting service and the electric air conditioning solutions.

Gas Natural Fenosa is committed to the efficient use of energy at our facilities. In 2017, energy audits were conducted at more than 50 work centres of all of our group's businesses.

Developing sustainable products and services for our customers

The main actions of this strategic line include:

- > Developing renewable gas and promoting the marketing of sustainable products.
- > Exploring and development of new technologies with or for low emissions.
- > Driving projects in sustainable mobility.
- > Designing and commercialising financial derivatives and products.

During 2017, Gas Natural Fenosa has continued to reinforce its activity in innovation through different priority lines defined as part of the Innovation Plan, contributing towards the development and introduction of technological solutions to improve and resolve the key challenges related to sustainability, environmental impact and efficiency. Main lines of work in environmental R&D&I:



Renewable gas.

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

Exploring and development of new technologies with or for low emissions.

In the field of high value-added products and services for customers, initiatives are being developed based fundamentally on three pillars of action:

- > Distributed energy resources targeted at optimising both energy management of residential and tertiary customers as well as the use of flexibility of these to provide services to the grid.
- > IoT digital solutions and products that enable us to segment and know better our customers in order to offer them recommendations and customised products and services.
- > Data analytics: Use of all information of end customers to find out more about them and to be able to customise the supply of services/products/tariffs.

Sustainable mobility.

The company is taking part in a range of EU programmes for the purpose of providing Europe with transport corridors that make it possible for road transport using lorries that run on liquefied natural gas.

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

In addition to extending the supply network, the company pays special attention to improving energy and economic efficiency of the service stations, to make them more sustainable.

In the rail sector, Gas Natural Fenosa is working on an initiative to introduce the first railway traction pilot test with liquefied natural gas (LNG) in Europe.

Designing and commercialising financial derivatives and products.

In 2017, Gas Natural Fenosa completed an issue of green bonds for an amount of 800 million euros with maturity in May 2025. This issue is fixed with an annual coupon of 0.875%. The issue price of the new bonds is 99.77% of their face value.

Integrating internal climate change management

[EU5]

The main actions of this strategic line include:

- > Implementing tools for management of climate risks/opportunities.
- > Reinforcing the integration of the price of carbon in the company's key decisions.
- > Exploring opportunities with regard to market mechanisms.
- > Promoting the offsetting of GHG emissions.

Risk management

The company's climate change risk model is based on a tool developed in Ms Excel and @Risk that allows us to estimate the group's exposure to risk on an aggregated and disaggregated level by business and geography.

Through the climate change risk management model and the possibilities that the tool provides, the company analyses the impact of the variables stemming from climate change in the following areas:

- > Time: we analyse the impacts on the different time horizons (2018-2050) and classify these risks in accordance with their short-, medium- and long-term relevance.

- > Nature of the business: we analyse the impacts that can affect the company's different businesses: generation (segregating by technology), commercialisation and distribution of electricity, distribution and commercialisation of natural gas, regasification and liquefaction plants, and operations in CO₂ emissions rights markets.

- > Geography: the impacts are analysed in the different countries where the company operates.

Likewise, the climate change risk model allows us to simulate the introduction of new products and services and the implementation of R&D&i actions, generating different scenarios to assess the impact through physical, business, economic and environmental indicators.



Procedure applied in management of the climate change risk

1. Identify the impact that the risk associated to climate change has on the business:
 - > Impact on revenue (prices and volumes).
 - > Impact on expenses.
 - > Additional investment requirements.
2. Quantify the impact of these risk variables on the different businesses.
3. Estimate the impact on revenue, expenses and investments arising from the manifestation of the expected scenarios resulting from climate change (IPCC) -changes in rainfall, temperature rises, sea level rises and natural disasters and others anticipated by the company- taking into consideration the evolution over time of these variables.
4. Estimate the impact that the evolution of climate change variables would have on business indicators: physical, business, economic and environmental indicators.
5. Quantify the impact that the changes of these variables in revenue and expenses in investment will have on Ebitda, cash flow, or present value of the business and value at risk (95%).

Price of CO₂

To assess the economic impact that the CO₂ price would have on its activities, Gas Natural Fenosa has developed a stochastic model with Monte Carlo simulation to determine the optimum abatement cost in the European Union in order to comply with the 2030 targets for reducing GHG emissions.

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

In the last analysis carried out, a clear reduction in the cost of optimal abatement was obtained and this could be applied to European reduction targets for them to be met. The reasons are:

the reduced cost of wind and solar generation technologies and the trend of decreasing regulated emissions in Europe. This abatement cost represents the minimum price from which the reduction targets could be met by 2030. The tool works with several hypotheses and scenarios. For intermediate scenarios, prices would vary between a range of 9 and 10 euros/tCO₂ by 2030.

Market mechanisms

Gas Natural Fenosa performs integral management of its emission rights portfolio for the coverage of facilities regulated under the European Emissions Trading Directive during Phase III (2013-2020). Due to the absence of free allotment rights for electricity generation from 1 January 2013, Gas Natural Fenosa has to acquire 100% of the emission rights and credits required to achieve compliance through

its active participation, both in the primary market, through auctions, as well as the secondary market. To this end, as many emission rights as emissions that have been verified for each one of its power plants will be handed over to the EU Emissions Trading Registry before 30 April 2018. Due to the low hydraulicity of 2017, the consolidated emissions of CO₂ were 11.2Mt (0.7Mt higher than 2016).

Determining impact and performance

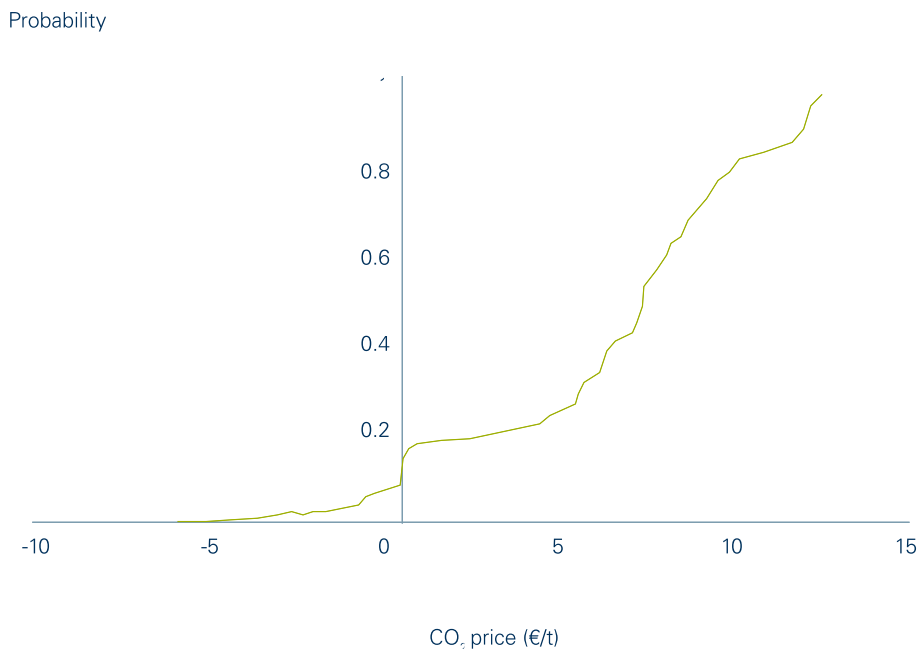
The main actions of this strategic line include:

- > Improving the tools for measurement and control of emissions in our operations.
- > Reporting information on the carbon footprint and air quality.
- > Taking part in the international indices.
- > Encouraging interaction with stakeholders.

For some years now, Gas Natural Fenosa has been performing a very active role in the action against climate change, as revealed in the valuation carried out every year by the CDP. In 2017, CDP once again recognised the company's management leadership in climate change, obtaining a rating of A-.

In 2017, the Dow Jones Sustainability Index (DJSI) also acknowledged the company's climate strategy, and gave it 100 points.

CO₂ Cost Probability Function (2030)



Main actions and communications related to climate change in 2017

- > Publication of the eighth Carbon Footprint Report.
- > Sponsorship of the "Status Report on CO₂ Emissions Worldwide", in collaboration with the Empresa y Clima Foundation.
- > Plan for the voluntary compensation of greenhouse gases, the "COmpensa2" initiative through which, in 2017, we compensated a total of 52,269 tCO₂.
- > Active participation at the events organised by The Climate Change Cluster of Forética and the Spanish Green Growth group.
- > Participation at the COP23 in Bonn, the United Nations Framework Convention on Climate Change.
- > Participation at the Innovate4Climate in Barcelona, in May, promoting renewable gas.

Response to investors with regard to climate change

The international climate change negotiation agenda has incorporated the private sector as a new and important agent. The pivotal role of the private sector in negotiations which hitherto had only been carried out at governmental level is reflected in the interest that climate change has stirred up at political, institutional and social level.

In June 2017, the conclusions of the Task Force on Climate Related Financial Disclosures were presented at the G20 summit. A voluntary guide applicable to the business world, for the purpose of facilitating decision-taking in investments for the different agents that participate in the markets,

and establishing guidelines on how to report climate-related information. Our company supports this initiative and is incorporating these recommendations into its reporting.

In addition, Gas Natural Fenosa is taking part in the following initiatives related to climate action:

- > Carbon Pricing Leadership Coalition (CPLC).
- > Caring for Climate.
- > Statement on fiduciary duty and climate change disclosure.
- > Corporate commitment to climate change.
- > Science Based Targets initiative.

Main indicators and objectives related to climate change

Risk measurement allows them to be integrated within the corporate strategy and to set targets with the aim of keeping risks to a minimum and maximising opportunities.

The measurement of these risks is carried out through different indicators:

- > Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- > Business: market shares and penetration levels.
- > Economic: impact forecasts on level of revenue, Ebitda, cash flow and present value of the business, as well as estimates of the value at risk for different confidence levels.
- > Environmental: emissions of CO₂.

By the same token, the company establishes specific targets for the main indicators related to climate change, which are taken into consideration in the strategic planning of Gas Natural Fenosa and in the group's Energy Planning.

The Climate Change Unit analyses any deviations from the indicators with regard to the targets set and reports the information to senior management, to the Corporate Risks Unit, to Energy Planning and to the business units.

The international climate change negotiation agenda has incorporated the private sector as a new and important agent.



Targets to reduce absolute emissions within scope 1 and 2¹

Gas Natural Fenosa has reviewed its targets in issues of absolute and specific emissions of greenhouse gases (GHG), aligning these with science to avoid a temperature increase higher than 2°C (Science Based Targets Initiative. Tool V8).

base year and setting a reduction at 26%. As regards specific emissions of CO₂ caused by electricity generation, we have set a reduction target of 33%, resulting in a target emission factor of 278 tCO₂/GWh in 2025.

Thus, we have increased the average reduction target of total direct emissions for the 2013-2025 period, using 2012 as the



Management of climate change at Gas Natural Fenosa in figures

- > Total GHG emissions (scopes 1 and 2) were 21.8 MtCO₂e, 3.3% up on 2016.
- > Specific emissions of CO₂ from electricity generation, excluding nuclear production, totalled 431 t CO₂/GWh, representing an increase of 4.8% year-on-year.
- > In 2017, through the action lines described in Gas Natural Fenosa's strategy against climate change, the company prevented emissions totalling 128,9 MtCO₂, mainly due to the replacement of the most polluting fossil fuels with natural gas and by using renewable energy for the company's electricity generation plants, as well as energy efficiency at our facilities and at the end customer.
- > Emissions of methane per kilometre of gas transportation and distribution network totalled 9.6 tCO₂e/km.

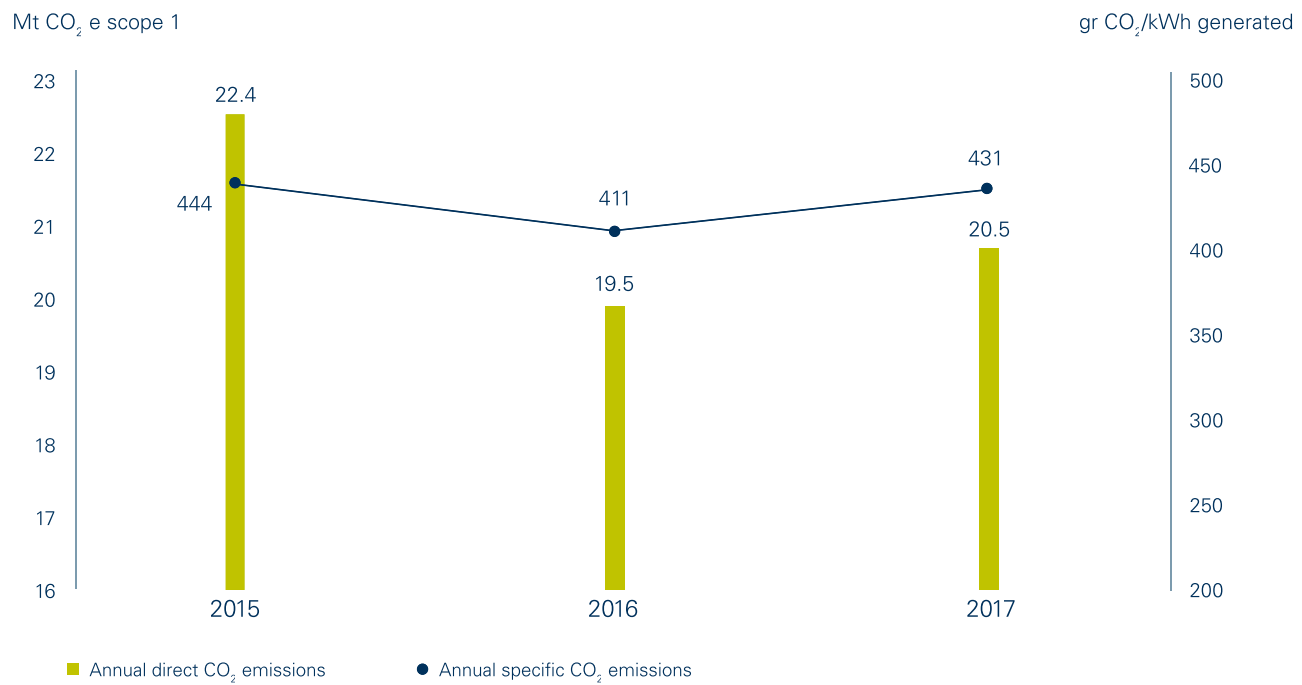
Main indicators

	2017	2016	2015
Direct emissions of GHG (MtCO ₂ e)	20.5	19.5	22.4
Emission factor excluding nuclear (tCO ₂ /GWh)	431	411	445
Emissions prevented (MtCO ₂ e/year)	128.9	107.5	104.9
Emissions prevented by CDM projects (MtCO ₂ e/year)	0.6	1.1	1.4
Emissions by leaks in gas networks (tCO ₂ e/km grid)	9.6	9.6	9.6

¹ Revision of objectives under the financial consolidation perimeter. Monitoring is carried out in the Carbon Footprint Report.



Direct GHG emissions. Total Gas Natural Fenosa (MtCO₂e and grCO₂/kWh generated) [305-1]



Direct GHG emissions. Total Gas Natural Fenosa (ktCO₂ eq.)

[305-1]

	CO ₂	CH ₄	N ₂ O	SF ₆	HFC	PFC	Total group
Electricity generation	18,115.9	6.8	24.9	6.4	2.0	0.0	18,156.1
Gas distribution	3.8	1,427.4	0.0	0.0	0.0	0.0	1,431.2
Gas (infrastructures)	659.9	3.8	2.7	0.0	0.0	0.0	666.4
Electricity distribution	223.1	0.1	0.1	22.5	0.0	0.0	245.8
Mining	2.1	0.0	0.0	0.0	0.0	0.0	2.1
Total	19,004.7	1,438.2	27.8	28.9	2.0	0.00	20,501.6

Indirect CO₂ emissions. Total Gas Natural Fenosa (Kt CO₂)

[305-2] and [305-3]

	2017	2016	2015
Fixed sources. Indirect CO ₂ emissions. Scope 2	1,323	1,631	1,460
Emissions from natural gas sold to third parties. Scope 3	109,476	101,409	99,073
Emissions from coal extracted from the Kangra mine. Scope 3	3,707	4,002	4,445
Total	114,505	107,062	104,978

Ratio of energy emissions intensity by segment of activity 2017

[305-4]

	Gas distribution	Electricity distribution	Electricity	Gas	Mining	Total
Emissions of GHG (kt CO ₂ e)	1,431.2	245.8	15,156.1	666.4	2.1	20,502
Ebitda (millions of euros)	1,815	1,056	597	789	11	4,269
Ratio (kt CO ₂ e/million euros of Ebitda)	0.8	0.2	30.4	0.8	0.2	4.8

NB: The total Ebitda given in the table does not correspond to the company's total Ebitda, as it does not account for other activities that do not pertain to the displayed business areas

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

	2017 emissions prevented (t CO ₂ e)	Energy savings (TJ) 2017	2016 emissions prevented (t CO ₂ e)	Energy savings (TJ) 2016
Gas Natural	123,863,984	586,294	100,580,887	456,431
Most natural gas fossil energy to be replaced by other fossil fuels:				
Electricity production	76,474,255	478,523	55,122,580	347,937
Industry	24,657,729	39,728	22,304,946	37,000
Residential/Commercial	11,733,509	44,328	14,144,703	53,126
Transport	2,809,704	10,122	1,845,746	6,657
Cogeneration	8,188,789	13,593	7,162,912	11,711
Natural resources management*	3,170,359	38,465	5,590,999	64,958
Generation of renewables to replace combustion of fossil fuels:				
Wind farms*	1,810,365	21,292	1,946,102	24,324
Hydroelectric production*	1,336,842	16,740	3,644,160	40,626
Photovoltaic production*	23,152	433	737	8
Energy saving and efficiency	1,824,028	27,146	1,347,604	21,782
Energy efficiency and saving actions on the company's own facilities and on the customers' premises:				
Own facilities: Energy Efficiency Operations Plan				
Upgrading of networks in gas T&D	1,060,899	2,806	937,640	2,480
Actions in electricity distribution*	93,031	576	17,764	87
Combined-cycle*	313,786	5,561	30,695	546
Coal-fired power stations*	31,273	313	23,267	250
Fuel oil-fired power stations*	2,791	36	6,628	86
End customer*				
Energy services*	322,248	17,855	331,610	18,333
Total	128,858,371	651,906	107,519,490	543,171

* Reduction savings calculated just under CO₂.

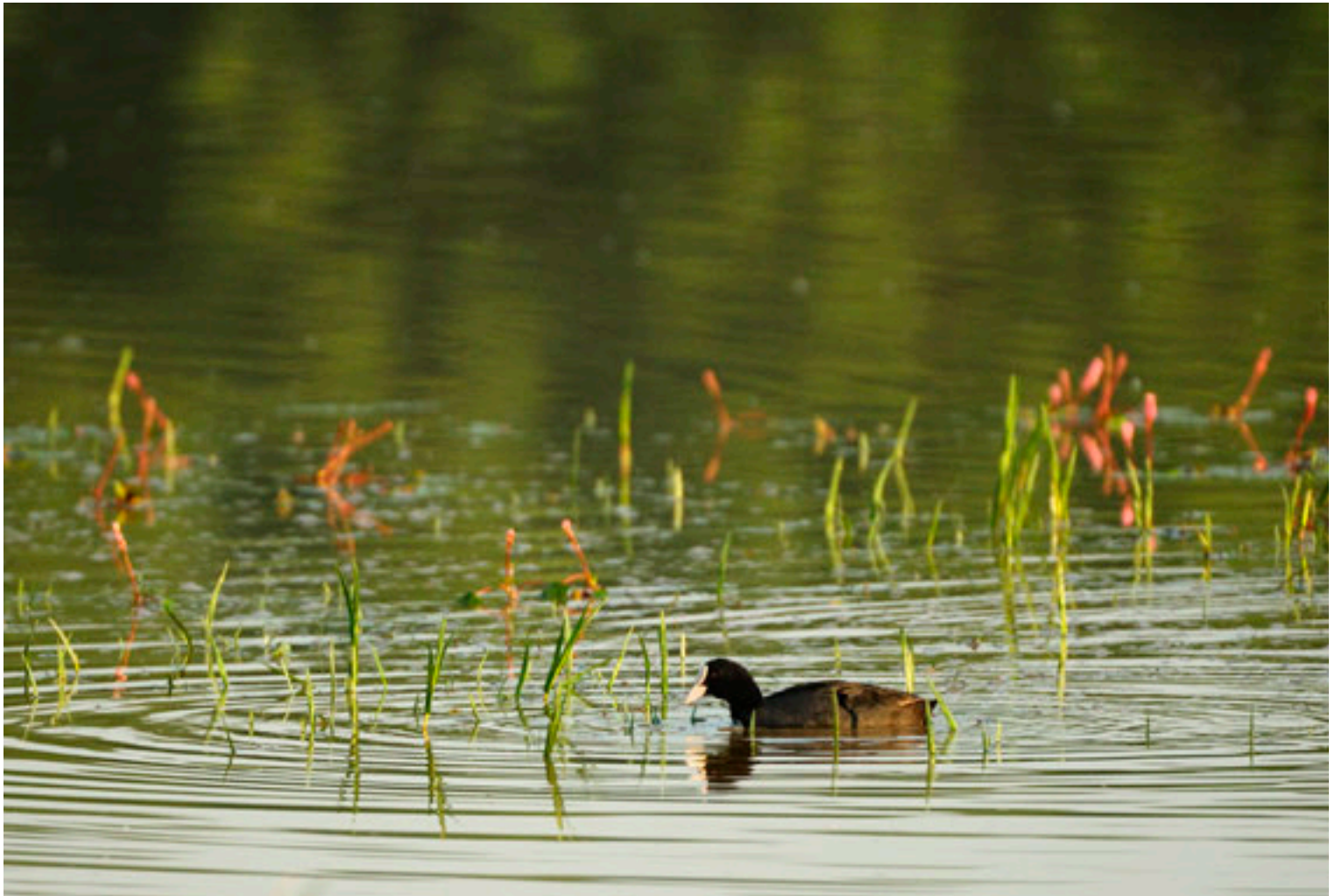
Main indicators and objectives related to climate change (continuation)

For compilation of the greenhouse gas inventory we used the global heating potentials of greenhouse gases based on the 4th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), pursuant to the criteria

established by the United Nations for the third stage of compliance with the Kyoto Protocol regarding National Inventories of Emissions.

The calculations of emissions and consumption of energy avoided have been made with respect to a baseline defined case by case and according to

simplified methodologies approved by UNFCCC for projects based on Clean Development Mechanisms.



Biodiversity and natural capital

[103-1], [103-2] and [103-3] (Biodiversity)

Commitment

Gas Natural Fenosa is committed to the principle of “minimising adverse effects on ecosystems and fostering the conservation of biodiversity”, and this way of thinking and method of operating have been incorporated into the

company’s Corporate Responsibility Policy. There is, therefore, a clear will to respect the natural environment where the activities are carried out and to provide the necessary resources to contribute to its sustainability via strict compliance with environmental legislation as well as the establishment of additional measures of a voluntary nature. These contribute to the knowledge and mitigation of the impact derived from the development of new projects and the operation of the facilities once they are up and running.

With regard to this aspect, we have recently adopted the Environmental Strategy which involves a pillar called Natural Capital and which is for the purpose of minimising impacts on the ecosystem and fostering natural capital. In this sense, the associated lines of action are:

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

The company is making strides to extend the focus of its environmental management towards the valuation of natural capital, in other words towards knowledge of the reserves over renewable and non-renewable natural

assets available in nature. The purpose of this method of operation is to identify and assess the dependencies and the impacts (both negative and positive) of business activities. This new approach will allow us to assess the relationship that our

company has with the natural environment in a broader and more inclusive way, controlling and reducing any possible risks and negative impacts, and stimulating the increase of positive impacts that arise via this preventive and proactive approach.

		Electricity generation					Electricity T&D	Mining
		Upstream	Gas T&D	Thermal	Hydroelectric	Wind		
Construction and operation of transport infrastructures	The building of transportation and distribution (T&D) infrastructures may have a temporary impact on the fauna present in the environment. The operation of electricity T&D grids may have a permanent impact on vegetation and birdlife.	+	+	+	+	+	+	+
Atmospheric pollution	Emissions from combustion may have an impact on the abiotic and biotic environments in the surroundings of the facilities.	+	+	+	+	+	+	+
Conversion of habitats	Changes in the land use and the permanent presence of facilities in the natural environment may cause impacts on the populations of species present in the environment. Reservoirs associated with hydroelectric plants may have a significant impact (both positive and negative) on biodiversity.	+	+	+	+	+	+	+
Change in ecological processes within their natural range of variation	Spills can have an impact on the aquatic medium. Reservoirs associated with hydroelectric plants may have a significant impact (both positive and negative) on biodiversity.	+	+	+	+	+	+	+

+ Low impact.
 + Medium impact.
 + Significant impact.

The company is making strides to extend the focus of its environmental management towards the valuation of natural capital, in other words towards knowledge of the reserves over renewable and non-renewable natural assets available in nature.

In this line of work we have defined a corporate action plan, the aim of which is to give impetus to this aspect of environmental management hand-in-hand with the environmental areas of the various business departments. A multiprocess working group has therefore been set up through which there is a continuous exchange of information and good practices, along with the application of methodologies, tools, indicators and common assessment criteria, etc. for the entire company. With all this, coupled with work targeted at increasing knowledge of the natural spaces where our facilities are located, in particular those that are close to protected areas or those of high value for biodiversity,

we introduce a preliminary task for the purpose of designing and introducing the most appropriate preservation measures in each case. The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

In addition, several initiatives on environmental education and awareness are carried out with stakeholders, in particular among the company's employees via voluntary environmental programmes that foster the development of individual attitudes and behaviour regarding respect for the natural environment and its conservation.



Gas Natural Fenosa's commitment to preserving biodiversity

- > Going beyond observance of nature protection laws and regulations.
- > Promoting and cooperating in preserving biodiversity in the area surrounding its installations, paying special attention to protected spaces.
- > Studying the environmental impact of its activities and projects, their effects on ecosystems and biological diversity, taking into account its stakeholders.
- > Adopting measures to prevent and minimise possible adverse effects on biodiversity, restoring damaged areas and soils.
- > Respecting the traditional ways of life of the local communities to favour the preservation and sustainable use of the environment.

Biodiversity indicators

[304-1] and [304-2]

The development of Gas Natural Fenosa's business activities requires land occupation, whether this is on a temporary basis, during the construction of facilities, or permanently, once they are operational. In some cases, the lands affected by these activities are extremely valuable for biodiversity. In these circumstances, the company introduces the measures required to minimise the risk of causing impacts

and properly managing the appropriate maintenance on those occasions when it cannot be avoided. This method of operating is carried out whenever we are dealing with areas that do not have a legal protection figure, or facilities that existed before the area was designated as protected.

All facilities have a potential affected area. To calculate these areas we use surface values based on the type of facility under consideration and associated with its environmental impact.

Those facilities whose surface area is located, in full or in part, on terrains that have a level of protection are classified as interior; those that are located within the radius affecting the protected space are considered adjacent, and those whose surface area is not within a protected area and not within the radius have been classified as exterior.

Description of land owned, leased, managed or adjacent to protected natural spaces or unprotected high biodiversity areas

Business	Type of operation	Location with regard to the protected area	Affected surface area (ha.)	Length of affected area (km)	Value of biodiversity
Gas	Exploration.	Interior.	22	49	SCI, SPA, PNS, RAMSAR
	Transport and distribution.	Interior and adjacent.	52	8,558	PNS, SCI, SPA, RAMSAR, BR, NR, PGR, SEI, EPA, GB, MR, RD, NRCS, RR, EPA, ASU, AIBC, NPR, PS, MER, PA, FR
Electricity	Generation.	Interior and adjacent.	62,337		SCI, SPA, PNS, RAMSAR, BR, AIBC, NRA
	Transport and distribution.	Interior and adjacent.	208	23,510	SCI, SPA, PNS, RAMSAR, BR, NM, NR, PLA, NAM, SR, NRA, NP, NM, WR, CONAF, MC, NM, NR, PF, RF, PIN, WET, PS
Mining	Coal extraction.	External.	0		–

SCI: Sites of Community Importance (Spain and Italy); SPA: Special Protection Areas (Spain and Italy); PNS: Protected Natural Spaces; RAMSAR: wetlands classified through the Ramsar Convention (international); BR: Biosphere Reserve, UNESCO (international); NR: Nature Reserve (Morocco, Moldova, Italy and Argentina); RPC: Permanent Game Reserve (Morocco); SEI: Site of Ecological Interest (Morocco); EPA: Environmental Protection Area (Brazil); NRA: National Recreation Area (Panama); AIBC: Areas of Importance for Bird Conservation (Mexico); NM: National Monument (Spain, Italy and Chile); PLA: Protected Landscape Area (Moldova, Dominican Republic); NM: National Monument (Moldova and Panama); SR: Scientific Reserve (Moldova); RA: Recreation Area (Panama); NP: National Park (Colombia, Italy, Panama); WR: Wildlife Refuge (Panama); CONAF: National Forest Corporation (Chile); MC: Monument Council (Chile); NR: National Reserve (Chile); BG: Botanical Gardens (Chile); MR: Marine Natural Reserve and marine protected area (Italy); PF Protected Forest (Panama); Regional Districts of Integrated Management (Colombia), NRSC: Nature Reserve of Civil Society (Colombia), (RR) National Protective Forestry Reserve (Colombia). EPA: Ecological Preservation Area (Mexico), ASU: Area of Sustainable Use (Mexico), NPR: Natural Private Reserve RNP (Chile), PS: Priority Site (Chile); WET: Wetlands (Chile), MER: Municipal Educational Reserve (Argentina), PA: Protected Area (Argentina), FR: Forestry Reserve (Argentina).

The company has obtained information about the species that exist in the catchment area of its facilities in order to find out more about the environment in which its activity centres are located and encourage actions targeted at maintaining biodiversity.

In all cases, the company complies with the demands laid down by the environmental authorities to minimise possible negative effects that the facilities could have on the surrounding species and habitats. In addition to the mandatory environmental impact studies (EIS) and environmental vigilance plans (EVP), we often carry out voluntary actions that go beyond what is strictly established through environmental legislation. Public participation in the procedures to approve these projects is ensured through national and regional legislation in each country where the company carries them out.

Every project that the company takes on passes the environmental impact assessment process. In 2017, the following EIS are worthy of particular mention:

- > Environmental impact study and social impact study of the water treatment plant for repowering the Tuxpan combined-cycle power station (Mexico).
- > Environmental and archaeological works of photovoltaic plants and wind farms of Gas Natural Fenosa Renovables in Spain.
- > Environmental impact study of the Río San Juan power plant in Colombia.
- > Environmental impact study into the storage of excess energy of the Vega wind farm in Spain.

Number of species whose habitats are in areas affected by operations* [304-4]

Type	Critically endangered species	Endangered species	Vulnerable species	Almost threatened species
Mammals	2	1	7	11
Birds	2	2	9	28
Reptiles	3	7	10	15
Amphibians	25	17	13	15
Fish	5	8	14	3

*According to the species catalogue of the International Union for the Conservation of Nature (IUCN Red List).

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

Initiatives and actions

[064]

The appropriate relationship with the environment constitutes a prime strategic aspect at Gas Natural Fenosa. The commitment to promote information transparency and responsible communication of results regarding our environmental management forms part of the action principles and commitments to stakeholders focused on generating value, as set out in the Corporate Responsibility Policy.

To this end, the company has been communicating the most relevant and material aspects of its environmental management for years through its

sustainability reports. These include issues related to the preservation of biodiversity, both on a corporate level as well as the level of business units which draw up their own reports.

Furthermore, specific reports on biodiversity have been published since 2009 that provide more detailed content and, since 2015, have also been published in an interactive version (see <http://www.informebiodiversidad.gasnaturalfenosa.com>)

The information in these reports is supplemented, in addition, with other content that is disseminated via the corporate website and on other more specific websites, and is where the actions carried out by the company in favour of preserving biodiversity are communicated, some of which are in response to the requirements established by the environmental authorities while others are voluntary.

Among the initiatives that are carried out the following types can be classified:

Initiatives and actions on issues of biodiversity

Environmental studies. [EU13]

Studies conducted within the sphere of the electricity generation facilities, to diagnose the ecological state of the land and water environment of the thermal and hydraulic power stations. These involve sampling campaigns with which we determine the physical-chemical and biological quality of the rivers and reservoirs, as well as getting knowledge on the basic state of the environment and its evolution in order to assess the potential influence of atmospheric contamination on forest masses.

Recent studies confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.

In 2017 we can highlight the application of a methodology the calculation of the ecosystem services at the Bolarque hydroelectric power station, identifying all of the environmental impacts and dependencies, selecting the most significant ones and monetising them. We are currently working on the international stage to develop protocols and methodology for calculating natural capital.

Environmental actions. [304-3]

Targeted at the conservation of species and natural spaces, whether of a voluntary nature or in response to the requirements established by environmental authorities and which stem from the performance of projects, from the operation of the facilities or once the activity has ceased. Such actions are usually carried out close to the company's facilities. On occasions, we also carry out compensatory measures or measures of another kind in other areas of interest for biodiversity.

In 2017 we continued with the actions to improve the priority habitats of *Tetraclinis articulata* forestry areas in Cartagena (Murcia, Spain) through educational routes, planting, competitions, workshops for children, informative sessions, etc.

Education and awareness actions.

The aim is to raise environmental awareness of company employees, as well as other external stakeholders, in particular customers and consumers, and also schoolchildren. We organise environmental



volunteer days, informal chats, publications of information brochures or training materials and Internet communication campaigns.

One example of these actions is the planting that takes place at the Municipal Park of Catacumba in Rio de Janeiro. Throughout 2017 we have developed more than 30 voluntary environmental activities.

Agreements and alliances with third parties.

For the purpose of supporting some of the initiatives included in the previous sections, we have different partnership agreements with third parties, in particular with conservation organisations and also with the public administrations, which provide the technical knowledge required to ensure the efficiency of the actions carried out.

In this regard, throughout 2017 the company continued with the project that it carries out in partnership with GREFA, on the refurbishment of old electricity transformation centres for the promotion of biodiversity.

 For more details about the initiatives on issues of biodiversity carried out by Gas Natural Fenosa, please see http://www.gasnaturalfenosa.com/html/corp_home/visor/index.html

1996

We make history:
inauguration of the
Maghreb-Europe gas
pipeline

With the inauguration of the Maghreb-Europe pipeline, which joins the Algerian natural gas fields to the Spanish network of pipelines through Moroccan territory, a huge strategic operation has come to fruition. Measuring more than 1,400 km, it represents the first pipeline connection between Africa and the Iberian mainland.

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Interest in People

[103-1], [103-2], [103-3] (Employability and employment)

Commitment to people. Page 221

Compensation and remuneration. Page 246



For Gas Natural Fenosa it is essential to foster a quality working environment, based on respect, diversity and personal and professional development. Gas Natural Fenosa also has a Code of Ethics that establishes the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the group's relations and interactions with its stakeholders.

> Commitments and principles of responsible action with employees

- > To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, work history, etc.).
- > To encourage the professional development of persons as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- > To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- > To ensure the effective introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of persons.
- > To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- > To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

> Value actions

Proposed actions 2017

Consolidation of the Strategic Workforce Planning (SWP) model for planning and management of workforces.

Cultural transformation and development of People Innovation Platform (PIP) services to accompany the implementation of an innovation culture.

Talent management, diversity, leadership and internationalisation.

Consolidation of the operational model of human resources management.

Planned actions 2018

+ To continue deploying SWP in new areas of the group.

+ To scale up the use of People Analytics in the preparation of diagnostics and in taking decisions that concern persons.

+ To introduce new methods of working and new ways of collaboration that run alongside the business evolution.

+ To consolidate the digitalisation of talent management towards a just-in-time model.

Level of fulfilment: + Finalised. + Major progress. + Intermediate progress. + Little progress. + Not started.

> Gas Natural Fenosa's contribution to SDG 5: Gender equality

The fifth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "women and girls represent half of the world's population and therefore also half of its potential. But, today gender inequality persists everywhere and stagnates social progress".

With regard to Interest in people, Gas Natural Fenosa is committed to gender equality in the performance of its activity, through its Code of Ethics, the Gender Equality Policy or the Protocol for the Prevention of Mobbing, Sexual Harassment and Sexual Discrimination. Gender equality is one of the three levers, along with age and disability, of the company's Integrated Diversity Plan.

Gas Natural Fenosa is committed to reducing inequalities and eradicating discrimination.



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

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

With regard to Interest in people, Gas Natural Fenosa is committed to providing decent work. The Integrated Diversity Plan embodies this commitment to its employees in issues of gender, age and disability.

This plan emphasises female talent, is committed to attracting young talent, preserving senior know-how and promoting the employment integration of people with disabilities. In addition, prevention and job safety are key aspects in the company's daily management, and these are embodied in the measures and training programmes of the Health and Safety Commitment Plan.



Gas Natural Fenosa's contribution to SDG 10: Reduced inequalities

The tenth Sustainable Development Goal (SDG) set by the United Nations Organization stands on the basis that "in today's world, we are all interconnected and it is not possible to achieve sustainable development to make the planet a better world for everyone if there are people that are deprived of opportunities, services and the possibility of a better life"

With regard to Interest in People, Gas Natural Fenosa is committed to reducing inequalities and eradicating discrimination. Beyond the actions carried out internally and the implementation of the Code of Ethics, the Gender Equality Policy or the Integrated Diversity Plan, the company conducts negotiation processes with unions at international level on wages, pension plans, implementation of equality plans and working conditions.

With regard to Interest in People, Gas Natural Fenosa is committed to gender equality in the performance of its activity, through its Code of Ethics, the Gender Equality Policy or the Protocol for the Prevention of Mobbing, Sexual Harassment and Sexual Discrimination.



Commitment to people

Interest in people is one of the eight undertakings assumed in the Sustainability Plan and which support the Corporate Responsibility, and it is therefore one of the inspirational principles of Gas Natural Fenosa around which its human resources strategy revolves. A strategy that advances every year and which in 2017 has continued promoting and deploying its employee value proposition.

Four important reasons for joining the Gas Natural Fenosa team

1 Becoming part of a great international company.

2 Being able to accept challenges.

3 Having an excellent working environment.

4 Working in a company committed to society.



of awards obtained in 2017

Seals and certifications



Award for promoting young workers and entrepreneurship, awarded by the Ministry of Employment and Social Security of Spain.



Appreciation for companies that excellently manage the diversity of people with disabilities.



Family Responsible Company Certificate awarded for balancing personal and professional lives of employees, awarded by the Más Familia Foundation.



Award for the contribution to social entrepreneurship, awarded by the Ecumenical Forum in Argentina.



Award for demonstrating the highest standards in the conditions and environment that it offers employees.



Recognised in Mexico as a company that applies overarching initiatives that are committed to the long-term, sustainability and people.



It substantiates that the organisation has introduced a management system that promotes and protects health, well-being and the safety of employees. Awarded in Argentina, Brazil, Morocco and the Dominican Republic.



Award for demonstrating the highest standards in the conditions and environment that it offers employees.

Rankings



It appears as the 8th best company in Spain in attracting and retaining talent.



Fourth place in the ranking of the best companies to work for in Spain.



Acknowledged in the TOP3 among the most attractive companies to work for, according to university students in Spain in the category of Engineering and IT.



Ranked in the Top30 companies in Spain with best practices in Diversity, Equality and Gender.



Position 61 of the ranking of best companies in attracting and retaining talent in Argentina.



49th place in the annual ranking of Expansión, which recognises the best places to work in Mexico.



Eighth position in the ranking of best companies to work for in Moldova.



Ranked 75/100 among the best companies in Argentina. Acknowledgement as the public services company with the best image.


> Summary of awards obtained in 2017 (continuation)

Awards




 Global CCU Award that recognises excellence and the progress made by business teaching organisations. This year the award has recognised the collaboration in the “We care about experience” project and the Dual Professional Training.



 Talent Mobility Award for organisations that understand talent mobility as a priority.



 El Mundo Zen Adecco Award in the Healthy Habits category, for the “Pack Mindfulness” project, targeted at comprehensive well-being of its executives and professionals.




 Runner-up in the Digital Human Rights Award in the Health and Business category for encouraging good practices in the sphere of occupational health.



 Runner-up in the People Innovation Platform (PIP) project as a commitment to cultural transformation driven by human resources.



 “Yo sí cumplo”, award in Panama, which recognises those companies that maintain good labour practices.




 Award to the success stories in management of people, awarded for the work of the Extended University, in Brazil.




 Award to Rafael Villaseca, as outstanding CEO for his track record and achievements in introducing innovative initiatives targeted at improving management and the experience of people within the organisations.



 Recognition as a company that stands out in the defence of value and dignity of each person.



 Diploma for its commitment to employing young persons through the Dual Professional Training programme.

People in Gas Natural Fenosa

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

We have made progress in the consolidation of the Integrated Diversity Plan in all countries and businesses, focusing efforts on gender, age and ability.

Leadership and talent programmes have helped promote professional development and training, strengthening the human potential of the company.

2017 was also a year of consolidation of the People Innovation Platform (PIP), the multidisciplinary platform introduced by the People and Resources Department, that facilitates the processes of transformation and innovation of the company by providing individuals and businesses with a portfolio of products and solutions that help them respond swiftly to the needs of VUCA (volatility, uncertainty, complexity and ambiguity).

Products and solutions that are designed in the field of PIP coexist with the traditional tools and solutions of the company and respond to the participation needs of talent in the process of ideation and intrapreneurship, development of digital skills and agile learning, physical

spaces for co-creation and technological solutions that facilitate the development of prototypes.

PIP is a space for the development of a new way of working at Gas Natural Fenosa, incorporating ideation and innovation methodologies in the daily lives of people. This facilitates the process of conceptualising and prototyping of innovative ideas and new business solutions, to the extent that it acts as an "internal accelerator" of these initiatives.

PIP has a direct impact on the professional development of people, facilitating the advancement of behaviours and habits that lead to a new way of working in the company.



Areas and levers of the people management strategy

Organisational performance

Smart simplicity

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

Extended workforce

- > Subcontracting borders.
- > Gas Natural Fenosa-suppliers relationship model.
- > Occupational risk management.

Human Resources Operating Model

- > HR analytics.
- > CSC productivity.

Cultural development

Cultural transformation

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

Employee's experience

- > Employee journey.
- > Employer branding.

Leadership and talent

Strategic planning of persons

- > We Look After Experience.
- > Gender.
- > Internationalisation of the group's profile.
- > Strategic workforce planning.

Leadership

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

Driver of ideas

Phase 0

Ideation

Capturing preliminary ideas and generation through the creation of a forum.

Services platform

Phase 1

Conceptualisation

Identification of current needs and concepts and technologies to respond to these.

Phase 2

Prototyped

Materialisation of the idea by developing prototypes, tests and pilots.

Phase 3

Project

Development and implementation through a stable team and a work plan.

Workforce

Gas Natural Fenosa offers its employees stable, quality employment together with a solid, structured and attractive professional career, where 97% of the positions have open-ended contracts.

The company is equipped with a uniform global selection model for all the countries in which it operates. By this means, it can guarantee a single employer strategy, with the same selection criteria and applying the same practices in the identification, acquisition and retention of the professional talent needed for it to develop its business activities.

The people management strategy has enabled the company to maintain a high level of qualification of its professionals and, together with the measures introduced to promote human and social development, has ensured the viability of Gas Natural Fenosa over a history of almost 175 years.

The rigour and professionalism of people that form part of Gas Natural Fenosa, the interest for ongoing learning and self-development,

the innovative spirit, as well as the sustainable commitment and involvement in the company's objectives are features of the profile of professionals in all geographies and businesses. In this regard, we should highlight that 84% of employees declare they are highly committed to the company (figure from Work Environment survey 2017).

Team key items

[102-7] and [102-8]

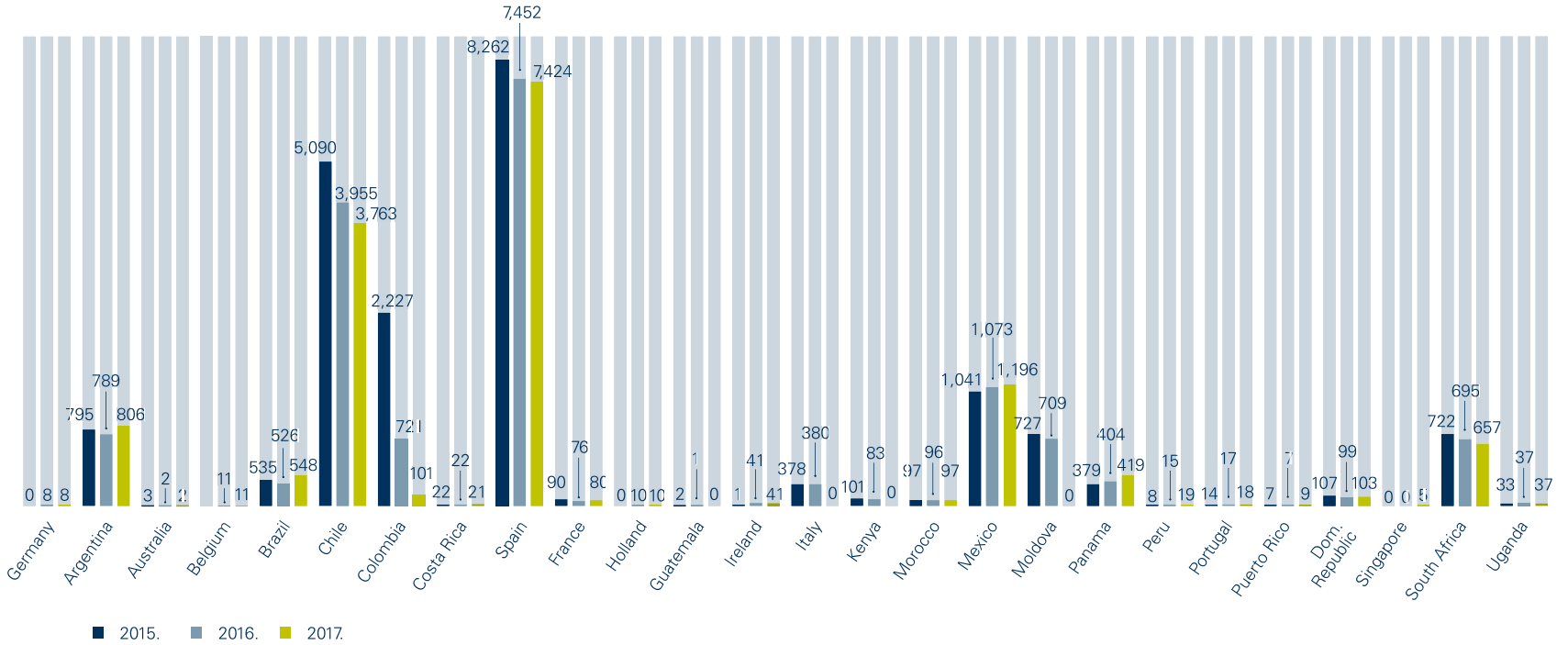
Gas Natural Fenosa is a global project which is carried out in over 30 countries. At the close of 2017, the company was operating through the direct involvement of 15,375¹ persons, of which 49.4% performed their activity in Europe, 45.4% in America and the remaining 5.2% in other continents.

30% of the workforce was made up by women and 70% by men, and had an average age of 44.1 years, with an average seniority of 14.7 years, considering the workforce managed under centralized human resources policies (14,526 employees).

Gas Natural Fenosa offers its employees stable, quality employment together with a solid, structured and attractive professional career, where 97% of the positions have open-ended contracts.

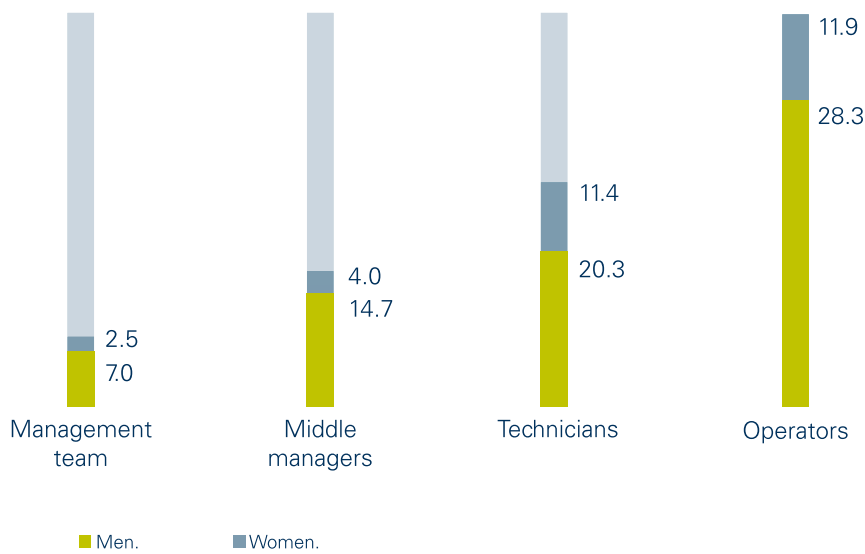
¹ Workforce at the year-end with centralised and decentralised management.

Staff index (Number of employees)



NB1: The companies consolidated through the equity method and which do not provide a headcount breakdown would total 5,017 employees, distributed as follows: Colombia 2,022, Argentina 859, Spain 754, Moldova 708, Italy 367, Egypt 145, Kenya 81 and Puerto Rico 81.
 NB2: Divestments occurred in Colombia, Moldova, Italy and Kenya in 2017.
 NB3: Workforce at the end of the period under centralized and decentralized management.

Breakdown of staff by professional category and gender (%)



People management

The model of leadership and talent management is committed to encouraging accountability, individual development and the career path, incorporating innovative tools and methodologies in training and development.

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

Strategic Workforce Planning

In the same vein and as a consequence of the ongoing improvement of efficiency and in connection with the strategic priorities of the group, throughout 2017 we have worked on the consolidation of a key tool for strategic planning of people, the Strategic Workforce Planning (SWP).

The importance of this strategic planning of job needs and profiles, for the purpose of facilitating a cross-sectional and long-term view, has justified the introduction of Strategic Workforce Planning as a staff planning tool, through the organisation of the workforce based on profiles, thus achieving a simplified and uniform vision of the group.

This enables us to plan the different workforce planning scenarios based on the supply/fluctuation of persons and demand for jobs, integrating the information of the intermediate and long-term business targets, the efficiency plans and the recruitment models.

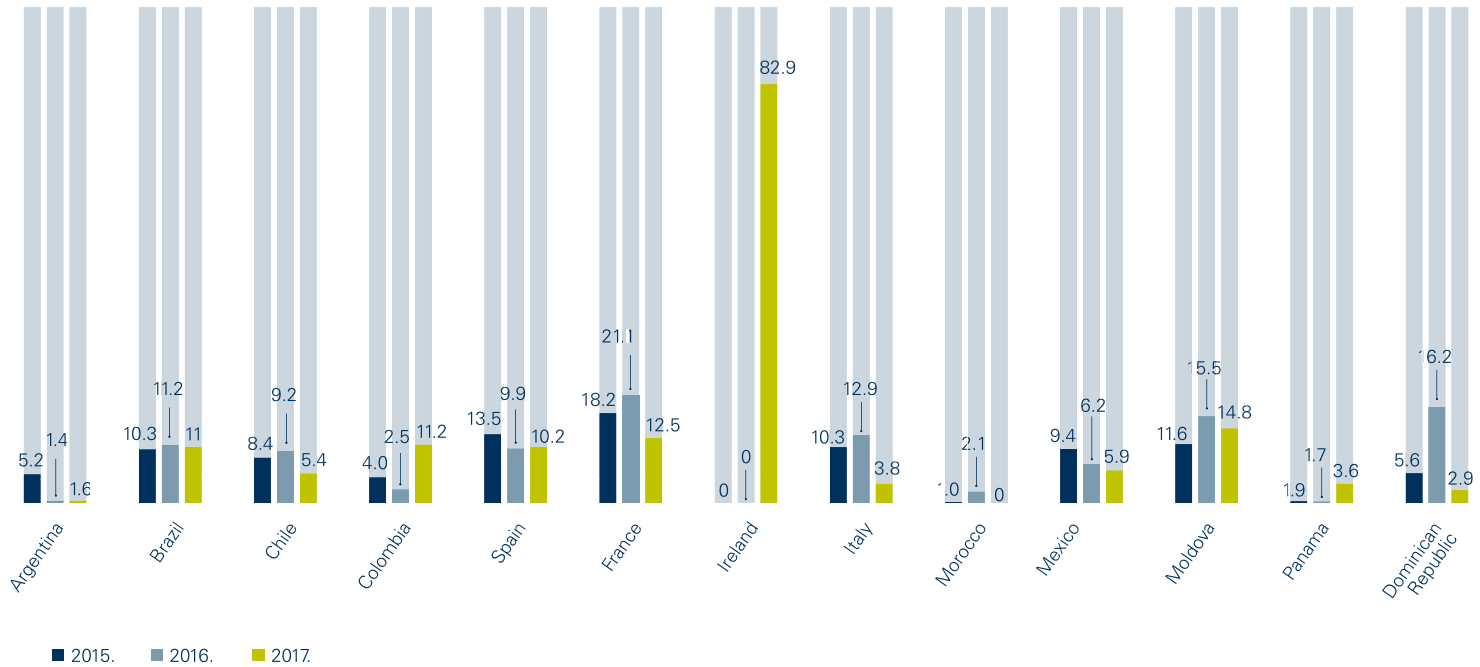
This analysis permits, in collaboration with the business, to identify staffing needs by profile and time in a systematic way and to perform advanced action plans to use leverage such as training, mobility and optimising the insourcing/outourcing balance.

Strategic Workforce Planning is a basic element that supports the strategic plan and the productivity plan.

Strategic Workforce Planning has 6 differentiated phases



Staff promoted (%)



Talent attraction

Gas Natural Fenosa has a pool of young professionals with strong technical and management training, through annual programmes of professional practices and agreements for Dual Vocational Training (VT), which allows the company's needs to be met and to attract the best talent in those fields of knowledge in which Gas Natural Fenosa is the leader.

Talent attraction initiatives

Professional practices programme.

Gas Natural Fenosa has partnerships with leading universities and higher educational institutions in the different countries where it operates, with special relevance in Spain. Every year, through these partnerships the group selects young persons for internships.

Of particular relevance was the agreement reached in 2017 with the Confederation of Spanish University Deans (CRUE), which encompasses 70 universities for the simplification of management of university practices.

Through this programme, students in the final year of their Bachelor's Degree or Masters can perform practical training guided by a tutor from the time they join until the end of their internship, fostering their learning and active participation in the company. Every year, practical training throughout the group is targeted at more than 125 young graduates and 100 vocational training students or equivalent, depending on the geographical sphere, with females representing 35%.

Note the continuity of the Summer Internship Programme with students from different degrees and courses, and the growing incorporation of female talent to the pool of professionals, contributing to our commitment to gender equality.

Dual VT.

Gas Natural Fenosa's commitment to Dual VT continued in 2017. This year there were 131 students enrolled between the first and second course of the four centres sponsored by the company, who together with the 16 students that had already completed the first graduation in previous years, make up a total of 147 people trained in our vocational training cycles.

During the two-year cycle, students have an online and classroom-based training plan at our facilities, dealing with technical aspects, prevention of occupational risks and safety.

Talent attraction (continuation)

The Dual VT offers Gas Natural Fenosa the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment.

Entrepreneurship.

The commitment to including young persons in the business helps generate stable and quality employment for these young people. Consequently, Gas Natural Fenosa has renewed in 2017 the strategy for entrepreneurship and youth employment seal.

In the commitment to the development of innovative ideas promoted by the businesses, the Emprende Programme has been continued, with participation by General Managers and external advisors of renowned prestige in the intrapreneurship field.

The programme includes a training itinerary based on the Lean-start-up methodology and the support from the experts, who work as intrapreneurship catalyzers within the organization with the goal of generating, conceptualizing and implanting new ideas which create value for Gas Natural Fenosa.

On boarding.

During 2017 we have been working on the preparation of a new onboarding model for the purpose of accompanying recently-joined professionals in their integration into the organisation.

The actions defined within the new onboarding model allow them to properly identify the cultural values that define Gas Natural Fenosa, be aware of the key aspects to launch their career path and basic networking that brings them into contact with people of reference in the organisation.

The onboarding process has been designed using the employee experience methodology, focusing on the user experience of the new professionals in those priority aspects that they themselves have described. Accordingly, the onboarding model includes online monitoring with new employees, speeding up the job incorporation process, tutoring by their manager and the buddy figure, which enables them to quickly integrate themselves into the corporate life.

Through the employee experience methodology, the process is monitored and improved, incorporating the NPS into each one of the key moments of the onboarding, from the time the employee becomes a selected candidate until they join the company and successfully complete their three-month trial period.

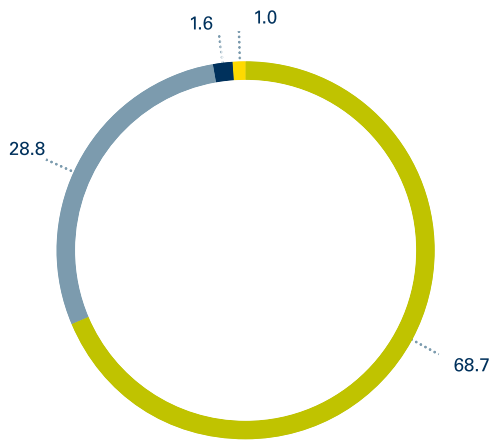
From the time they join there is a relationship between the new professional and their manager that helps them to quickly adapt to the responsibilities of their position, to the unit and to the company. New employees receive a welcome kit with key information on the value chain, the basic procedures that exist at the organisation and a quick guide on those administrative issues that will help them in their day-to-day work. Assistance is also provided to them in the use of NaturalNet, the company's in-house communication platform and all of the services they can find on the platform, in particular those related to management of people, such as the Corporate University or Talent Management.

In addition, from the time they join the company, they have the Employee Care Service (SAE) at their disposal, which helps them during their professional life cycle and where they can resolve any query or incident related to: Management of the work environment, Access to facilities, Payroll, benefits and other employee services, Prevention of occupational risks, Medical check-ups, My customer channel, Other services associated to the job and spare time.

Gas Natural Fenosa has partnerships with leading universities and higher educational institutions in the different countries where it operates, with special relevance in Spain.

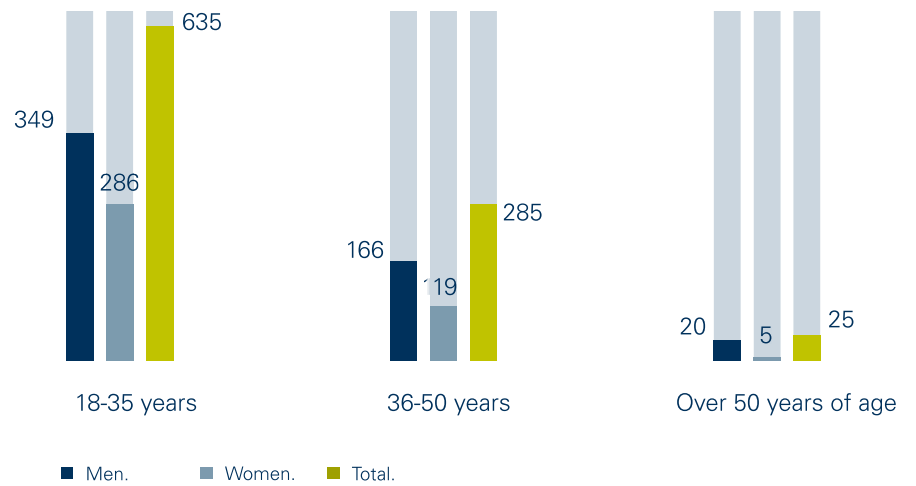


Type of contract (%) [102-8]



- Permanent contract (men).
- Permanent contract (women).
- Temporary contract (men).
- Temporary contract (women).

New recruitments by gender and age group [401-1]



- Men.
- Women.
- Total.

Talent development

Through the global talent management model, the company assesses professional skills, individual development plans, talent segmentation and internal mobility and promotion.

The model is implemented in all countries, ensuring development opportunities for all professionals through customised learning actions, mobility, project assignment or by joining coaching and mentoring programmes.

The consolidation of the Gas Natural Fenosa leadership model allows use of a language universally known by professionals. The model is structured in a skills map divided by professional levels and three strategic areas (vision, people and management), and it represents the

basis of the methodology and talent management practices and training at Gas Natural Fenosa.

Talent development cycle

The information obtained through the evaluation and development process is used in internal mobility and promotion.

Mobility and promotion are managed using two existing mobility management mechanisms: internal publication of vacancies and the Gas Natural Fenosa talent board. These are key in managing people's interests and talents, and the needs for growth and continuous adaptation of the company's business.

Mentoring programme

In 2017, we consolidated the mentoring programme that started in 2015 as a mechanism for development of professional skills. This involves a guided programme between the mentor and mentee that allows both of them to enhance their management and leadership skills, with special emphasis on team management practices, self-confidence and networking.

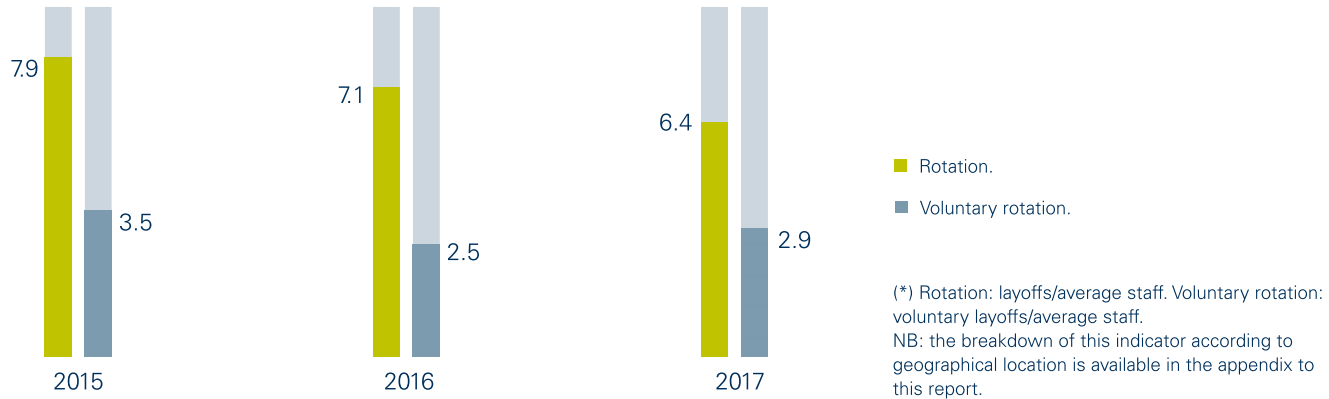
The programme is spearheaded by top-tier managers of the company and consolidates values and ways of doing things that are typical of the culture of Gas Natural Fenosa.

With the third edition in 2017 of the mentoring programme, the group has an expert group of 56 mentors, representing approximately 30% of the company's directors, and more than 200 managers that have taken part in this programme as mentees.

Leadership model

Professional levels	Vision		People		Management	
	Strategy and innovation	People Management	Cooperation	Decision	Implementation	
Executives.	Global vision.	Inspiration for others.	Political acuity.	Correct decisions.	Obtaining results on the network.	
Directors.	Strategic agility.	Motivating others.	Managing diversity.	Tolerating ambiguity.	Management 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.			

Rotation index and voluntary rotation index (%)* [401-1]



Rotation indices according to gender and age group (%)* [401-1]

Age range		Rotation index	Voluntary rotation index
18-35	Men	10.30	6.01
	Women	9.39	7.11
36-50	Men	4.27	1.89
	Women	4.32	2.82
>50	Men	7.80	1.40
	Women	5.66	1.25

* Rotation: layoffs/average staff. Voluntary rotation: voluntary layoffs/average staff.
NB: the breakdown of this indicator according to geographical location is available in the appendix to this report.

Coaching programme

Since 2011, Gas Natural Fenosa has been working on processes of coaching individuals and teams: 40% of executives have taken part in an individual coaching process, ten executives in 2017. In addition, 25%

have taken part in coaching programs for high performance teams, 30 executives in 2017.

A challenge coaching programme has started, targeted at professionals that have assumed new responsibilities in the organisation, to help them put into

practice the skills required to successfully perform their new duties. A total of eight professionals have taken part in this new programme, which will be consolidated in 2018.

> Digitalisation of the talent cycle

Since Gas Natural Fenosa defined its leadership and talent management model in 2012, it has been designing all of the tools to enable the leadership model to become a reality at the company and to consolidate itself as the people management model throughout the organisation. In this regard, we should point out three fundamental tools that form part of the annual cycle and which the professionals acknowledge and apply:

- > 360° evaluation questionnaire.
- > Individual Development Plan.
- > Contribution matrices.

2017 saw us structure the talent cycle by integrating it with other elements of the annual people management cycle and defining it as a stage of reflection on development.

Digitalisation of the talent cycle (continuation)

This structuring of the Talent Cycle has been accompanied by the introduction of a new digital platform that is integrated with the company's people management tools. The Evolution platform allows simple and flexible access to the talent management cycle through different channels. Professionals thus improve their experience of use and consultation of questionnaires and development plans both current and historic. The inclusion of the new platform has been accompanied with classroom training to all groups that take part in the talent cycle, stressing the importance of accompanying the collaborator in the role as manager, strengthening the importance of application of the leadership model of Gas Natural Fenosa and of the empowerment in talent management.

Through access to the Evolution platform, employees have an assessment questionnaire, both in the form of evaluation as well as query. This questionnaire assesses what each professional achieves, how they achieve it, along with their interests and aspirations. Professionals are assessed every three years, with specific questions that are appropriate to their level and responsibility.

Evolution also provides access to the Individual Development Plan, where every year each employee identifies and consults the actions that enable them to decide where they want to go and how they want to achieve this. Evolution puts them in touch with the training available at the Gas Natural Fenosa Corporate University.

In addition, management of contribution matrices has been incorporated, a section accessed exclusively by the people management team, in order to segment and to offer opportunities that are adapted to the different profiles. The matrices classify professionals in accordance with their contribution to the company, on two pillars: what each professional achieves and how they achieve it.

The introduction of the Evolution digital platform and the structuring of the cycle generate the following benefits for Gas Natural Fenosa:



- > Integrated overview of the talent cycle process on an online platform.
- > Access and different displays by categories of managers and collaborators.
- > Traceability: access to historic information and manager - collaborator monitoring.
- > Integration of the Individual Development Plan with the Corporate University catalogue.
- > Digital and online management capacity by those in charge of teams and managers of people and talent.
- > Possibility of applying analytics in the talent function.

The digitalisation of the Talent Cycle enables 23% of Gas Natural Fenosa professionals to have online access to key information of their development process and in 2018 the group of Technical Personnel Excluded will be integrated into this cycle.

Internal Mobility Programme

The international dimension and vocation of Gas Natural Fenosa makes it easier for professionals to be able to access different business areas, projects and geographies. The programme aims to maintain a culture where continuous learning and new professional experiences are features that enable the organisation to continue to grow and remain attractive for employees.

Internal mobility is a fundamental pillar of commitment to people and to that end employees have the possibility of internal mobility through the digital communication platforms.

Mobility and selection management

Gas Natural Fenosa has an internal platform that enables all employees worldwide to be informed about existing vacancies. Professionals can access information about the status of their internal mobility process in a personalised and confidential manner through the Employee Care Service.

For external selection, we use a process management portal that enables standardisation and optimisation of the entire process, ensuring elements of efficiency measurement are used, and of the key indicators of recruitment and selection.



Internal Mobility Programme figures

- > Internal mobility of over 25% in the management team.
- > A total of 843 vacancies covered thanks to the mobility process, of which 657 took place in Spain.
- > 8% of the workforce has applied for vacancies published. Each candidate applied to an average of 1.95 jobs, generating 2,495 applications.

ConocerT project

To discover the preferences and concerns of professionals in the matter of mobility, we have continued working on the ConocerT project.

This initiative, launched in 2015, helps to obtain individualised and centralised information about the company's professionals and it is targeted at technical professionals that are not included in management programmes or in the Savia programme, having obtained information from 10,000 employees in 15 countries.

The ConocerT information is proactively integrated into the internal mobility programme, providing professionals with

new development opportunities based on their professional profile and interests.

This initiative provides access to corporate vacancies for a group of professionals interested in progressing but who may have been unaware of the opportunities the company offers.

Diversity and equality

For Gas Natural Fenosa it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

Integrated Diversity Plan

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

Internal mobility is a fundamental pillar of commitment to people and to that end employees have the possibility of internal mobility through the digital communication platforms.

Integrated Diversity Plan initiatives and tools

Gender.

- > Continuity of the specific development plan for female talent.
- > Continuity of the mentoring programme for women with a managerial career.
- > Specific focus on the processes of selection and recruitment of new professionals, with specific monitoring of short-listed female candidates.
- > Specific focus on the processes of promotion and mobility, in particular with regard to the management team, with promotion percentages of 32% and mobility figures close to 35%, in both cases higher than the female representation in the different professional groups.

Disabilities.

The Operating Diversity Committee encourages various actions:

- > Family Plan: this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability.
- > Capacitas Plan: this aims to promote the employment of people at risk of social exclusion on grounds of disability.
- > Aflora Plan: this encourages those employees of Gas Natural Fenosa with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity.
- > Bequal Plus certificate: Gas Natural Fenosa renewed this certificate in 2017, substantiating our commitment in Corporate Social Responsibility and Disability.

Age.

Gas Natural Fenosa has obtained a diagnosis of the company's reality following an overall analysis of the current demographic context in Spain and in the energy sector. With a workforce with an average age of more than forty and a prospect of increased ageing, it was necessary to implement measures that would respond to the risks identified.

That is why Gas Natural Fenosa has developed the project "We Care about Experience", that focuses on people over 55, to ensure the prevention of physical and health problems whilst aiming to extend their professional career, allowing them to complete their working life and ensuring a successful transition to positions that are less physically demanding.

The project has the following specific objectives:

- > To foster intergenerational relationships, thanks to the direct interaction of each young person involved, extending the career of senior employees and leveraging their extensive experience in areas that are critical to the company.
- > To incorporate younger people into the organisation, using levers such as Dual VT, thereby impacting directly on productivity in the area while simultaneously encouraging youth employment.
- > To prevent potential future physical and health problems of senior employees that carry out their activity in fieldwork or particularly demanding work.

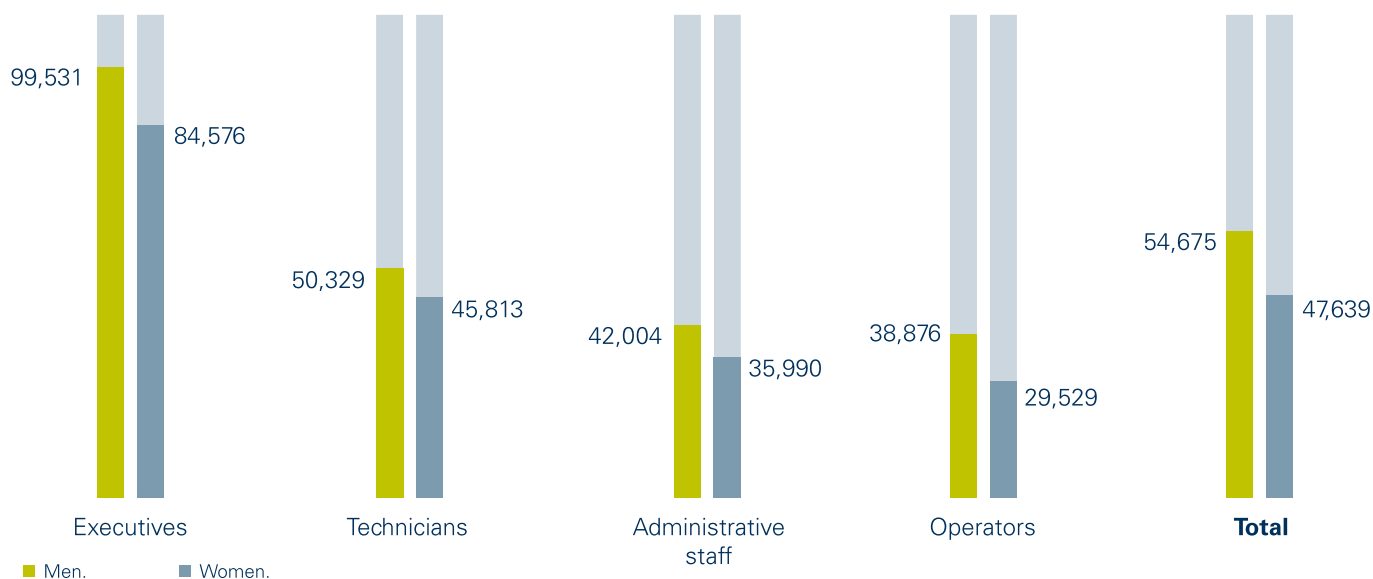
In 2017 a total of 84 senior employees have been relocated in six countries, and there are now more than 200 that have been trained and relocated through this programme, with some participants becoming internal instructors. Furthermore, the programme has already generated 132 external registrations since its launch.

The challenge set for the 2016-2018 period is to relocate about 300 employees who perform their role in operating and maintenance jobs with a high physical demand. The vacancies will be covered by young employees who will gradually join the company.

The programme's acumulative score is 9.1, having reached the target whereby employees and social agents are committed to the same.

Average salary of men and women by professional category. Spain (euros)

[405-2]



NB 1: the breakdown of this indicator according to geographical location is available in the appendix to this report.

NB 2: the difference in salary shown by the results is in line with the context of the sector and generated mainly by the company's past gender make-up, which means greater average seniority of men in comparison with women.

Employees with disabilities (%)

	2017	2016	2015
Employees with disabilities in Spain	2.57	2.42	2.40

Flexibility

[401-2]

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

Global FRC Certification

Gas Natural Fenosa is a benchmark of the new socio-labour and business culture. This is recognised in the Global Family Responsible Company (FRC) Certification, obtained in 2013, renewed in 2016 for another three years and reviewed in 2017. We were the first and only company to obtain this qualification issued by the

Másfamilia Foundation. This certification is audited by AENOR, and is supported by the Ministry of Health, Social Services and Equality.

This certification is an endorsement of the country-specific local measures on conciliation, but it also identifies 20 measures that are common to all of them and which are promoted at corporate level.

Time Bank

Gas Natural Fenosa provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on the most enriching aspects of their personal life. The range of services available to them is extensive and structured into three blocks:

Administrative tasks: advisory and assistance services for frequent administrative tasks.

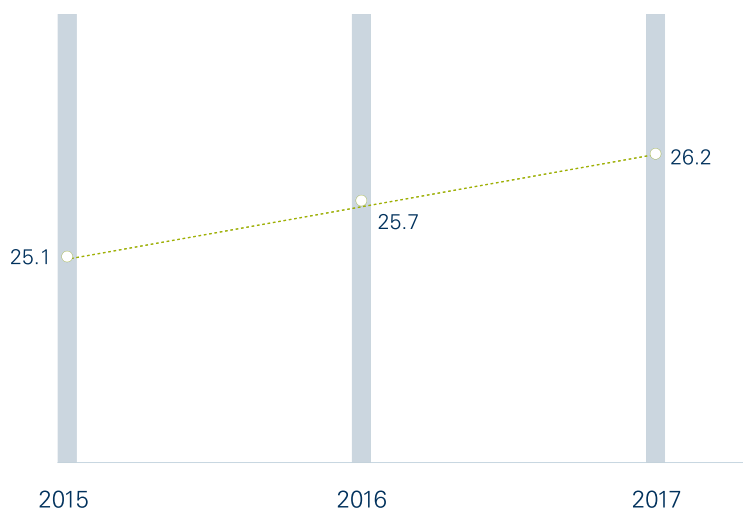
Advantages club: an exclusive virtual space with more than 500 offers.

Easylife space: outreach services and acquisition of products.

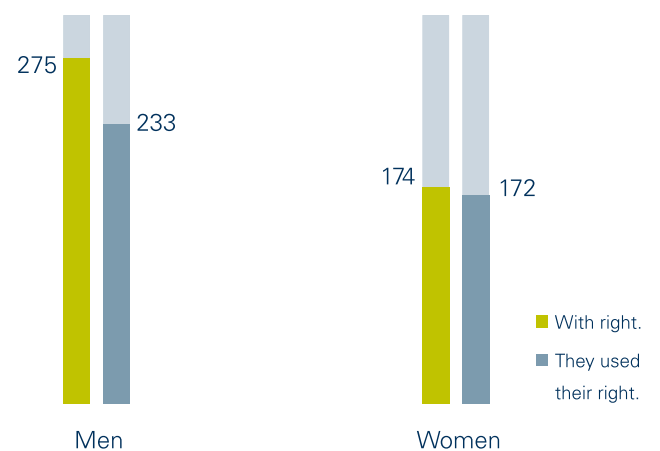
The Time Bank also offers services available on a quotation basis, such as technical services, courier services, returning clothes to stores and currency exchange, or special services provided during Christmas or back-to-school campaigns, among others.



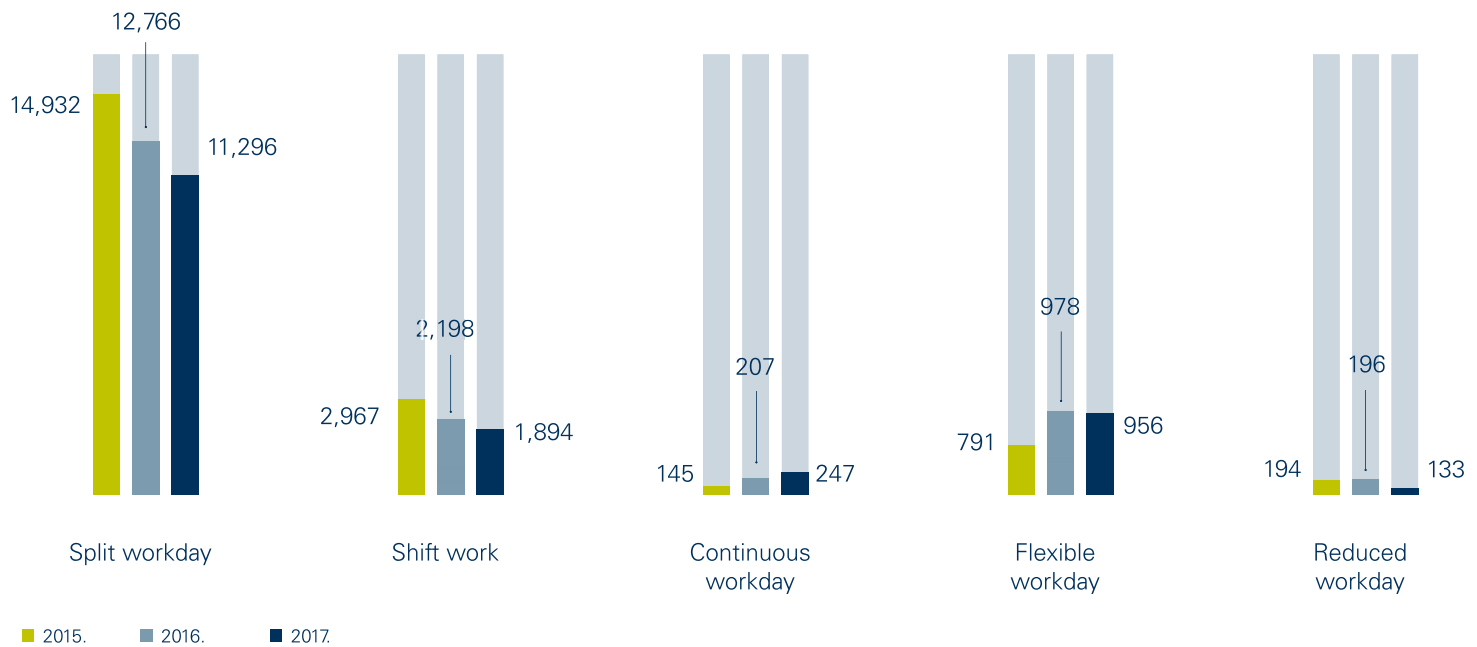
Women in management posts (%)



Comparison of employees with maternity/paternity leave with those who made use of this right [401-3]



Flexibility and support for the personal environment



Employee satisfaction

Knowing employee satisfaction and the value they place on the products that the company makes available to them during their working life cycle is a key element of commitment to people.

We maintain direct communication with employees to identify those aspects that affect the emotional commitment of people and to be able to offer solutions that encourage loyalty in their relationship with Gas Natural Fenosa.

Tools such as the work environment survey, conducted every two years, have given rise to improvement actions and plans that have been reflected in the results of the current work environment and commitment survey corresponding to 2017, where there has been an increase in the percentage of commitment up to 84%, above the benchmark average. Moreover, the remaining aspects subject to analysis have been

improved or consolidated, such as the organisation, CSR, transversality, manager relationship, employment conditions, image, communication, management valuation, professional development and remuneration.

Employee Care Service

The company also has the Employee Care Service (SAE) implemented in Spain and Latin America, which will gradually be extended to other geographies in the coming years. In 2017 the service completed its fifth anniversary and has consolidated itself as a single point of contact for the employee with the organisation for the seven services included:

- > Management of the work environment.
- > Access to facilities.
- > Payroll, benefits and other services to the employee.

- > Occupational risk prevention.
- > Medical check-ups.
- > My Customer channel.
- > Other services associated to their job and spare time.

In 2012, with the design and introduction of the Employee Care Service (SAE), Gas Natural Fenosa made a decisive decision to pursue globalisation, uniformity and quality in all its processes and to look after the employee wherever they may be located. This service has a multichannel approach and enables consolidation of global and unique models in providing care to the company's professionals.

The introduction of the Employee Care Service strengthens the employee's integral capacity for response, through an online platform and customised care.

This platform allows the employee to resolve all the steps required during their time at the company, representing an improved experience for the employee through the following actions:

- > Integration of employee care channels: a single point of contact to channel and resolve employee requests from different areas of the company.
- > Cross-sectional and integrated overview of the processes of employee relations: simplification, transparency and flexibility in resolving their requests.
- > A culture of commitment to the employee with regard to response times and level of satisfaction.
- > Homogenisation and centralisation of response to employee enquiries: standardisation of response criteria through a list of FAQs.
- > Reinforcement of the operational capacity of internal teams: allowing specialists to focus on areas of value-added aspects of their role.
- > Trace and control: monitoring and tracking requests, both by areas and by employee.

2017 was the year of consolidation of the service. Moreover, to guarantee ongoing improvement of the processes and the commitment to the employee, in 2017 the Employee Care Service included the NPS indicator to obtain the service recommendation level and to receive employee feedback on the service received.

Currently, with the service NPS of 69.09%; a total of 125,877 employee requests were dealt with and 93.39% of requests were resolved on time, representing an increase of compliance with deadlines of 1.28% year-on-year.

Employee Experience

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

The Employee Experience project aims to:

- > Incorporate the vision of the employee in all processes of people management.
- > 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 learnt.

To do this, we analysed the employee's experience throughout their life-cycle in the organisation, prioritising items by importance and satisfaction for professionals.

The finding obtained allows us to identify the most important motivational aspects, using the Employee Journey methodology and maps.

The methodology for collecting project information was based on an online survey, released to a representative sample of employees in each country, covering a total of 15 countries. It received a response from more than 3,000 participants.

The composition of the sample was made taking into account the representation of different segments: business, age, gender, professional category and location, in order to ensure the study was enriched with different aspects. In addition, different focus groups were held with employees as an essential complement to the survey.

Following the diagnostics stage carried out in 2016, in which we analysed the results of the "Global Survey + Focus Group", the map of importance and satisfaction of employee trips and subtrips in each country has been obtained, in addition to the items and points for improvement that should be considered and analysed to improve the employee's experience.

We analysed the employee's experience throughout their life-cycle in the organisation, prioritising items by importance and satisfaction for professionals.

Work took place in 2017 to improve the processes identified in that diagnostic stage:

- > Training experience model through the Evolution platform of the Corporate University, incorporating the employee's vision in key aspects such as personalisation of the centralised global training and operative supply, offering quality in the offer, empowering the employee and responsible in the choice of the training that will define their development plan, enabling multi-device access to short and highly focused courses.

- > Onboarding, tied to the initial experience of new professionals that join the company and which guarantees that this group has everything necessary to perform their work, to integrate themselves into the collective, obtain access and permits, the provision of spaces and tools, as well as allowing follow-up of the processes by those in charge.
- > Digitalisation of the Talent Cycle through the Evolution platform.
- > Incorporation of the NPS into the Employee Care Service.

For Gas Natural Fenosa, the most relevant indicator that enables us to measure this topic is the work environment and commitment survey that is conducted every two years and which is accessible to 100% of the workforce in all countries. In 2017, this survey was responded to by 87%, three points above the previous one (2015) and up to 10% above the average participation in the energy sector.

The data from the work environment survey serve to endorse the people policies that Gas Natural Fenosa has been developing in recent years. Thus, the percentage of employees committed to the company totals 84%, and up to 94% believe they can contribute to the company's goals and targets through their daily work.

The employment conditions are also highly valued by employees, and once again this continued to improve in 2017, in particular the perception obtained in the transversality aspect, which can be highlighted as it was the focus of work and effort following the creation of specific plans arising from the 2015 survey.



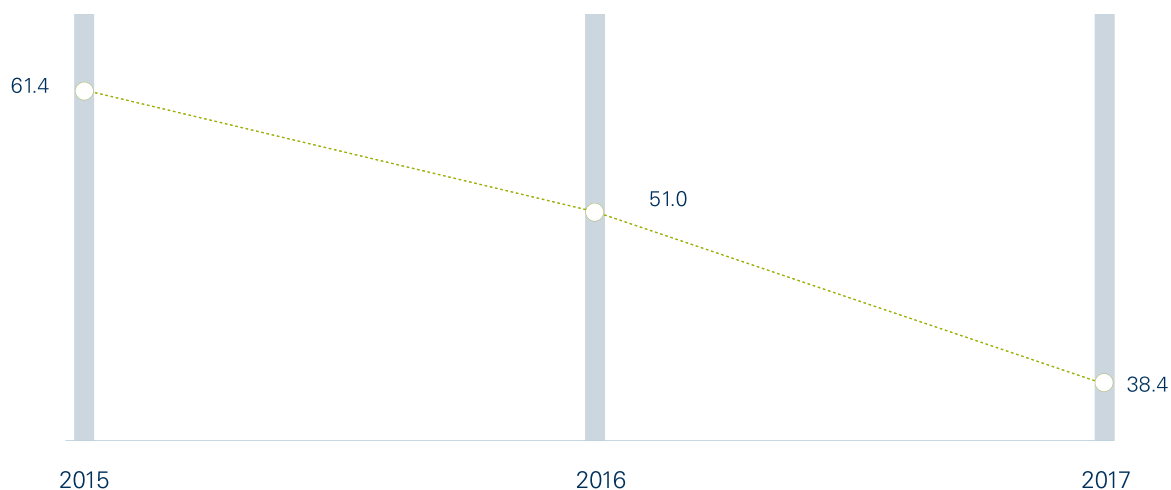
Corporate University

The Corporate University, a pioneer in Spain, was launched in 2000 as a strategic lever of transformation that serves the business. It is a venue for meeting, debate and training that fosters innovation and excellence in the development of talent to enable the professionals of Gas Natural Fenosa to turn the company's objectives into reality.

Its advisory board is composed of representatives of senior management of the company and external advisors of the Polytechnic Universities of Barcelona and Madrid, the Technological Institute of Monterrey, IESE, ESADE and the Boston Consulting Group.



Evolution of training hours per employee



NB 1: there is a decline in average hours per employee, and generally in all indicators of training, through the consolidation of data in Chile, with a training volume that is less than the rest of the group due to a reduction in the number of transversal programmes across the company in comparison to previous years, as well as the interruption to Corporate University activities during the 3 months used to implement a new platform.

The management model of the Corporate University responds to training needs both with regard to skills as well as technical expertise, and this is performed through the Leadership Institute and the Technical Institute, respectively. These institutes in turn are divided into schools and classrooms designed to increase the level of specialisation, adequacy and quality of training to the maximum, given that this is a true reflection of the company's different businesses.

In addition, the Corporate University has a network of academic spaces, consisting of six training centres and 64 classrooms located in ten countries (Argentina, Brazil, Colombia, Spain, Italy, Mexico, Morocco, Moldova, Panama and the Dominican Republic), with teaching capacity for 3,000 people and close to 47,000 square metres of space.

2017 saw the company's training model evolve on the basis of three levers: employee experience, customisation of the training and centralised global operation. In addition, the Evolution training platform has been introduced as

Corporate University's figures

	2017
Satisfaction surveys answered	45,369
Participants' average satisfaction (0-10)	8.4
Average degree of application of knowledge and skills in the job (%)	80.4%
Number of programmes with evaluation of application	273
Average perception index (0-10)	8.0

NB: The measurement model is not implanted in Chile.

the new training platform for the Corporate University in 15 countries and for 15,000 employees, and the ISO 9001 2015 certification has been renewed.

In addition, and as an improvement to the training measurement model, we have incorporated measurement of the Net Promoter Score (NPS), with a score of 41.5%.

This year, a total of 613,623 training hours were given to 97,604 participants.

Technical Institute

The Technical Institute guarantees the training associated to the performance of the business and corporate functions. Its schools and classrooms are structured to respond to the different areas of the group's value chain. It is divided into five schools:

- > **Generation.**
- > **Upstream & midstream.**
- > **Distribution.**
- > **Commercial.**
- > **Corporate processes.**

2017 saw the company's training model evolve on the basis of three levers: employee experience, customisation of the training and centralised global operation.

Relevant programmes:

Cybersecurity plan: a global plan has been introduced with awareness sessions for the group of directors and deputy directors of the company and work carried out on the key points of interest from the company's perspective, assisting this collective in the development of an action plan for personnel of their units.

Smile project: training in the introduction of the ZEUS system for the gas and electricity distribution business in Spain. To date, the number of participants in the Smile training projects (Zeus, Delta, Mega, etc.) of the group has grown to more than 10,400 staff members and 3,600 external from all countries.

CeX: development of 4 new customer trips in gas, commercial and customer-service regulated businesses: *"me cambio de gas"* (I'm changing gas), *"necesito gas"* (I need gas), *"soluciones energéticas"* (energy solutions) and *"back office de clientes"* (customer back-office). Introduction of the "Cex contributors" online course to strengthen the Ambassadors Programme among the group of individual contributors (launched in Spain for more than 3,700 employees) and set to open in remaining countries in tandem with an implementation schedule for CeX.

Leadership Institute:

The Leadership Institute guarantees the training associated to the development of skills and abilities defined in the Gas Natural Fenosa leadership model. It is divided into three schools.

- > **Management.**
- > **Managers.**
- > **Individual contributors.**

Management School: As part of the Corporate Leadership Programme (CLP), key programmes have been carried out



targeted at reinforcing skills: Management of people, Diversity, Transversality and Customer Experience.

The women's leadership programme "Make Yourself Visible" has been designed to accompany the female professional during her career path, working on personal and professional skills within the management context. The DILO (Day In the Life) programme, designed to improve skills in people management and seek the transformation of teams, focuses on the group of executives that have identified the need to improve this area as part of their individual development plan.

Talent management model - annual cycle: training for Directors, Deputy Directors and Managers focusing on knowledge of the annual cycle. Access to Evolution, 360° evaluation process and Individual Development Plan (IDP). 2,250 participants, 5,900 hours of training.

During 2017, the Leadership Institute has consolidated its training offer aimed at professionals with responsibilities for teams and those with a major contribution to the results.

Savia programme 2.0

It gives continuity to the Leaders Project and aims to strengthen the role of middle management of the company, accompanying managers in the group transformation processes.

This year has seen the finalisation of Savia 2.0: Cooperation and Empowerment, with more than 1,500 participants and 40,000 hours of training in seven countries (Spain, Argentina, Chile, Italy, Morocco, Panama and the Dominican Republic).

Avanza programme

A global programme targeted at groups with high contribution and potential to assume new organisational challenges or relevant projects in the short or medium term. Targeted at strengthening skills required of the company's leadership model needed at higher organisational levels.

Management of Collaborating Companies

The purpose of this is to provide Gas Natural Fenosa personnel that manage contractors with the skills, expertise and tools to perform comprehensive management of the same, in accordance with the standards of quality, safety and service established for the group. Attended by more than 600 participants in Spain, Argentina, Brazil and Mexico and with 8,800 hours of training.

Innovation

The Corporate University is a fundamental lever in the consolidation of the group's culture of innovation. In this regard, a range of programmes has been developed that contribute towards raising awareness, promotion and support to innovation. Chief among these are:

- > Innovamos Channel, launched for the purpose of strengthening training contents of innovation and digitalisation and encouraging the employee participation in the different initiatives of learning in innovation.
- > Development specific training programmes on agile methodologies, digitalisation, virtual/augmented reality and the culture of innovation.

- > Emprende programme, an intrapreneurship programme targeted at a group of 25 people with an innovative profile and which is allowing us to identify new business models while promoting the culture of innovation and networking at the company. For nine months, participants have developed five new product and service value proposals for the company.

Training itineraries

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

Gas Natural Fenosa training indicators

	2017	2016	2015
Staff trained (%)	93.7	87.4	95.1
Training hours per employee ¹	38.4	51.0	61.4
Total course hours¹	613,623	889,625	832,144
Men	430,995	656,880	627,984
Women	182,628	232,746	204,159
Annual investment in training (euros) ²	14,322,806	14,014,713	10,493,080
Investment in training per person (euros)	897.4	803.1	774.5
Attendees	97,604	138,872	165,987
Online hours	176,995	330,213	356,805
People who were trained through the online channel (%)	69.3	69.7	73.2
Participants' degree of satisfaction (out of 10) ³	8.4	9.0	8.9

NB 1: The Corporate University remained closed for 3 months for the set-up of new corporate systems, and accordingly the final indication of training hours has been affected by this occurrence.

NB 2: We have not considered the expense of Ireland, as it does not consolidate training data. Italy, Moldova and Colombia Gas have been consolidated.

NB 3: The satisfaction survey has changed with regard to 2016. It is now digital and optional. Over the year, we have observed that the average decrease is 6-8 tenths in general with regard to the close of 2016. As regards this figure, we believe it to be reasonable, given that as it is a non-mandatory digital survey, in general employees will give an en masse opinion when the course has no pertinent quality, but not when the course has the quality desired. As regards this, we observe that the remaining companies that publish satisfaction figures post values that range between 8-8.5, with which we have redefined our targets.

Training hours by areas of knowledge

Area of knowledge	Hours	Percentage with regard to the total %
Technical Institute	523,390	85.3
Business	102,446	19.6
<i>Up & Mid</i>	1,130	1.1
Generation	29,182	28.5
Distribution	56,893	55.5
Commercial	15,241	14.9
Processes	420,944	80.4
Prevention of occupational health and safety risks	159,475	37.9
Quality and environment	15,714	3.7
Culture and Corporate Responsibility	22,148	5.3
Languages	140,408	33.4
Information systems	33,963	8.1
Other corporate services	49,238	11.7
Leadership Institute	90,233	14.7
Management School	12,853	14.2
Individual Contributors School	13,921	15.4
Leaders School	63,459	70.3
Yearly plan total	613,623	100

Training hours per employee and professional category

		Management team	Middle Managers	Technicians	Operators
Staff trained (%)	Men	95.9	97.1	92.6	91.3
	Women	97.7	96.6	95.0	92.9
	Total	96.4	97.0	93.5	91.8
Training hours per employee ¹	38.4	63.8	50.6	38.3	27.4
Total course hours ¹	613,623	93,208	149,842	190,634	179,939

¹ NB: The Corporate University remained closed for 3 months for the set-up of new corporate systems, and accordingly the final indication of training hours has been affected by this occurrence.

Compensation and remuneration

[201-3]

Remuneration policy

Gas Natural Fenosa's remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two models:

- > The remuneration level of employees included in the collective bargaining agreement depends on the professional group and subgroup to which they belong.
- > For those not included in the agreement, it is established on an individual basis according to the remuneration policy approved by the Board of Directors' Appointments and Remuneration Committee.

Variable remuneration

Variable remuneration, within the remuneration policy of Gas Natural Fenosa, is for the purpose of reinforcing employees' commitment and motivating them to perform to the best of their ability, aligning these functions with the company's long-term interests and those of its shareholders.

Annual variable remuneration assesses the contribution to achieving individual objectives in accordance with the job, related to economic-financial variables of efficiency and growth, and also issues such as quality and safety.



General principles of the remuneration policy

- > Reward employees with a comprehensive offer of monetary and non-monetary components, which recognises and respects the diversity of their needs and expectations related to the professional environment, whilst serving as a tool to communicate the organisational purposes and business objectives.
- > Foster a culture of commitment to the company's objectives, where individual contribution as well as teamwork is fundamental.
- > Assess -systematically and using professional development criteria- the results of the action and the level of adaptation to the skills required at any given time.
- > Provide fair and competitive remuneration. Fair, by recognising differences in accordance with the responsibilities and critical nature of the job or the person's value to the group. Competitive, by applying a flexible market positioning adapted to the specific nature of local markets, to be able to attract the best professionals and ensure they remain with the company.
- > Guarantee application of the remuneration and reward criteria as a whole, unique and transparent for everybody, to ensure objective management.

Share in results:

The Management by Objectives and variable commercial remuneration are methods in place at Gas Natural Fenosa as incentives for employee involvement in achieving the company's targets and direct share in results. Both of these are instrumented through two types of annual variable remuneration, depending on the group at which it is targeted:

Management: based on management by objectives and assessment of performance. This applies to persons that belong to the management group and who are excluded from the bargaining agreement.

Commercial: based on meeting commercial targets. This is aimed at those persons that hold a commercial function within the group.

The company has also instrumented a monetary incentive scheme for all directors, measured over a three-year period (PREMP), targeted at reaching targets set by the company for the applicable three-year period. The aim of this programme is to help retain and motivate key personnel tied to these objectives and to achieve an alignment with maximising the value of Gas Natural Fenosa in a sustained way over time.

Social benefits and flexible remuneration

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



Breakdown of personnel costs (millions of euros)

	2017	2016	2015
Wages and salaries	898	823	820
Social Security costs	134	128	134
Defined contribution plans	44	42	41
Defined benefit plans	9	9	10
Work carried out for the company's fixed assets	(122)	(109)	(113)
Others	68	81	81
Total	1,031	974	973

NB: At 31 December 2017, the non-current assets for sale corresponded to the businesses of gas distribution and commercialisation in Italy; gas distribution and commercialisation in Colombia; electricity distribution in Moldova, and electricity generation in Kenya. For this reason, information pertaining to the said businesses is not included here. Operating income for 2016 has been re-stated due to the discontinuity of the gas distribution business in Italy and in Colombia, of electricity distribution in Moldova, gas commercialisation in Italy and electricity generation in Kenya, in application of IFRS 5.

The company provides a series of social benefits that complement the employee remuneration packages.

By the same token, the company provides a series of social benefits that complement the employee remuneration packages. In the international arena, and pursuant to the provisions set out in the legal frameworks of each country where the company is operational, Gas Natural Fenosa has established or agreed the introduction of social benefits and different measures of reconciliation with employee representatives, the extension and limits of which will depend on each sphere, country or regulatory agreement.

The “My Benefits” platform, which represents a single and comprehensive solution to manage and communicate

the compensation and benefits programmes, is a live technological platform that evolves in accordance with the different strategies of benefits and compensation.

This platform already has modules like the “Social Benefits System” which helps the employee understand their retirement and to find out about the company’s internal plans, or “Health and Well-being” where the employee can manage their plans in this area. In addition, in 2017 we incorporated new modules into the platform, such as the “Disability and Inclusion” to facilitate and improve management and communication of the compensation and benefits programmes. This platform

constantly evolves to adapt itself to the different benefits and compensation strategies.

In addition, there is a flexible remuneration system in Spain, which has been consolidated since 2012. This enables the recipients to voluntarily design the make-up of their remuneration package.



Social benefits to employees

- > Flexitime and intensive working hours in summer.
 - > Extension of time off work for births, marriages, deaths and similar.
 - > Medical insurance and services (hospitalisation, care, ophthalmology assessment, dentistry plan and similar).
 - > Supplements to public welfare benefits in cases of temporary invalidity.
 - > Collaboration on cultural, sport and leisure activities.
 - > Financial contributions to compensate meal expenses.
 - > Family Plan, for relatives (parents, children, siblings and spouses) of employees with a level of disability equal to or greater than 33% and between 0 and 65 years of age.
 - > Aid for the professional studies of employees and for scholarship programmes, book allowances and scholarship funds with different regulations and scope.
 - > Pension plans and/or savings funds.
 - > Loans, advances and credit and insurance facilities for employees and their families.
 - > Electricity or natural gas consumption allowances.
 - > Preferential agreements with insurance companies and banks.
 - > Summer residences.
 - > Family allowance for the birth of a child, marriage, financial assistance for nurseries and for professionals that have disabled children.
-

In the case of Spain, the Joint Pension Plan for Employees of the Gas Natural Fenosa group is a defined contribution pension plan for retirement and a defined benefit for death and incapacity whilst actively working.

The plan currently has assets of more than 500 million euros, distributed among more than 7,000 active employees, and close to 2,000 beneficiaries.

As regards the retirement contingency (defined contribution), the general system of contributions for new personnel establishes two tranches depending on the salary level. In the initial tranche (lower than 60,115 euros) the mandatory contribution of the promoter is 2% and the obligatory contribution from the participant is 0.5%. In the second tranche (equal to or higher than 60,115 euros) the

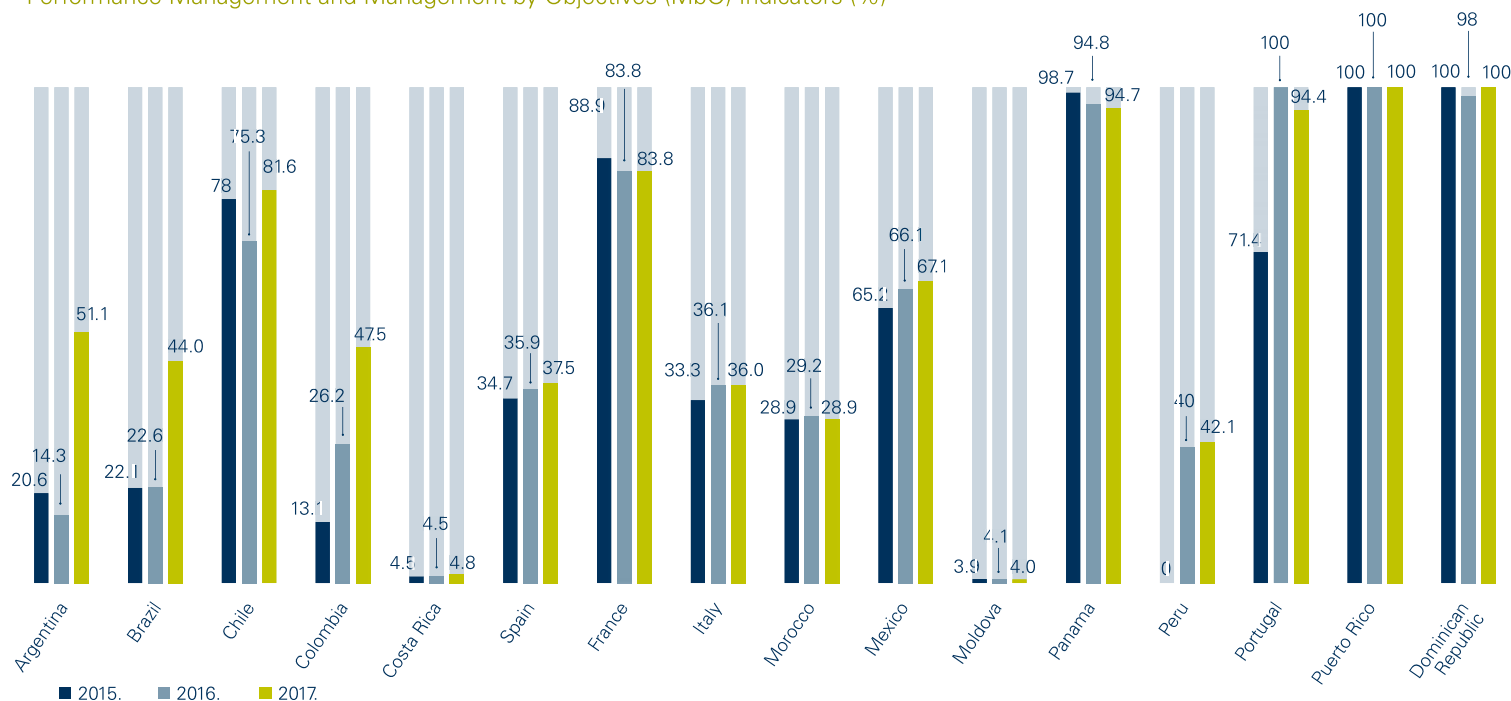
percentages specified are 2.5% and 1.5%, respectively. In addition, there are specific systems of contributions for certain groups depending on their provenance and/or professional category.

The benefits payable on death or incapacity while an active worker (defined benefit) are instrumented through a renewable temporary annual insurance policy (TAIP), and the cost of the premiums is paid to the insurance company in its entirety by the promoter. The guaranteed benefits are: 2 years' salary in the event of death or incapacity, 1 further year if these contingencies arise through an accident, and a further 1.5 years in the case of a traffic accident. These benefits are subject to the discounting of the value of the participant's consolidated rights arising from the obligatory contributions.

Membership of the pension plans is automatic on registration with any of the promoter companies. However, the employee always has the possibility of opting for a "participant in suspension" situation. Participants that are active workers represent more than 99% of the workforce of promoter companies.

On the international stage, the group's retirement policy at all companies revolves around retirement savings instruments and coverage for death or incapacity while an active worker. These provide employees with benefits that complement the public systems of social security, and are always introduced in accordance with the particular nature and needs of the social welfare issues of each country.

Performance Management and Management by Objectives (MbO) Indicators (%)*



*Percentage of participants in the MbO system. The breakdown by gender for this indicator is available in the appendix of this report.

NB 1: In Germany, Australia, Belgium, Holland, Guatemala and Ireland there is a workforce volume that is irrelevant for the purposes of this indicator.

The purpose of internal communication is not just to inform but also to involve employees and make them participants in reinforcing the commitment and the pride of belonging to the company.

Internal communication with employees

Internal communication strategy

The purpose of internal communication is to help comply with the company's strategic objectives based on growth, safety, leadership, innovation and customer focus, supported by the different business areas and contributing to increase the sense of pride and belonging to the company.

In line with this objective, the internal communication projects attempt to align the organisation with strategic targets, promote culture and corporate values, and improve the working environment.

Gas Natural Fenosa has numerous channels to circulate these messages, such as the corporate Intranet and the Natural magazine which is distributed internationally. During 2017 we have been working on creating a new corporate channel for the informative contents which hitherto were disclosed on the Intranet, which will be called Naturalnews and the launch of which is scheduled for the beginning of 2018. This is a move towards communication that is more digital, with a friendly design, accessible through mobile devices, multi-language, interactive with new informative content to increase employees' satisfaction and encourage their participation and collaboration.

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

Yammer, the company's corporate social network, is growing more consolidated and already has almost 9,000 registered users at international level, showing itself to be an important tool for productivity, a source to extend the digital culture and a channel of interaction and communication among employees.

Awareness-raising campaigns

The internal communication campaigns have enabled employees to find out about and get involved in the company's strategic projects.

The Health and Safety Commitment project has celebrated its fifth year and continues to be a strategic target of the company. The message has been reinforced in 2017 with impact actions at the main work centres, which have raised awareness about the campaign.

We have also launched two communication campaigns associated to the Ambassadors Programme, which continues to be a force for cultural change at the company in seeking an excellent experience for our customers. As part of this initiative and for the second year running, Open Doors Days were organised at the company's main offices to enable employees and their families to find out more about the company and the different initiatives that are being introduced. More than 1,100 employees took part in the sessions in Madrid, Barcelona and A Coruña.

Two communication campaigns were introduced to mark the new platform of the Corporate University and Talent Management (Evolution) and of the Commitment and Work Environment Survey.

> Volunteer Programme communication campaign

In 2017, Gas Natural Fenosa launched the Energy Vulnerability Plan to combat a social reality that is increasingly affecting more people, energy poverty.

As part of this plan, we launched the Energy Volunteer Programme, spearheaded by the Gas Natural Fenosa Foundation, through an internal communication campaign. The first initiative of this programme was carried out in partnership with Red Cross for the purpose of having volunteers to train and advise vulnerable families with whom Red Cross already works, so they can save money on their bills and acquire more efficient and sustainable consumption habits.

A creative concept was designed for the campaign under the motto "Share your heat" to pool together all actions. In addition, a "Volunteers" identifier was created which was applied to all campaign materials.

The launch saw posters put up at the work centres, as well as banners, news items, infographics and the volunteer guide through the corporate Intranet.

To attract attention, informative events were carried out at the main offices, in functional meetings with stands and informative brochures featuring the campaign image. Merchandising material was also designed for the volunteers: bags, T-shirts, caps, folders and pens.

The objective of attracting volunteers was achieved a few weeks before the launch.



Other relevant campaigns, such as the Cybersecurity Plan, Energy Volunteers and "We speak your Language" (adaptation of the corporate advertising campaign to the internal public) have helped showcase the company's key projects.

Emotional-type activities with employees

The purpose of internal communication is not just to inform but also to involve employees and make them participants in reinforcing the commitment and the pride of belonging to the company.

The Sports Club offers sporting activities to more than 2,000 employees and continues to be well attended. Participation in competitions that also involves families helps to pass on corporate messages that go beyond the work environment.

Reinforcing proximity through direct communication

During 2017 we have continued with the "Our Energy Awards", now in their sixth year. These awards recognise innovative ideas and the ongoing improvement of employees. The Health and Safety Contacts competition and the Health and Safety Leadership Award continue to receive candidates and are well supported by employees.

Direct communication continues to be a powerful tool and has always been highly valued by employees, as it promotes proximity through face-to-face dialogue actions. The "Dialogue Programme" has reached more than 1,500 employees through the different kinds of meetings: "Speaking about the Company", which has already had 11 events; "Breakfast with Management", with 19 events; and six "I have a Question" format meetings.

A new initiative has been incorporated this year, called "Trendy Talks", which under a single umbrella encompasses guest speakers that talk about different areas of interest for employees and which are tied to the company's values. In 2017, two sessions have been carried out.

The functional meetings of the executive departments also allow us to align and report to the business units about strategic projects and plans, as well as encouraging interrelations and the exchange of ideas and experiences among employees. This year 11 functional meetings were organised, which were attended by more than 2,200 employees.

The measurement of campaigns is essential to find out the penetration and the level of compliance with communication targets. For this reason we carry out regular satisfaction surveys about the actions, and we have statistics on access to the channels and an internal qualitative and quantitative communication audit is conducted.

Labour relations

[407-1]

Respect for the fundamental rights, freedom of association, collective bargaining, and culture of the agreement represent essential principles for Gas Natural Fenosa, having workers' representatives freely elected in each country where the company is present.

Gas Natural Fenosa promotes collective bargaining, promoting active communication channels as part of its corporate principles.

As a consequence of this, a range of agreements have been signed in Spain with the representation of workers in issues as disparate as the Regulations on Specifications of the Gas Natural Fenosa Pension Plan, the set-up of the Monitoring Committee of the II Collective Bargaining Agreement of Gas Natural Fenosa, the incorporation of the shift scheduling table and others, that affect all businesses (distribution of gas, electricity, production, etc.), and without prejudice to the formalisation of many others in different subject matters, both collective and individual.

On the international stage, 30 negotiation processes have finalised, chief among which are Argentina, (salary agreements) Brazil (two salary negotiations), Mexico (seven salary negotiations in the gas and electricity sphere), Colombia (Gasorient agreement 2016 - 2018), Morocco (new Metragaz collective bargaining agreement 2017 - 2019) and Chile (17 new collective bargaining agreements negotiated with 17 different unions in the gas and electricity sphere, that affect 12 local companies). Overall, we have reached 42 collective bargaining agreements across the group.

Within the scope of all societies in which Gas Natural Fenosa operates in 2017, there are a total of 74 unions with representation in all spheres of action, seven in Spain and 67 internationally.

Finally, it should be pointed out that, at 31 December 2017, there had been a total of 192,824 visits, enquiries and downloads of "Employment Information" on Naturalnet across the group, and 100,470 enquiries, incidents and requests through the Employee Care Service, dealt with directly by the service or through the People, Organization and Culture Departments in the countries where it is implemented.

Development of suppliers

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

The Corporate University, through its Extended University, offers a wide range of training to external partner companies, customers and suppliers of Gas Natural Fenosa, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The Extended University thus helps to establish a common planning and management model, contributing to the professionalisation of companies that form part of the value chain of Gas Natural Fenosa.

The Extended University is fully consolidated as a strategic partner of the businesses, with a recurrent activity of more than 30,000 participants every year and 200,000 hours of training.

The most relevant milestones in 2017 were as follows:

- > Development of two earthing simulators for cells as well as a procedure for discharges in the electricity business, where more than 1,500 operators of collaborating companies have been trained.
- > Training on the payment protection service with a global collective of 1,600 people
- > Training in commercial skills for the face-to-face customer service centres with attendance by more than 80% of the network of centres, as well as 400 operators from the telephone sales platforms that have obtained their basic level certificate in our Customer Experience model.
- > We have continued to work on the safety commitment project, and 1,500 people have undertaken the road safety course, 1,200 attended the course on performing checks prior to activities, 1,200 attended the safety awareness workshop and 800 attended the working at heights session.
- > The Atenea video channel, focused on the development of short audiovisual content on safety at work issues or quality in operations, has accumulated more than 14,000 hits in its second year of operation. In 2017 a lot of the contents developed focused on the different aspects of road safety, with more than 4,000 views.

The Extended University thus helps to establish a common planning and management model, contributing to the professionalisation of companies that form part of the value chain of Gas Natural Fenosa.

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	
Number of employees ^{1/2}		8	806	2	11	548	3,763	101	21	7,424	80	0	10	
Breakdown of staff by age range (%) . 2017. ^{2/3}	18–35	37.50	19.23	50.00	63.64	27.74	28.91	36.63	19.05	12.06	65.00	0.0	20.00	
	36–50	37.50	37.47	50.00	36.36	56.57	48.10	53.47	66.67	53.68	33.75	0.0	80.00	
	>50	25.00	43.30	0.00	0.00	15.69	22.99	9.90	14.29	34.26	1.25	0.0	0.00	
Breakdown of staff by gender (%) . 2017. ² [102-8]	Men	87.5	77.5	100	54.5	61.9	74.9	45.5	95.2	67.7	50.0	0.0	80.0	
	Women	12.5	22.5	0.0	45.5	38.1	25.1	54.5	4.8	32.3	50.0	0.0	20.0	
Women in management posts (%) . ^{2/4}	2015	0.0	14.3	0.0	0.0	31.1	16.0	42.5	0.0	24.9	25.0	0.0	0.0	
	2016	0.0	14.7	0.0	0.0	38.1	17.3	44.6	0.0	25.5	22.2	0.0	0.0	
	2017	0.0	17.6	0.0	0.0	34.8	19.8	45.5	0.0	26.7	20.0	0.0	0.0	
Senior managers from the local community (%) . ^{2/5}	2015	0.0	100.0	0.0	0.0	60.0	0.0	50.0	0.0	99.4	33.3	0.0	0.0	
	2016	0.0	100.0	0.0	0.0	40.0	25.0	50.0	0.0	99.4	50.0	0.0	0.0	
	2017	0.0	87.5	0.0	0.0	40.0	81.3	0.0	0.0	98.9	50.0	0.0	0.0	
Breakdown of staff by professional categories and gender (%) . 2017. ² [102-8]	Management team	Men	12.5	3.5	0.0	9.1	5.5	2.2	11.9	4.8	10.5	10.0	0.0	10.0
		Women	0.0	0.7	0.0	0.0	2.9	0.5	9.9	0.0	3.8	2.5	0.0	0.0
	Middle managers	Men	0.0	13.0	0.0	0.0	12.6	12.4	5.0	4.8	15.5	8.8	0.0	10.0
		Women	0.0	3.6	0.0	9.1	6.4	3.0	9.9	0.0	4.1	6.3	0.0	0.0
	Technicians	Men	75.0	13.8	100.0	45.5	16.6	23.9	16.8	9.5	19.3	28.8	0.0	50.0
		Women	12.5	4.2	0.0	27.3	11.7	9.5	21.8	0.0	13.1	31.3	0.0	20.0
	Operators	Men	0.0	47.3	0.0	0.0	27.2	36.5	11.9	76.2	22.2	2.5	0.0	10.0
		Women	0.0	13.9	0.0	9.1	17.2	12.0	12.9	4.8	11.3	10.0	0.0	0.0
Breakdown of workforce by contract type (%) . 2017. ² [102-8]	Permanent contracts	Men	87.5	77.5	100.0	54.5	61.9	74.2	24.8	95.2	67.1	50.0	0.0	80.0
		Women	12.5	22.5	0.0	45.5	38.1	25.0	16.8	4.8	32.0	50.0	0.0	20.0
	Temporary contracts	Men	0.0	0.0	0.0	0.0	0.0	0.6	20.8	0.0	0.5	0.0	0.0	0.0
		Women	0.0	0.0	0.0	0.0	0.0	0.1	37.6	0.0	0.3	0.0	0.0	0.0

¹ NB: the companies consolidated through the equity method and which do not provide a headcount breakdown would total 5,017 employees, distributed as follows: Colombia 2,022, Argentina 859, Spain 754, Moldova 708, Italy 367, Egypt 145, Kenya 81 and Puerto Rico 81.

² NB: Divestments occurred in Colombia, Moldova, Italy and Kenya in 2017.

³ NB: Kangra Coal (South Africa) is a not managed company, there is no information detail.

⁴ Note: there is no management team in Australia.

⁵ NB: with the acquisition of Vayu in Ireland, new directors from the local community have joined.

Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	Singapore	South Africa	Uganda	Total
41	0	0	97	1,196	0	419	19	18	9	103	5	657	37	15,375
43.90	–	–	11.34	41.47	–	36.75	63.16	50.00	22.22	24.27	80.00	–	54.05	21.51
48.78	–	–	46.39	50.33	–	29.59	31.58	50.00	33.33	59.22	20.00	–	40.54	50.26
7.32	–	–	42.27	8.19	–	33.65	5.26	0.00	44.44	16.50	0.00	–	5.41	28.23
65.9	–	–	84.5	73.3	–	66.3	57.9	27.8	77.8	82.5	80.0	–	75.7	70.3
34.1	–	–	15.5	26.7	–	33.7	42.1	72.2	22.2	17.5	20.0	–	24.3	29.7
0.0	176	0.0	25.0	20.3	34.6	32.1	–	100.0	0.0	66.7	–	–	0.0	25.1
7.7	19.4	0.0	25.0	20.6	38.5	31	100.0	100.0	0.0	66.7	–	–	0.0	25.7
0.0	–	–	25.0	18.8	–	32.1	100.0	100.0	0.0	66.7	50.0	–	0.0	26.2
–	–	–	0.0	33.3	0.0	66.7	–	0.0	0.0	0.0	–	–	0.0	92.0
100.0	–	–	0.0	50	0.0	66.7	0.0	0.0	0.0	0.0	–	–	0.0	92.6
100.0	–	–	0.0	42.9	–	66.7	0.0	0.0	0.0	0.0	0.0	–	0.0	92.1
24.4	–	–	3.1	4.7	–	4.5	0.0	0.0	22.2	1.0	20.0	–	2.7	7.0
0.0	–	–	1.0	1.1	–	2.1	10.5	11.1	0.0	1.9	20.0	–	0.0	2.5
9.8	–	–	37.1	15.8	–	20.5	10.5	0.0	33.3	21.4	0.0	–	32.4	14.7
4.9	–	–	2.1	3.1	–	8.4	0.0	0.0	0.0	7.8	0.0	–	8.1	4.0
24.4	–	–	11.3	24.3	–	13.6	36.8	22.2	11.1	6.8	60.0	–	5.4	20.3
29.3	–	–	2.1	9.6	–	10.7	21.1	44.4	0.0	5.8	0.0	–	5.4	11.4
7.3	–	–	33.0	28.5	–	27.7	10.5	5.6	11.1	53.4	0.0	–	35.1	28.3
0.0	–	–	10.3	12.9	–	12.4	10.5	16.7	22.2	1.9	0.0	–	10.8	11.9
65.9	–	–	84.5	60.6	–	66.3	57.9	27.8	77.8	82.5	80.0	–	75.7	68.7
34.1	–	–	15.5	20.7	–	33.7	42.1	72.2	22.2	17.5	20.0	–	21.6	28.8
0.0	–	–	0.0	12.7	–	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	1.6
0.0	–	–	0.0	5.9	–	0.0	0.0	0.0	0.0	0.0	0.0	–	2.7	1.0

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	
Average salary of men and women by professional category (euros). 2017. ²	Executives	Men	– 78,404	–	–	75,051	128,109	63,952	–	99,531	97,143	–	–	
		Women	– 63,187	–	–	65,270	87,065	54,794	–	84,576	82,911	–	–	
	Technicians	Men	– 31,615	–	–	26,068	41,803	13,550	–	50,329	52,146	–	–	
		Women	– 28,602	–	–	23,699	38,023	12,569	–	45,813	42,623	–	–	
	Administrative staff	Men	– 24,812	–	–	–	25,064	6,564	–	42,004	34,596	–	–	
		Women	– 22,116	–	–	–	20,518	20,438	6,455	–	35,990	31,617	–	–
	Operative	Men	– 26,555	–	–	–	15,449	15,191	6,227	–	38,876	–	–	–
		Women	– 25,626	–	–	–	15,034	13,140	6,615	–	29,529	–	–	–
	Ratio between the standard minimum salary and the local minimum salary by country and gender. 2017.	Total	–	3.29	–	–	3.28	1.84	1.6	–	1.89	1.52	–	–
		Men	–	3.39	–	–	3.41	1.84	1.79	–	1.89	1.48	–	–
		Women	–	3.19	–	–	3.14	1.83	1.4	–	1.89	1.56	–	–
	Total annual ratio of the best paid person of the company with the total annual average remuneration of the workforce. ^{6,7}	2017	–	4.62	–	–	12.40	14.23	18.41	–	18.90	4.17	–	–
[102-38]														
Ratio between the percentage increase of total annual remuneration of the best paid person of the company with the percentage increase of the total annual average remuneration of the entire workforce. ^{8,9}	2017	–	2.64	–	–	1.00	–	1.04	–	2.21	2.04	–	–	
[102-39]														
Rotation index (%) (number of layoffs/ average staff).	2017	24.8	4.8	50.0	9.1	2.1	11.9	12.8	4.6	3.4	9.0	100	9.6	
[401-1]														

² NB: Divestments occurred in Colombia, Moldova, Italy and Kenya in 2017.

⁶ NB: In Germany, Australia, Belgium, Costa Rica, Holland, Guatemala, Perú, Puerto Rico, Singapur and Uganda there is a workforce volume that is irrelevant for the purposes of this indicator.

⁷ NB: relationship between the total annual remuneration of the best paid person of the organisation in each country where significant operations are carried out with the average annual total remuneration of the entire workforce (without counting the best paid person) of the corresponding country.

⁸ NB: ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.

⁹ NB: the figures showing zero mean that one of the indicators is equal to zero.

Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	Singapore	South Africa	Uganda	Total
312,231	-	-	85,786	31,796	-	41,041	-	-	-	46,643	-	-	-	-
67,600	-	-	81,598	29,357	-	43,775	-	63,278	-	73,699	-	-	-	-
46,680	-	-	33,235	12,741	-	16,393	-	36,614	-	20,009	-	-	-	-
41,656	-	-	29,675	12,849	-	18,152	-	30,748	-	24,309	-	-	-	-
-	-	-	9,499	6,478	-	16,216	-	-	-	11,915	-	-	-	-
-	-	-	12,013	8,188	-	15,082	-	23,714	-	9,045	-	-	-	-
-	-	-	16,277	5,617	-	13,098	-	-	-	11,683	-	-	-	-
-	-	-	-	5,585	-	-	-	-	-	-	-	-	-	-
1.58	1.27	-	2.56	2.6	2.5	1.5	-	3.47	-	2.16	-	-	-	-
1.59	1.27	-	2.64	2.72	2.5	1.58	-	4.07	-	1.77	-	-	-	-
1.56	1.28	-	2.48	2.48	2.5	1.42	-	2.86	-	2.55	-	-	-	-
3.04	3.67	-	3.23	8.22	6.55	15.38	-	2.50	-	6.21	-	-	-	-
1.87	-	-	1.34	1.32	0.95	2.36	0.00	1.15	-	1.21	-	-	-	-
11.8	3.5	2.4	0.0	8.0	6.5	4.7	11.0	0.0	0.0	1.0	0.0	0.0	13.8	6.4

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland	
Performance Management and Management by Objectives (MbO) indicators broken down by gender and professional category. 2017. ²	Voluntary rotation index (%) (number of voluntary layoffs/ average staff). [401-1]	2017	24.8	3.7	50.0	9.1	1.1	4.7	9.9	0.0	0.8	5.1	100.0	9.6
	Management team	Men	12.5	3.3	–	9.1	5.5	2.1	11.9	4.8	10.5	10.0	–	10.0
		Women	–	0.7	–	–	2.9	0.5	9.9	–	3.8	2.5	–	–
	Middle managers	Men	–	9.6	–	–	9.3	11.7	5.0	–	4.1	8.8	–	10.0
		Women	–	3.0	–	9.1	5.8	2.8	8.9	–	2.3	6.3	–	–
	Technicians	Men	62.5	8.7	–	45.5	2.9	18.8	7.9	–	8.0	25.0	–	40.0
		Women	12.5	3.0	–	9.1	1.8	6.9	4.0	–	4.6	31.3	–	20.0
	Operators	Men	–	19.7	–	–	10.0	29.3	–	–	2.6	–	–	–
		Women	–	3.1	–	–	5.70	9.3	–	–	1.7	–	–	–
	Total	Men	75.0	41.3	–	54.5	27.7	62.0	24.8	4.8	25.2	43.8	–	60.0
		Women	12.5	9.8	–	18.2	16.2	19.6	22.8	–	12.3	40.0	–	20.0
		Total	87.50	51.1	–	72.7	44.0	81.6	47.5	4.8	37.5	83.8	–	80.0
	Staff promoted (%). ¹⁰	2015	–	5.2	–	–	10.3	8.4	4.0	–	13.5	18.2	–	–
		2016	–	1.4	–	–	11.2	9.2	2.5	–	9.9	21.1	–	–
2017		–	1.6	–	–	11.0	5.4	11.2	–	10.2	12.5	–	–	

² NB: Divestments occurred in Colombia, Moldova, Italy and Kenya in 2017.¹⁰ NB: there were no staff promotions in Germany, Australia, Belgium, Costa Rica, Guatemala, Holland, Kenya, Morocco, Peru, Portugal, Puerto Rico, Singapur, South Africa and Uganda.

Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	Singapore	South Africa	Uganda	Total
11.8	2.9	2.4	0.0	6.2	1.7	2.5	5.5	0.0	0.0	0.0	0.0	0.0	13.8	2.9
23.9	7.4	–	3.1	4.7	2.3	4.5	–	–	22.2	1.0	–	–	–	–
2.2	1.9	–	1.0	1.0	1.3	2.1	10.5	11.1	–	1.9	–	–	–	–
8.7	5.7	–	9.3	13.6	0.4	20.3	5.3	–	33.3	21.4	–	–	–	–
4.3	2.2	–	2.1	3.0	–	7.6	–	–	–	7.8	–	–	–	–
28.3	11.7	–	11.3	22.5	–	13.1	15.8	22.2	11.1	6.8	–	–	–	–
26.1	6.8	–	2.1	9.0	–	9.5	5.3	38.9	–	5.8	–	–	–	–
6.5	0.3	–	–	7.3	–	27.4	5.3	5.6	11.1	53.4	–	–	–	–
–	–	–	–	6.0	–	10.0	–	16.7	22.2	1.9	–	–	–	–
67.4	25.1	–	23.7	48.1	2.7	65.4	26.3	27.8	77.8	82.5	–	–	–	–
32.6	10.9	–	5.2	19.1	1.3	29.4	15.8	66.7	22.2	17.5	–	–	–	–
100.0	36.0	–	28.9	67.1	4.0	94.7	42.1	94.4	100.0	100.0	–	–	–	55.0
–	10.3	–	1.0	9.4	11.6	1.9	–	–	–	5.6	–	–	–	–
–	12.9	–	2.1	6.2	15.5	1.7	–	–	–	16.2	–	–	–	–
82.9	3.8	–	–	5.9	14.7	3.6	–	–	–	2.9	–	–	–	–

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland
Employees with/ without collective bargaining agreement. 2017. (%). ² [102-41]	Not covered by collective bargaining agreement	0.0	23.0	0.0	18.2	24.6	4.8	45.5	0.0	29.8	71.3	0.0	0.0
	Covered by collective bargaining agreement	100.0	77.0	100.0	81.8	75.4	95.2	54.5	100.0	70.2	28.7	0.0	100.0
Trade union membership (%). ²	2015	–	31.3	–	–	10.3	41.9	46.3	–	25.6	–	–	–
	2016	–	48.0	–	–	9.9	67.1	4.93	–	35.3	–	–	–
	2017	–	47.0	–	–	11.3	68.0	3.8	–	24.63	–	–	–
Employees five years from retirement age (%). 2017. ² [EU15]	Management team	0.0	20.6	0.0	0.0	8.7	9.9	13.6	0.0	4.2	0.0	0.0	0.0
	Middle managers	0.0	16.4	0.0	0.0	7.7	5.0	0.0	0.0	7.4	0.0	0.0	0.0
	Technicians	0.0	11.0	0.0	0.0	4.5	4.1	2.6	0.0	5.2	0.0	0.0	0.0
	Operators	0.0	19.5	0.0	0.0	2.9	7.6	0.0	0.0	14.7	10.0	0.0	0.0
	Total	0.0	17.5	0.0	0.0	4.7	6.1	4.0	0.0	8.7	1.3	0.0	0.0
Employees ten years from retirement age (%). 2017. ² [EU15]	Management team	0.0	52.9	0.0	0.0	17.4	22.8	31.8	0.0	15.8	0.0	0.0	0.0
	Middle managers	0.0	34.3	0.0	0.0	20.2	14.2	13.3	0.0	20.2	0.0	0.0	0.0
	Technicians	14.3	19.3	0.0	0.0	12.9	10.3	10.3	0.0	15.0	0.0	0.0	0.0
	Operators	0.0	36.3	0.0	0.0	9.9	19.7	0.0	11.8	33.7	10.0	0.0	0.0
	Total	12.5	33.6	0.0	0.0	13.3	15.8	12.9	9.5	22.4	1.3	0.0	0.0
New employees. [401-1]	2015	0	41	0	0	50	644	236	3	306	31	0	0
	2016	2	40	0	0	6	528	61	0	164	21	0	3
	2017	2	55	1	1	33	267	38	0	217	11	0	1

² NB: Divestments occurred in Colombia, Moldova, Italy and Kenya in 2017.

Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	Singapore	South Africa	Uganda	Total
95.1	-	-	33.0	18.3	-	59.9	0.0	0.0	44.4	3.9	100.0	0.0	0.0	22.8
4.9	-	-	67.0	81.7	-	40.1	100.0	100.0	55.6	96.1	0.0	0.0	100.0	77.2
-	42.3	-	67.0	19.8	62.8	39.1	-	-	-	-	-	-	39.4	-
-	42.3	45.8	67.7	21.6	60.6	37.7	-	-	-	-	-	86.7	31.4	-
-	42.0	48.5	65.3	20.3	59.1	39.4	-	-	-	-	-	91.0	37.1	-
0.0	-	-	25.0	2.9	-	25.0	0.0	0.0	0.0	0.0	0.0	-	0.0	5.7
0.0	-	-	21.1	2.2	-	19.8	0.0	0.0	33.3	6.7	0.0	-	0.0	7.5
0.0	-	-	15.4	1.7	-	10.8	0.0	0.0	0.0	0.0	0.0	-	0.0	4.7
0.0	-	-	7.1	6.9	-	38.1	0.0	0.0	0.0	14.0	0.0	-	0.0	12.1
0.0	-	-	14.4	4.0	-	25.3	0.0	0.0	11.1	9.7	0.0	-	0.0	8.3
0.0	-	-	100.0	10.1	-	42.9	0.0	0.0	0.0	66.7	0.0	-	100.0	17.8
0.0	-	-	68.4	8.8	-	32.2	0.0	0.0	33.3	13.3	0.0	-	0.0	19.5
0.0	-	-	15.4	5.9	-	16.7	0.0	0.0	0.0	0.0	0.0	-	0.0	12.6
0.0	-	-	40.5	13.5	-	48.2	0.0	0.0	0.0	24.6	0.0	-	5.9	26.8
0.0	-	-	50.5	9.9	-	35.6	0.0	0.0	11.1	19.4	0.0	-	5.4	20.1
0	11	0	0	126	36	40	0	5	0	2	-	-	4	1538
48	6	1	0	91	27	41	7	4	0	2	-	-	7	1059
8	0	0	1	212	45	34	6	1	2	5	0	-	5	945

Annex of indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Guatemala	Holland
No. of employees with maternity/paternity leave entitlements. 2017. ¹¹ [401-3]	Men	1	9	0	1	4	47	1	0	158	3	0	0
	Women	0	10	0	0	5	59	1	0	72	5	0	0
	Total	1	19	0	1	9	106	2	0	230	8	0	0
No. of employees who took maternity/paternity leave. 2017. [401-3]	Men	1	9	0	0	4	9	1	0	155	3	0	0
	Women	0	10	0	0	5	59	1	0	70	5	0	0
	Total	1	19	0	0	9	68	2	0	225	8	0	0
No. of employees who did not return to work once their maternity/paternity leave was complete. 2017. [401-3]	Men	0	0	0	0	0	0	0	0	0	0	0	0
	Women	0	0	0	0	0	29	0	0	0	0	0	0
	Total	0	0	0	0	0	29	0	0	0	0	0	0
Ratio of employees who returned to their position following paternity/maternity leave and continue in the company one year after their leave (%). 2017. [401-3]	Men	100.00	100.00	–	–	100.00	100.00	100.00	–	99.39	66.67	–	100.00
	Women	–	80.00	–	100.00	100.00	83.91	100.00	–	100.00	100.00	–	–
	Total	100.00	90.00	–	100.00	100.00	86.27	100.00	–	99.59	90.00	–	100.00

¹¹ NB: the concept of maternity/paternity leave and the related social benefits present specifics that are connected to the labour laws in force in each of the countries where Gas Natural Fenosa operates and must be taken into account when interpreting this information. For instance, legislation in Moldova determines that women have the right to maternity leave of 126 days 100% paid by the Social Security system. After this period, they have the right to take maternity leave of absence for up to three years, with 30% payment by the Social Security system, and from three to six years of unpaid leave, which explains why the number of people who did not return to work after their leave was complete was so high for this country.

Ireland	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Republic	Singapore	South Africa	Uganda	Total
1	0	0	7	21	0	14	2	0	0	2	0	-	4	275
2	0	0	0	15	0	3	0	0	0	0	0	-	2	174
3	0	0	7	36	0	17	2	0	0	2	0	-	6	449
1	0	0	7	21	0	14	2	0	0	2	0	-	4	233
2	0	0	0	15	0	3	0	0	0	0	0	-	2	172
3	0	0	7	36	0	17	2	0	0	2	0	-	6	405
0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	29
0	0	0	0	0	0	0	0	0	0	0	0	0	1	30
100.00	-	-	100.00	100.00	-	100.00	100.00	-	-	100.00	-	-	80.00	98.01
100.00	-	-	-	100.00	-	100.00	-	-	-	100.00	-	-	100.00	91.71
100.00	-	-	100.00	100.00	-	100.00	100.00	-	-	100.00	-	-	83.33	95.18

2001

Gas Natural Fenosa on the main stock market indexes of sustainability

In 2001, the group joined the FTSE4Good index, the stock market sustainability index that includes listed companies worldwide that comply with the prerequisites established by the stock market index: environmental CSR practices, relations with shareholders, and human rights, based on responsible investment principles. One year later, the Corporate Responsibility Report of Gas Natural obtained the highest recognition in the Global Reporting Initiative and, in 2004, another index, the Dow Jones Sustainability Indexes (DJSI), added Gas Natural.

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Health and Safety

[103-1], [103-2] and [103-3] (Occupational health and safety)

Health and Safety Strategy
of Gas Natural Fenosa. Page 270

Safety in facilities and processes. Page 287

Health. Page 296



The activities of Gas Natural Fenosa are planned and developed taking into account the health, safety and well-being of people as a critical aspect of great relevance. Health and safety at work is a strategic and unwavering commitment at Gas Natural Fenosa, as reflected in its Code of Ethics, in the Corporate Responsibility Policy and the Human Rights Policy. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This not only involves people who work for Gas Natural Fenosa, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damage to health, providing a safe and healthy environment as well as promoting health and well-being.

Value actions

Proposed actions 2017

Awareness programme on health and safety Journey to Safety for Collaborating Companies.

Implementation of the methodology for calculating accident indicators for collaborating companies.

Implementation of the new management model of health and safety training in the global scope of the company.

Implementation of predictive medicine.

Planned actions 2018

+ Data Visualization. Predictive analysis of safety and the accident rate.

+ Meeting point. Two-way information exchange channel with suppliers and collaborating companies.

+ Spear. Security of consumers and communities management programme.

Plan to assist employees while they are on sick leave.

+ Consolidation of the healthy business model in countries already certified, and achieving certification in Chile.

Level of fulfilment: + Finalised . + Major progress. + Intermediate progress. + Little progress. + Not started.

Gas Natural Fenosa's contribution to SDG 3: Good health and well-being

The third Sustainable Development Goal (SDG) set by the United Nations Organisation aims to ensure healthy lives and promote the well-being for all at all ages, based on 13 specific targets.

Access to health and well-being is a human right necessary to build prosperous societies, guaranteeing that everybody has access to the very highest levels of health and healthcare.

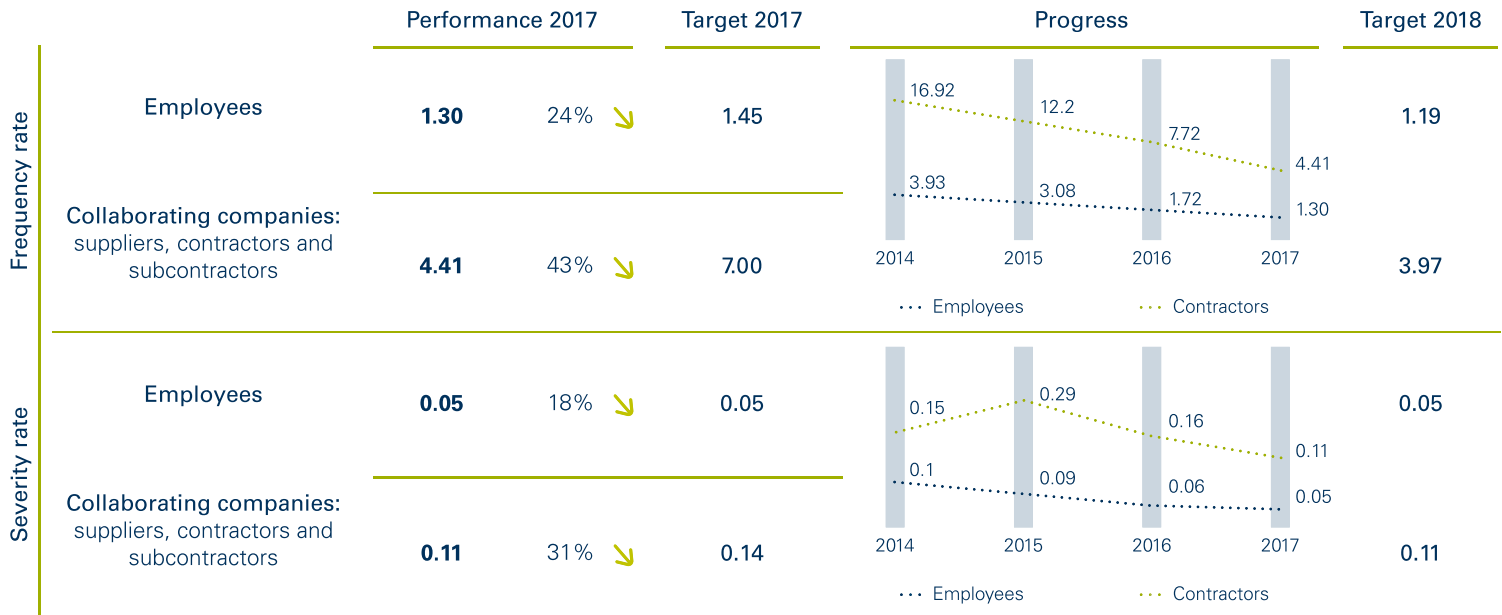
Gas Natural Fenosa's activity prioritises safety, health and well-being of its employees, partners and communities where it operates. This focus can be seen in its commitments and principles of action. Gas Natural Fenosa helps to achieve the goal through the development of health and well-being programme for its employees and relatives, the introduction of the most demanding health and safety standards as well as through investment in reducing accidents

and preparing for possible emergencies. In turn, Gas Natural Fenosa implements different social action programmes related to health and well-being of the communities in which it operates, as it is aware of the value that these provide in its operations.

Specifically, in 2017, we can highlight the success achieved by the company managing to reduce the accident rate of both employees as well as partner companies for the fifth year running since the introduction of the Health and Safety Commitment.

In this way, Gas Natural Fenosa helps to achieve the SDGs, through its commitments to health, safety and the well-being of its employees, suppliers, contractors and subcontractors.

Measurement, the key to success in management of health and safety



Awards and prizes obtained in 2017



Road safety: everyone's responsibility

Award created by the social campaign of Atresmedia targeted at reducing road accidents. Award received in the Best occupational road safety initiative category for companies, administrations, universities and public and private enterprises, for the project Road safety a Gas Natural Fenosa: everyone's responsibility, which encompasses multiple actions undertaken in recent years, such as the study of mobility of employees guidelines and the massive and transnational type initiatives.



Recognition of best practices

An award given by the American Gas Association (AGA) for excellence in issues of safety in gas operations and distribution. A twin recognition in the categories of fleet safety and safety employees, as the company with fleet safety and health and safety talent amongst employees, from among the 200 gas distribution companies that are members of this organisation.



Occupational well-being

Recognition from the ORP International Foundation for the work of Gas Natural Fenosa in promoting occupational well-being. The award recognises the commitment in the sphere of occupational risk prevention and the strive for ongoing innovation, training and the introduction of healthy corporate policies.



Health and safety

Award to the best company in safety in the EMEA (Europe, Middle East and Africa) at the DuPont Safety and Sustainability Awards held in Singapore. This award, one of the most important in international health and safety, recognised the projects encompassed within the Health and Safety Commitment initiative, which has enabled occupational accidents to be reduced by 72% since it was introduced.



Award for the good results in accident frequency

Awarded to those companies, industries, institutions or services that have managed to maintain zero frequency for 2 consecutive years or more. This award will also be given to the contestant that has managed to maintain a relevant decrease in its indicators for 3 consecutive years or more.



Recognition for legal compliance in Panama

Recognition given by the Ministry of Work and Employment Development to the company Gas Natural Fenosa for complying with the legal requirements of health, safety and the country's occupational standards.



Health and safety management

Finalist in the Italian Award that rewards companies that stand out because of their health and safety management processes, creating a business culture in issues of health and safety and disseminating best practices through comparative assessments among participants.



Company with best management

The electricity company of Atacama received the Juan Godoy award from Mutua de Seguridad, an annual award that recognises the company with best occupational risk prevention management. This award features participation by more than 600 companies from the region that belong to the insurance company, including mining companies with high standards of health and safety.

Recognising a job well done

Gas Natural Fenosa includes health and safety in all of its production and commercial processes in those countries where it has a presence, thanks to a comprehensive strategy that includes different social actions and benefits for the workforce. Achieving a healthy work environment that guarantees and promotes safety, health and well-being of the workers and their environment is one of the company's targets. For Gas Natural Fenosa, prevention is the cornerstone of the entire business strategy. Thanks to the Health and Safety Commitment Plan, the company has turned prevention into a cross-cutting element, by setting the same indicators for the entire group, with no differences between countries. Throughout 2017, the work carried out

has been rewarded with international recognition through a variety of relevant initiatives, awards and prizes.

Stakeholders of Gas Natural Fenosa and health and safety

According to the analysis conducted by the company to identify the most relevant issues, people, suppliers, customers and society are the stakeholders most sensitive to management of health and safety at the company. An excellent performance in these aspects protects the good reputation and also has a repercussion through increased productivity and lower operational costs. Furthermore, the efforts made to prevent accidents and incidents are reinforced through the special attention

given to maintaining health, of essential importance to achieve the global well-being of society.

The company's responsibility in this area is not limited to its employees, facilities or processes, but also requires the commitment of its external partners. Accordingly, Gas Natural Fenosa works to transmit its culture to the companies with which it collaborates and to introduce the appropriate screening and assessment mechanisms for suppliers that achieve the best performance in health and safety. Through the health and safety culture perception surveys conducted in recent years, both employees and collaborating companies have valued very positively the Health and Safety Commitment as a central focus of this cultural change.

Health and Safety Strategy of Gas Natural Fenosa

Safety as a strategy guides the way in which Gas Natural Fenosa acts. Health and safety are key parts of the company's business strategy, which is referred to as the "Health and Safety Commitment Plan," one of the major undertakings established in the Corporate Responsibility Policy. A common culture has been achieved in which all levels of the company,

spearheaded by the Board of Directors, have acquired a firm commitment to continuous improvement in this area.

The preventive culture of Health and Safety at Gas Natural Fenosa has consolidated itself thanks to the evolution in 2017 of the Health and Safety Commitment Plan throughout the company. The actions at all levels of the organisation are based on the motto "nothing is more important than health and safety".

Since 2017, the Health and Safety Strategy has revolved around four pillars, leading to the development of different strategic objectives and goals to be achieved.

The implementation of the new strategy is supervised by senior management. The Health and Safety Committees held in 2017 have become the most suitable channel for demonstrating the visible commitment of senior management. In turn, health and safety continue to represent the largest area of knowledge, with 159,475 hours, and extending the health and safety culture to collaborating companies is guaranteed through the 36,730 work inspections and supervisions that have been introduced as a mechanism to support compliance with the operational discipline.



Since 2017, the Health and Safety Strategy has revolved around four pillars, leading to the development of different strategic objectives and goals to be achieved.

“Nothing is more important than health and safety”

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

Drastically reducing the accident rate at collaborating companies.



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

Implementing the commitment in all countries where the company plans to operate.



Interview with the Managing Director of People and Resources. Rosa María Sanz García

What does health and safety mean for Gas Natural Fenosa?

For Gas Natural Fenosa nothing is more important than health and safety, and our business culture is based on this principle. It is an element that is as important for the company as production, sales or profits. Since 2011, the company has placed special emphasis on this area through the Health and Safety Commitment Plan, to achieve a cultural transformation of the company in issues of health and safety. Our Health and Safety Commitment is based on developing four drivers: leadership, employees, collaborating companies and facilities and processes, which are the levers which have shaped the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and have greater coverage.

What have been the main challenges or difficulties in the consolidation of the Health and Safety Commitment?

We have had to introduce very extensive standardisation motivated by the different cultural realities, the difference when it comes to perceiving the risk in our activities and the different resources each country has. In turn, this fact represents one of the successes of the commitment consolidation. Knowing that any work will be undertaken with the same safety conditions, irrespective of the place where the work is being carried out, has been one of our greatest successes.

For you, which have been the most important health and safety milestones in 2017?

We have once again managed to reduce the accident rate both of employees as well as collaborating companies. For the fifth consecutive year, we have managed to reduce the frequency rate of own employees, achieving a value of 1.30 in 2017, down 77% on 2012 and which exceeds

the target value that we had set. As regards partner companies, over the last year we have managed to reduce the frequency rate by 43% and the severity rate by 31%.

In addition, we are proud to have received eight recognitions in 2017, as reward for the company's management of health and safety. These recognitions clearly highlight the group's motto, "Done and Said". After years of intense work in which we have involved each and every one of our workers and collaborating companies, we have achieved excellent results that are recognised externally.

How does Gas Natural Fenosa plan the future of the Health and Safety Commitment?

Companies must develop a practical and efficient prevention system and we must continue working to eradicate accidents in all our environments. In this regard, Gas Natural Fenosa has been working on the definition of new pillars of its strategy. These pillars focus on consolidation of safety as a strategic lever, on drastically reducing the accident rate of our partner companies, on being a worldwide benchmark in health and safety and on consolidating the commitment in those countries where the company plans to operate.

Our premise is that nothing is more important than health and safety, and that total success will only come about when we can say that we have zero accidents. That is our objective.

Senior management and the various committees have the tools necessary and the power to control and apply the appropriate measures in the event of any sign or anomaly concerning safety issues in all activities and countries.

Evolution of the Health and Safety Commitment

The Health and Safety Commitment Plan, implemented between 2012 and 2016, involved overcoming the implementation stage until we were able to reach the Health and Safety Commitment.

First of all, we analysed the initial situation, which allowed us to characterise the integration and management of the company’s commitment. Next, we established responsibilities for each one of the defined work areas and strengthened

the management and dissemination tools. All this involved a major impulse for the new health and safety culture.

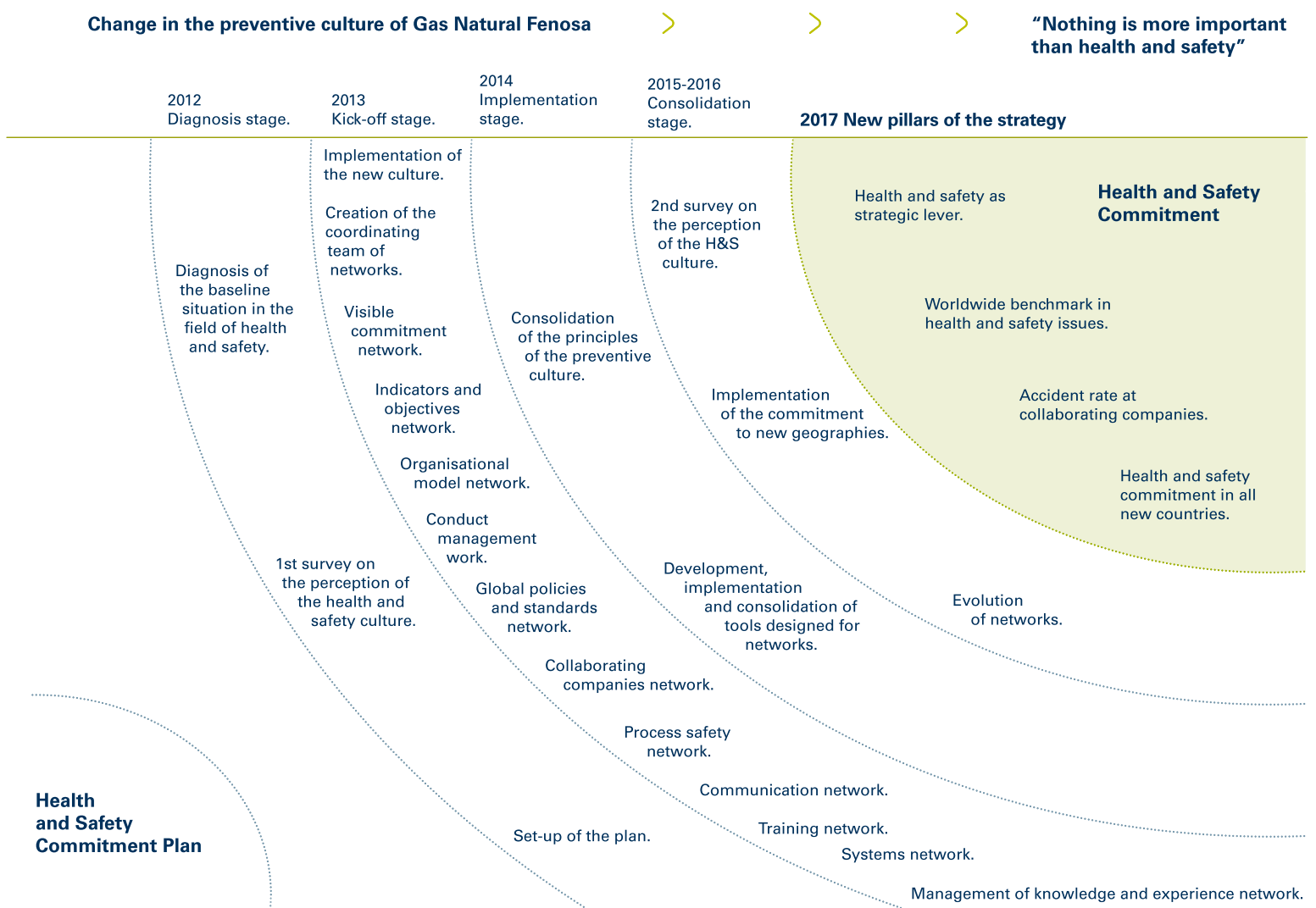
The definitive consolidation of the plan came about in 2016, with the “Health and Safety Commitment” Achieving the commitment has involved integration of health and safety as an ongoing and stable value, taken into consideration by everybody that makes up the organisation.

This new approach has closed a cycle whose driving force has been the ongoing improvement into the daily life of the

company, the increased efforts to achieve the desired objectives and the proposal for innovative initiatives.

Since 2017, we have worked on introducing new steps of the strategy, the pillars of which are described in the previous section.

The following graph shows the change in preventive culture of Gas Natural Fenosa, the different stages from the launch of the plan through to consolidation of the Health and Safety Commitment and the definition of the new pillars of the strategy:



These new steps of the strategy maintain the four core actions of the Health and Safety Commitment: leadership, employees, collaborating companies, and facilities and processes, each one of which has its own "network" charged with spearheading development. Furthermore, the transversal networks continue working in the quest to provide support in areas such as communication, systems, training and corporate aspects.

The cultural change has served to transfer the company's principles of health and safety to daily activity, and it reaches our collaborating companies and any new businesses that join Gas Natural Fenosa.

Health and safety leadership

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

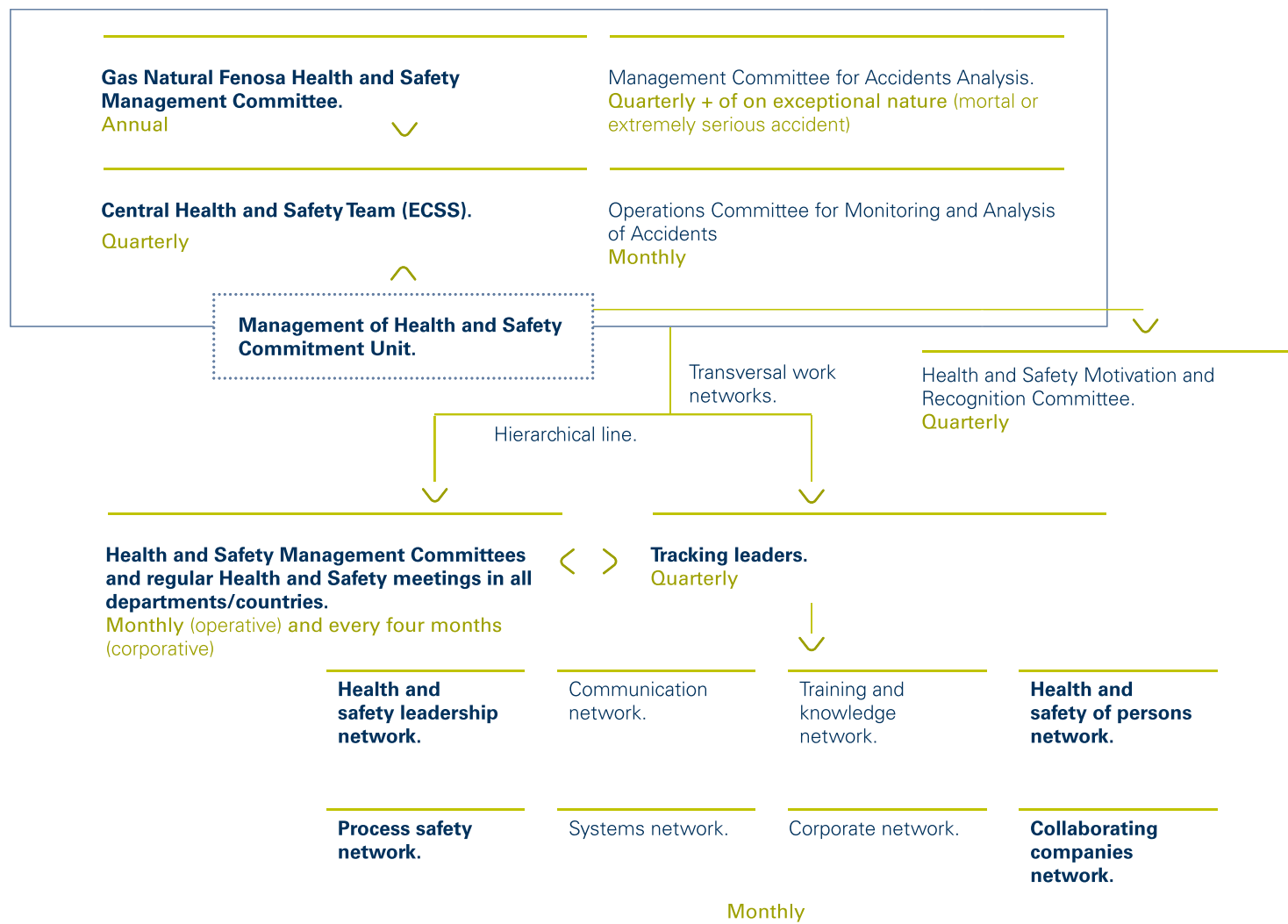
commitment in taking all decisions, with health and safety paramount at all times. Gas Natural Fenosa's commitment to the target of zero accidents is strengthened through the involvement of senior management in the management of safety in all activities.

Senior management and the various committees have the tools necessary and the power to control and apply the appropriate measures in the event of any sign or anomaly concerning safety issues in all activities and countries.

Change of health and safety culture



The structure of management in health and safety at Gas Natural Fenosa, together with the duties and responsibilities, can be seen in the following flowchart:



In bold: responsibilities/main working groups.

In 2017, the Gas Natural Fenosa networks have continued working to drive the culture of health and safety at the company.

One of the safety management tools spearheaded by Executives of Gas Natural Fenosa are the Preventive Safety Observations (PSO). These observations enable dialogue between the

leader and the worker for the purpose of detecting and identifying unsafe acts and conditions in the work environment. In this way, the main risks can be observed, encouraging safe behaviour and obtaining the worker's commitment. The observation is performed by executives and middle managers of Gas Natural Fenosa both for the company's own

workers as well as for collaborating companies, focusing on behaviour and not on individuals. They are applied under a proactive focus to raise awareness for the purpose of achieving corrective actions over any deviations identified.

Safety standards pursuant to the new culture

Cultural change is the result of the implementation and maintenance of the very highest standards of health and safety, focused on the company's objective: zero accidents.

The health and safety standards are procedures targeted at personnel that perform certain activities in order to promote safe conduct in the performance of their work; they enable working methods to be made uniform and guarantee that the work in all areas and countries is performed under the same safety conditions.

These standards have been brought into line with the new strategy and culture of Gas Natural Fenosa to ensure the appropriate regulatory framework that a changing environment needs.

Risk prevention

To ensure safety in the activities of Gas Natural Fenosa, measures aimed at preventing accidents and incidents have been introduced. Risk prevention is a key factor that governs business leadership and is supported on these principles:

Health and safety principles

01 Nothing is more important than health and safety

02 All accidents are avoidable

03 Safety is the responsibility of management

04 Safety is the responsibility of the individual

05 All jobs should be planned and carried out with safety in mind



This is the commitment of Gas Natural Fenosa and also the one that must be shared and applied by its collaborating companies.

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. The following diagram displays the activities that Gas Natural Fenosa carries out in each stage of safety management, from prevention, detection and control through to mitigation, communication and lessons learnt once the accident has taken place. Each activity fits within one of the four pillars of action of the Health and Safety Commitment.

Pillars of the Health and Safety Commitment	Activities carried out before the event			Activities carried out after the event		
	Prevention	Detection	Control	Occurrence	Mitigation	Communication > Learning
Leadership	<p>Accident Rate Committee Creation.</p> <p>Management Committees to analyse accidents.</p> <p>Health and Safety Committees.</p>	<p>Personal Action Plan.</p> <p>Zero tolerance.</p> <p>Preventive safety observations.</p>	<p>Leadership workshops.</p> <p>Awards for employees. Leader in health and safety for the year.</p> <p>Emergency preparation and response.</p> <p>Documented inspections.</p>	<p>Creation of committees to analyse and investigate accidents and incidents.</p> <p>Introduction of action plans and monitoring to reduce the accident rate.</p>	<p>Direct involvement of the management line.</p> <p>Reporting accidents and incidents.</p>	<p>Analysis of accidents and incidents on all committees and meetings.</p> <p>Introduction of the Safety Pause for the entire company in the event of mortalities and particularly relevant accidents.</p>
Employees	<p>Regular health and safety meetings.</p> <p>Risk assessment and management mechanisms.</p> <p>Training and information.</p>	<p>Motivation and recognition of employees.</p> <p>Preparation of health and safety standards.</p> <p>Safety contacts.</p>	<p>Awards for employees. Leader in health and safety for the year.</p> <p>Emergency preparation and response.</p> <p>Documented inspections.</p>	<p>Lessons learnt and good practices.</p> <p>Red lines: Employee safety breaches.</p>	<p>Reporting accidents and incidents.</p>	
Collaborating companies	<p>Preliminary classification of collaborating companies.</p> <p>Awareness workshops.</p>	<p>Coordination of activities with collaborating companies.</p> <p>Preventive safety observation.</p> <p>Documented inspections.</p>		<p>Introduction of action plans and monitoring to reduce the accident rate.</p> <p>Red and yellow lines: Safety breaches.</p>	<p>Greater importance given to the targets associated to reducing the accident rate.</p> <p>Inclusion of a scale of penalties in procurement with those collaborating companies.</p>	<p>Introduction of specific emergency plans.</p> <p>Decertification of collaborating companies where serious repetitive breaches are detected.</p>
Facilities and processes	<p>Collaboration in intersectoral workgroups for learning purposes.</p> <p>Technology-based information of technical processes.</p>	<p>Zero tolerance.</p> <p>Emergency preparation and response.</p>	<p>Risk analysis of the safety of technical processes.</p>	<p>Industrial safety observatory.</p>	<p>Lessons learnt and good practices.</p>	<p>Communication and investigation into industrial accidents and incidents.</p>

Each activity carried out in each stage of safety management fits within one of the four pillars of action of the Health and Safety Commitment.

Risk management

Identifying and minimising risks concerning health and safety are priority tasks for Gas Natural Fenosa.

In this regard, the company has mechanisms that allow the assessment and management of risks, this being a process of continuous learning in the prevention and mitigation of their consequences.

Risk assessment and management mechanisms

The process of occupational risk assessment aims to estimate the magnitude of those risks that could not be avoided. In these

cases, the company gathers the information necessary for the adoption of effective preventive measures.

Gas Natural Fenosa uses a general procedure that applies to the entire group and which establishes the guidelines and principles to be followed for the identification, assessment and control of occupational risks.

The following review periods are established:

- > Risk assessments every three years.
- > Yearly checks of the health and safety conditions.

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

Gas Natural Fenosa has specific management mechanisms to achieve its target of reducing the number of accidents to a minimum.

In 2017, these mechanisms have been:

19,375 Preventive Safety
Observations: observations made by executives to detect situations of risk and raise awareness about unsafe acts.

36,730 Documented occupational safety inspections, targeted at effective supervision of occupational health and safety and at correcting any anomalies detected.

2,416 Zero tolerance records: tool to eliminate situations of risk at source. Any person that detects situations of safety risk has at their disposal a communications channel and a system responsible for assigning responsibilities and specific action measures.

2,345 Safety Pauses: an exchange of information about the accident and the lessons learnt, to encourage workers and managers to reflect, and from which conclusions are drawn.

4,961 Personal Action Plans: personal plans in which each leader undertakes to implement personal actions to showcase health and safety within their sphere.

Monitoring of 27,749 actions: performing proper management of the actions to be carried out as a consequence of detecting deficiencies.

Investigation of **100%** of the accidents and incidents that have taken place targeted at learning from the errors committed so as not to repeat them and with the objective of reducing the rate of accidents.

Lessons learnt: recommendations obtained from the analysis of relevant accidents and incidents related to unsafe behaviour related to unsafe behaviour and which are shared on a global basis.

Safety contacts: all meetings start with a safety contact, describing actual cases that enable us to improve our day-to-day conduct.

Gas Natural Fenosa continues to work on these pillars to manage risks, minimise accidents and unsafe acts in the daily activity of its employees and partners.

The Health and Safety Commitment has also been made effective through regular publications on the corporate Intranet and with the implementation and consolidation of the Prosafty software tool for global safety management in the company.

Prevention of risks at collaborating companies: suppliers, contractors and subcontractors [EU17]

Gas Natural Fenosa acquires the undertaking to provide a safe working environment not only for its employees but for all those who make the activity of the company possible.

For this reason, the growth of involvement of the collaborating companies within the health and safety culture has been essential.

Safety is an indispensable condition of procurement for all collaborating companies, and is taken into consideration in the assessment and award of tenders and bids. Furthermore, the criterion of red lines that cannot be crossed is applied, and if this rule is broken the contract can be terminated or the supplier’s approval withdrawn.

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

In addition, each collaborating company must have an action plan that will at least ensure the following for the works contracted:

1. That workers are committed to the principles, safety policy, actions and behaviour. Acknowledgement by the employee that safety is an employment condition.
2. The existence of a risk assessment associated to the different jobs and activities.
3. That workers have the appropriate training and instruction, and that they use the necessary personal protective equipment.

4. That Gas Natural Fenosa be informed of all accidents and incidents, including those affecting subcontractors. Ensure that corrective actions are introduced.
5. That the supervision of their management line includes the oversight of safety issues (conditions, unsafe acts, etc.).
6. That their management line is responsible for safety of personnel of their own company and of subcontracted companies. Incorporate the safety results into the performance measurement.
7. That this action plan be communicated on a cascade basis and that the safety results be set as a procurement condition, ensuring that subcontractors assume the safety commitments of Gas Natural Fenosa.

The summary of the mechanisms developed by Gas Natural Fenosa for collaborating companies is shown below.

Mechanisms developed for collaborating companies

Definition of the initial requirements for companies interested in collaborating with Gas Natural Fenosa in all phases.

Definition of criteria of assessment and classification of the health and safety risk required of collaborating companies, and **application of the health and safety standards** at these companies.

Definition of regular assessment criteria of collaborating companies in issues of health and safety.

Definition of the system for transmission of the Health and Safety Commitment to collaborating companies.

Introduction of the documentary control tool "Controlar" to monitor **compliance with legal requirements** by collaborating companies.

Furthermore, Gas Natural Fenosa conducts regular health and safety performance assessments of its collaborating companies. If a collaborating company fails to achieve the minimum score, this company must immediately introduce an improvement plan that must be approved by the business for which it performs the activity and the efficacy of which will be reviewed after three months. If results do not improve, the supplier or contractor could have their approval withdrawn. At the end of the year, each Department may recognise the collaborating company with the best health and safety performance within their business.

In addition, reinforcement activities are carried out with collaborating companies in the issue of risk prevention.

In 2017, the health and safety document management system of Gas Natural Fenosa registered 5,286 collaborating companies that performed a total of 111,252,411 hours worked among contractors and subcontractors, for the performance of, inter alia, construction, operation or maintenance activities.

Management and investigation of accidents and incidents

One of the basic preventive pillars of Gas Natural Fenosa is the reduction of risk situations in order to eliminate accidents. In this regard, the actions arising from investigations into accidents and incidents, and the learning derived from it represents an essential part. The quick and efficient reporting of events to all levels of the company for rapid and

Road safety at collaborating companies



“Journey to Road Safety for Collaborating Companies”

Gas Natural Fenosa seeks to favour and support both its own personnel as well as collaborating companies, by providing training and instruction material related to road safety.

The methodology of the “Journey to Road Safety” project is based on simple and regular communication, and seeks to convey general safety concepts and share experiences. To this end, the team managers of collaborating companies are provided with a document that permits the development of weekly road safety conversations, giving rise to reflection and raising awareness, as well as acquiring the knowledge necessary to reduce the accident rate related to journeys.

Among the materials available, sheets are provided with the contents of the key aspects of road safety, as well as conversation models, and some cards that the team manager hands out after the conversations, giving brief messages and specific actions concerning safety.

The teaching associated to this document is based on the principles of communication: frequency, intensity and duration, the purpose of which is to communicate effectively with the team, raising awareness and participation.

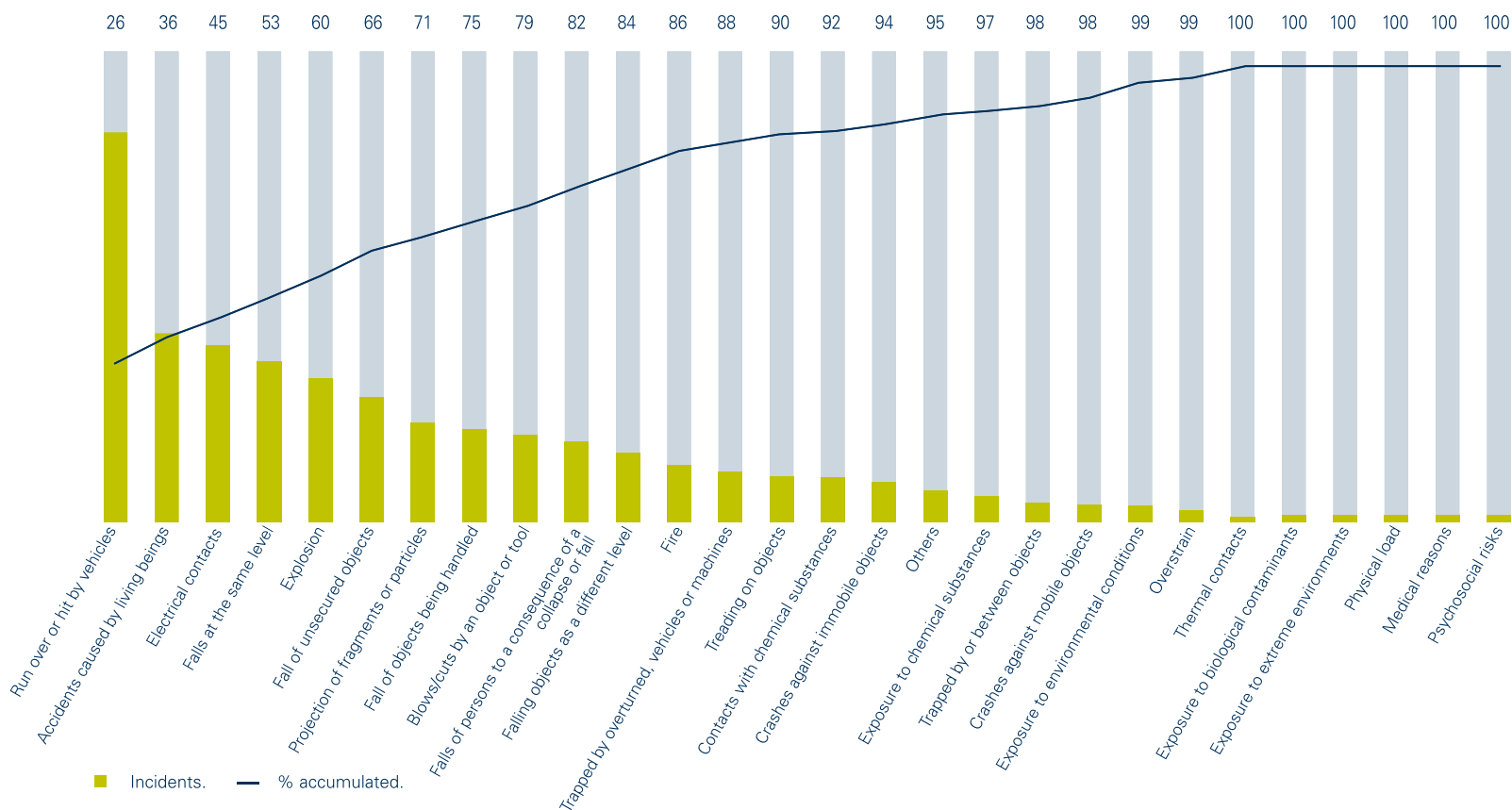
uniform implementation of the preventive measures identified are the keys to eradicating the situations that arise.

For the purpose of removing or reducing situations of risk, Gas Natural Fenosa carries out a thorough investigation into all incidents or near misses, given that even if there are no personal damages, under other circumstances they could have led to undesired consequences. The communication of incidents follows the same channels as the communication of accidents and each incident is categorised

as Very Serious, Serious, Less serious and Minor depending on the criteria specified in the regulatory standard.

In 2017, a total of 3,322 incidents were reported, 50% more than in 2016. Once the investigation has concluded, the causes of the same are shown in the following diagram:

Causal analysis of incidents (%)



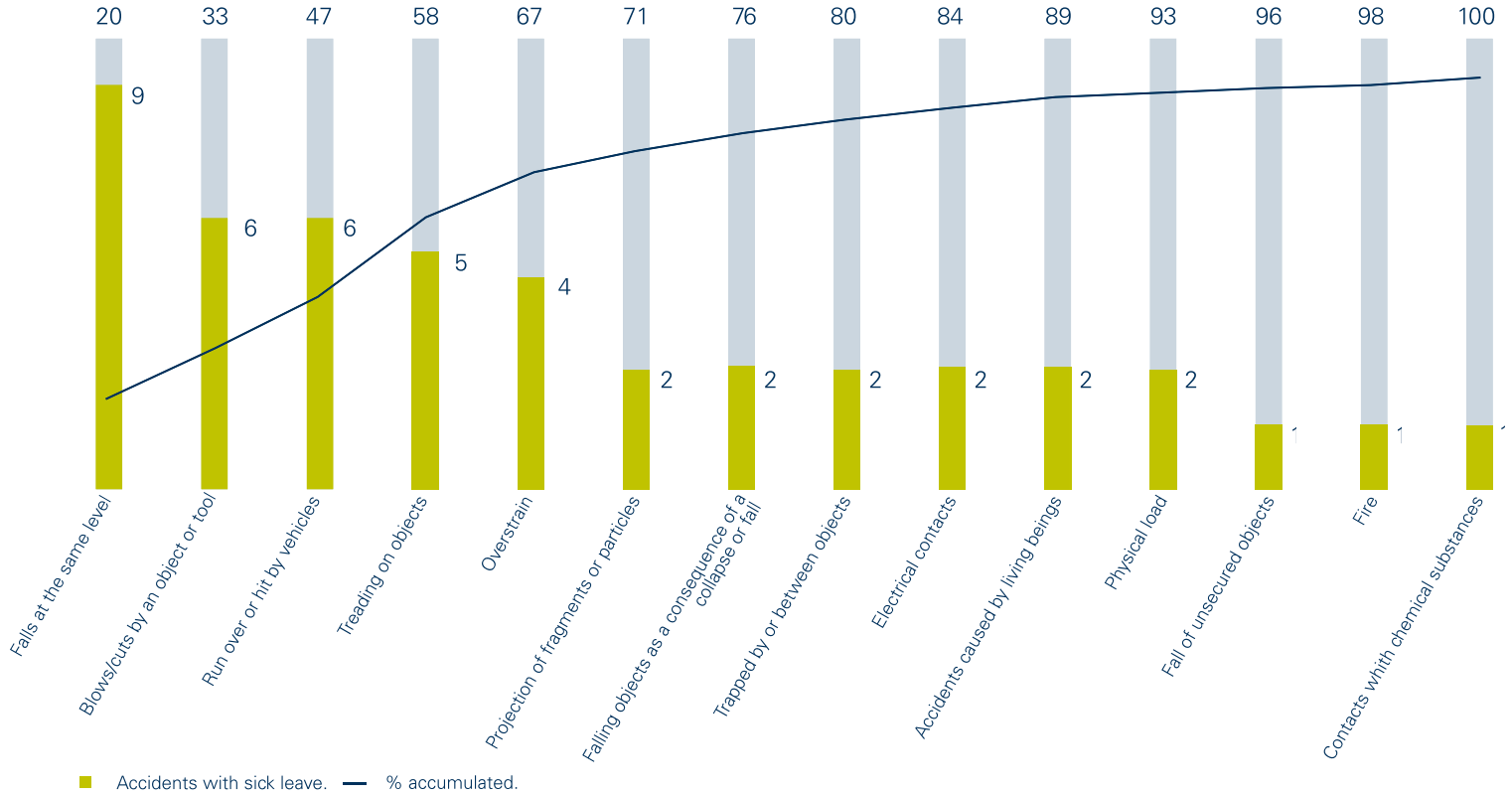
The investigation into accidents affecting own personnel is carried out together with the operational managers of the corresponding business and with the assistance of the prevention, industrial safety and environment areas. In the event of accidents that involve outside personnel, the staff of Gas Natural Fenosa collaborate with the companies that have suffered the accident in investigating the reasons. A full investigation report is compiled for all events. In particularly relevant events, a supplementary report is drawn up with an in-depth analysis of the reasons, using specific methodologies. The result of the investigation must lead

to preventive and corrective measures that impact the basic causes in their technical, organisational and personnel aspects. Accidents are also analysed in full by the Operations Committee for Analysis of Accidents, which is responsible for developing and monitoring action plans to ensure that the accidents do not re-occur. Lastly, for all relevant events the lessons learnt are prepared and passed on to all businesses and collaborating companies, suppliers and contractors.

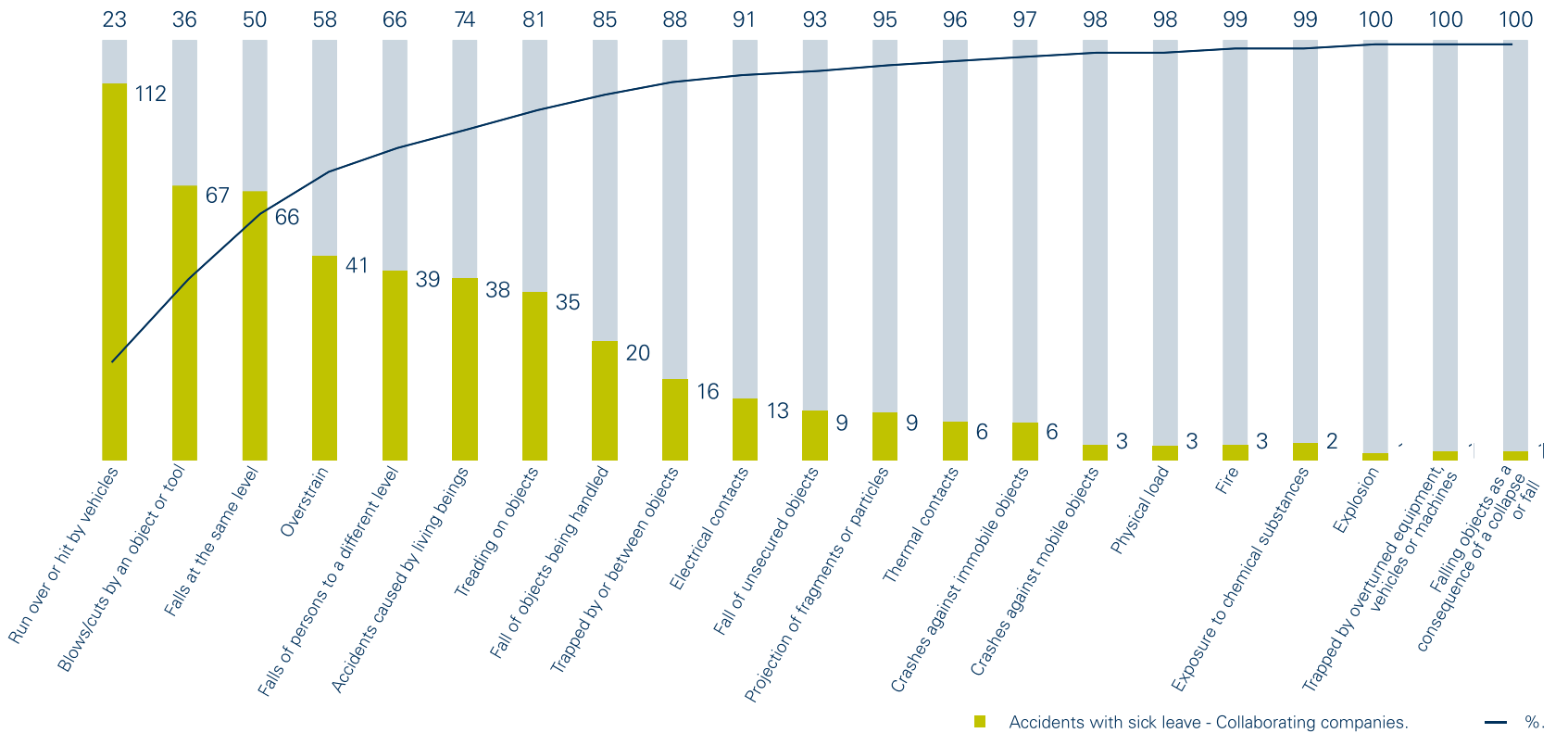
The main risk factors associated with accidents in the workplace that involve sick leave are shown below for own staff and partner companies in 2017:

The result of the investigation must lead to preventive and corrective measures that impact the basic causes in their technical, organisational and personnel aspects.

Workplace accidents requiring sick leave - Own staff



Workplace accidents requiring sick leave - Collaborating companies staff





As key milestones, in previous years we managed to achieve the unification of reporting and investigation criteria of events for all countries and businesses. Furthermore, we introduced a number of specific action plans and actions targeted at avoiding their repetition.

In addition, we should point out that in 2017 there were 16,907 health and safety meetings and committees, to monitor the rate of accidents, distribute lessons learnt and monitor actions targeted at reducing these. Furthermore, there were 2,341 "Safety Pauses" as a consequence of mortal and relevant accidents, targeted at eradicating these.

Communication to employees and action plans

The Health and Safety Commitment sets out as the main communication objectives the reinforcement of the commitment and acknowledging the effort. These two communication objectives have been achieved through the following actions:

- Putting the focus on the existing risks and mainly on risk of falls at the same level, raising awareness of road safety and the safety of collaborating companies.
- Providing value-added to the employee through participatory actions.
- Giving prominence to the employee through recognition.



Lessons learnt from accidents in Chile and Colombia

In 2017 we sadly had to report the death of two workers of our collaborating companies in Colombia and Chile.

In Colombia, a worker died when they accessed to a confined space. In Chile, there was an electric shock during pruning and clearing operations carried out close to a medium voltage line.

Gas Natural Fenosa shares the pain that these losses cause among relatives, friends and colleagues and reaffirms even more its unwavering commitment to health and safety as the most important criterion of management.

As a consequence of these accidents, internal investigation procedures were initiated to find out what happened and to adopt a series of immediate and cross-cutting corrective actions to avoid a repetition of similar events.

The safety pause in the case of the Colombia accident focused on improving operational control and operational discipline, as well as the analysis of the chemical products to be used in confined spaces. In the case of the electric shock in Chile, the safety pause reiterated the importance of respecting work procedures and maintaining good operational discipline.

All safety pauses feature the following open dialogue with participants:

If we have similar operations in our works or collaborating companies:

- > Could the same thing have happened to us?
- > Have we analysed the risks of these operations?
- > Do we plan works taking into consideration the tasks to be performed?
- > Are the procedures defined and known to carry out the work in a safe way?
- > Are these procedures always complied with?

These sad events reinforce the sense of responsibility with collaborating companies of Gas Natural Fenosa and the assumption by these companies of the Health and Safety Commitment, to achieve the goal of zero accidents.

All employees have a channel of direct participation available to them through the joint meetings between management and employees.

Consultation and participation

[403-1] and [403-4]

Gas Natural Fenosa's management of health and safety requires the commitment of all of the company's employees. For this reason, the group has channels for the transmission of information, queries and participation that allow us to encourage awareness and to respond to their information needs in health and safety issues.

One of the mechanisms for consultation and employee participation are the regular health and safety meetings held in all areas of the company. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the workforce is represented at meetings.

It should be noted that the holding of these meetings is not to replace the various health and safety committees required under labour legislation and which correspond to each country. The main issues, formerly dealt with during 2017 of these kinds of meetings with the workers' representatives, were:

> Health and Safety Commitment.

> Analysis of the accident rate.

> Launch of new internal regulations.

> Comprehensive health.

> Quarterly monitoring of preventive measures.

Recognition and achievements of employees

2nd Health and Safety Leadership Award

Following the success of the first event, the 28 April of 2017,- World Day for Safety and Health at Work- the 2nd Health and Safety Leadership Award was launched.

This motivation initiative seeks to recognise employees whose conduct in health and safety issues serves as a reference for their colleagues. All employees can take part, proposing the candidate that best satisfies the attributes measured.

The candidacy must be presented by a minimum of five votes and a maximum of ten, as well as having the "Defender of the Candidacy" figure, who will have to spearhead the candidate's registration.

The definition and organisation of the 2nd Health and Safety Awards of Gas Natural Fenosa have been designed in particular focusing on compliance with the principles of globality, fairness and diversity.

The Health and Safety Commitment is extendable and applies to all employees of Gas Natural Fenosa. As such it is an award of a global nature.

Employees are assessed in accordance with their merits and conditions, given that not all employees of the organisation have the same possibilities of showing their leadership with the same quality and persuasion.

For the purpose of encouraging this principle, we will apply the measures required so that in the event of a tie the employees can be recognised in a different way.

The candidacies were initially assessed by the Motivation and Recognition of Achievements Committee and then subsequently the ten highest scoring candidacies went to a second stage of personal interviews in which the candidate had the possibility of defending their candidacy and showcasing their qualities as a health and safety leader.

In this second edition, 65 candidacies were assessed by the Motivation and Recognition of Achievements in Health and Safety Committee, and the winner was an employee from the Wholesale Business Department in Spain.

Training and awareness

The cultural change achieved at the company in recent years in health and safety issues is largely due to the efforts made in providing quality training, both for our own employees as well as collaborating companies.

In 2017, we have managed to define a new model for management of health and safety training within the global sphere of the company, to achieve uniform management of health and safety training in all countries where Gas Natural Fenosa has a presence.

The training of each employee in the prevention of occupational hazards associated with their job is the basic tool for achieving the target of reducing the number of occupational accidents. To provide appropriate training, the company has set up the Occupational Hazards Prevention Classroom, a tool available for the Corporate University to meet requirements. This classroom has the appropriate training channels to guarantee high levels of the transfer of knowledge and the promotion of best practices in every area in the company.

In 2017, this issue has been the area of knowledge on which most hours have been spent, training a total of 37,456 participants, over 2,236 sessions, which translates into 159,475 training hours.

Training of collaborating companies [EU18]

To ensure the collaborating companies' commitment to health and safety, Gas Natural Fenosa requires by contract that all its suppliers and contractors certify that their employees have received specific occupational risk prevention and safety training for the work commissioned to them.

As regards collaborating companies, in 2017, 100% of the Gas Natural Fenosa collaborating companies certified that their employees had received training on health and safety.

Internal rules of global application have also been established in which operational coordination between business units and their collaborating companies is promoted through leadership workshops and awareness in health and safety issues.

The company has a specialised body of internal instructors responsible for revitalising the training actions targeted at collaborating companies. Its mission is to convey the philosophy of the company's Health and Safety Commitment through leadership workshops with participation from executives and managers of all companies that have been selected as partners of Natural Gas Fenosa in the development of the works.

It is these same senior managers from collaborating companies who must disseminate, within their organisations, the key messages among the rest of their collaborators, through custom-designed workshops to raise awareness.

Thus, the commitment permeates all areas of the company's activity, both its own staff and collaborating companies.

Gas Natural Fenosa will only work with those collaborating companies that take, share and apply its Health and Safety Commitment.

Certifications

As included in the strategic lines of the commitment, the certification according to health and safety standards enables consistency and standardisation of working conditions at Gas Natural Fenosa.

The company has a Global Certification Plan for the Occupational Health and Safety System; its aim consists of achieving global certification according to the OHSAS 18001 international standard. For its fulfilment, multi-discipline working parties were created as advised by the Prevention Service.

Throughout 2017, there were a total of 42 internal audits conducted by qualified auditors and 32 external audits of the management system pursuant to OHSAS 18001, covering 92.1% of the company.

Internal rules of global application have also been established in which operational coordination between business units and their collaborating companies is promoted through leadership workshops and awareness in health and safety issues.

Safety in facilities and processes

The activities of the company that are carried out in the field meet, and in some cases exceed, the legal requirements. Gas Natural Fenosa has systems designed to ensure the safe operation of facilities and processes, and the company has experienced professionals who manage to operate without significant deviations even where the system presents opportunities for improvement.



Risk management at industrial facilities

Industrial risk management is included in the preventive activity of Gas Natural Fenosa.

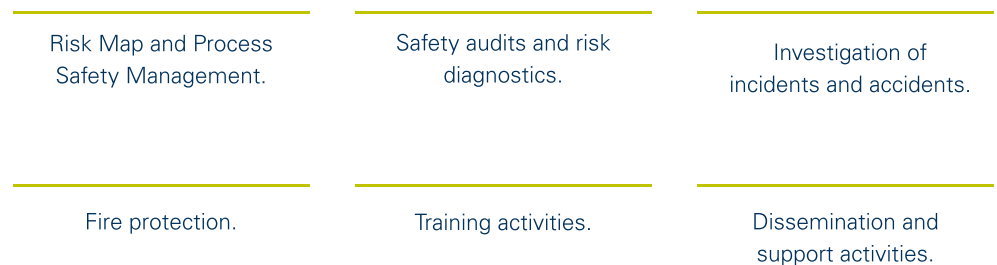
In risk management, its main objectives are the detection and minimisation of risks affecting activities, products and services that may have an effect on the company's facilities or its environment, causing economic, environmental and social damages.

To do this, the company has a specific Industrial Safety Unit, tasked with assisting in the reduction of industrial risks at the company. For compliance the following conceptual scheme is used.

Risk management at industrial facilities



The model with which the Industrial Safety Unit operates is supported on six levers:



During 2017, Gas Natural Fenosa continued to analyse each of the levers in more depth from a continuous improvement standpoint and within a process, which is fed with the experience of day to day life, in tune with the various industrial businesses in the company.

Risk Map and process safety management

Gas Natural Fenosa has a tool for risk assessment of industrial facilities in operation for each type of facility, designed with a proprietary methodology. The tool aims to identify risk points and how these could possibly affect people, property and the environment.

With this, the aim is to prevent and minimise impacts through periodic evaluations of facilities to detect possible areas for improvement.

The following risk map models continue to be operational today:

- > Maghreb gas pipeline.
- > Electrical substations.
- > Liquefied natural gas satellite plants.
- > Combined-cycle power generation plants.

We have commenced development of the Risk Map tool for facilities that generate electricity through wind turbines (wind farms).

Safety audits and process diagnostics

We conduct safety audits of the company's different technical processes to verify compliance with the prevailing rules and regulations of the country, of the technical procedures established by the group and the business unit's own internal regulations.

We also review the monitoring and control of operational risks relating to technology, accidents and breakdowns and impacts on the environment, and relevant management parameters. The main goal is to bring value to the business lines and assist in the continuous improvement of processes.

Also, technical processes diagnosis is performed at the request of the different business units. They show the degree of control of the process monitoring mechanisms and, if anomalies are found, the appropriate actions for correction can be carried out.

The audits and diagnoses are carried out by audit teams that specialise in the technical processes of transport and distribution of gas and electricity, strategic storage of gas, electricity generation, satellite plants of liquefied natural gas (LNG) and liquefied petroleum gas (LPG), natural gas for vehicles (NGV) service stations and energy management facilities.

The following audits were conducted in 2017:

- > Operation and maintenance of the Bif Hioxo wind farm in Mexico.
- > Operation and maintenance of a hydroelectric power station in Panama.

- > Construction of high pressure and medium pressure gas distribution and transport networks in Colombia.
- > Operation, maintenance and discharging of client LNG satellite plants in Spain.
- > Construction of high pressure and medium pressure gas distribution and transport networks in Mexico.
- > Development of medium or low voltage electricity grids in Moldova.
- > Industrial gas operations area.
- > Construction of high pressure and medium pressure gas distribution and transport networks in Argentina.
- > Maintenance of gas distribution and transport networks in Rio de Janeiro, Brazil.
- > Operation and maintenance of hydroelectric power stations in Spain.
- > Maintenance of medium and low voltage electricity grids in Castilla-La Mancha (Spain).
- > Management of medium and low voltage electricity grid incidents in Castilla y León (Spain).
- > MV and HV Electricity Operations Area in Electricity Distribution in Spain.
- > Operation, maintenance and discharge of LNG distribution satellite plants in Spain.
- > Regular inspection of gas receiving facilities in Spain.

Furthermore, process diagnostics were carried out in Spain and at international level related to the operation, maintenance and operative functions of unloading from LNG satellite plants in France, management of maintenance and the status of energy, thermal, safety and services facilities of the buildings on Av. América, Av. San Luis and Arteixo, and the treatment of high-voltage lines at electricity power stations in Spain.

Investigation of industrial incidents and accidents

As a preventive strategy, Gas Natural Fenosa incorporates the investigation of incidents and accidents, and identifies their root causes as a basis for the formulation of improvement measures with the aim of increasing the safety of facilities and processes and prevent their recurrence.

In this regard, we are actively working on the line to promote notification of incidents as a preliminary step prior to analysis and investigation. Thus, throughout 2017 we have improved the incident/accident ratio (accumulated over the previous 12 months) from a value in January of 2.7 to value at the year-end of around 7, which gives an idea of the positive evolution that has existed and the greater awareness at all businesses and countries.

The advisory services from workgroups designated to investigate accidents, as well as direct participation in these, are a major activity aimed at reinforcing the strategy of extending the use of Root Cause Analysis (RCA). At the close of the year, this task has been extended to no fewer than 150 investigations into industrial accidents and incidents.

The lessons learnt from several of these incidents have been able to be extended to other units of the same business and, some of these, used for dissemination throughout the group.

Fire protection (FP)

During 2017 we have continued with the development, adjustment and introduction of the FP model, taking into consideration that this model aims to reduce fire incidents and accidents and reduce the consequences of incidents and accidents by using best practices and operational solutions on the premises.

Reduction of the consequences implies:

- > Reduced risk of injury to persons in the environment.
- > Cost reduction through a decrease/attenuation of the accident rate.
- > Improvement of the company's image.

During 2017, training in the FP model and the dissemination of this has been of particular importance, and the outstanding elements have been: four training days in Spain, training in three Latin American countries: Argentina, Brazil and Colombia, and the holding of monthly meetings in all countries to support the introduction.

During 2017, a network of FP experts has been introduced at all group's businesses. 14 workgroups have been created and led in Spain (experts by types of facilities). This network is currently being extended on the international stage.

Around 200 support actions have been carried out (diagnostics, projects, etc.) with different businesses, involving growth of around 30% with regard to 2016.

Moreover, every day we strengthen the role of Gas Natural Fenosa in the different FP expert forums, sharing experience and expertise. We can highlight:

- > As members of the Cepenven Association (Spain) we currently participate on the work group that is defining the registration and seal for companies that maintain and install passive protection.
- > Taking part on round tables and external technical days, to analyse new legislation (Royal Decree 513/17) in Spain.

Training activities for the safety of facilities and processes

In 2017, training activities were developed for issues covering the safety of facilities and processes, which were attended by employees of the group. This training has been targeted at all of the company's businesses.

As regards specialised training, we can highlight the following courses: Passive Protection, SCP Regulations (Storage of Chemical Products), Asset Integrity and RIPCI (Facilities Regulation for Fire Protection).

The Industrial Safety course has been updated, adapting it to the Health and Safety Commitment.



Gas Natural Fenosa conducts accident prevention campaigns for customers of the company, through giving advice that is communicated through the global communication channels.

Outreach activities for the safety of facilities and processes

Regarding outreach activities, as part of the Health and Safety Commitment we can highlight the internal dissemination in 2017 of 23 own or third-party events, from lessons learnt to best practices, to prevent recurrence. These lessons are given in Spanish, Russian, Rumanian, English, French, Italian and Portuguese. 65 contents with the same purpose have been disseminated globally through the Intranet. The content of this dissemination is reaching contractor companies through the businesses and as part of the aforementioned plan.

Moreover, in 2017 we have developed and disseminated 10 news items on lessons learnt concerning accidents at external companies. These news reveal what happens in the world of industrial safety and delve more deeply into the occurrence and the responses that those affected have carried out. These contents are translated into the same languages of the lessons and good practices.

Gas Natural Fenosa participates in different associations and government agencies in the field of industrial safety:

- > Spanish Gas Association (Sedigas).
- > AENOR Technical Standardisation Committees in the gas sector (CTN60).
- > AENOR Technical Standardisation Committees in the fire protection model (CTN23).
- > Professional Engineering Association for Fire Protection (APIC).
- > National Fire Protection Association (NFPA).
- > Board of Directors of Cepreven.

> Chair of the National Consumer Goods and Industrial Safety Association (Bequinor).

> Correspondence Member of the American Gas Association (AGA).

Safety among customers and society

Gas Natural Fenosa conducts accident prevention campaigns for customers of the company, through giving advice that is communicated through the global communication channels.

Additionally, the company uses the bills as a direct communication channel with customers. The company uses the bill as a way of introducing, inter alia: campaigns

to raise awareness and information on specific actions concerning situations of risk and campaigns that explain good use of devices and the maintenance of these.

The purpose of the campaigns is the safe use by the user of the energy that the company distributes.

In relation to the distribution assets and according to the records of the various group companies, there were unfortunately 100 accidents involving the general public, causing 9 deaths and 200 injuries in 2017. At the end of the year, 46 legal actions were brought against Gas Natural Fenosa for these causes.

Quantitative safety indicators

Employee accident-rate indicators [403-2]

	Target	Target	2017			2016			2015		
	2018	2017	Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave ¹	41	55	45	40	5	65	55	10	125	109	16
Days lost ²	1,537	2,060	1,708	1,605	103	2,424	1,870	554	3,674	2,639	1,035
Mortalities ³	0	0	0	0	0	0	0	0	1	1	0
Frequency rate ⁴	1.19	1.45	1.30	1.65	0.49	1.72	2.04	0.91	3.08	3.72	1.41
Severity rate ⁵	0.05	0.05	0.05	0.07	0.01	0.06	0.07	0.05	0.09	0.09	0.09
Incidence rate ⁶	2.41	2.94	2.65	3.34	0.99	3.48	4.14	1.85	6.33	7.66	2.90
Absenteeism rate through common illness and non-occupational accident ^{7,8}	2.15	2.13	2.18	–	–	2.15	–	–	2.02	–	–

NB 1: across-the-board decrease in all indicators that supports the group's Health and Safety Commitment:

- 31% decrease in accidents with sick leave and 24% in the frequency rate with regard to 2016.

- 30% decrease in days lost and 17% in the severity rate with regard to 2016.

- 24% decrease in the incidence rate.

NB 2: we should point out that since the commencement of the commitment there has been a cumulative decrease of 77% in the frequency rate (5.60 to 1.30), and there have been no deaths of own personnel since 2015.

¹ Accidents requiring sick 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.

⁶ Incidence rate: number of occupational accidents for every 1,000 employees.

⁷ Absenteeism rate of common illnesses and non-occupational accidents. Workers' absences from their jobs as a consequence of common illnesses and nonoccupational accidents.

⁸ Chile or countries that have less than 20 employees are not taken into account.

Accident indicators by countries (employees)

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate
Germany	0	0	0	0.00	0.00	0.00
Argentina	7	83	0	4.18	0.05	8.87
Australia	0	0	0	0.00	0.00	0.00
Belgium	0	0	0	0.00	0.00	0.00
Brazil	0	0	0	0.00	0.00	0.00
Chile	16	295	0	1.98	0.04	4.10
Colombia	1	10	0	0.68	0.01	1.46
Costa Rica	0	0	0	0.00	0.00	0.00
Spain	11	952	0	0.79	0.07	1.53
France	0	0	0	0.00	0.00	0.00
Guatemala	0	0	0	0.00	0.00	0.00
Holland	0	0	0	0.00	0.00	0.00
Ireland	0	0	0	0.00	0.00	0.00
Italy	0	0	0	0.00	0.00	0.00
Kenya	0	0	0	0.00	0.00	0.00
Morocco	0	0	0	0.00	0.00	0.00
Mexico	4	38	0	1.60	0.02	3.57
Moldova	0	0	0	0.00	0.00	0.00
Panama	3	50	0	3.26	0.05	7.41
Peru	0	0	0	0.00	0.00	0.00
Portugal	0	0	0	0.00	0.00	0.00
Puerto Rico	0	0	0	0.00	0.00	0.00
Dominican Republic	0	0	0	0.00	0.00	0.00
Singapore	0	0	0	0.00	0.00	0.00
South Africa	3	280	0	2.18	0.20	4.46
Uganda	0	0	0	0.00	0.00	0.00

NB: across-the-board decrease in almost all indicators, in particular highlighting the frequency rate: Colombia (-83%); Argentina (-23%) and South Africa (-20%).



Accident rates of contractors and subcontractors

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave ¹	491	459	32	856	769	87	838	770	68
Days lost ²	12,674	11,789	885	17,465	15,819	1,646	19,600	18,445	1,155
Mortalities ³	2	2	0	5	4	1	7	7	0
Frequency rate ⁴	4.41	4.87	1.88	7.72	8.12	5.37	12.20	13.85	5.18
Severity rate ⁵	0.11	0.13	0.05	0.16	0.17	0.10	0.29	0.33	0.09
Incident rate	7.41	8.19	3.15	13.99	14.76	9.56	25.71	29.02	11.21

NB 1: across-the-board decrease in almost all indicators that supports the group's Health and Safety Commitment:

- 43% decrease in accidents requiring sick leave and in the frequency rate with regard to 2016.

- 27% decrease in days lost and 31% in the severity rate with regard to 2016.

- 47% decrease in the incidence rate.

- 60% decrease in mortalities.

NB 2: we have secured the across-the-board decrease since we introduced the Health and Safety Commitment project, and since 2013 we have reduced the frequency rate by 75.82% (from 18.24 to 4.41) and 80% of mortal accidents (from 10 to 2).

¹ Accidents requiring sick 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 work accidents. 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 work accidents.

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.

Accident indicators by countries of contractors and subcontractors

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate
Germany	0	0	0	0.00	0.00	0.00
Argentina	25	773	0	3.46	0.11	5.81
Australia	0	0	0	0.00	0.00	0.00
Belgium	0	0	0	0.00	0.00	0.00
Brazil	28	797	0	2.83	0.08	4.76
Chile	146	3,093	1	7.28	0.15	12.23
Colombia	134	1,479	1	14.37	0.16	24.13
Costa Rica	0	0	0	0.00	0.00	0.00
Spain	87	3,451	0	2.38	0.09	4.00
France	0	0	0	0.00	0.00	0.00
Guatemala	0	0	0	0.00	0.00	0.00
Holland	0	0	0	0.00	0.00	0.00
Ireland	0	0	0	0.00	0.00	0.00
Italy	1	13	0	0.97	0.01	1.64
Kenya	0	0	0	0.00	0.00	0.00
Morocco	0	0	0	0.00	0.00	0.00
Mexico	10	762	0	0.94	0.07	1.58
Moldova	3	450	0	0.38	0.06	0.64
Panama	47	1,020	0	11.72	0.25	19.69
Peru	2	14	0	2.75	0.02	4.63
Portugal	0	0	0	0.00	0.00	0.00
Puerto Rico	0	0	0	0.00	0.00	0.00
Dominican Republic	0	0	0	0.00	0.00	0.00
Singapore	0	0	0	0.00	0.00	0.00
South Africa	4	392	0	1.87	0.18	3.15
Uganda	4	430	0	50.97	5.48	85.63

NB 1: across-the-board decrease in almost all indicators, in particular highlighting the decrease in accidents with sick leave in Colombia (-72%), Italy (-50%), Spain (-47%) and Peru (33%).

NB 2: increase in Chile due to actions arising from forestry fires that have taken place.

Accident indicators by country and business of public affected due to the company's activities

[EU25]

	Accidents	Injuries	Deaths	Legal actions
Gas business	81	185	3	34
Argentina	6	22	1	0
Brazil	3	3	0	24
Chile	0	0	0	0
Colombia	25	30	1	0
Spain	46	128	1	9
Italy	0	0	0	0
Mexico	1	2	0	1
Electricity business	19	15	6	12
Chile	8	9	0	7
Spain	3	3	0	4
Moldova	6	2	5	0
Panama	2	1	1	1
Total	100	200	9	46

NB: In relation to the distribution assets and according to the records of the various group companies, there were unfortunately 100 accidents involving the general public, causing nine deaths and 200 injuries in 2017. At the end of the year, 46 legal actions were brought against Gas Natural Fenosa.

Safety training for employees

	2017	2016	2015
Attendees in terms of total staff (%)	78.66	78.76	85.88
Training actions completed	2,236	3,518	3,409
Training hours per employee	9.99	15.32	15.46

NB: during 2017 there was an adjustment of the training hours planned for the year based on the information supplied by the Corporate University, due to the introduction during the first quarter of the year of the new training management tool which led to a delay in the operational execution of the annual training plan on a global scale.

Health [403-3]



Master Health Plan targets

Gas Natural Fenosa is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit contributes to achieving this goal and to improve working conditions, the working climate, productivity and performance, with a positive impact in terms of costs and profitability.

The Comprehensive Medical and Health Assistance is based on excellence and ongoing innovation to make available to employees, their relatives, collaborating companies, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and health care, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Gas Natural Fenosa in the field of healthcare, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisers for the development, monitoring and control of the plan in each of the areas.

Actions for employees' health

In general, the Comprehensive Medical and Health Assistance Unit carries out activities related to:

Standardised actions.

Ensuring the health of workers, developing standardised actions respecting differences inherent in each country.

Compliance with regulations.

Monitoring compliance with the relevant regulations to each area in health.

Development of activities by external collaborators.

Coordinating the development of activities by external collaborators and establish monitoring and control measurements.

Definition of indicators.

Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.

Continuous training.

Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

- > Ergonomics and applied psychosociology.
- > The performance of health promotion campaigns designed after studying the epidemiological data of workers and analysing gaps and needs in health matters.
- > The performance of medical examinations as one of the main tasks according to the specific risks of workers at work.

Prevention campaigns and health promotion

In 2017, we continued with the implementation of prevention campaigns and health promotion, continuing with the regular campaigns and introducing other new ones. The purpose of the campaigns is to raise awareness and mobilise workers to generate a culture of prevention of disease, promote healthy lifestyles and control risk factors to significantly reduce the incidence of various diseases.

In Spain, among the new campaigns is the outreach campaign on "management of post-traumatic stress" and the "genetic tests for calculation of cardiovascular risk" campaign. In addition, the comprehensive medical and health assistance activities focus on increasing awareness on healthy lifestyles and improving levels of well-being, to achieve a healthy and sustainable ageing.

On the international stage, new health promotion and prevention campaigns were incorporated, in line with the group's corporate criteria. We have also compiled an Annual Comprehensive Health Plan, based on the Master Health Plan, which involves planning actions to be carried out in issues of comprehensive medical and health assistance during 2017, such as the definition of indicators to monitor compliance and analysis of the effectiveness of these.

Also in 2017 we have continued with the development and set-up of 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.

An initial assessment of psychosocial risks was carried out in Mexico and we launched the data collection survey in Kenya and Uganda.

Healthcare monitoring

Every year, the company checks the health of all its employees, with particular scrutiny on those that perform special risk activities.

We continually perform an analysis and assessment of methodologies concerning management, scientific and technological advances, a process which enables us to validate our way of doing things and the position and leadership of our company in health and well-being issues.

In the international sphere, most countries are bringing their medical examinations into line with corporate requirements wherever possible, depending on the legislation and available resources.

In the event that workers' children are affected by serious illnesses, the medical services of the company, coordinated

with work health insurance companies, manage the provision of care, hospitalisation and treatment of children affected by cancer or serious illnesses in accordance with prevailing legislation. In these cases, the company offers reduced paid working hours by at least 50%.

Mindfulness: Well-being for persons

In the midst of a working environment undergoing a sweeping transformation, Gas Natural Fenosa has implemented a campaign to introduce the Mindfulness tool for the well-being of persons that make up our business group. We have performed informative sessions, more intense training courses and we have generated spaces reserved for daily practice of this discipline at the different work centres.

In the 12 months since the campaign started, the results speak for themselves:

- > Extensive campaign to raise **awareness** of all levels of the company.
 - 90 members of the management committees take part in Mindfulness sessions overseen by Enrique Escauriaza.
 - 2,554 employees from all over Spain attend the sessions scheduled and given by Fernando Tobías. Plan for remaining employees in Spain in 2018).
- > **Qualification** of experts in the practice of Mindfulness:
 - 42 internal experts trained by F. Torrijos, a direct collaborator of J. Kabat-Zinn in the Mindfulness-Based Stress Reduction programme of the Massachusetts Institute of Technology (MBSR).

- > Commencement of investigation and study of the results:

- Commencement and launch of state-trait investigation and study in Mindfulness with employees of Gas Natural Fenosa. Pontifical University of Comillas.

On 28 July 2017 there was an accident when a district line train arrived at the Francia station carrying several workers from the Barceloneta headquarters of Gas Natural Fenosa. One of the female workers was able to use her mobile telephone to call medical services to report the accident and request assistance. Following this communication, a professional from the medical services arrived at the accident site to check the situation and to coordinate the transfer of those involved using ambulances, while another came to the hospital to receive the injured, process the paperwork needed for their hospitalisation, as well as manage everything necessary to ensure the maximum processing and comfort of those involved in the accident. In turn, the post-traumatic stress team was deployed to offer psychological assistance both to the injured as well as their relatives, during an initial step and within the first 24 hours (essential for the swift psychological recovery), followed up with subsequent psychological monitoring visits to the persons affected.

Mindfulness: Well-being for persons

People	Trends	Innovation	Integral
Employee service and satisfaction.	Adjustment to current wellness / well-being trends.	Innovation, research, and continuous measurement.	Cross-cutting and interdisciplinary team.
∨	∨	∨	∨
<ul style="list-style-type: none"> > Launched and developed by senior management. > Applies to all levels of the company. > Takes a different form depending on the audience. > Continually communicated through different channels. 	<ul style="list-style-type: none"> > Adjusted to a preliminary analysis of global trends in comprehensive health. > Shift from occupational health to well-being. > Audited/certified by AENOR. > Externally recognised and prizewinning model. 	<ul style="list-style-type: none"> > A new, innovative and effective formula for well-being. > Continuous measurement of individual and group results. > Results research with the University. > Favours practice in the workplace (quiet rooms). 	<ul style="list-style-type: none"> > With strategic mindfulness partners (MIT, IESE, BLC, UAB). > Multidisciplinary internal team: doctors/psychologists. > Cross-cutting nature: Communication and Corporate University. > Health and resources.

The “Your health always on your agenda” campaign seeks to raise awareness, both for those that work at Gas Natural Fenosa as well as their families, on the importance of looking after their health and the importance of prevention to ensure future life quality.

“Your Health Always on your Agenda”

The communication campaign “Your Health Always on your Agenda”, promoted by the health services of Gas Natural Fenosa, forms part of the Health and Safety Commitment, and has an impact on preventive aspects as important as encouraging good nutrition habits or playing sport regularly to improve cardiovascular health.

The aim of the campaign is to educate people working in Gas Natural Fenosa and their families about the importance of protecting their health and prevention to ensure future quality of life, under the view that the welfare of the company employees is also the welfare of those around them.

During 2017, within the psychosocial sphere we have developed actions targeted at managing emotions and reducing stress, such as Mindfulness and psychological first aid.

Gas Natural Fenosa has received the El Mundo ZEN Adecco Award in the category “Encouraging physical activity and healthy habits”, for our Mindfulness programme.

Throughout 2017 we have performed several communications in the different spheres of the company to promote health, such as the social protection campaign and the winter flu vaccination campaign. In the international arena, it has been also launched several communications in this regard depending on the specific situation that corresponds to what is carried out within these spheres.

Healthy company model



Gas Natural Fenosa was the first energy company in Spain to be certified as a healthy company.

This certification establishes the requirements of a management system for organisations committed to the principles and existing international recommendations for healthy companies that want to promote and protect continuously health, safety and welfare of workers and sustainability in the working environment of their workers, their families and the community in which the business operates.

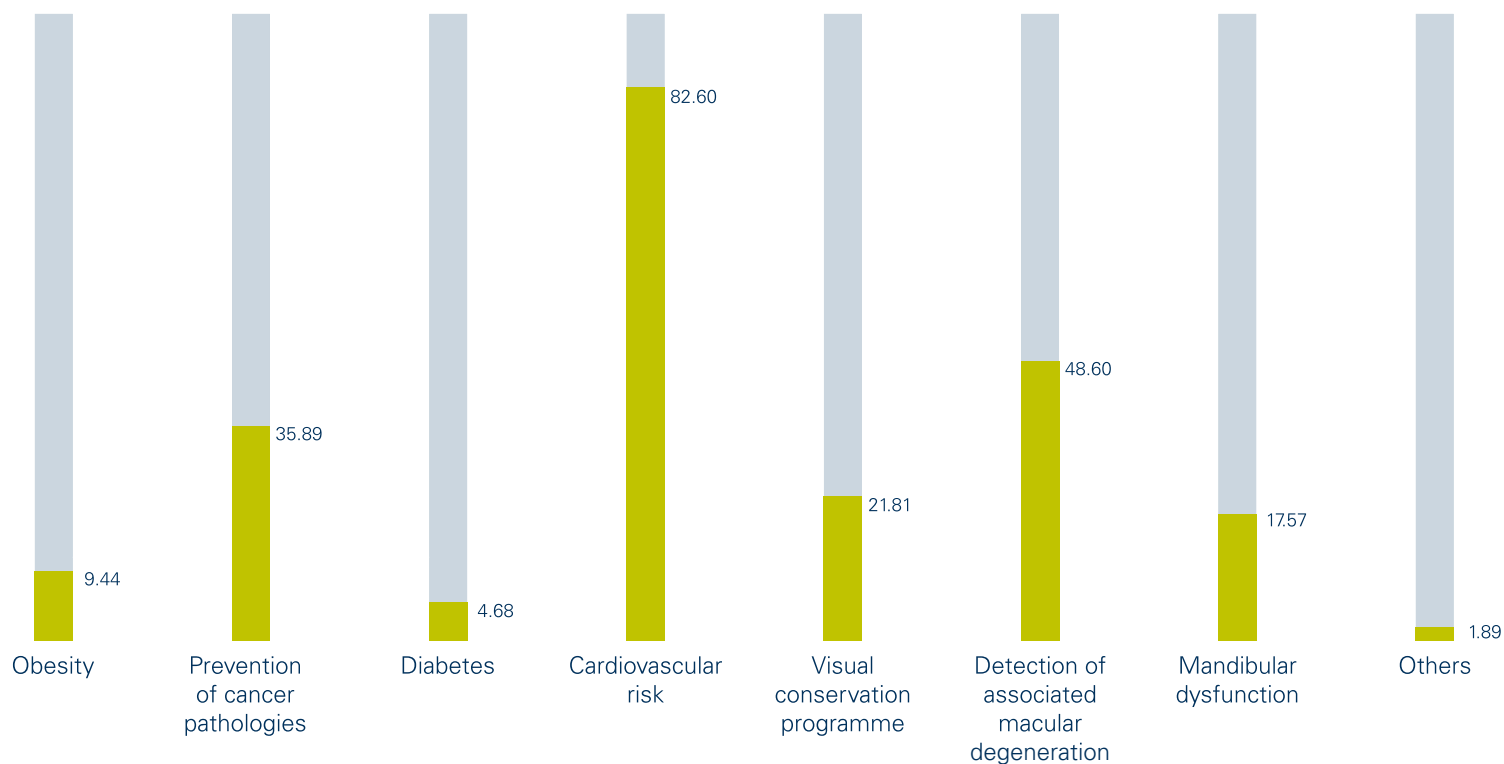
Having introduced the model in Argentina, Brazil, Spain, Morocco and the Dominican Republic, in 2017 we have also certified Mexico as a healthy company. Following the plan to gradually introduce it into the other countries where the company operates.

Quantitative health indicators

Participants in occupational health campaigns

	2017	2016	2015
Prevention and/or early detection campaigns	29,501	30,067	18,034
Vaccination campaigns	3,183	4,547	3,571
Medical check-ups	11,139	12,095	11,461
Medical assistance	28,843	34,857	38,280

Staff taking part in prevention campaigns (%)



2002

Guaranteeing security of supply

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

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Responsible Supply Chain



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

Gas Natural Fenosa establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Code of Ethics of the Supplier, to which all suppliers must adhere and the content of which comes from the Code of Ethics of Gas Natural Fenosa, the Human Rights Policy, the Health and Safety Policy, the Anti-corruption Policy, as well as the internationally acknowledged principles of good governance.



Commitments and principles of responsible action with suppliers

- Extending the culture of Gas Natural Fenosa to the supply chain, passing on the target of excellence in service and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
 - Fostering compliance with the codes and policies of Gas Natural Fenosa in the supply chain, in particular in the area of human rights, ethics and health and safety.
 - Promoting procurement of suppliers from the country or region where the company carries out its activities, helping to generate a positive social impact.
 - Guaranteeing fairness, independence and transparency in the procurement process.
 - Promoting the development of suppliers, by identifying opportunities for collaboration and innovation and encouraging an environment of transparent communication, to ensure that collaborating companies satisfy the standards of CSR, quality, safety and service of the group.
 - Overseeing regulatory compliance and good practices with regard to conflicts involving minerals and other raw materials.
-

> Value actions

Proposed actions 2017

Finalise the introduction of the supplier classification process in the entire group. +

Complete the extension and introduction of the Bravo platform at the main subsidiaries. +

Planned actions 2018

Increase and extend the number of ESG audits to suppliers in all countries.

Level of fulfilment: + Finalised. + Major progress. + Intermediate progress. + Little progress. + Not started.

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

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

throughout the supply chain, and incorporates sustainability criteria in the assessment and management of suppliers, beyond regulatory compliance.

With regard to the responsible supply chain, Gas Natural Fenosa operates a commitment to sustainability in its supply chain. In addition to strengthening procurement with local suppliers, the company promotes compliance with ethical and political codes of the company

The supply chain of Gas Natural Fenosa [102-9]

Suppliers and contractors are at the centre of optimum performance of Gas Natural Fenosa's value chain. They are responsible for a large part of the company's image and service level, and in many cases, they represent the first line of contact with customers. Accordingly, the company therefore promotes long-term relations based on trust, under the principles of transparency, objectivity and risk management.

In 2017, Gas Natural Fenosa set up trade relations with a total of 9,877 suppliers which accounted for a total expenditure of 3,428 million euros.

The purchase volume awarded to local suppliers, those that are located in the same geographical markets where Gas Natural Fenosa – to whom they provide services - has a presence, was 90.75%.

Suppliers and contractors are at the centre of optimum performance of Gas Natural Fenosa's value chain.



> Specific nature of the Gas Natural Fenosa supply chain

The supply chain of Gas Natural Fenosa is an international chain and the management process of this chain is governed by unified and overarching criteria for the company's entire sphere of operation. Global management criteria are established for the centralised procurement of products and services, bearing in mind the group's geographic

distribution, in accordance with the critical nature, the obtaining of competitive advantages and savings, as well as the management of relations with suppliers. The company encourages the award of these purchases to local suppliers.

Suppliers represent an essential part of the Gas Natural Fenosa value chain and are largely responsible for the image and relations with customers and for the company's service and operation levels.

Accordingly, Gas Natural Fenosa is keen to extend the corporate culture to the supply chain, ensuring that collaborating companies comply with the principles set out in the Supplier Code of Ethics, which all group suppliers have adhered to since 2016.

In addition, the classification and approval processes for suppliers guarantee that partner companies satisfy the CSR, quality, safety and service standards of the group, and suppliers are developed through the agreement for improvement actions.

Furthermore, Gas Natural Fenosa provides technical and management training to suppliers, encouraging the unification of criteria, operational efficiency and the development of skills focused on excellence in operations and service.

For the purpose of enhancing management of its supply chain, Gas Natural Fenosa has introduced three specific targets.

- > Percentage of purchase volume from suppliers evaluated using ESG criteria.
- > Incorporation of ESG criteria in the assessment of suppliers as part of the procurement process carried out by Gas Natural Fenosa (implementation in all countries).

- > Disseminate and encourage supplier compliance with the Supplier Code of Ethics.

The company's key lines of business include the distribution of natural gas and electricity, electricity production, the sales of energy and services, trading and the supply and transport of natural gas.

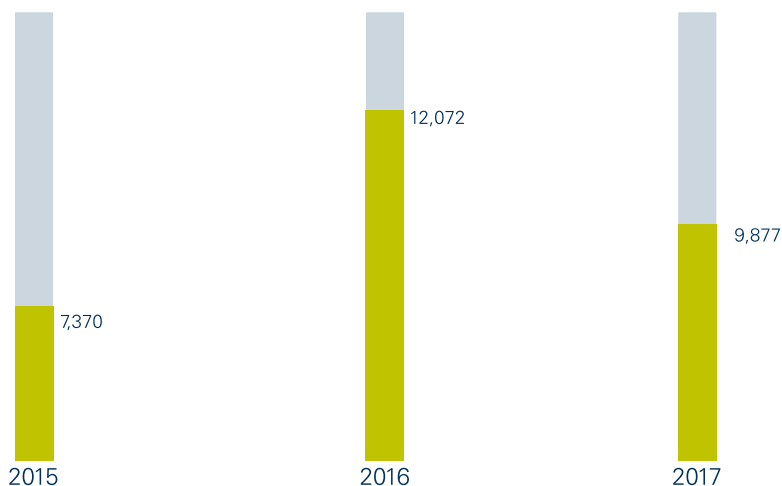
Two thirds of the overall amount awarded corresponds to service suppliers that fundamentally take part in the following business areas:

- > Development and maintenance of grids, both natural gas and electricity.
- > Operators and maintenance workers of energy plants.
- > Commercial management services.

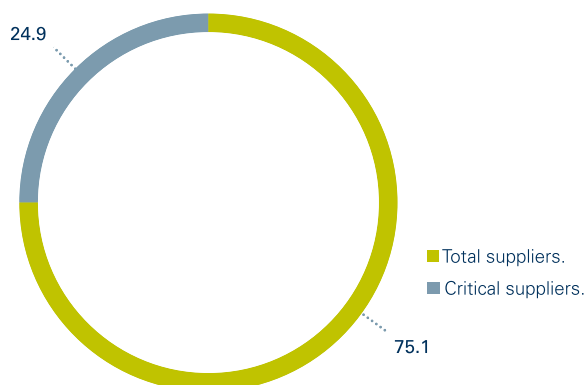
The procurement of services and activities is carried out with local companies or collectives in each country, generating a positive social impact. Gas Natural Fenosa mainly carries out its activity in Argentina, Brazil, Chile, Colombia, Spain, France, Italy, Mexico, Moldova and Panama and, to a lesser extent, in Australia, Costa Rica, Kenya, Morocco, Puerto Rico, Dominican Republic and South Africa.

The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity. The electricity materials are mainly purchased in Chile, Colombia, Spain and Mexico. As regards natural gas materials, these are essentially purchased in Argentina, Brazil, Chile, Colombia, Spain, Italy and Mexico.

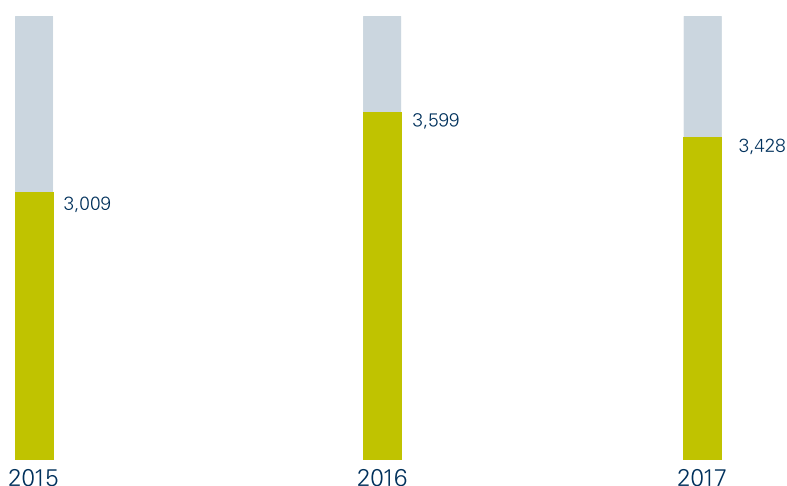
Suppliers with contracts currently in force



Critical suppliers (%)



Total purchase volume awarded (millions of euros)



Purchases from local suppliers

	2017			2016			2015		
	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers	Orders issued	% Orders made to local suppliers	% Purchasing budget targeted at local suppliers
Argentina	321	100.0	100.0	984	100.0	100.0	486	100.0	100.0
Australia	194	94.3	30.3	130	96.9	85.1	183	88.0	93.3
Brazil	1,332	98.7	99.8	1,849	98.2	99.7	1,929	97.6	99.6
Chile	136,799	99.5	92.5	200,685	99.8	95.2	–	–	–
Colombia	2,045	98.9	99.2	2,553	98.8	98.3	2,798	98.7	97.5
Costa Rica	134	86.6	77.5	162	76.5	55.7	169	80.5	77.1
Spain	14,214	97.4	91.8	9,997	96.9	96.0	10,533	96.5	95.9
Guatemala	–	–	–	–	–	–	–	–	–
Italy	1,536	98.8	98.1	1,962	91.9	74.6	1,890	97.1	97.6
Kenya	675	81.5	38.9	558	80.8	46.6	558	80.3	31.9
Morocco	283	57.6	62.5	252	55.2	48.9	264	52.7	71.1
Mexico	4,344	95.8	91.9	5,544	93.8	84.6	6,927	92.1	82.0
Moldova	1,049	90.5	92.1	959	97.6	96.6	939	96.3	92.9
Panama	1,236	80.4	85.0	1,577	68.5	62.4	1,029	70.2	70.9
Peru	96	88.5	90.1	173	75.1	82.9	–	–	–
Dominican Republic	687	62.2	55.3	708	59.0	58.6	677	61.9	51.3
South Africa	4,497	99.4	99.8	4,754	99.9	99.7	4,487	1.6	1.4
Total	169,442	98.7	90.75	232,353	99.0	91.9	32,869	80.7	92.1

The company seeks to maintain long-term, stable, solid relationships with its suppliers from which both sides stand to benefit, subject to efficiency and risk management principles.

Management of the supply chain [102-9]

Gas Natural Fenosa segregates the supplier approval function from the purchasing function, by defining supplementary and independent figures that oversee application of the regulation and of the company's policies and procedures.

The management of the supply chain is based on application of unified and universal contractual conditions for the entire scope of the company's action:

- > Code of ethics applicable to procurement processes.
- > Classification of suppliers in accordance with what they can supply and the level of risk that this supply involves.
- > Monitoring of the requirements set out in the contractual conditions given to suppliers that are awarded contracts and of the service levels actually provided.
- > Evaluation of the performance of suppliers awarded contracts to obtain an objective assessment of suppliers that can be used for subsequent bidding processes, actions for improvement and development of suppliers.

Gas Natural Fenosa actively participates at associations, national and international fairs on supply chain management. In this regard, the company is member of the Association Representing Purchasing and Materials Management Professionals in Spain (Aerce) and RePro in Argentina, Brazil, Chile, Colombia, Spain and Italy.

Approval function

- > Approval of suppliers.
- > Performance monitoring.
- > Corrective action plan.

Purchase function

- > Purchase planning.
- > Purchasing request.
- > Hiring strategy.
- > Selection and assessment of potential suppliers.
- > Process for tendering bids.
- > Awarding proposal.
- > Drawing up of orders and contracts.
- > Monitoring of contracts.

Process of awarding and contracting

Principles of the process

Need.
Efficacy.
Efficiency.
Flexibility.

Principles of conduct

Equity.
Independence.
Transparency.



Targets of the process

Quality.

Price.

Deadline.

Service.

Furthermore, the company subscribes to the worldwide Procurement Leaders network and in 2017 took an active part in the CPOnet Congress. It is also a member of the Procurement Leadership Council, an initiative led by the Corporate Executive Board (CEB).



Principles related to management of the supply chain

Assessment of potential suppliers.

Potential suppliers are evaluated to minimise the risk exposure of companies in the activity and environment in which these activities are performed. The supplier assessment process requires us to consider the history of their ethical behaviour according to the principles of the group.

Working with approved suppliers in critical processes.

In the critical business processes defined in the Supplier Quality Standard, we work with approved suppliers in accordance with the relevant purchase category to obtain high levels of safety, quality, respect for the environment and better terms and prices in the group's actions.

Promoting competition and long-term relationships.

We consistently promote competition as a basic element to achieve cost efficiency and quality, as well as maintaining long-term relationships and trust with suppliers. Wherever possible, trade relations are based on the general terms and conditions of the group.

Specification of the acquisition.

All procurement must be based on a specification of the product or service to be acquired that is clear and complete and which details what the supplier will be required to provide. The contract award is made to the most economically advantageous option for the group within those that are technically valid, taking into account the direct and indirect, present and future costs, and quantifying the associated risks.

Procurement formalisation.

The procurement process must be formalised in a contract or order that sets out what has been agreed between the parties. Contract awards cannot be approved in those cases in which there may be a conflict of interest according to established policies and codes of conduct.

Procurement monitoring and control.

There is adequate monitoring and control of procurement, to ensure that the service levels and procurement targets are complied with and reached, under the agreed terms.

Purchasing model

The Gas Natural Fenosa Purchasing Model, set out in the General External Procurement Standard and the General Supplier Quality Standard, establishes the principles that should govern any process of awarding and contracting.

Furthermore, as part of Gas Natural Fenosa's Health and Safety Commitment, the company asks its suppliers and contractors in every country in which it operates to undertake to comply with the company's health and safety principles and policy, and we continue to invite suppliers that have demonstrated excellent performance in safety.

Procurement transparency:

The introduction of the Bravo platform into the bidding process at all subsidiaries of Gas Natural Fenosa has allowed us to unify the procurement process in all of

the group's countries, providing greater transparency to the process and ensuring traceability in the supply chain.

Communication with the supplier:

- > On its website, Gas Natural Fenosa has a specific section for suppliers, which provides information on the procurement process and conditions, the Health and Safety Commitment Plan, the Human and Social Development Commitment and the Code of Ethics of the Supplier.
- > The supplier portal is the online platform that provides the supplier with the technical regulations that apply in the procurement categories awarded, duly notifying any updates to the regulations, and managing orders.
- > The Supplier Channel is the online tool available to the supplier to sort out any doubts or incidents in the procurement

process and has been established as a communications channel for any queries or suggestions.

Supply chain management process [103-1], [103-2], [103-3] (Supply Chain Assessment) [102-9], [308-1] and [414-1]

Given the size and complexity of the company, it is essential to standardise the supplier selection and management processes, ensuring a uniform, efficient and quality model for management of the purchase processes and for the approval and procurement of services.

Stages in the supply chain management process

1. Contractual model.

Universal and unified contractual conditions for the company's entire scope of action.

Code of ethics applicable to the procurement processes, set out in the Supplier Code of Ethics, based on principles of transparency, traceability, auditing capability and fairness.

2. Classification and approval process.

Classification of suppliers in accordance with the purchase category that are able to supply and the level of risk that this supply involves. The result of this process is the supplier tree that pools together all suitable suppliers to take part in the different bids according to their different risk levels.

The processes that require approval are determined according to quality, health and safety, environmental, social and governance and operation risk factors, to ensure that suppliers comply with the requirements requested.

3. Contractual compliance and documentary management.

Monitoring and analysis of the performance of suppliers from different points of view, to obtain an objective assessment of suppliers that can be used for subsequent bidding processes and actions for improvement and development of suppliers.

4. Performance evaluation.

Monitoring and analysis of the performance of suppliers from different points of view, to obtain an objective assessment of suppliers that can be used for subsequent bidding processes and actions for improvement and development of suppliers.

5. Development of suppliers.

Establishing strategic relations that facilitate opportunities for collaboration and improvement in products and services supplied.

- > Quality: The impact that breach by the supplier with regard to the expected or agreed quality levels would have at Gas Natural Fenosa.
- > Environmental, social and corporate governance (ESG): This measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Environment: the impact on the atmosphere, biodiversity, waters, soil, countryside, waste and consumption of resources. Social: well-being of communities, human rights, workers' rights and data protection. Governance: fraud, corruption, competition, terrorism, professional ethics and regulatory compliance.
- > Operational risk: The potential impact on operations incurred by Gas Natural Fenosa as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.
- > Legal risk: Possibility of infringements and breaches by providers of laws, rules and practices that apply to them.

Risk management of the supply chain

The process of global supply chain management is based on the assessment of risk factors that are intrinsic in outsourcing a service or supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally.

The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals.

Risk factors assessed

- > Health and safety: This measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.

Mechanisms are introduced to mitigate these risks at three levels (high, medium or low) depending on the purchase categories to be supplied by each supplier.

Suppliers with a high-risk level in any of the risk factors assessed will be considered by the company as critical suppliers.

For these suppliers, the company has established, among others, mechanisms to analyse issues that could negatively affect its reputation and sustainability, and suppliers may be excluded for this reason.

Assessment of suppliers

[103-1], [103-2] [103-3] (Supply Chain Assessment), [308-1], [308-2], [414-1] and [414-2]

Supplier assessment at Gas Natural Fenosa comprises the business classification of the supplier and the approval process of the supplier for the supply. Both processes are set out in the risk map by purchase category.

In 2017 Gas Natural Fenosa assessed a total of 9,891 suppliers in which it took into consideration legal, economic-financial, criminal, solvency, experience, business organisation, quality, safety, human rights, environmental, social and

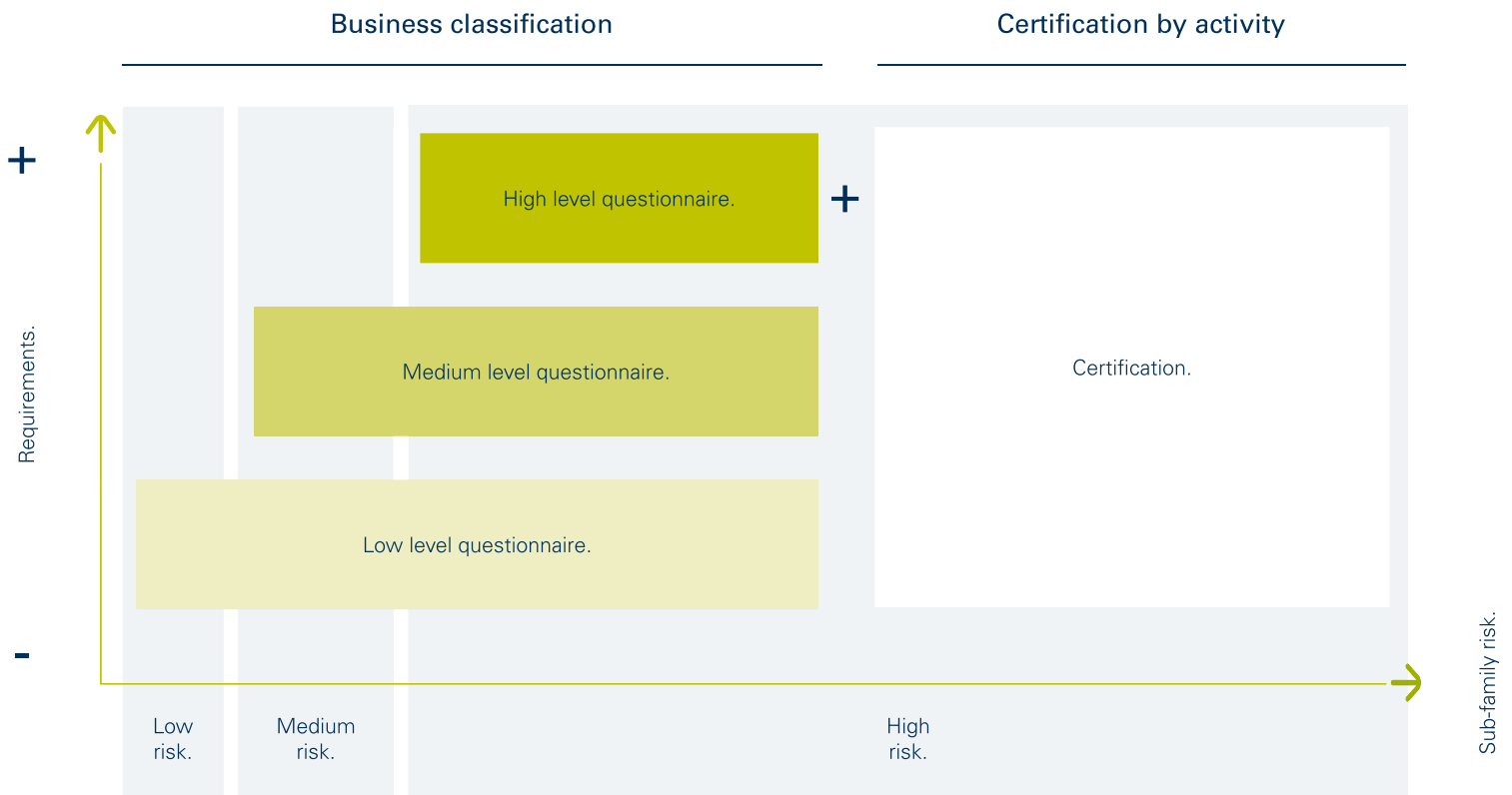
employment practices criteria. Of the suppliers classified as having a high risk over the year, 839 additional analyses were carried out based on the economic-financial, reputational and CSR risk.

Supplier classification

Regarding the process of supplier classification, during 2017 the Purchasing Department extended the new supplier classification model introduced in Spain, Brazil, Colombia, Italy and Chile, to the subsidiaries in Argentina, Mexico and Panama, which has been in operation since the beginning of 2018.

The process of supplier classification implemented in the group's subsidiaries is based on the assessment of compliance at business level of what is required by the group in the different risk factors, in order to participate in the procurement process of goods and services.

With the risk evaluation of the 313 purchase categories that are managed worldwide, and assessing the risks of 50 countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.





This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country, which feeds the process that was already being formalised to detect risk situations in the supply chain.

Furthermore, the company carries out a systematised verification of compliance with the legal requirements and basic structure of potential suppliers which makes up a business qualification that all suppliers must pass before they can commence commercial relations with Gas Natural Fenosa. In addition, the Controlar tool is used at the group's subsidiaries to facilitate documentary follow-up of the contractual requirements.

The classification is conducted using self-assessment questionnaires that take into consideration legal, economic-financial, criminal, solvency, experience, business organisation, quality, safety,

human rights, environmental, social and employment practices criteria. The extension and depth of the questionnaire grows in accordance with the level of risk and is performed through the registration on the Achilles platform (supplier classification system). For high risk cases, it is necessary to provide documentary and audit evidence. In 2017, a total of 77 in situ supplementary audits were carried out mostly with critical suppliers of Gas Natural Fenosa and with a large volume of procurement. These audits were carried out from the standpoint of Corporate Social Responsibility to check the data provided previously in the classification questionnaire and to obtain further information on aspects related to the systems of Sustainability/ Corporate Social Responsibility, Quality, Safety, Health and the Environment.

The high and medium level classification process includes obtaining a grade that enables suitable

suppliers to be assessed in accordance with objective and measurable criteria, for use in the different stages of the bid processes.

The result of the overall process shapes a suppliers tree in which they are classified in accordance with the purchase category for which they are able to supply services or products, and for which they have been rated as suitable with regard to the associated risk.

Consequently, the suppliers tree contains eligible suppliers in each country that can take part in bidding and contract award procedures, complying with the guidelines set by Gas Natural Fenosa.

Global aspects assessed	Subjects assessed	Suppliers assessed (number)	Result of the assessment	Consequences of the assessment
Legal	Obligations in Social Security, Tax Authorities, CR Policy, CR Certificate/Premium, payrolls pending, inability to make payments, the existence of contracts with workers with minimum legal conditions.	9,891	Suitable/Not suitable.	An "Unsuitable" supplier cannot be contracted by Gas Natural Fenosa.
Code of Ethics	Adhesion by the Supplier to the Code of Ethics of Gas Natural Fenosa.			
Health and Safety	Adhesion to the Health and Safety Commitment of Gas Natural Fenosa.			
Human rights	Adhesion to the Human Rights Policy of Gas Natural Fenosa.			
Corporate Social Responsibility	Labour practices in accordance with internationally recognised conditions. Prevention of forced labour, child labour, servitude or involuntary work in prison. Freedom of association and collective bargaining. Prevention of discrimination. Prevention of unacceptable disciplinary practices. Working hours, and remuneration. Prevention of harassment and abuse at work. Data Protection Act. Surveillance and security. Terrorism.	4,758	Suitable/Not suitable.	An "Unsuitable" supplier cannot be contracted by Gas Natural Fenosa.
Environment	Compliance with legal regulations, hazardous waste management, sanctions, fines or convicting judgements.			
Occupational risk prevention	Existence of ORP duties, ORP training to workers and documented assessment of risks			
Quality	Workers training and knowledge of procedures, maintenance of machinery and equipment. If it is the manufacturer, the existence of a procedure to manage defective material.			

Official approval and management of supplier quality

To ensure compliance by suppliers and to mitigate the risks associated to the characteristics of supplies, Gas Natural Fenosa has established a validation, control and monitoring system that covers the entire life cycle of contracts, from acceptance of potential suppliers into the

processes of business classification and approval to monitoring the performance of active suppliers and their development.

The management of official approval, inspection and monitoring of suppliers is carried out in a uniform way, pursuant to a single model of supplier management at all subsidiaries of Gas Natural Fenosa.

This model employs common corporate systems that enable us to have supplier databases that optimise the management of purchases and the quality of suppliers. The model is also supported through the in-depth experience and expertise acquired by the company in its diversified operation of businesses and countries.

Gas Natural Fenosa has established the goal whereby all suppliers that perform activities within the scope of approval, i.e. high-risk activities defined in any of the environmental, social, governance, quality, health and safety, operation and legal risk factors must therefore be approved. Through this, the company makes sure that the top-tier, critical suppliers comply with the strict requirements related to the activity and/or supply contracted.

The number of suppliers with a current contract in critical activities during 2017 is 2,457.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any Non-compliances detected during the audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Gas Natural Fenosa and the supplier, and this deadline is always less than one year.

Products corresponding to critical categories may be subjected to inspections, technical acceptances or factory assessment test (FAT) at the production centres before the material is shipped.

Every year approval plans are drawn up to audit suppliers in-situ. These approvals are for an open-ended period depending on the critical nature of the service or product and the purchase volume.

During 2017 the official approval of seven suppliers outside Spain has been either suspended or withdrawn due to significant impacts.

Auditing officially approved suppliers

Audits are carried out in the process of approval and monitoring of active suppliers and are a key element of the supplier quality model of Gas Natural Fenosa. The in-situ or remote audits check compliance with the specific requirements defined for the service or material of categories classified as high level in any of the risk factors.

In 2017, there were 1,365 audits conducted with suppliers, of which 624 were performed at the supplier's premises (334 certification audits and 290 materials' check at source). These audits include those conducted with service suppliers and the audits and inspections at source carried out with materials suppliers.

Gas Natural Fenosa formally reports the audit results to suppliers, detailing the deviations identified so they can be remedied. It also performs monitoring to verify that the supplier corrects the deviations detected and does so within the agreed deadlines.

In 2017, throughout the group, 77% of in-situ audits conducted with suppliers resulted in the need to submit a corrective action plan. A total of 257 categories of provisional approval were granted, and we identified the actions for development and the corrective actions to be introduced to achieve compliance with the requirements and standards established by the company. Moreover, seven suppliers had their official approval either suspended or withdrawn for failing to pass this process as a consequence of breaches related to safety, quality and other aspects.

Products corresponding to critical categories may be subjected to inspections, technical acceptances or FAT at the production centres before the material is shipped.

It should be pointed out that Gas Natural Fenosa only considers suspension of the official approval of suppliers in those cases in which it is clear that the supplier is unable to efficiently correct the deviations detected.

Monitoring of the performance of officially approved suppliers

The supplier quality model of Gas Natural Fenosa also includes monitoring the performance of active suppliers, in other words those that have a contractual relationship with the company.

For service providers, surveys are conducted with units of Gas Natural Fenosa to measure their satisfaction with suppliers.



In 2017, these surveys were conducted with suppliers that have performed relevant or key activities in the company's processes, and mainly focused on activities classified as high risk in health and safety. Surveys were conducted in Argentina, Brazil, Colombia, Spain, Italy, Mexico, Moldova and Panama. These surveys were carried out for the third consecutive year using the corporate IT system that Gas Natural Fenosa has developed to obtain annual results and check the trend of these by supplier and by contract types.

In 2017, over 993 supplier performance assessments were conducted. We were therefore able to assess a total of 485 suppliers, which account for more than 879 contracts in nine countries.

In addition to the general satisfaction level of the service user, the surveys include detailed aspects on the quality of service, health and safety, operations and ESG aspects.

To assess the health and safety aspects at those suppliers that perform activities classified as high risk, we use the metrics and the method set out in the Gas Natural Fenosa Health and Safety Standard: Health and safety performance evaluation of collaborating companies which enables us to evaluate the conduct of suppliers in health and safety issues in a more objective and uniform way.

Lastly, the results and classification obtained are reported to the affected internal units of the company which, where appropriate, may pass these on to the supplier, also specifying their weak points and where they need to improve. This enables suppliers to be able to introduce action plans to improve the process and thus the service performed. In 2017, action plans have been agreed with 34 suppliers whose score in the performance measurement proved insufficient.

The results of measuring performance are fed into the supplier scoring calculation that is subsequently used during the development of bidding strategies.

Development of suppliers

One of the most important points of supplier development involves extending the culture of Gas Natural Fenosa to the supply chain, and a range of actions are therefore carried out based on the information captured on the suppliers tree, the approval information and the performance measurement results:

- > Since 2015, CSR criteria have been included in the supplier classification, a process that is updated every year for all registered suppliers.

- > In 2015, the supplier performance measurement process was introduced as part of the procurement process.
- > Self-assessment and quality control mechanisms are agreed with suppliers before the delivery of products or the rendering of services.
- > In the event of suppliers of critical services with current contracts in force, monitoring audits are conducted based on the level of risk of the purchase category, and audits also conducted with a CSR focus through the Achilles Community. There is also a check of the equipment calibration and verification that personnel that perform high-risk activities are qualified or certified to do these through the appropriate accreditations or identifications.
- > Products corresponding to critical categories are subjected to inspections, technical acceptances and FAT at the production centres.
- > Strategic relations are developed with suppliers to favour improved products and services (Key Account Supplier).

The Extended University is fully consolidated as a strategic partner of the businesses in Argentina, Brazil, Chile, Colombia, Spain, Italy, Mexico, Moldova and Panama, with a recurrent activity of around 32,000 participants every year and 194,000 hours of training. We have finalised the transition towards generalised use of the online methodology with 24% of the activity in this format (67% in the case of Spain).

The major milestones reached by the Extended University in 2017 were as follows:

- > Development of two earthing simulators for cells as well as a procedure for discharges. Target collective more than 1,500 operators of collaborating companies.
- > Training on the payment protection service with a global collective of 495 people.
- > Training in commercial skills for the customer service centres with attendance by more than 80% of the network of centres, as well around 900 operators from the telephone sales

platforms that have obtained their basic level CeX certification.

- > We have continued to work on the Health and Safety Commitment Plan, and more than 1,600 people have undertaken the road safety course, 764 attended the course on performing checks prior to activities, 1,190 attended the safety awareness workshop and 720 attended the working at heights session.

The Atenea video channel, now in its third year, has accumulated more than 26,000 hits. In 2017, 10 videos have been developed on different aspects of road safety that account for 30% of these.



Bettercoal: responsible purchase of coal guarantee



In 2013, Gas Natural Fenosa became a member of the Bettercoal international organisation, 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.

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 are available 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.

During 2017, the Board of Bettercoal approved its priority country strategy, defining these countries as Colombia, Indonesia and South Africa and Russia.. In this regard, Bettercoal has undertaken a process of commitment with the Colombian mining sector, together with organisations from civil society and other stakeholders, and formally supported the peace and dialogue process in that country. It also approved the inclusion of JERA Ltd as member of the initiative. And it also signed a memorandum of understanding with the World Trade Association. Elsewhere, improvements were made in the review of the Bettercoal Code, and a system of complaints available on the website was published.

During 2017, the company acquired 1,600,000 tonnes of coal (83% of the total acquired) under a formal agreement with suppliers, to cater to the requirements defined in the Bettercoal Code.

2004

Commitment to renewables

In the quest for new solutions that guarantee a supply of sustainable, efficient, safe and environmentally friendly energy, Gas Natural Fenosa is committed to renewable energies. Accordingly, in 2004 it acquired five wind farms, with total installed power of 140 MW. And recently, in 2017, it was awarded a contract for 667 MW of power, which involves the construction of 26 wind farms in seven autonomous regions.

175

1843
2018

years full of history
and energy





2017 Corporate
Responsibility Report

Social Commitment

[103-1], [103-2] and [103-3] (Local communities)



Gas Natural Fenosa is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity and creativity, as well as spending part of its profits on social investment. Fluid and ongoing dialogue with society enables the company to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development, seeking to give a more appropriate response to their needs.

> Commitments and principles of responsible action with society

- > Guarantee fluid and two-way dialogue and to encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- > Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- > Assess the social impact that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- > Transfer knowledge and values to society through partnership agreements with the academic community and to use the necessary and/or existing mechanisms as a vehicle for transmitting the service quality levels to collaborating companies and suppliers.
- > Develop initiatives within the venture philanthropy framework to create shared value and to have a positive social impact in energy projects.

Value actions

Proposed actions 2017

Launching the fourth edition of Cinergía.

Reviewing and updating the General Regulations on Sponsorship and Donations.

Consolidating the activity of the Gas Natural Fenosa Foundation in Chile.

Implementing, in partnership with the Gas Natural Fenosa Foundation, the pilot programme targeted at groups that are vulnerable to energy poverty.

Planned actions 2016

Energy vulnerability social action.

Energy and smart mobility to improve air quality.

Launching of actions to support dissemination of the Vulnerability Plan and the promotion of energy efficiency.

Launching of the fifth edition of Cinergía, focused on explaining the importance of energy saving and efficiency associated to products and services of Gas Natural Fenosa.

Level of fulfilment:  Finalised.  Major progress.  Intermediate progress.  Little progress.  Not started.

Gas Natural Fenosa's contribution to SDG 1: No poverty

The first Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "growing inequality is detrimental to economic growth and undermines social cohesion, increasing political and social tensions and, in some circumstances, driving instability and conflicts." More than 700 million people live in extreme poverty and are struggling to meet their most basic needs.

As regards Social Commitment, Gas Natural Fenosa maintains a commitment with society and instruments this through its Foundation. This year, apart from the continuity of the "Classroom Foundation" programme in Argentina, and given the situation in Spain with energy poverty, we have commenced several programmes to relieve energy poverty. We have introduced the following initiatives to support the third sector:

Aid to the third sector

- > Energy school: training targeted at social specialists to enable them work on reducing the impact of energy cost on the lives of the most vulnerable people.
- > Refurbishment of vulnerable homes.
- > Energy volunteer programme for employees of Gas Natural Fenosa.



Gas Natural Fenosa's contribution to SDG 4: Quality education

The fourth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that “when people are able to get quality education they can break from the cycle of poverty”.

Education contributes to reducing inequalities and achieve gender equality and help create more peaceful and tolerant societies.

Regarding Social Commitment, at Gas Natural Fenosa there is a commitment to universal access to a quality and practical education. The Gas Natural Fenosa Foundation works within this sphere of education through a range of social programmes that are undertaken in Latin America:

- > Argentina: paper and wax craft workshops have been introduced in neighbourhoods with scant resources in the province of Buenos Aires.
- > Brazil: “Training of Gas Inspection Technicians” and “Young Cooks” programmes to train young persons from the slums and encourage their professional progress.

- > Colombia: the “Young Scientists” programme improves the quality of teaching in sciences both for primary school teachers and students. We have also continued with the programme to train to be specialists in automobile mechanics for converting vehicles to natural gas, learning job skills that will allow them access to more qualified jobs.
- > In Costa Rica, the “Blue Flag Ecological” programme is an environmental education programme that encourages improvement in the quality of education.
- > In South African, the “Adopt-a-School” programme seeks consolidation in the school of an environment that favours learning and teaching.



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

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

With regard to Social Commitment, from Gas Natural Fenosa as well as Gas Natural Fenosa Foundation there is a firm commitment to meet an essential need, access to energy in low-income populations in regions where the company operates. Thanks to access to energy

schemes, the neighbourhoods that are being developed have managed to reduce their energy costs, improve their infrastructure and have access to cleaner energy.

In 2017, with the launch of the Energy Vulnerability Plan, we commenced the implementation of measures to develop energy efficiency and home safety initiatives, and to ensure that all homes have a minimum level of comfort.

The programmes to which these resources are therefore allocated form part of the business development strategy.



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

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

With regard to Social Commitment, Gas Natural Fenosa performs its activity committed to sustainability of the communities where it operates and in those where it seeks to establish itself. To this end, it ensures fluid dialogue and conducts analyses into the social impact of the company’s business. One outstanding example is the Bii Hioxo wind farm in Mexico, where the activity is carried out in total harmony with traditional lifestyles and actions to improve the living conditions of its inhabitants are promoted.

Also, the Gas Natural Fenosa Foundation undertakes actions to safeguard cultural heritage, one example being the Museum of Contemporary Art (MAC) of Gas Natural Fenosa.

With regard to this line, we can highlight the work performed by the Foundation throughout this year in the refurbishment and improvement of the Museum and the hydroelectric power station of Bolarque. It has been inaugurated this year and has opened its doors to the public. The collection currently comprises more than 1,000 pieces, including original documents and objects, furnishings from that time and large machines. There is also a major photographic collection that shows the workings of the Salto de Bolarque hydroelectric power station.



Gas Natural Fenosa's contribution to SDG 17: Partnership for the goals

The seventeenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that “to successfully apply the 2030 Agenda for Sustainable Development, we need to move from commitment to action through solid, inclusive and integrated partnerships at all levels”.

With regard to Social Commitment, Gas Natural Fenosa considers partnerships to promote development as absolutely essential. This commitment is materialised through financial contributions maintained over time and by signing agreements with different organisations and

public bodies in the field of access to energy, support for education, fostering health and research, social action aimed at disadvantaged groups and the promotion of culture.

In this regard, in 2017 the Foundation signed four collaboration agreements with relevant enterprises in the third sector, such as the Red Cross and Cáritas; and it also signed agreements with the Esperanza and the Roure Foundations .

Economic contributions

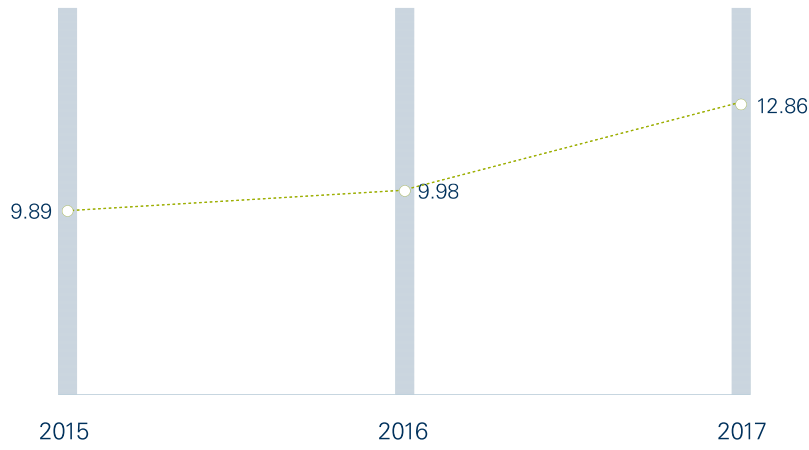
Economic contributions to social investment programmes are another important part of the Gas Natural Fenosa commitment. In 2017, they totalled 12.86 million euros.

The aim of the company is to generate a higher corporate commitment to society of which it forms a part. The programmes to which these resources are therefore allocated form part of the business development strategy.

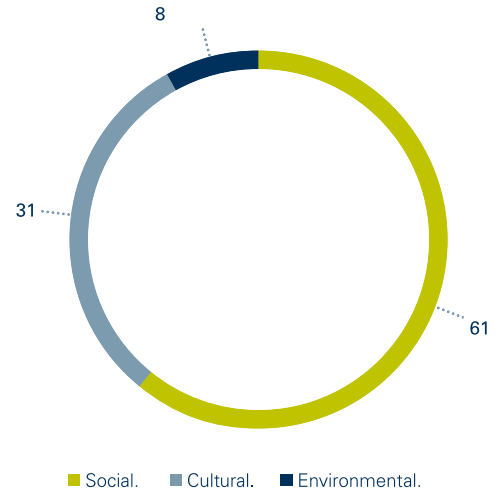
In order to measure the results, Gas Natural Fenosa has tools for assessing the reputation of the social

programmes it carries out. As in previous years, in 2017 it continued to use the London Benchmarking Group methodology (LBG), which offers an overall view of social investment and enables a comparison of the results obtained with those of other companies.

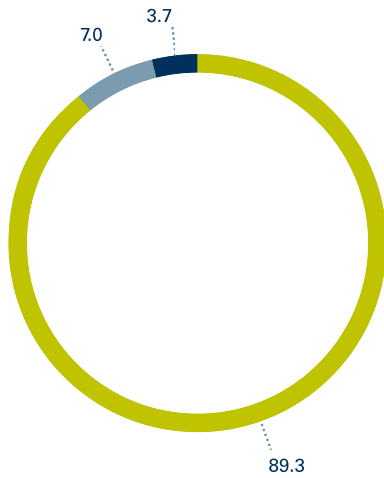
Evolution of contributions (millions of euros) (updated)



Breakdown by type of action (%)



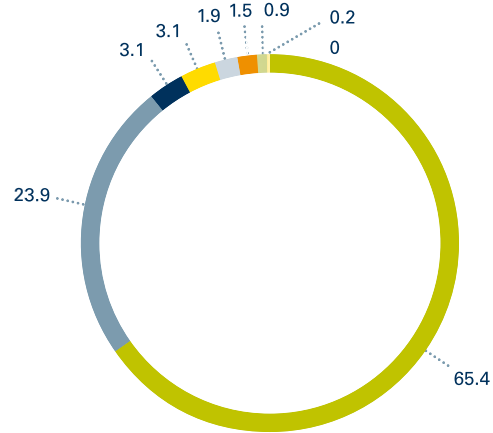
Motivation for initiatives (%)*



- Social investment.
- Specific contribution.
- Business-related initiatives.

* London Benchmarking Group methodology (LBG).

Area of action (%)*



- Economic development.
- Art and culture.
- Social welfare.
- Health.
- Environment.
- Research.
- Education and youth.
- Humanitarian assistance.
- Sports.

* London Benchmarking Group methodology (LBG).

Creation of wealth and well-being where the company operates [102-13]

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

- > Energy vulnerability: providing and facilitating access to this basic service for those populations with limited resources, in areas where the company is present.
- > Relationship with communities: ensuring fluid dialogue and being aware of the social impact the company's business has.

- > Social action: developed through the Latin America Integrated Operational Centre (COIL) through the strong presence the company has in this area. Three model social action programmes have been defined. The idea is for them to be aligned with the company's business as well as catering to the different stakeholders with which the company has relations.
- > Sponsorship, patronage and donations: through which the company supports projects and initiatives that generate value for society and, in turn, strengthen the company's social commitment.

These values are based on support for culture, social causes and the environment. The adoption of these

values is channelled through the different sponsorship and activity initiatives, both of the Gas Natural Fenosa Foundation and Museum of Contemporary Art.

Gas Natural Fenosa actively collaborates with prestigious national and international sectoral and business institutions, in which it participates with its experience, know-how and resources.

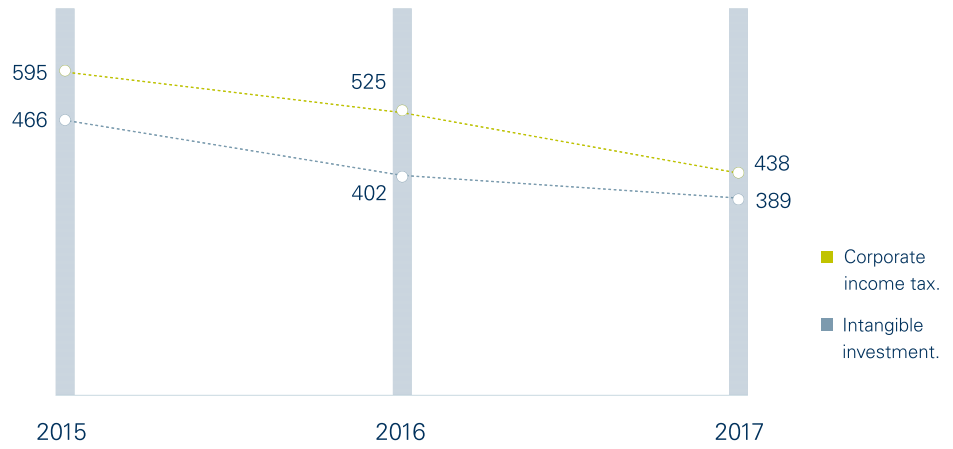
It is also part of the governing bodies of the business federations for the electricity and gas sectors, Unesa and Sedigas respectively, of the International Chamber of Commerce (ICC) and the Spanish Energy Club.

Lines of action

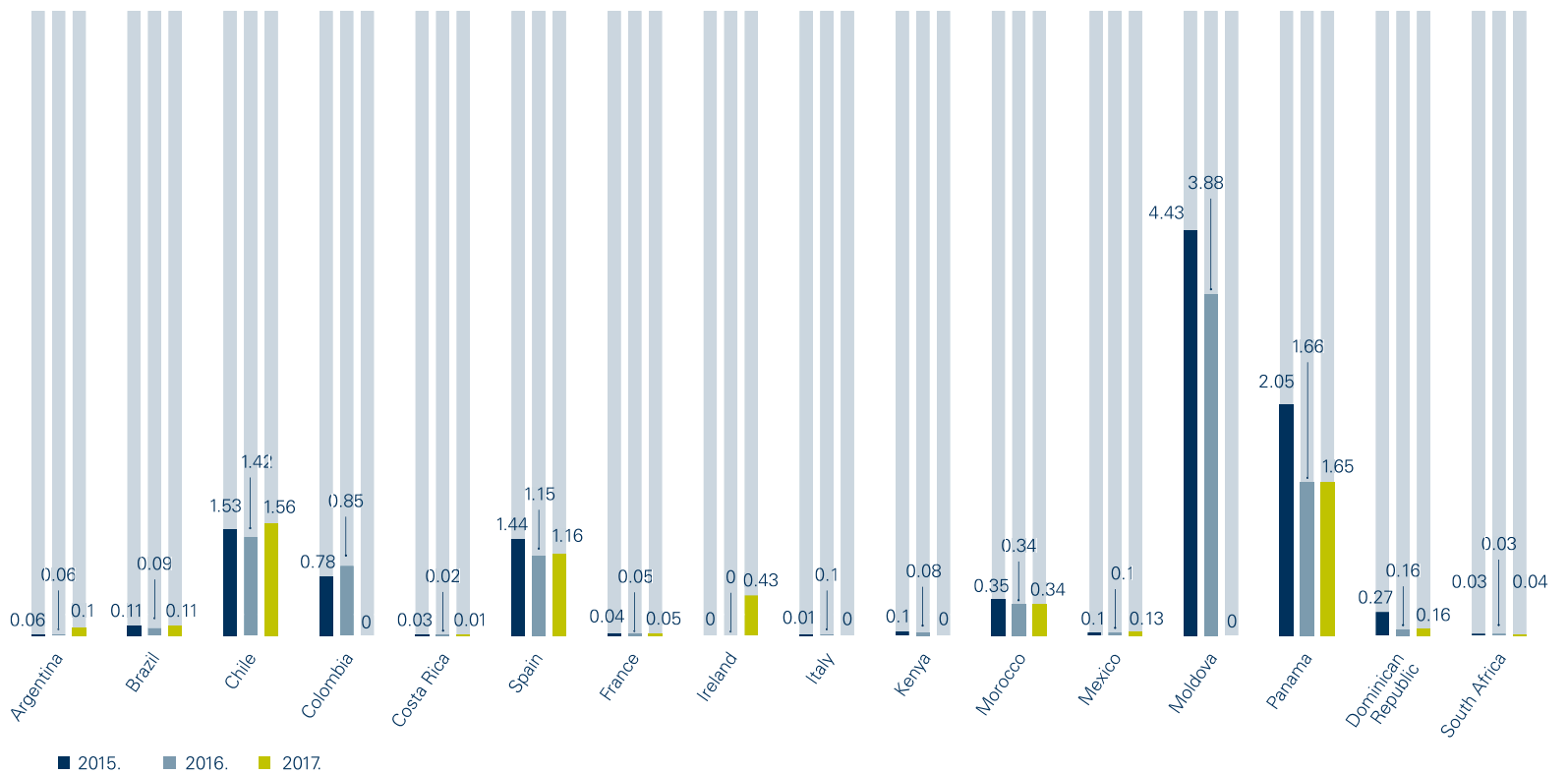


In the field of corporate responsibility, Gas Natural Fenosa is a member of Forética and of the Spanish Association for the UN Global Compact. The company also takes part in the Foundation for Renewable Energy & Environment and in the Corporate Excellence-Centre for Reputation Leadership.

Contribution to society (millions of euros)



Contribution to GDP by country (%)





Energy vulnerability

[103-1], [103-2], [103-3] (Energy access)

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

The company has extensive experience in this regard. Accordingly, the project carried out at Cuartel V in Argentina or the CGE group agreement in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people.

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

Inclusive integral gas supply model (Argentina)

Argentina continues to develop an inclusive model to allow impoverished neighbourhoods access to the gas network.

Together with the Pro-Vivienda Social Foundation (FPVS), the gas network continued to spread to more than 10 other neighbourhoods in the Partido de Moreno district. The expansion projects will continue over the next few years, which will enable the company to reach a higher number of families. Residents of these neighbourhoods have certain advantages with regard to other customers, ranging from the distribution of bills by people within the communities, to the possibility of receiving a different treatment with regard to payment of monies owed, among others.

Within the framework of the FPVS, there are currently four trusts: i) the "Solidarity Net" neighbourhood trust, with 2,871

homes connected to the network and around 41,419 metres of external network instructed; ii) the "Neighbours Union" neighbourhood trust, with 450 homes connected to the network, and some 9,905 metres of external network constructed; iii) the "Union of Neighbours in Action" neighbourhood trust, with 1,732 homes connected to the network and some 50,641 metres of external network already constructed; iv) the "Neighbourhoods of Union and Future" neighbourhood trust, with 360 homes connected to the network and some 15,600 metres of external network constructed.

In global terms, since its inception, more than 29,000 people have benefited from this programme and have achieved access to cleaner energy thus increasing the value of properties, thanks to the overall construction of 140 km of gas network here. The investment made since the start of the initiative totals 1,648,000 euros.

Within the framework of other gas supply projects in impoverished neighbourhoods we should mention La Loma, Rayo de Sol, El Hornero and Santa Catalina neighbourhoods (31,000 metres of network and a potential market of 1,500 homes) in the district of Marcos Paz; and El Molino, Illia, Aguaribay and El Quijote neighbourhoods (59,000 metres of network and a potential market of 1,800 homes) in the district of Moreno. These works to extend networks are being developed as part of the investments set out in the Integral Tariff Review agreed with the National State in 2017.

Aware of the limitations in accessing credit to adapt the internal gas facilities of impoverished homes, at Gas Natural Fenosa we have been working on introducing proposals that allow these homes to gain access to the service. Thus, we have introduced the following actions:

- > An agreement with the municipality of Pilar to facilitate the internal adaptations of homes that fall within the network but which have not yet been connected, by means of a microcredit granted by the municipality.
- > As part of the "Procrear Better Home" programme, the Secretariat of Housing, which reports to the Ministry of the Interior of the Nation, and Gas Natural Fenosa launched a credit facility for those homes with income of up to three times the adjustable

minimum wage. The credit, payable over 60 monthly instalments with a total financial cost of 18.23%, is available in the 30 municipalities where the company provides a service. At the end of 2017 there were already 1,137 homes connected, as well as more than 3,000 works in process.

- > Together with Banco Ciudad, at the end of the year a specific credit facility was launched to promote the connection of homes to the natural gas network.

CGE group (Chile)

In 2017, at CGE, a multi-area project was consolidated that allowed the sustainability strategy to be defined in line with the commitments taken on in the Corporate Responsibility Policy.

In order to generate effective work with society and thus strengthen the company's reputation, the "CGE Experience" was developed between the community and the company, together with the development of shared value projects that contribute to the business and improve the quality of life of our neighbours and customers.

The company has focused great efforts on improving ties with neighbours through regular meetings and joint projects that have allowed trust to be generated.

The company has collaborated with different educational players to take advantage of electrical expertise, providing

value to society and to the business through the support of professional technical schools, dual training, electrification of settlements, educating suppliers, customers, training in energy efficiency and in particular our partners through our occupational health & safety project.

Focusing on emergencies, and due to our presence throughout Chile, many of the natural phenomena that affect the country also affect our neighbours and the company operations. This is why works have been carried out proactively in collaboration with different local organisations that work in these fields to contribute to the resilience of the territory and to support institutions and the population at large in addressing these issues.

This is why, during 2017, the company has worked with the fire brigade, the government and civil organisations, training them on how to intervene in an emergency when there is live electrical infrastructure. Two seminars were developed on this matter, which were attended by 530 attendees in the cities of Rancagua and Talca.

The company has focused on improving ties with neighbours through regular meetings and joint projects that have allowed trust to be generated.

Authorities

259 authorities visited.

926 meetings with authorities.

Community

444 meetings with neighbourhood associations and community unions.

7,749 attendees.

110 municipalities addressed between Arica and Temuco.

Workshops

926 participants at consumer workshops (Conadecus-Odecu).

1,761 trained fire-fighter volunteers.

1,110 persons at settlements workshops.

404 students benefiting from education programmes.

Providing vulnerable customers with access to energy

Gas Natural Fenosa is sensitive to the different issues and situations that can cause difficulty in paying for the supply. For this reason, the company uses a range of mechanisms to ensure the supply is not cut off, thus protecting vulnerable customers. These mechanisms include payment by instalments, applied in specific situations.

The company has always pursued a proactive policy against energy poverty, which covers more than 94% of its customers in Spain, based on agreements and on cooperation and information from the municipal social services.

To date, the administrations have forwarded the company's 31,582 cases of vulnerable customers, from 1,786 towns and cities throughout the country, and we have managed to prevent cutting-off the supply because of non-payment.

In 2017, in Spain, Gas Natural Fenosa carried on signing agreements to protect vulnerable customers with different administrations to prevent cutting off customers that social services had reported as being vulnerable. In these cases, the company provides operational solutions for payment of its bills through the mechanisms that the authorities use in cases of social emergency. During 2017, agreements were signed with:

- > Junta de Extremadura Regional Government.
- > Government of Aragon.
- > Galician Federation of Municipalities and Provinces.
- > Provincial Council of Cadiz.
- > Salamanca City Council.

In total, 20 agreements have been signed by Gas Natural Fenosa, the aforementioned ones and those signed during previous years and which have been extended during 2017.

International initiatives to provide energy access to vulnerable customers

Brazil

There is an unbundled tariff called the Social Tariff. This tariff is a little cheaper for initial consumption bands and applies to families who, through specific documentation, can check whether they are recipients of aid programmes from the federal government for the low-income population.

Mexico

Gas Natural Fenosa offers customers payment by instalments through systematic home visit campaigns. Around 70,000 agreements are reached every year where the customer signs an agreement for payment that is split into the system of instalments paid on subsequent gas bills.

Moldova

The company works with customers individually based on their request. Payment arrangements are made and the customer can pay off their bill or debt during the period agreed. The periods are for a maximum of 18 months.

Italy

The electricity bonus is a discount on the bill introduced by the government and implemented by the electricity authority, water and gas supply system, and with the cooperation of municipalities, to ensure savings in energy expenditure for families in situations of economic and physical discomfort, as well as large families.

Families are entitled to the economic hardship bonuses if they have an Equivalent Economic Situation Indicator (ISEE) no greater than 8,107.5 euros or large families with an ISEE not exceeding 20,000 euros.

The physical discomfort bonus is provided for cases where serious illnesses require the use of power-driven medical devices.



Energy Vulnerability Plan in Spain

During 2017, Gas Natural Fenosa developed and implemented an Energy Vulnerability Plan throughout Spain to protect vulnerable customers.

The plan aims to intensify the actions that were already being carried out, to systematise the management of vulnerable customers and strengthen collaboration with government and tertiary sector organisations.

The objectives of the plan are:

1. Improve management and customer relations in cases of energy vulnerability.
2. Streamlining the exchange of information with town and city councils for better identification of situations of vulnerability.
3. Implementing activities with associations that work to alleviate energy poverty cases and to detect vulnerabilities.

To do this, Gas Natural Fenosa has launched a specific package of 20 measures with a financial endowment of 4.5 million euros and a team of 60 employees. The initiatives are both of an operational and social nature, allowing us to conduct comprehensive monitoring and development towards energy vulnerability.

Operational initiatives

- Making the system for splitting the debt flexible, removing the initial instalment and extending the repayment period for up to two years, and increasing the minimum amount of debt that activates the supply cut-off.
- Commissioning the Specific Unit to deal with vulnerability, as well as a Special Collectives Management Group to perform exhaustive and close monitoring of all customers who may be vulnerable.
- Free phone helplines for vulnerable customers (900 724 900), municipal social services (900 104 559) and third sector organisations (900 444 000) to develop actions against energy poverty.

- Support for social services, the area where most work is required to help the vulnerable public.
- Awareness training for employees and collaborating companies about potential situations of vulnerability, and implementing a proactive review of the records of potential vulnerable customers.

Social initiatives through the Gas Natural Fenosa Foundation

- Energy School: an initiative launched to fight energy poverty through training and information. Through travelling sessions, we will work on issues related to energy efficiency or optimisation of bills, among other issues, to minimise the impact of energy costs on the lives of the most vulnerable.

It provides support to public administrations and the third sector in their fight against energy poverty. It provides training and practical tips to optimise the energy bill. There are four key aspects: bills and contracting, energy efficiency in homes, consumption habits, social allowance and other aid.

It is particularly targeted at managers of social action and social workers of the public administration, members of social action against poverty enterprises, coordinators of associations of vulnerable groups, NGOs and not-for-profit associations, and vulnerable families. In 2017, the School visited for autonomous regions, with attendance by more than 1,200 people.

- Agreements with the third sector: the aim of this initiative is to sign agreements with third sector enterprises for the performance of projects to improve the energy of homes and their facilities, as well as training to technicians and volunteers given by the Energy School. In 2017, collaboration agreements were signed with the Spanish Red Cross, Spanish Cáritas and La Esperanza and Roure Foundations.
- Corporate Energy Volunteer programme: this programme seeks to promote corporate social volunteer work among employees of Gas Natural Fenosa in energy issues.



Energy Vulnerability Plan in Spain (continuation)

Specifically, the duties of the volunteers will be: to advise and accompany social workers and/or families in a vulnerable situation; provide solutions for savings in the cost of energy of these families; facilitate payment of their bills and encourage efficient consumption habits; explain the processes necessary to obtain the social allowance and other aid, and provide tools and knowledge so that both workers as well as families can acquire autonomy in the management of energy, as well as the handover of energy efficiency kits personalised for each home. This energy volunteer work is performed in partnership with the Red Cross. This programme, which started in the third quarter of 2017, already has 310 volunteers.

- > Energy efficiency actions in vulnerable homes: this line of work includes the publication and dissemination of the study "Express Re-habilitation for Vulnerable homes. Low-cost Solutions". 1,500 copies have been published and these have been distributed to public institutions, NGOs, enterprises in general related to housing and energy vulnerability. This study includes more than 76 rehabilitation measures that involve improvements in the homes and, therefore, that increase the quality of living for vulnerable customers.

Relationship with communities

[413-1] and [413-2]

Gas Natural Fenosa, under its Policy on Human Rights, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Gas Natural Fenosa has a method based on the measuring impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company bases its relationship with communities on the following principles:

- > Identifying communities affected by the company's activity, and finding out their needs and aspirations.
- > Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- > Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure

that enables us to listen to their concerns and questions as well as benefit from their contribution.

- > Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- > Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in those locations where

the company is looking to carry out new investment projects. These assessments measure a range of impacts, including the impact on human rights.

Bujagali hydroelectric power station (Uganda)

During 2017, we continued with the implementation and development of programmes derived from social impact assessments conducted in 2012 in the hydroelectric power station operated by a subsidiary of Gas Natural Fenosa, Operación y Mantenimiento Energy.

The social impact project of the Bujagali hydroelectric power station celebrated its fourth anniversary since its launch in 2013.



Programmes deriving from the project at the Bujagali hydroelectric power station (Uganda) in 2017

Local procurement.

This aims to encourage people to buy from local suppliers, taking sustainability criteria into account in their selection and assessment. During 2017, we continued to develop a broad base of local suppliers that provide products and services necessary for the operation of the plant.

Development of suppliers.

Gas Natural Fenosa provides training and advice (on tax, safety and accounting aspects, *inter alia*) to local suppliers in order to adapt themselves to the needs of the company. In 2017, the same 12 companies as in 2016 remained in this programme, and they have received some kind of aid or training to improve their quality, technical level and efficiency. The initiative to improve road safety continued to be implemented, with the participation of almost 1,400 students from neighbouring schools on courses to raise awareness about road safety and first aid.

Health and prevention.

Its objective is to improve the resources available to meet the health needs of plant employees and the community, and simultaneously reducing days missed due to health, thus, increasing productivity. The programme is aimed at raising awareness on issues related to health,

prevention and early detection of diseases. In 2017, two medical camps were organised, which represents the sixth medical camp for the local population in the area, where training and diagnosis of diseases activities were conducted. More than 2,500 people benefited from this initiative. Company personnel also benefited from a range of actions to raise awareness about health-related issues.

Training.

In collaboration with local educational institutions, the aim is to provide access to training programmes for young people in the area, in order to improve their qualifications and simultaneously have people in the catchment area of the plant with the training and skills in line with the needs of Gas Natural Fenosa. In recent years, approximately 120 students have benefited from this programme and 2017 the top five students were awarded a scholarship at the plant.

Fight against energy poverty.

This is a programme to address one of the main demands of the community. Since it is not possible to directly provide the electricity produced in the area to its inhabitants, agreements were established with certain organisations, to provide renewable generation sources such as sunlamps.

Bií Hioxo wind farm (Mexico)

The Bií Hioxo wind farm is a wind energy generation project that produces 234 MW. It comprises 117 wind turbines and is located in Juchitán de Zaragoza, Oaxaca (Mexico). The project began commercial operations in October 2014.

Gas Natural Fenosa, according to its firm commitment to respect human rights and specifically the traditional ways of life, has consistently worked with the

community and, additionally to the project itself, generated wealth, and implemented actions that contribute to improving the living conditions of the inhabitants of the area.

Having identified the needs of the community by the project, the company is developing several programmes for various stakeholders based on five lines of action: health, education, infrastructure, production projects and environment.

We should point out that following the 8.2 magnitude earthquake on 7 September that affected Juchitán, as well as the one on the 23rd of the same month and the constant after-shocks that have been felt since then, the zone was devastated and the population had new and different needs, and for this reason we have introduced new projects.



Programmes derived from the Bií Hioxo wind farm project (Mexico) in 2017

Support for fishermen.

Bií Hioxo handed over vouchers for materials to the four fisherman cooperatives, and these were then exchanged for materials of their choosing and which help them in their productive activity. A total of 251 fishermen benefited.

Support to fireman.

Because of the great work that the fire brigade carries out in the municipality of Juchitán and its environs, this year they have been supported with two external automatic defibrillators. These are used to revive the heartbeat in the event of cardiac arrest. In addition, we covered the cost of repairing two motor units, an ambulance and the fire engine. These need to be in excellent conditions in order to be able to offer emergency services.

Collaboration with the municipal IDF.

On the occasion of Children's Day, 30 April, Bií Hioxo provided the System for Integral Development of the Family (IDF) with 16 bicycles that were distributed at the events carried out by this institution and municipal agencies.

Improved relations with owners.

For the purpose of maintaining close, clear and objective relations with the owners, preserving the reputation of the project and showing that local personnel and representatives of the same are open to listening and to dialogue with them, on 10 May there was a meal to entertain the owners and their wives.

From June to September there was a participative diagnostics session that revealed data for a new strategy that was closer to and more concerned with the people of Juchitán.

Education.

As a way of getting even closer to the educational institutions, three collaborators of Bií Hioxo took part as speakers at the Second Regional Fair of Electrical Engineering of the ITISTMO on 8 and 10 May 2017. The subjects presented were:

- > "Control of reactive power at the Bií Hioxo wind farm"
- > "Structure of the electricity market in Mexico"

Alongside the foregoing, primary schoolchildren visited the wind farm for the very first time. The 20 schoolchildren belonged to the Private Primary School Nido de Sócrates. This activity provided relevant information about the operation of wind turbines and wind power.

Environment.

In partnership with the Juchiteco Ecological Forum, 12 travelling workshops on environmental education took place. The activities were targeted at young persons, primary schoolchildren and secondary school adolescents. 420 young persons took part.

The aim was to ensure that environmental care and preservation information reaches more people and is then passed on among people close to the workshop participants.



As a consequence of the aforementioned earthquakes, the following activities have been introduced and promoted:

Distribution of post-earthquake food parcels.

2,500 food parcels were delivered. The distribution was firstly to the collaborators, both internal and external, the areas closest to the plant, Seventh Section and Playa Vicente. Later the areas rated by the Mexican Wind Energy Association (AMDEE) as priority were covered, and finally those areas that had not been covered.

In total seven municipalities received help - eight communities, linked to around eight bodies, including organisations of civil society (MEXFAM, Origen Foundation), companies belonging to the AMDEE: ZUMA energía, Grupo México, Iberdrola, EDF, Acciona, etc., governmental organisations (National Commission of Protected Natural Areas, Federal Commission for the Protection of Health Risks, Government of Oaxaca state).

In total approximately 10,000 persons were attended. Support was provided to all the owners of Fuerza y Energía Bii Hioxo and on a couple of occasions at least the entire workforce of collaborators.

The following activities were carried out in December:

Finances workshop: this workshop took place on 14, 15 and 16 December, between internal and external collaborators, owners and family members. The objective was to provide tools to enable people to better use their monetary resources.

Structural review of houses: between 14 and 20 December, the Site Construction Managers (DRO) reviewed approximately 250 homes belonging to internal and external collaborators and owners to validate the types of damages that the properties had. The findings of this review are expected to provide data to be able to channel specific aid at the population affected by the earthquakes of September 2017 and their after-shocks.

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.

Nairobi thermal power station (Kenya)

Since 1997, Gas Natural Fenosa participates in the electricity production market in Kenya through the Nairobi South power station that has 109 MW of installed capacity.

In addition to the management of the station, the company has a community action programme in low-income neighbourhoods "slums" surrounding the centre.

In 2017, we continued to collaborate with neighbouring districts to continue the implementation of the programmes. The collaboration between local authorities and neighbourhood committees was key to the success of the projects.

These programmes have continued to improve the view that local residents have of the company, progressively appreciating the importance of a clean environment.

Torito hydroelectric power station (Costa Rica)

Gas Natural Fenosa, through its subsidiary in Costa Rica, Union Fenosa Generadora Torito, which operates a 50MW hydroelectric power station, built with own resources between 2012 and 2015, continues to support communities in the catchment area of the project in the field of environment and education, through the Gas Natural Fenosa Foundation.

Specifically, the actions are part of the development of the Blue Flag Ecological Programme (PBAE) in three schools, with about 250 children in total, which are close to the Torito hydroelectric power station.



Programmes derived from the thermal power station project in Nairobi (Kenya) in 2017



Educational initiatives.

The company provides grants to students without resources to go to university and donates books for subjects in higher education. In 2017, eight students were awarded grants, and 25 had the possibility of work experience at the plant itself.

Health campaigns.

Campaigns focusing on improving the health of employees and their families were conducted, such as the diagnosis and prevention of diabetes, cancer and cardiovascular disease, awareness days and nutrition programmes campaigns. All employees and some of their spouses participated in a health and well-being programme that included a full medical examination. We have established a system of recognition and motivation, through which employees are encouraged to make suggestions to improve employee health and safety.

Environmental protection.

Involvement in conservation, cleaning and awareness. Through planting trees, cleaning up the slums around the plant and awareness of environmental protection and waste separation. In 2017, the company

partnered with Kenya Forest Services for the third year running and planted 1,500 trees, approximately. Around 4,500 trees have been planted since the beginning of the initiative.

Promotion of local art and culture.

Collaboration, through an annual donation, with the Spanish Speaking Association. The company also participated in several charity events through donations. These included Mater Heart Run, which helps children with heart disease and diabetes to walk in order to raise awareness about diabetes and provide free insulin for diabetic patients.

Donations to vulnerable people.

The company has also donated medical equipment to the children's cancer ward of Kenyatta Referral Hospital.

This programme promotes the environmental education of students and community outreach, as well as the development of school micro-projects to improve risk management, infrastructure, reforestation, health-hygiene, and energy fertilizer.

The benefits of this project are as follows:

- > Improving the social and environmental image for the school.
- > Development of an environmental culture in the educational community.
- > Physical improvements in school infrastructure.
- > School administrative efficiency in environmental sustainability.

La Joya hydroelectric power station (Costa Rica)

In the case of La Joya hydroelectric power station, two essential projects have taken place as part of the Corporate Responsibility of Gas Natural Fenosa:

1. The Blue Flag Ecological programme at the Oriente School of Pejibaye, community located 5 km from La Joya power station. This programme promotes the environmental education of students and community outreach, as well as the development of school micro-projects to improve risk management, infrastructure, reforestation, health-hygiene, and energy fertilizer.

> The benefits of this project are as follows:

- Improving the social and environmental image for the school.
- Development of an environmental culture in the educational community.
- Physical improvements in school infrastructure.
- School administrative efficiency in environmental sustainability.

2. Books for Everyone programme: this programme involves sponsoring schools close to La Joya power station with the supply of study books that have been approved by the Ministry of Education of Costa Rica, thus benefiting 656 children at five schools.

CGE (Chile)

Within the framework of the Integrated Network Management Plan, in 2017 CGE performed work focused on three areas of action: Maintenance Plan, acting on contingencies and community relations.

Of particular importance in the Maintenance Plan is the pole to pole inspection and observations, which in December 2017 achieved a review of more than 410,000 poles from Arica to La Araucanía, together with the incorporation of technology that will enable improvements to the coverage and quality of the observation: drones fly over the lines and consolidate observation information.

As regards the actions on contingencies we can highlight the development of protocols that speed up the recovery of supply and actions to control the risk of brigades and the set-up of a “red telephone” for emergencies pursuant to the Regional Government’s protocol, and the use of this will be extended to regions.

Elsewhere, the Pruning and Felling plan along the rural medium-voltage electricity lines involved works along 7,745 km between the regions of Coquimbo and La Araucanía.

Social action

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

In 2017, once again under the motto “Energy to Grow”, the names of the pillars were renewed, a new programme was created and we continued with the growth and expansion of those that already existed.

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, in 2011 the Latin America Integrated Operational Centre (COIL) of community investment programmes was created. Under the motto “Energy to Grow”, it develops three kinds of projects:

Types of COIL projects

Inclusive business.

Projects that promote the inclusion of the most disadvantaged social sectors through inclusive programmes. For this project type, we continued with the programme called Energy of Flavour, launched in 2016, which aims to promote social inclusion of disadvantaged groups through training linked to gastronomy.

The programme was once again successfully carried out in Argentina, Brazil and Colombia, and Mexico and Panama began to develop it for the first time.

Responsible consumption.

Encompasses projects targeted at providing knowledge about energy in general, safety and efficient use, of both gas and electricity. They also promote environmental stewardship among customers and society. As part of this pillar, the following traditional programmes were carried out:

- Responsible Consumption of Gas, which is being introduced in Argentina, Brazil, Colombia and Mexico in its versions for children and adults.
- Responsible Consumption of Electricity, which is being undertaken in Panama, also in versions for children and adults.

On discovering that the majority of Latin America countries were performing corporate volunteer actions related to caring for the environment and the planting of trees, the COIL Social Investment designed the Sowing the Future programme.

As regards the Responsible Consumption programme, we continued using the Natural Family, in all the group's subsidiaries in Latin America, to transmit the contents of this programme in an educational and fun way for both children and adults.

In addition, we continued with a strong presence on social networks like Facebook, Twitter and YouTube, Natural Family provided tips on safety and the efficient use of gas and electricity, in order to reach a greater number of customers.

Talent promotion.

This pillar promotes projects that foster the studies and access to employment for the children and relatives of collaborators:

- The "Training for Leadership" programme offers the possibility of receiving a leadership training course, taught by the Corporate University of Gas Natural Fenosa, to the children of employees who are finishing their university education. It was implemented in Argentina, Brazil, Colombia, Mexico, Panama and the Dominican Republic. This year, young people from Chile joined the initiative.
- The "Planning your Future" programme provides a financial grant for those who are starting college. The programme was developed only in Argentina.
- The "Natural Vocation" and "Summer Internship" programmes offer participants a vocational career advice or the possibility of work experience in the company in the summer months. The programme was developed only in Argentina.

Social innovation programmes

	Total since the beginning	2017
Responsible consumption (trained children)	1,159,011	68,955
Responsible use (trained adults)	1,168,492	65,123
Inclusive business	285	223
Talent promotion ¹⁾	147	26

¹⁾ Includes the "Training for Leadership", "Planning your Future", "Natural Vocation" and "Summer Internship" programmes.

Patronage and sponsorship

To help develop society through the promotion of culture, art, science or other disciplines, Gas Natural Fenosa provides occasional financial support to specific sponsorship projects and donations. This improves its image and attraction for the general public.

Through the General Regulations on Sponsorship and Donations of the company, the general management principles are established for sponsorships and donations by the company and to define the processes that regulate and control its development. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The regulations also provide priorities, which can be summarised in social action, culture and energy and the environment.

Educational initiatives

As part of its commitment to society, Gas Natural Fenosa develops educational activities for young people on the correct use of energy and sustainable development.

By the same token, the company implemented a wide range of collaboration, participation and sponsorship initiatives with different educational entities in Spain and Latin America.

Social action focused on underprivileged groups

The company drives and support projects targeted at integrating the most vulnerable social groups and to mitigate problems stemming from social exclusion. It therefore collaborates financially with foundations and associations whose corporate purpose is to help mitigate or minimise these problems in some of the countries where it performs its activity.

Promotion of health and research

Among the different programmes in which Gas Natural Fenosa participates to promote research and health, we can highlight research targeted at improving the life quality of the infirm and their relatives, or research into cardiovascular diseases, which are the leading cause of mortality worldwide, through the Procnic Foundation, as well as with the GPACI entity in Brazil, Child Cancer Research and Support Group and collaboration with the Paediatric Network in Argentina.

Promotion of music, theatre and films

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 particular in the case of festivals, through cutbacks in the public aid.

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

Fostering cultural enrichment

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



Gas Natural Fenosa brings the cinema to more than 90 towns in Spain

Since 2013, together with the Spanish Film Academy, Gas Natural Fenosa has offered two Travelling Film Cycles every year: the "Summer Film Cycle" and the "Goya Travelling Film Cycle", which involves the free-of-charge projection of films in cities and municipalities in Spain to disseminate film culture and heritage.

The initiative, now in its ninth year, and which has already had 40,000 spectators, has brought Spanish films to the big screen free of charge to a great many theatres, auditoriums, cinemas, beaches and squares in more than 90 towns and cities where there are no cinemas and which are of commercial interest to the Department of Retail Businesses.

To promote the national productions, the film cycle has the support of directors, actors and actresses that present the films to spectators through an informal talk during the projections. Key among the appearances in the latest cycle include Javier Cámara, Raúl Arévalo, Daniel Guzmán and Belén Cuesta.

- > The Museum of Contemporary Art (MAC) of the Gas Natural Fenosa Foundation is at a time of unstoppable growth with increased numbers of visitors: 50,254 people that attended its exhibitions during 2017 and more than 100 activities designed for all kinds of public.
- > As regards exhibitions, in 2017 we can highlight the work of major female artists of renowned international prestige. There have been exhibitions of the works of Eija-Liisa Ahtila, from Finland, the American Maude Schuyler Clay and the Spaniard Lita Cabellut, whose inauguration was attended by more than 900 people.
- > The Department of Social Action has increased the number of programmes, with one in particular targeted at families with children in a situation of poverty risk and with a total number of users that reached 4,696 and 60 partner entities.
- > Active collaboration with other organisations and institutions of civil society has been one of the basic interests that has come to fruition through the permanent museum located at the Galician Association of Creators.
- > Likewise, the company supports other institutions, such as the National Art Museum of Catalonia (MNAC), the Museum of Contemporary Art of Barcelona (MACBA), the Valladolid Science Museum and the Royal Association of the Queen Sofia National Art Gallery and Museum.



Corporate volunteers and employee participation

The corporate volunteering of Gas Natural Fenosa consists of not-for-profit activities and initiatives promoted by the company in which the employee is involved and gives their time voluntarily.

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

To achieve this, Gas Natural Fenosa has defined the programme objectives in three areas simultaneously -corporate, employees and the environment-, and an integrated structure of committees that includes both the areas of people as well as communication and the environment of all countries that form part of the programme.

Throughout 2017, employees have spent more than 7,025 hours volunteering, featuring participation by 1,755 employees around the world. Worldwide,

a total of 27 environmental volunteer actions, 46 social volunteer actions were carried out along with one energy volunteer action, in which employees contributed their time and their personal and professional skills.

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

Energy volunteer work was incorporated in Spain in 2017, focusing on the fight against energy vulnerability, helping families to improve their situation through the acquisition of energy efficiency habits and savings in their energy bills.

The corporate volunteering of Gas Natural Fenosa aims to be a living initiative that draws on the ideas and proposals of members of both the company and society in general, providing value-added to the company and society simultaneously.

Gas Natural Fenosa Foundation

The Gas Natural Fenosa Foundation, founded in 1992 by Gas Natural Fenosa, and with a presence in those countries where the company is active, is tasked with the dissemination, training, information and raising society's awareness in issues of energy and the environment, as well as the development of business and academic programmes. It also develops Social Action programmes in the national and international arenas, with a particular focus on actions targeted at relieving energy vulnerability. In the cultural sphere, it performs actions targeted at both preservation and dissemination of the historic heritage of the gas and electricity sector, through the Gas Museum and the Bolarque Museum, as well as dissemination and artistic stimulation of society, through the multidisciplinary space of the Museum of Contemporary Art in A Coruña.

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

The international activities of the foundation were developed in nine countries: Argentina, Algeria, Brazil, Chile, Colombia, Costa Rica, Mexico, Morocco and South Africa. 15 programmes were developed, which benefited more than 50,500 people and more than 1,600 companies and institutions.

As regards the Energy Vulnerability Plan, since its launch last April a total of four agreements have been signed with third sector enterprises that were already working with these groups; the Energy School has provided training in four autonomous regions, with assistance

by 1,200 people. As regards the energy volunteer work programme, it already had 310 volunteers at the launch of its first stage in September 2017. As part of the energy vulnerability framework, the Foundation has published a book called "Express Re-habilitation for Vulnerable Homes. Low-cost Solutions", which is a result of a commission assigned to an architect, with a lengthy track record of property rehabilitation, Margarita de Luxán. The book proposes 76 low-cost solutions to rehabilitate vulnerable homes and thus improve the living conditions of properties.

The foundation also promotes cultural activities aimed at the preservation and dissemination of the historical and cultural heritage of the gas and electricity industry, through its Gas Museum, the Bolarque Museum, the Museum of Contemporary Art and its historic archives.

Solidarity Day

In addition to the corporate volunteer actions, we should also highlight the Solidarity Day initiative, created in 1997 and managed by the employees. It involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which Gas Natural Fenosa operates.

For the Solidarity Day event, the company donates an amount equal to the amount donated by employees and assumes all management costs, so that the total amount raised can be used for the annual selected project. Close to 1,500 employees around the world took part in the initiative. Since it began, Solidarity Day has raised over four and a half million euros.

In 2017, Solidarity Day financed the education of over 250 school, technical and university students as part of the ordinary projects being implemented in Argentina, Brazil, Colombia, Morocco, Mexico, Moldova, Nicaragua, Panama, Chile and Portugal.

As well as the ordinary projects, this initiative allows us to perform extraordinary projects of a social nature in Spain, to cover the needs of those groups most affected by the economic crisis. In 2015, we launched a project to fund 800 school meal grants at schools in Galicia, La Rioja and Navarre during the 2015-2016 and 2016-2017 courses and summer 2016.

The proceeds raised by Solidarity Day in 2017 will be used for new educational projects in Brazil, set to begin in 2018.



The Gas Museum has a permanent exhibition that shows the significance that gas has in the development and modernisation of society and also raises the energy challenges of the future. It also has a space used for temporary exhibitions. In December 2017 we inaugurated the new seasonal exhibition called "Welcome to the Nano Dimension", which displays the latest advances in nano-technology and nano-science in the world of energy. The travelling exhibition "Are you Playing? We're Thinking about Energy" has been on show at the Museum of Light in Ponferrada, the House of Science in Logroño and the National Science and Technology Museum of A Coruña.

In September 2017, the Foundation reopened the Bolarque Museum, with a museum-graphic redesign and a new educational programme, turning the complex into a leading educational resource.

It also has an educational programme for schools and performs activities for children, adults and families. The activities are spread throughout Spain, which has involved 51,000 students and has had more than 150,000 users.

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

As regards the Museum of Contemporary Arts in A Coruña, this is a benchmark for modern art in Galicia and the rest of Spain and is currently experiencing growth that has seen 50,254 visitors to the museum. As a cultural agent that is integrated into the current social fabric, it works daily to showcase the commitment that Gas Natural Fenosa has with society through the firm support to education, young persons, social welfare, art, culture and research. In 2017, it showcased the work of major female

artist, with exhibitions displaying their works; and these are: Eija Liisa Ahtila, Lita Cabellut and Maude Schuyler Clay. Together with these artists, Pablo Genovés, one of the most prominent Spanish photographers, presented the exhibition "The Polyphonic Mutations", inspired by climate change. The MAC also performs educational activities and throughout the year it has been visited by 446 groups, reaching 11,972 participants. In the field of cultural activities, a total of 81 activities have been organised, attended by 10,123 persons. 8 artistic residential scholarships have been granted in 2017. The MAC also has a social action programme that seeks to improve the levels of participation and social adaptation of persons with functional diversity and families in a situation of poverty risk. The programmes encompass two prominent areas, namely Art and Social Inclusion and Art and Social Support.



Main international activities carried out in 2017

> Argentina.

Gas Natural Fenosa Classroom Foundation: training to build skills and provide tools to socially marginalised persons to overcome poverty and reintegrate themselves in the job market.

Social Entrepreneur Programme: volunteer initiatives are rewarded. One of the winning programmes was the one called “We Challenge Obstacles with Solidarity and Art,” for the purpose of extending and giving more depth to health prevention and promotional activities.

> Brazil.

Young Cooks: training chefs in an economically-deprived area in the metropolitan area of Rio de Janeiro for subsequent employment.

Training in periodic inspection and gas facilities technicians: training young people in the favelas to help their progress and personal advancement so as to become employed by different companies that provide services to Gas Natural Fenosa in Brazil.

> Colombia.

Young Scientists: this applies guided investigation in the classroom and in cooperative work by introducing new teaching practices in natural sciences in schools in poor areas of the cities of Bogota, Turja and Mosquera.

Training of Mechanics for Natural Gas Vehicles: training young people with limited resources to be specialists in automobile mechanics and vehicles that run on natural gas, to achieve the job skills required.

> Costa Rica.

Blue Flag: environmental education programme that promotes the improvement of quality in environmental education, to achieve development that is sustainable and in harmony with the environment in schools with limited resources in Costa Rica.

> Morocco.

Support to Lerchundi Home, providing a day centre for children at risk where they benefit from dining facilities, personal hygiene, study support, free-time leisure activities.

Presence on the Board of the Tangiers Autistic Centre, founded by the Gas Natural Foundation.

Sustainable development day in Tangiers.

> Mexico.

Boost your Business: training of experts in the installation and repair of household gas, electricity and water services in poor areas of Mexico City, and subsequently help them to find jobs.

> South Africa.

Quedela Secondary School in Mpumalanga: the goal of this programme is to implement a development model that addresses the academic environment, social environment, infrastructures and security of schools in an area with very limited resources.



Refer to the www.fundaciongasnaturalfenosa.org website for in-depth information about the activities of the Gas Natural Fenosa Foundation.

Energytruck

Energytruck is a project launched by the Gas Natural Fenosa Foundation's Gas Museum, which aims to provide society with knowledge related to energy, the environment and industrial heritage.

This is an exhibition that travels throughout Spain, and which simultaneously represents a mobile educational classroom, with teaching activities conducted by specialist educators.

The project aims to contribute to the educational, environmental and cultural development of society, and to discover, in a very visual and interactive way, what energy is and how it can be consumed responsibly.

By the same token, the exhibition looks to the past to discover the historical changes and social progress marked by the arrival of gas and electricity, and also looks to the future to find out how energy will be in a few years.

With the dual system and approximate fuel consumption of 70% diesel and 30% compressed natural gas, the air quality is improved by reducing PM emissions by 39% and NOx emissions 30% compared to a vehicle that only consumes diesel fuel, making the vehicle itself part of the exhibition contents.

Since its launch, Energytruck visited 208 Spanish towns and cities, and a total of 66,128 people, both schoolchildren and adults, have become beneficiaries of this initiative. It has travelled 51,200km from the outset.





Energy School

The Gas Natural Fenosa Foundation organises training sessions of its Energy School for social workers to help them in the fight against energy poverty.

Every year, the training programme aims to train 2,000 social workers from the third sector in good savings and energy efficiency practices, so that they can pass on these practices to persons that need them.

Work is being carried out on issues related to energy efficiency or optimisation of bills, among other issues, to minimise the impact of energy costs on the lives of the most vulnerable.

In addition, the School will publish informative guides and will create a website to provide tips and measures that households can apply to reduce their bill and thus minimise the impact of energy vulnerability.



“Express Re-habilitation for Vulnerable Homes. Low-cost Solutions”

“Express Re-habilitation for Vulnerable Homes. Low-cost Solutions” is a book published by the Gas Natural Fenosa Foundation, written by the architect Margarita de Luxán to provide economic solutions that can be quickly and simply applied in homes inhabited by families in a situation of energy vulnerability.

The aim of this study is to make progress towards possible improvements in the conditions of thermal comfort and in the assessment of heating and cooling energy consumption in homes inhabited by families in a situation of energy poverty or vulnerability, as well as providing low-cost solutions that can be quickly and simply applied and which improve the comfort conditions of these people.

In this publication, the Gas Natural Fenosa Foundation proposes 76 low-cost solutions ranging from 50 to 7,000 euros, to rehabilitate vulnerable homes and which enable the habitability conditions of the properties to be improved. The measures range from the positioning of rugs on poorly insulated floors to the installation of blinds, insulating paints, changing panes of glass or wall insulation, to improve the thermal comfort conditions inside homes.

Activities of the Gas Natural Fenosa Foundation. Spain

	2017	2016	2015
Active agreements with autonomous regions	24	24	24
Seminars/courses held	19	20	20
PPE programme days held	16	28	21
Budget allocation in acts (% out of total)	20	45	35
Publications	1	0	1
Environmental education fact sheets	0	0	1
Articles about Energy and the Environment	3	0	1



International activities of the Gas Natural Fenosa Foundation

	2017	2016	2015
Activities	15	17	16
International activities budget (% out of total)	14	24	23
Countries in which it operates	9	11	10

Every year, the training programme aims to train 2,000 social workers from the third sector in good energy saving and efficiency practices.

2010

Inauguration of the largest VNG station in Europe

The largest vehicular natural gas station in Europe opened in Madrid, providing service to 400 buses belonging to the Empresa Municipal de Transportes (EMT). Thanks to the commissioning of the station and the circulation of public buses that operate on natural gas through the streets of Madrid, we managed to achieve an economic saving for the EMT of 30% with regard to the use of diesel, a reduction of 85% of nitrogen oxide emissions and particles in suspension, and 15% with regard to CO₂ emissions.

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1843
2018

years full of history
and energy





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Integrity and Transparency

Taxation. [Page 355](#)

Human Rights Policy. [Page 358](#)

Gas Natural Fenosa considers that the trust of its customers, its professionals, suppliers and external collaborators, shareholders, investors and funders, regulatory bodies and other market agents and social groups, is based on integrity, which is understood to be action which is ethical, honest, responsible and in good faith of each one of the people who work in and for the group.



Commitments and principles of full responsible action

- > Reject corruption, fraud and bribery in business dealings and establishing measures to prevent and combat them, developing internal channels allowing communication of irregularities while respecting and preserving anonymity.
 - > Comply with national and international laws and standards in force in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the UN Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
 - > Act with responsibility in business management and complying with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.
 - > Compete fairly on the market, not to allow misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
 - > Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's actions and initiatives and to offer a specific response to the information required by the company's stakeholders.
 - > Maintain permanent dialogue with stakeholders through the most adequate and accessible communication channels.
-

Value actions

Proposed actions 2017

Actions of dissemination and communication of the Corporate Hospitality Policy.

Completing the process of declaration of the Anticorruption Policy.

Approval of update of the Human Rights Policy text to concepts and terminology of the UN Guiding Principles on Business & Human Rights.

Planned actions 2018

+ Launching of the Conflict of Interest Policy.

+ Launching of the Compliance Communication Plan.

+ Audit the implementation of the Human Rights Policy.

Approval of update of the Human Rights Policy text to concepts and terminology of the UN Guiding Principles on Business & Human Rights.

Level of fulfilment: + Finalised. + Major progress. + Intermediate progress. + Little progress. + Not started.

Gas Natural Fenosa's contribution to SDG 5: Gender equality

The fifth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that "women and girls represent half of the world's population and therefore also half of its potential. But, today gender inequality persists everywhere and stagnates social progress".

With regard to integrity and transparency, Gas Natural Fenosa operates a commitment to equal opportunities at all levels of the organisation. The company's Code of Ethics, applicable to management and employees, along with the reporting channel, represent the main mechanisms of this commitment, setting guidelines related to respect for people, professional development and equal opportunities.

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

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

With regard to integrity and transparency, Gas Natural Fenosa is committed to guaranteeing decent work at all locations where the company operates. To this end, it applies a Human Rights Policy that sets out, among other principles, the eradication of child labour, freedom of association and providing decent employment. By the same token, we have prepared a multi-year work plan for the ultimate aim of extending ethical conduct to the largest possible number of activities and persons of the company.



Gas Natural Fenosa's contribution to SDG 16: Peace, justice and strong institutions

The sixteenth Sustainable Development Goal (SDG) set by the United Nations Organisation is upheld on the basis that “to achieve the Sustainable Development Goals (SDGs). People everywhere need to be free of fear from all forms of violence”.

With regard to integrity and transparency, Gas Natural Fenosa operates a commitment to integrity, responsibility, transparency and no violence. To this end, the internal mechanisms available are the Code of Ethics, the Criminal Prevention Model, a Fiscal Strategy, a Fiscal Risks Control and Management Policy, and the Human Rights Policy.

Integrity is key to the company's success

[102-16]

Gas Natural Fenosa believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

Indeed, ethics and honesty, to which the company's highest body of administration is committed, are essential pillars of the declaration of the company's mission, vision and values, of its strategic plans, and the Corporate Responsibility Policy.

The company needs to pay special attention to the lack of confidence which has affected the energy sector, in order to improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Gas Natural Fenosa. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

Gas Natural Fenosa faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics.

These elements seek to ensure that the company's activities and those of its employees and suppliers comply with applicable standards and laws in every country in which it operates. They also seek to ensure that all the units and organisations behave impeccably in accordance with ethical values and formal commitments to conduct, and to preventing and detecting any breach in the appropriate time and manner.

Gas Natural Fenosa put in place various corporate integrity programmes to guarantee the above targets. These programmes are:

- > Code of Ethics Management Model.
- > Crime Prevention Model.
- > Antifraud and anticorruption policies and plans.
- > Fiscal policies.
- > Human Rights Policy.

These programmes give rise to indicators for the management, control and supervision of the company's ethical conduct, which makes it possible to measure the effectiveness of the programmes that are in place and develop new improvement plans adapted to the specific needs of the business.

Gas Natural Fenosa faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics.

Code of Ethics Management Model

[102-16] and [102-17]

The Code of Ethics of Gas Natural Fenosa, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Gas Natural Fenosa, in their daily work, with regard to relationships and interactions with all its stakeholders. The principles for the company's employees are related to corruption and bribery, respect for people, professional development, equal opportunities, relation with collaborating companies,

occupational health and safety, and caring for the environment, among others.

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

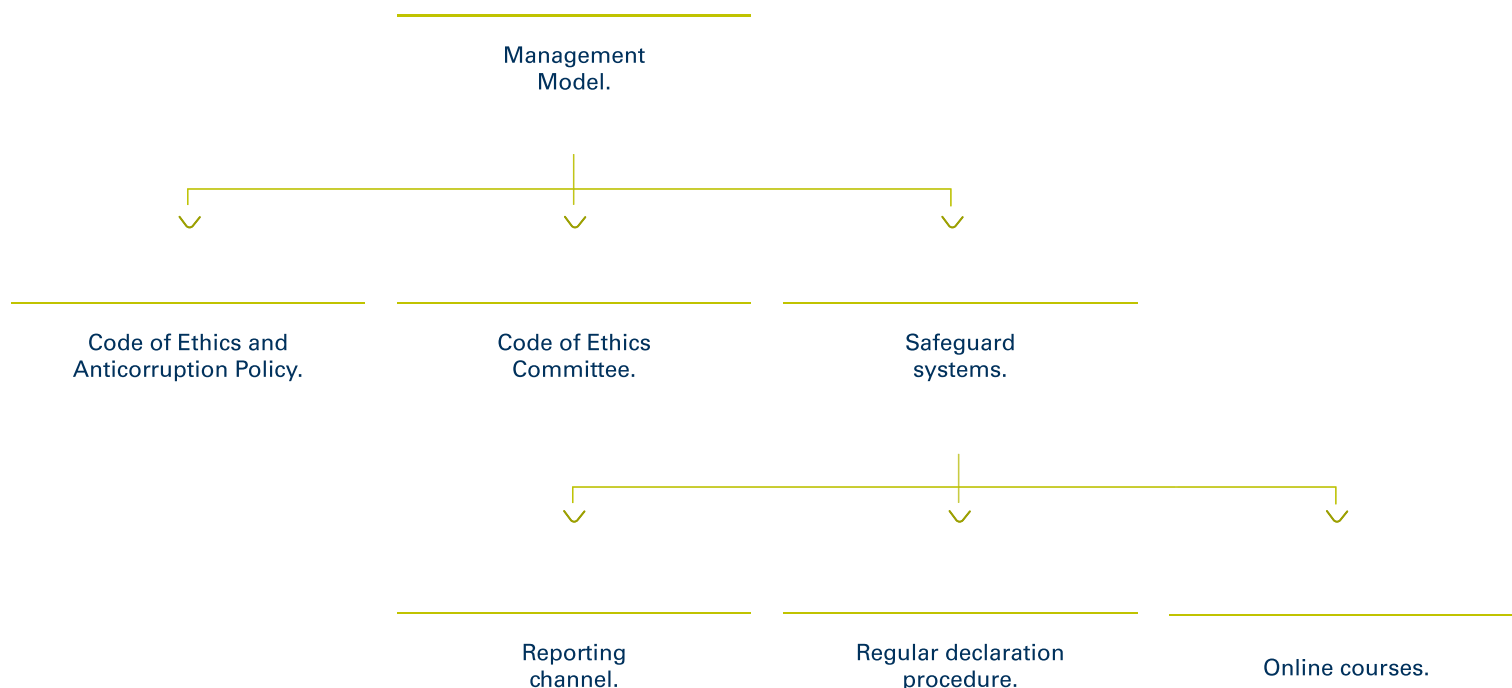
Gas Natural Fenosa also has an Anticorruption Policy, as an extension of chapter 4.7. "Corruption and Bribery" on the Code of Ethics, which establishes the principles which must be used to

guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

The company also has a Code of Ethics and an 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.

The Code of Ethics and Anticorruption Policy provide essential tools to act in an honest, responsible and transparent manner.

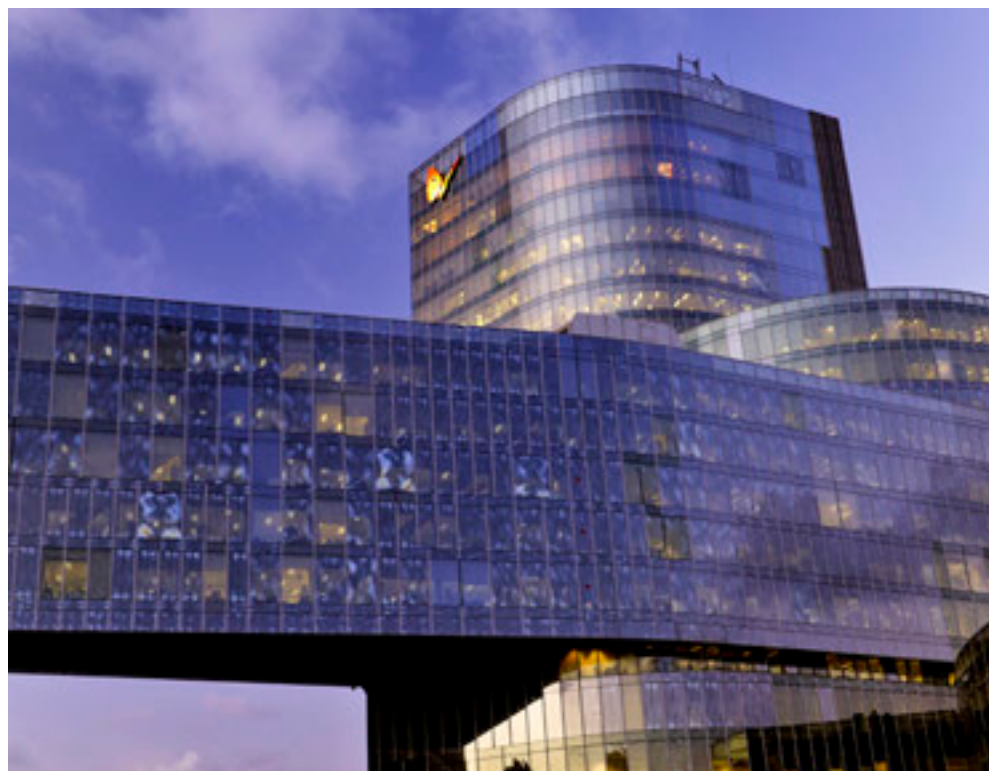
Components of the Management Model



The Code of Ethics Committee, chaired by the Director of Internal Auditing, Compliance and Control that ensures its objectiveness and independence, is responsible for guaranteeing the dissemination and fulfilment of the code through the supervision and control of the safeguard systems. It has local committees in the countries in which the company carries out its major activities. For further information, refer to the "Corporate Responsibility of Gas Natural Fenosa" section in this report.

Safeguard systems are the company's mechanisms for ensuring the fulfilment of the Code of Ethics:

- > Reporting channel, through which all the employees and suppliers can send the Code of Ethics Committee queries or notify breaches of the code, in good faith, in a confidential manner and without fear of reprisal.
- > Annual declaration procedure, through which all the employees repeatedly declare that they have read, understood and comply with the code.
- > Online courses on the issues included in the Code of Ethics and the Anticorruption Policy, mandatory for all employees.



This model also provides that the Audit Committee of the Board of Directors and the Management Committee must receive regular reports from the Code of Ethics Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anticorruption Policy. In 2017, 21% of the notifications received were related to alleged fraud, none of which had any significant impact.

The committee did not receive any notification of incidents taking place in the Gas Natural Fenosa related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights. A total of 28% of the notifications were related to "Respect for people" chapter of the Code of Ethics, and they were all solved appropriately. None of them were related to discrimination.

Queries and notifications to the Code of Ethics

	2017	2016	2015
Queries	37	58	37
Notifications	104	120	98
Total	141	178	135
No. of messages received per 200 employees	1.67	1.92	1.37

Gas Natural Fenosa expects a high level of commitment in fulfilling its Code of Ethics and Anticorruption Policy of all its employees. Therefore, emphasis is placed on transmitting a culture of integrity of the company. Its breach is analysed according to internal procedures, legal regulations and existing agreements.

During 2017, Gas Natural Fenosa managed various disciplinary situations from complaints made to the Code of Ethics Committee, or from situations covered in the Code of Ethics or the Anticorruption Policy. In total, 3 misdemeanours, 3 serious offences and 15 serious offences, of which 14 have resulted in layoffs, were handled.

In 2017, it was not necessary to repair damages relating to impacts caused by human rights cases.

The Code of Ethics Committee also has a multi-year work plan, which includes actions in the short and medium term with the ultimate goal of extending the code to the highest possible number of activities and people at the company.

In 2017, the annual work plan of the Code of Ethics Committee included:

- > Training and informative actions on the Code of Ethics, Anticorruption Policy and Crime Prevention Model targeted at the company's employees.
- > Update of the Code of Ethics and Anticorruption Policy space on the intranet of the company.
- > Launch of the "Declaration of Fulfilment" workflow.
- > External informative actions.

- > Definition and approval of the Code of Ethics internal procedures.
- > Activities for extending the Code of Ethics to suppliers in Spain and abroad.

The company set up local committees in Argentina, Brazil, Colombia, Chile, Italy, Mexico, Moldova, Panama and South Africa. With a structure similar to that of the Code of Ethics Committee, the main mission is to make everyone aware of the Code of Ethics and the Anticorruption Policy and to reproduce the functions the committee carries out in Spain in each country to cover the company's entire area of action. Accordingly, the company guarantees the existence of safeguard procedures in the different countries in which it operates.

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

Code of Ethics chapter to which notifications refers (number and %)

	Queries (number)	Notifications (number)	Total (number)	Notifications (%)
Respect for the law, human rights and ethical values	0	1	1	1
Respect for the individual	2	30	32	28
Professional development and equal opportunities	2	14	16	13
Cooperation and dedication	0	6	6	6
Occupational health and safety	0	5	5	5
Corruption and bribery	11	18	29	17
Use and protection of assets	0	3	3	3
Corporate image and reputation	0	2	2	2
Loyalty to the company and conflicts of interest	20	10	30	10
Processing of information and knowledge	1	1	2	1
Customer relations	0	7	7	7
Relations with collaborating companies and suppliers	1	7	8	7
Respect for the environment	0	0	0	0
Total	37	104	141	100

Received complaint management

	Type of impact	2017
No. of complaints about negative impacts presented through formal mechanisms.	Environment	0
	Labour practices	55
	Society	49
	Human rights	0
Complaints received, investigation opened (%).	Environment	0
	Labour practices	100
	Society	100
	Human rights	0
Complaints received that were solved (%).	Environment	0
	Labour practices	100
	Society	100
	Human rights	0
Complaints about negative impacts filed before 2017 and that were resolved in 2017.	Environment	0
	Labour practices	5
	Society	8
	Human rights	0

Average time for resolving correspondence (days)

	2017	2016	2015
Queries	21	26	25
Notifications	53	83	57
Total	44	63	47



Protocol of investigation and response to irregular conduct and fraud

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

The Gas Natural Fenosa reporting channel, through which all the employees and suppliers can send the Code of Ethics Committee queries or notify breaches of the code, in good faith, in a confidential manner and without fear of reprisal.

The Chairman of the Code of Ethics Committee, once he has received the communication through the Code of Ethics Channel, will enter this into the database, which will include the details of each notification and will perform the initial understanding of the case, which will give rise to the process of analysis and resolution.

Crime Prevention Model

The company has a Crime Prevention Model which is updated annually.

This model incorporates the already established Gas Natural Fenosa internal control structure. Its purpose is to effectively prevent the occurrence of offences under the Organic Law 5/2010 governing the Amendment of the Penal Code. This modification introduces in Spain the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority.

From an organisational standpoint, the Board of Directors has assigned the functions of Autonomous Body, described in Organic Law 1/2015, to the Compliance Assessment Committee, which is responsible for taking significant decisions in relation to the regular monitoring and oversight of the working and compliance with the Crime Prevention Model.

The model contains 21 crimes that have been identified, together with definitions of their impact and probability of occurrence, mechanisms for their control and minimisation, and responsibilities with regard to their fulfilment. It is one of the company's factors of differentiation in the area of integrity, enabling it to prevent crimes that could give rise to legal or other kinds of problems.

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

Worldwide, the group has deployed crime prevention models in countries with laws governing the civil liability of legal persons.

During 2017, we have continued with the training course on the Crime Prevention Model, the Code of Ethics and the Anticorruption Policy in order to emphasise the importance of compliance, ensure implementation of preventive and control activities and to inform all employees of the current status in these matters.

Gas Natural Fenosa attaches great importance to having a tool in order to ensure the adequate control of the crime prevention model management. Accordingly, it manages and uses the SAP GRC Process Control for the comprehensive management of documentation, assessment and oversight of the model.

Antifraud and anticorruption plans and policies

Although fraud and corruption are covered in the crime prevention system, the company worked to improve and update its internal regulations and define specific protocols and mechanisms in this area.

The Gas Natural Fenosa Anticorruption Policy complies with national and international legislation on corruption and bribery, and mainly that dictated by the Spanish Penal Code. Currently, several countries have specific regulations in this area, which establish relevant sanctions for non-compliance.

This policy has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Gas Natural Fenosa with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation. It covers all the actions in this area and avoid conduct that may give rise to fraud or corruption and lead to situations that are damaging for the company, its administrators and employees from a legal point of view or in relation to its reputation.

The policy establishes 14 principles of action, including aspects such as promoting integrity and transparency in the processing of information, money laundering, conflicts of interest and relationships with third parties.

The Code of Ethics establishes guidelines that must govern the ethical behaviour of managers and employees of Gas Natural Fenosa, in their daily work, with regard to relationships and interactions with all its stakeholders.

The focus of the Gas Natural Fenosa anticorruption programme covers three key areas:

- > Establishment of an antifraud and anticorruption culture through training and awareness.
- > Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- > Development of measures and response plans in the event of situations that constitute fraud and corruption. These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Gas Natural Fenosa organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- > Update of the NaturalNet space which concerns the Code of Ethics and the Anticorruption Policy.
- > Publication of information about the Code of Ethics Committee's activities (notifications received, activities carried out, etc.).
- > Training course on Crime Prevention Model, Code of Ethics and Anticorruption Policy.

- > Specific training in relation to the Crime Prevention Model for new employees and administrators.
- > Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.
- > Regular declaration of compliance with the Code of Ethics and Anticorruption Policy.

Likewise, Gas Natural Fenosa has introduced a Corporate Hospitality Policy, within the framework of the Code of Ethics and the Anticorruption Policy. The purpose of this policy is to regulate the conditions in which the directors and employees of Gas Natural Fenosa can accept/offer business courtesies from or to their business counterparts within the framework of performing their professional duties, to ensure effective compliance with the principles of objectivity, impartiality and transparency set out in the Code of Ethics and in the Anticorruption Policy of Gas Natural Fenosa. It was approved by the Chief Executive Officer.

The directors and employees of the group cannot accept or offer, whether directly or indirectly, business courtesies for the purpose of improperly influencing their commercial, professional or administrative relations, whether with public or private entities.

In addition, in all operations involving risk, the company conducts due diligence processes systematically, both for high-risk suppliers, and company relationships with third parties (partners, joint ventures, etc.).

The counterpart due diligence procedure aims to ensure that, across the board, reputational risk and corruption are analysed and assessed efficiently and in a standard way when third parties intervene in business relationships of the companies forming the group.

In the security area, in 2017, there were 7,010 investigation and antifraud cases of action that took place in Argentina, Brazil, Colombia, Panama, Mexico, Spain, Moldova and South Africa. Of these actions 1,198 cases corresponded to planned investigations and antifraud projects in the field of electricity and gas distribution, and a further 5,812 cases were instigated at the request of the different areas and businesses of the company.

All these actions performed by the security area have served to identify acts of malpractice in activities performed by external personnel and employees, as a consequence of which one employee has been removed and 60 workers from collaborating companies. No employees were dismissed for breach of the Code of Ethics.

Furthermore, we managed to recover significant volumes of energy by billing the defrauding party for the energy defrauded, reducing fraud in the sphere of electricity and gas distribution, more specifically 5,016,619 KWh of electricity, which led to an amount recovered of 824,317 euros and 6,216,000 m³ equivalent to 4,608,620 euros.

* The amount of 4,608,620 euros corresponds to the estimated amount of gas not invoiced, and the amount actually billed was 2,322,042 euros, and 2,286,578 euros corresponds to estimated gas not yet billed.

Taxation

Fiscal Strategy and Fiscal Risk Control and Management Policy

[201-4]

At its session on 9 January 2018, and with the favourable report from the Audit Committee, the Board of Directors approved the Fiscal Strategy and the Fiscal risks Control and Management Policy, which regulates the basic principles that must guide the fiscal function of Gas Natural Fenosa, as well as the key action lines to mitigate and guide proper control of fiscal risks.

The basic principles that govern the Fiscal Strategy are as follows:

1. Responsibility in compliance with tax obligations.

2. Low fiscal risk profile.
3. Take-up of fiscal treatments on the basis of economic reasons.
4. Transparency of fiscal information.
5. Cooperation with the Tax Authorities.

By the same token, the basic lines of the Fiscal risks Control and Management Policy are as follows:

1. Clearly defined fiscal governance.
2. Procedures for control of the fiscal risk resulting from compliance.
3. Procedure for the assessment and control of uncertain fiscal treatments.
4. Supervision of the workings of the Fiscal Control Framework.

5. Regular information on the fiscal situation given to the Board of Directors.

All these fiscal policies of Gas Natural Fenosa are aligned with:

- a) The Corporate Responsibility Policy of Gas Natural Fenosa, which sets out one of the commitments and principles as that of "acting responsibly in management of businesses and complying with fiscal obligations in all jurisdictions where the company operates, undertaking the commitment to transparency and collaboration with the corresponding tax authorities".
- b) The Code of Ethics of Gas Natural Fenosa which sets out that "all group employees must comply with prevailing laws in the countries where they perform their activity, in accordance with the spirit and purpose of the same and behaving ethically in all of their actions".

The group has a General Fiscal Control Framework Standard which has been designed pursuant to the guidelines of the Organisation for Economic Cooperation and Development (OECD) for multinational companies, as well as the design and implementation of a Tax Control Framework.

c) The Code of Good Tax Practices (CBTP) approved on 20 July 2010 by the plenary session of the Large Companies Forum, a body made up of the Spanish Tax Authorities together with leading Spanish companies, including Gas Natural SDG, S.A. This Code of Good Tax Practices contained recommendations from the tax authorities, voluntarily assumed by Gas Natural Fenosa, aimed at improving the application of the taxation system through increased legal certainty, the reduction of litigation, reciprocal cooperation based on good faith and legitimate expectations, and the application of responsible fiscal policies.

To ensure that the tax practices of Gas Natural Fenosa are based on these principles, the group has a General Fiscal Control Framework Standard which has been designed pursuant to the guidelines of the Organisation for Economic Cooperation and Development (OECD) for multinational companies, as well as the design and implementation of a Tax Control Framework.

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.

Tax havens

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. At 31 December 2017, this shareholding is in the process of changing its registered address to Puerto Rico.

- > 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. On 12 January 2018, the liquidation of the company and its dissolution will be completed with the effective removal from the public register of companies within three months of this date.

The only intra-group operations carried out with these companies concern dividends received as indicated:

Recipient company	Distributing company	Amount (thousands of euros)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	49,504

Fiscal contribution

Gas Natural Fenosa is acutely aware of its responsibility towards the economic development of the countries in which it operates. The taxes it pays represent a significant part of the economic

contribution in those countries in which it operates. Accordingly, Gas Natural Fenosa 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.

Country	First-party taxes						Third-party taxes									
	Profit tax ¹		Others ²		Total		VAT		Taxes on hydrocarbons		Others ³		Total		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Spain	112	199	537	512	649	711	845	1,007	342	352	228	229	1,415	1,588	2,064	2,299
Argentina	15	10	67	42	82	52	19	13	-	-	34	22	53	35	135	87
Brazil	51	38	68	49	119	87	68	58	-	-	3	9	71	67	190	154
Colombia	60	75	57	78	117	153	-	7	-	-	11	14	11	21	128	174
Chile	101	42	11	11	112	53	81	117	-	-	22	18	103	135	215	188
Mexico	66	31	4	3	70	34	57	39	-	-	19	11	76	50	146	84
Panama	10	89	9	7	19	96	-	-	-	-	4	3	4	3	23	99
Rest of Latin America	8	12	1	1	9	13	4	2	-	-	4	3	8	5	17	18
Total Latin America	311	297	217	191	528	488	229	236	-	-	97	80	326	316	854	804
Italy	4	19	7	7	11	26	27	27	35	42	5	5	67	74	78	100
Others	11	10	28	23	39	33	143	128	76	49	9	6	228	183	267	216
Total	438	525	789	733	1,227	1,258	1,244	1,398	453	443	339	320	2,036	2,161	3,263	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 260 million euros in 2017 (244 million euros in 2016), 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.

Human Rights Policy

[103-1], [103-2], [103-3]
(Human Right Policy)

The company is acutely aware of the society's growing demands concerning human rights, and takes into account, above all, the growth in international activity which has led the company to operate in certain areas where the protection of human rights is particularly important.

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. The Human Rights Policy defines and precisely establishes how the company believes it has to include these principles in its business management.

Since 2011, Gas Natural Fenosa has a Human Rights Policy approved by the Management Committee, which is the company's supreme body in issues of human rights.

The policy has been developed and approved in response to society's growing demands. It is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Gas Natural Fenosa undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.



How the Human Rights Policy is prepared

The policy began to be prepared in 2010, when the human rights policies of relevant companies and of the most important international requirements were analysed. The risks which affect Gas Natural Fenosa's business and the commitments to human rights were defined.

To ensure that the analysis was as rigorous as possible, the information about perceived risk was cross-checked with directors of 14 countries, and this was used to draw up the first draft of the policy. Once it was finished, five specialised and independent human rights

organisations were consulted and an internal consultation process was performed with members of Gas Natural Fenosa's Reputation Committee.

The policy was approved in 2011, and subsequently a communication and training model was designed to disclose its commitments and fields of application.

An independent third party and the Internal Audit Area also verified the degree of implementation of many of the critical commitments of the policy.

Its compliance is horizontally integrated in the company and is the responsibility of each one of the business areas.

The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the UN Guiding Principles on Business and Human Rights. It is also focused on the most important principles which have the greatest impact on the company's business.

During 2014, the policy was exhaustively analysed in order to ensure that it was completely in line with the said guiding principles.

The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity. Towards the end of 2017, the course had been completed by 10,132 people¹.

As indicated in the policy, the company is actively taking steps to include human rights matters in the process of analysing new investments, introducing this variable in any assessments of social impact.

¹ The decrease in the figure reported 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.

In 2017, 1,018 security officers provided an active service in Argentina, Brazil, Chile, Colombia, Egypt, Spain, Mexico, Moldova, Panama, Dominican Republic and South Africa, and 631 of them (61.94%) took part in the various refresher courses on private security.

Regarding training and fulfilling the contractual article concerning the updating of knowledge and forms of action in respect of human rights, in 2017, 579 security guards (56.88%) participated in courses of this nature, totalling 3,306 hours.

Training on human rights focuses on the characteristics of each of the countries in which Gas Natural Fenosa has contracted the services of security guards and the activities performed by the company in each of them, allowing a more specific and effective training.

Therefore, best practices are adopted, taking as reference initiatives such as the Voluntary Principles on Security and Human Rights, and the UN Basic Principles on the Use of Force and Firearms for staff belonging to surveillance and security companies that the company hires.

Gas Natural Fenosa publishes its Human Rights Policy. You can read it on the website (www.gasnaturalfenosa.com)

Non-compliances and fines

[417-2] and [417-3]

Gas Natural Fenosa works actively towards carrying out its business activities in accordance with applicable laws. For that purpose, the company carries out preventive actions with executives and areas of greatest risk and implements the corrective actions necessary to prevent occurrences which could breach the regulations of each one of the countries in which the company operates.

In Spain, in 2017 the Spanish Data Protection Agency opened three disciplinary case files (two of which with GNS and one with GN REDES GLP) for the processing of data without consent of the affected party and for infringing the principle of data quality and inclusion of the same in files concerning assets and credit rating (ASNEF). One of the administrative fines, for an amount of 60,000 euros, was appealed, a further fine for an amount of 110,000 euros is pending an appeal and the last one, for an amount of 36,000 euros, was paid in 2017.

Moreover, the Ministry of Industry imposed two fines for an amount of 600,000 euros each, for non-compliance with the reporting requirements of the State Administration. In addition, the company received a fine of 600 euros and a penalty of 81,500 euros from the Viladecans Town Council for breach of the specifications concerning delay in the deadline for set-up. The first-instance judgement was appealed and is awaiting a decision.

In Chile, SEC (the Superintendency of Electricity and Fuels) has fined the company on five occasions with fines in excess of 60,000 euros. On 19 July, the company received a fine for an overall amount of 62,477.72 euros for breach of some articles of the standard on Live Electricity Facilities, for failing to maintain the line safety distance in a good state of repair. On 23 October the company also received a fine for a sum of 62,477.72 euros for breaching regulations with regard to the supply and use of the organisation's products and services, for lack of maintenance in a range of sectors in the region of Maule caused by the fall of trees that occurred during the storm of June 2017. In addition, on 15 March the company received a fine for an amount of 62,477.72 euros for breaching regulations concerning the supply and use of the organisation's products and services, and on 9 August another fine totalling 62,477.72 euros for a fault on the 110kV S/E line in Taltal.

Furthermore, on 23 March the company received another fine in Chile for an amount of 224,919.79 euros for breach of the regulations concerning the supply and use of the organisation's products and services. With regard to this decision, an appeal was filed on 24 May 2017, which was dismissed on 5 July 2017. On 2 August 2017, a claims appeal was filed with the Appeals Court of Santiago, which is awaiting a decision.

In 2017, the company registered no fines for monopolistic practices or for breach of regulations on commercialisation communications, including advertising, promotions and sponsorship.

The Human Rights Policy defines and precisely establishes how the company believes it has to include these principles in its business management.

2014

Set-up of Global Power Generation

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

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Process for Drafting this Report. Materiality

Materiality focus

Gas Natural Fenosa has based itself on the Global Reporting Initiative (GRI) standards, more popularly known as the GRI Standards, in compiling this 2017 Corporate Responsibility Report.

The company believes that the report has been prepared in accordance with the comprehensive level of GRI Standards.

The Materiality Disclosures methodology has been applied for yet another year. This methodology reviews the definition of material issues, their scope and the information on the commitment of the interested parties.

As a new item, in 2017 and for the purpose of dealing with the recommendations of Royal Decree-Law 18/2017, with regard to the reporting of non-financial information and information on diversity by certain large companies and specific groups, a materiality analysis was conducted in line with the company's compromises and strategy with regard to corporate responsibility, integrating the analysis of the level of compliance with the Sustainable Development Goals in those countries where the company has a presence.

Furthermore, we have identified material issues at events and news through the KPMG Eye on Earth tool, which captures information from more than 300,000 different



sources, including digital newspapers of 190 countries worldwide, in 67 languages, websites of multinationals or governmental webs. Everything that happens and which has an impact on society is reproduced in the media and therefore analysed and registered every 15 minutes.

The material issues identified at the corporate level are those that:

- > Are more critical to the continued operations of the company.
- > Can promote a more significant change in terms of economic, environmental and social impact.
- > Are considered most relevant to the stakeholders of the company.

List of material aspects
at corporate level

[102-47]

Gas Natural Fenosa has identified ten material issues of the utmost importance. It has also identified other matters of interest.

	Issue identified	Nature of the issue
Issues of utmost importance	1 Access to energy	Social
	2 Emissions and climate change	Environmental
	3 Occupational health and safety	Social
	4 Energy efficiency and consumption	Environmental
	5 Social action and development of local communities	Social
	6 Assessment of the supply chain	Social and environmental
	7 Employability and employment	Social
	8 Biodiversity	Environmental
	9 Customer care and satisfaction	Social
	10 Assessment of human rights	Social
Other issues of interest	11 Anticorruption	Economic
	12 Technology and innovation	Economic
	13 Socio-economic and environmental compliance	Economic, environmental and social
	14 Health and safety of consumers and of society	Social
	15 Diversity and equal opportunities	Social
	16 Materials used, recycled and reused	Environmental
	17 Freedom of association and collective bargaining	Social
	18 Water management	Environmental
	19 Management of leaks, effluent and waste	Environmental
	20 Responsible purchasing	Economic
	21 Training, education and remuneration	Social
	22 Competition practices	Economic
	23 Management of relations between company-worker and internal communication	Social
	24 Taxation	Economic
	25 Economic performance	Economic
	26 Cybersecurity and information security	Social
	27 Indirect economic impacts	Economic
	28 Resettlements	Social

NB: each country has a different prioritisation based on its corporate responsibility agenda

Furthermore, for the prioritisation and definition of material issues we conducted interviews with different areas of the company and with external stakeholders, and have included other inputs, both internal and external.

Process for identifying material aspects

[102-46] and [102-49]

For the updating of material issues carried out in 2017, we have followed the 33 specific standards defined by GRI, as well as the sectoral documents "Electric Utilities" and "Oil & Gas", and they have been adapted to the company's own characteristics.

Furthermore, for the prioritisation and definition of material issues it has been conducted interviews with different areas of the company and with external stakeholders, and have included other inputs, both internal and external.

For each of the ten material issues identified, Gas Natural Fenosa has collected, identified and analysed the following information in its materiality study:

- > What is material:
 - Definition and description of the issue.
 - Material sub-issues.
 - Relevance for the business, for the sector, the impact it can produce on the activities and regulation in this regard.
 - Relevant events for stakeholders related to the issue.
- > Formal reporting references:
 - GRI Standards indicators related to the issue.
 - Strategic lines of the Sustainability Plan that consider the matter.
- > Management approach - responding to the GRI Standards and to the ISO 19600 on compliance management:

- How Gas Natural Fenosa manages the issue (policies, strategies, tools, initiatives and objectives).
- Sustainable Development Goal (SDG) associated to the issue.
- Stakeholder linked to the issue.

Sources and stakeholders consulted

In the identification and prioritisation of material issues, the following sources were taken into consideration:

- > Reference framework for the preparation of sustainability reports: 33 specific standards from the Global Reporting Initiative (GRI Standards).
- > Internal interviews: interviews with key areas of the company.
- > External interviews: interviews with external stakeholders.
- > Reputational analysis: reputational risks identified by the company.
- > Sustainability Plan: relevant aspects identified and analysed.
- > Investors: material issues identified by RobecoSAM for the Dow Jones Sustainability Index (DJSI) and by the Sustainability Accounting Standards Board (SASB).
- > Analysis of the main global events of interest for each issue that has taken place during the year.
- > Integration of the Sustainable Development Goals.



Review of material issues by country where Gas Natural Fenosa is operational

Gas Natural Fenosa has identified the relevance of each material issue in each country in which it operates, according to the agenda of each country, taking into account the degree of achievement of the Sustainable Development Goals in these countries and establishing the key targets on which the company must focus through commitments at local level to help achieve these.

The company analysed the following countries: Germany, Angola, Algeria, Argentina, Australia, Belgium, Brazil, Chile, Colombia, Korea, Costa Rica, Egypt, Spain, France, Holland, India, Ireland, Italy,

Japan, Kenya, Luxembourg, Morocco, Mexico, Moldova, Oman, Panama, Portugal, UK, Dominican Republic and South Africa.

Map of material issues

[102-46], [103-1] and [102-49]

In order to respond to the GRI Standards, a map of material issues that identify what represents a material issue for Gas Natural Fenosa and where it is relevant is provided. As regards the latter criterion, Gas Natural Fenosa identifies the materiality of the issue from three standpoints:

- > Point of the value chain at which the issue is material.

- > Impact of the aspect inside and outside the company and, consequently, the stakeholder affected.

- > Geographic location. To determine those countries in which the issues are material we need to cross-check the following table with the activity map at the beginning of this report. In this way, and based on the governing philosophy of integrated and uniform management at Gas Natural Fenosa, the issue will be material in those countries that perform the activity of the value chain in which the issue is material.

Stages of the value chain where

Electricity

	Material aspects for Gas Natural Fenosa	GRI Standard related to the material issue	Nature	Generation	Distribution	Commercialisation
1	Access to energy	Electric Utilities - EU. Access to energy	SO	+	+	+
2	Emissions and climate change	305. Emissions	MA	+	+	
3	Occupational health and safety	403. Occupational health and safety	SO	+	+	
4	Energy efficiency and consumption	302. Energy	MA	+	+	
5	Social action and development of local communities	413. Local communities	SO	+	+	+
6	Assessment of the supply chain	308. Environmental assessment of suppliers, and 404. Social assessment of suppliers	SO and MA	+	+	+
7	Employability and employment	401. Employment	SO	+	+	+
8	Biodiversity	304. Biodiversity	MA	+	+	
9	Customer care and satisfaction	417. Marketing and labelling	SO		+	+
10	Assessment of human rights	412. Assessment of human rights (406. Non-discrimination, 408. Child labour, 409. Forced labour, 410. Safety practices, 411. Indigenous rights)	SO	+	+	+

the material issues have greatest impact

Gas				Impact of the aspect inside and/or outside the organisation by stakeholder	2017 Corporate Responsibility Report chapter that deals with the issue
Supply	Transportation	Distribution	Commercialisation		
+	+	+	+	Customers, suppliers, other regulatory bodies and administrations	Commitment to society
+	+	+		Suppliers, administrations and society	Responsible management of the environment
+	+	+		Employees, suppliers, customers, society	Health and safety
+	+	+		Customers and society	Responsible management of the environment
+	+	+	+	Society	Commitment to society
+	+	+	+	Suppliers	Responsible supply chain
+	+	+	+	Employees and society	Interest in people
+	+	+		Society	Responsible management of the environment
		+	+	Customers	Service excellence
+	+	+	+	Society	Integrity and transparency

Scope of the information

[102-10], [102-48], [102-49] and [102-50]

The information included in this report refers to all activities conducted by Gas Natural Fenosa in 2017, as a worldwide gas and electricity operator.

Since 2014, Gas Natural Fenosa retroactively applied International Financial Reporting Standards (IFRS) 11 "Joint Arrangements". As a result, joint businesses (those in which participants hold rights only in respect of the net assets of the investees) are consolidated by the equity method instead of the proportional integration method.

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. Unless there is a footnote explaining that the workforce is included under centralised and not centralised management.

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 and

which have a significant capacity to impact environmental data, considering the global data.

The complete list of companies making up Gas Natural Fenosa at 31 December 2017 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.

At 31 December 2017, non-current assets held for sale correspond to the businesses of gas distribution and marketing in Italy; distribution and marketing in Colombia; electricity distribution in Moldova, and electricity generation in Kenya.

Given that Gas Natural Fenosa is firmly committed to selling these assets, which are clearly identified, we believe that their sale is highly probable and is expected to be concluded in 2018.

On 13 October 2017 Gas Natural Fenosa finalised a deal to sell its gas distribution and commercialisation companies in Italy, in separate agreements with the companies 2i Rete Gas and Edison, for an overall amount of 759 million euros. The close of the operations, which is expected in the first quarter of 2018, is subject to the corresponding approvals from the competition authorities.

On 17 November 2017 Gas Natural Fenosa reached a binding agreement with Brookfield Infrastructure for the sale of its

holding of 59.1% in Gas Natural S.A. ESP, a Colombian company that engages in retail gas distribution and commercialisation, for an amount of 1,678,926 million Colombian pesos (461 million euros).

On 20, 21 and 22 December 2017 Gas Natural Fenosa sold 17.2% of its holding in Gas Natural S.A. ESP. Following this shareholding change, on 29 December 2017 the Extraordinary General Meeting of Shareholders of Gas Natural S.A. ESP approved the restructuring of its Board of Directors, which now comprises five members, of which 2 have been appointed by Gas Natural Fenosa, having lost the representation majority on the board.

Lastly, as a consequence of the strategic review of its businesses and positioning in different countries, Gas Natural Fenosa has decided to carry out competitive sales processes for its electricity distribution business in Moldova and electricity generation business in Kenya.

Given that Gas Natural Fenosa has been responsible throughout 2017 for management of the companies affected by the process of disinvestment, the indicators affected in this report will include information from these companies, except when the figures are specified as being for the year-end in which case these companies are not considered.

Compliance with benchmark standards

[102-46] and [102-54]

The company prepares its report in accordance with the GRI Standards, and includes the applicable additional information required by the “Utilities” and “Oil and gas” supplements. The company believes that the report has been prepared in accordance with the comprehensive level of GRI Standards. This report has also been drawn up in accordance with the AA1000APS standard (2008) and the United Nations Guiding Principles Reporting Framework.

- > AA1000APS standard. The purpose of this standard is to provide organisations with a set of principles to situate and structure the way in which they understand, govern, administrate, implement, assess and surrender their accounts in sustainability performance.
- > Global Reporting Initiative. In accordance with the Global Reporting Initiative recommendations, the balanced and reasonable presentation of the organisation's performance requires application of certain principles to determine the content of public information on this issue and to guarantee its quality.

- > United Nations Guiding Principles Reporting Framework. The idea behind this framework is that the companies should report all information relating to human rights in line with the UN Guiding Principles on Business and Human Rights.

The consideration of the principles set out in the following table ensures that the information satisfies the guarantees required by the foregoing standards.



Application of the AA1000APS standard [102-56]

- > **Inclusiveness.** In relation to this principle, particular importance is placed on the information presented by Gas Natural Fenosa in the chapter of this report on actions that lead to dialogue with its stakeholders
 - approved in December 2015. This report is structured according to said matters. The contents of this report are also determined by the materiality study.
- > **Capacity for response.** It includes key performance indicators of the company, as well as its core policies and management systems in the spheres taken into account.
- > **Relevance.** The relevant matters for Gas Natural Fenosa are included in its Corporate Responsibility Policy that was

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.

> Principles for drafting this report (GRI) [102-46]

- > **Stakeholder engagement.** The company has defined its stakeholders, identified its expectations and set actions to establish a two-way dialogue. This process is explained in the sections on dialogue with interest groups and corporate responsibility governance.
- > **Sustainability context.** The report offers a detailed analysis of the company's performance in the context of the social, environmental and economic requirements of its social and market environments. The sections on business model, strategy and sustainable opportunities focus specifically on this area.
- > **Materiality.** Those issues identified in the materiality study have been considered as material and have been included in the 2017 Corporate Responsibility Report.
- > **Exhaustiveness.** The outline of contents are defined with the help of those in charge of the key management areas of the company. This guarantees that essential aspects and impacts that each activity area of Gas Natural Fenosa has on its environment and on its own business targets have been taken into consideration.

> Quality of the information given (GRI) [102-52]

- > **Accuracy.** All the information in the report is accurate and given in sufficient detail for the company's stakeholders to be able to value its performance in an appropriate manner.
- > **Balance.** The report clearly shows the positive and negative aspects of the organisation's performance, which enables a reasonable valuation thereof.
- > **Clarity.** The information is presented in a way that is understandable, accessible and useful. To enable its correct understanding, the use of technical terms is avoided. In addition, it uses graphs, diagrams, tables and indicators to describe the company's most relevant impacts and make it easier to read the document.
- > **Comparativeness.** The information given in this report makes it possible to analyse the evolution of the company performance over time.
- > **Reliability.** The figures given in this report have been verified by PwC. The drafting of the report took into account the three principles required by the AccountAbility AA1000 standard, and whether or not the information given responds to the stakeholders' concerns and requirements.
- > **Frequency.** Gas Natural Fenosa publishes its Corporate Responsibility Reports annually, as soon as the information is available, so that the stakeholders have a good understanding of the company.

> United Nations Guiding Principles Reporting Framework

- > Setting human rights reporting in the business context.
- > Meeting a minimum threshold of information.
- > Demonstrating ongoing improvement.
- > Focusing on respect for human rights.
- > Addressing the most severe impacts on human rights.
- > Providing balanced examples from relevant geographies.
- > Explaining any omission of important information.

Verification

[102-56]

The integrity, sound and truthful nature of the information given in this report are maintained by the policies and procedures included in Gas Natural Fenosa internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In the said policies and in accordance with the Global Reporting Initiative recommendations, Gas Natural Fenosa committees an annual external verification of the contents of its report.

This review is made by an independent expert, PwC, which reviews the adaptation of the contents of the Corporate Responsibility Report to the provisions laid down in the Global Reporting Initiative Guidelines and the AA1000APS standard.

As a result of the said process, an independent review report is drawn up to include the goals and scope of the review, as well as the verification procedures used and the corresponding conclusions, which can be consulted in the "Additional Information" chapter of this report.



Queries and additional information [102-53]

In addition to this Corporate Responsibility Report, in 2017 Gas Natural Fenosa is publishing the Integrated Annual Report, the Corporate Governance Report and the Audit and Control Committee Report, all pertaining to 2017.

Furthermore, special mention must be made of the fact that Gas Natural Fenosa publishes corporate responsibility reports in Argentina, Brazil, Chile, Colombia, Mexico, Moldova and Panama.



Readers can send their doubts, queries or requests for information to the company's website: www.gasnaturalfenosa.com

2017

Energy volunteering: share your heat

Through its foundation, Gas Natural Fenosa has launched the Energy Vulnerability Plan. Its activities include promoting energy-related volunteering, making the commitment to work with the Red Cross to help the most vulnerable among us. This initiative allows knowledge and practices linked to energy savings and efficiency to be shared with those who need it the most.

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Additional Information

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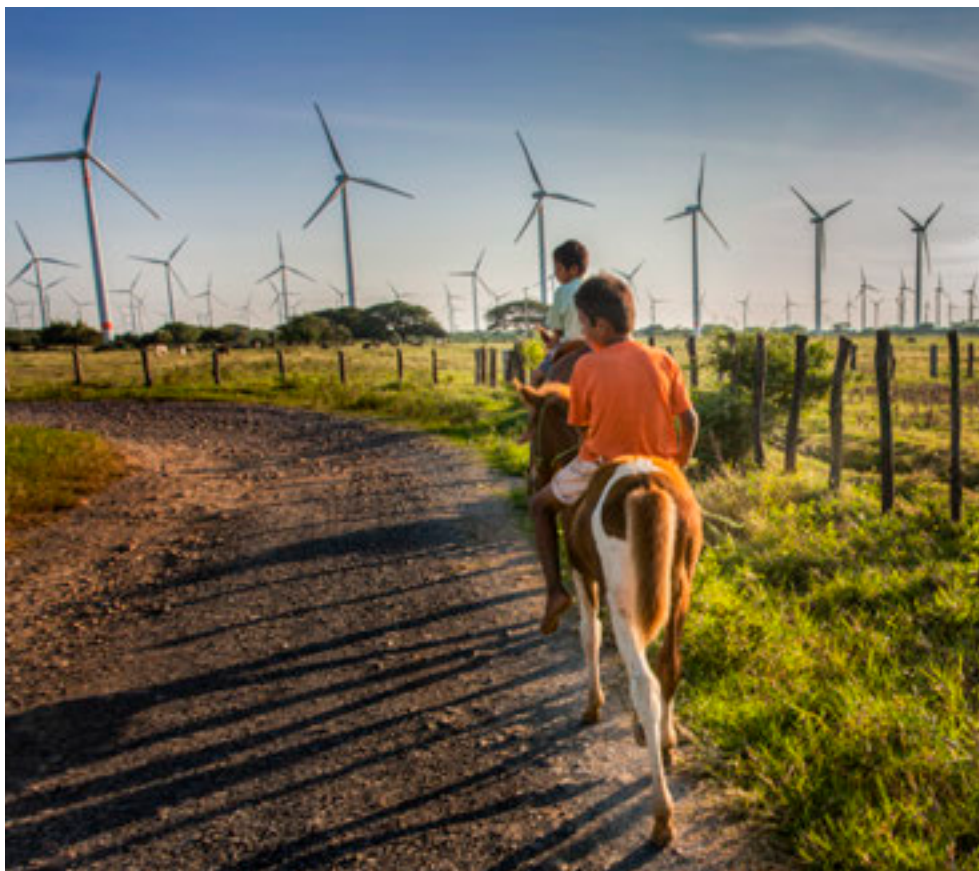
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Green Bond report

Throughout 2017, Gas Natural Fenosa approved a framework for the issue of green bonds that responds to Gas Natural Fenosa's commitment to support sustainable development, and which is in line with its strategic goals focused on the development of renewable energies and networks as well as the implementation of energy solutions and services that contribute to energy efficiency. The funds within this framework will be used on projects to generate wind and solar energy and the eligible projects have a high social, environmental and corporate governance performance. Gas Natural Fenosa has committed itself to excluding as eligible projects those that generate "high risk" controversies in ESG matters and which have been adjudged to be unfavourable for the company. Eligible projects shall be decided by the green bond Committee that will consider social, environmental and corporate governance criteria in taking its decisions. The company undertakes to provide annual and obligatory reporting on the allocation of funds, both at the global level of the bond as well as the specific level of the project, including a description on the use of the funds not invested, as well as the environmental benefits obtained with the projects, and also voluntary information on other ESG aspects that it deems relevant. This information will be subject to an external review consisting of:

a) Second Party Opinion, an assessment prior to the issue given by a sustainable consultant on the alignment of the framework with the Green Bond Principles.



b) Annual verification by external auditors on the management of the funds and the environmental benefits reported.

On 15 November 2017, and in a manner consistent with this green bond framework, Gas Natural Fenosa closed an issue of 800 million with an annual coupon of 0.875% which matures in May 2025, and which will be used for the construction of approximately 700 MW of wind energy and approximately 250 MW of solar energy. The issue received the favourable assessment given in the Second Party Opinion issued by Vigeo, in which it affirms the company's robust performance in social, environmental and corporate governance issues, and that the projects chosen are in line with

the framework. Through this report, Gas Natural Fenosa complies with the commitments assumed in the Framework of information and the annual verification, with the independent external review by PwC.

Indicators for use of proceeds

As at 31 December 2017, the total number of projects assigned to Green Bonds was 58, representing a total investment of 74.26 million euros. These assigned funds represent 9.59% of the total amount obtained through the issuance of Green Bonds, with 725.74 million euros yet to be assigned.

Technology	Location	Project name	Year launched	Status	Assigned Green Bond financing (millions of euros)	% Financed with Green Bonds
Solar	Spain	C.F. Canredondo	2018-19	Development	0.07	100
Solar	Spain	C.F. Carpio de Tajo	2018-19	Development	0.69	100
Solar	Spain	C.F. La Nava	2018-19	Development	0.83	100
Solar	Spain	C.F. Las Jaras	2018-19	Development	0.16	100
Solar	Spain	C.F. Miraflores	2018-19	Development	0.16	100
Solar	Spain	C.F. Puerto del Rosario	2018-19	Development	0.07	100
Solar	Spain	C.F. Salinetas	2018-19	Development	0.02	100
Solar	Spain	C.F. Tabernas i	2018-19	Development	0.01	100
Solar	Spain	C.F. Tabernas ii	2018-19	Development	0.00	100
Wind	Spain	P.E. Ampliacion el Hierro	2018-19	Development	0.35	100
Wind	Spain	P.E. Balcón de Balos	2018-19	Construction	4.52	50
Wind	Spain	P.E. Barasoain	2018-19	Development	8.76	69
Wind	Spain	P.E. Doramás	2018-19	Construction	0.94	50
Wind	Spain	P.E. Fuerteventura II	2018-19	Development	0.66	50
Wind	Spain	P.E. La Haría	2018-19	Construction	1.66	50
Wind	Spain	P.E. La Vaquería	2018-19	Construction	1.68	50
Wind	Spain	P.E. Merengue	2018-19	Development	3.35	100
Wind	Spain	P.E. Mirabel	2018-19	Development	3.71	100
Wind	Spain	P.E. Monciro	2018-19	Development	0.37	100
Wind	Spain	P.E. Montaña perros	2018-19	Construction	1.65	50
Wind	Spain	P.E. Peñaforcada - Catasol II	2018-19	Development	1.35	100
Wind	Spain	P.E. Picato	2018-19	Development	0.74	100
Wind	Spain	P.E. Piletas I	2018-19	Construction	5.52	50
Wind	Spain	P.E. San Blas	2018-19	Development	5.54	100
Wind	Spain	P.E. Teso Pardo	2018-19	Development	5.06	100
Wind	Spain	P.E. Tesorillo	2018-19	Development	2.84	100
Wind	Spain	P.E. Tirapu	2018-19	Development	3.19	69
Wind	Spain	P.E. Triquivijate	2018-19	Construction	2.89	50
Wind	Spain	P.E. Vientos del Roque	2018-19	Construction	2.96	50
Wind	Spain	P.E. Montejo de Bricia (ampliación)	2018-19	Development	0.77	90
Wind	Spain	P.E. El moralito	2018-19	Development	0.00	50
Wind	Spain	P.E. La Tablada	2018-19	Development	0.01	50
Wind	Spain	P.E. Carratorres	2018-19	Development	4.02	75
Wind	Spain	P.E. Fréscano	2018-19	Development	1.54	100

Technology	Location	Project name	Year launched	Status	Assigned Green Bond financing (millions of euros)	% Financed with Green Bonds
Wind	Spain	P.E. San Agustín	2018-19	Development	0.25	100
Wind	Spain	P.E. Monte Tourado - Eixe	2018-19	Development	3.71	100
Wind	Spain	P.E. Pastoriza - Rodeiro	2018-19	Development	0.05	100
Wind	Spain	P.E. Serra do Punago - Vacariza	2018-19	Development	0.06	100
Wind	Spain	P.E. Punta Redona	2018-19	Development	0.02	60
Wind	Spain	P.E. Tres Termes	2018-19	Development	0.02	60
Wind	Spain	P.E. Los Barrancs	2018-19	Development	0.02	60
Solar	Spain	C.F. Picon I	2018-19	Development	0.09	100
Solar	Spain	C.F. Picon II	2018-19	Development	0.09	100
Solar	Spain	C.F. Picon III	2018-19	Development	0.09	100
Wind	Spain	P.E. Agüimes	2018-19	Development	0.05	100
Wind	Spain	P.E. Puerto del Rosario	2018-19	Development	0.32	100
Solar	Spain	C.F. El Escobar I	2018-19	Development	0.07	100
Solar	Spain	C.F. El Escobar II	2018-19	Development	0.07	100
Solar	Spain	C.F. Sureste Sostenible I	2018-19	Development	0.05	100
Solar	Spain	C.F. Sureste Sostenible II	2018-19	Development	0.05	100
Solar	Spain	C.F. Sureste Sostenible III	2018-19	Development	0.05	100
Solar	Spain	C.F. Sureste Sostenible IV	2018-19	Development	0.05	100
Solar	Spain	C.F. Aguayro Solar I	2018-19	Development	0.05	100
Solar	Spain	C.F. Aguayro Solar II	2018-19	Development	0.05	100
Solar	Spain	C.F. Aguayro solar III	2018-19	Development	0.05	100
Solar	Spain	C.F. Aguayro solar IV	2018-19	Development	0.05	100
Solar	Spain	C.F. Aldea Blanca	2018-19	Development	0.02	100
Wind	Spain	Infraestructuras comunes	2018-19	Development	2.83	53
Total					74.26	

The net proceeds of the Bond issuance have been managed within Gas Natural Fenosa's treasury liquidity portfolio, in cash or other short-term and liquid instruments that do not include GHG intensive activities nor disputable activities*. Gas Natural Fenosa has maintained a minimum level of cash equivalent to the unallocated funds of the Green Bond at the end of the financial year.

Environmental benefit indicators

The estimated environmental benefit of the Green Bond is expected to total 795,051 tCO₂/year in emissions avoided, based on approximately the 950 MW of power whose installation using Green Bond financing is expected, with associated production of 2,762.5 GWh/year.

* The 9 disputable activities defined by Vigeo Eiris are: alcohol, animal maltreatment, armament, hazardous chemicals, gambling, genetically modified organisms in food & feed, nuclear energy, sex industry and tobacco.

Glossary of indicators

Indicators for use of proceeds	Description
Description of the financed projects	Description of the projects financed with Green Bonds, with details of generation technology, location (country), project name, year launched, completion status (1. Development, 2. Construction, 3. Operation and maintenance), at the closing date.
Assigned Green Bond financing: amount assigned (in euros) per project and in total	Sum attributable to Green Bonds invested in projects that meet the Green Bond eligibility criteria listed in the Gas Natural Fenosa Green Bond Framework (in millions of euros), at the closing date.
% Financed with Green Bonds	Percentage of project investment attributable to Green Bonds, at the closing date.
Number of projects	Number of projects with financing attributable to funds from Green Bonds, at the closing date.
Total quantities assigned relative to total funds (%)	Percentage of the total investment attributable to Green Bonds across all projects relative to the total sum obtained through the issuance of Green Bonds (bond funds), at the closing date.
Description of the use of non-invested funds	Description of the management of funds obtained through the issuance of Green Bonds that have not been assigned to any project, at the closing date, according to the "Gas Natural Fenosa Green Bond Framework".
Environmental benefit indicators	
Greenhouse gas (GHG) emissions prevented (ex ante estimate)	CO ₂ emissions (tCO ₂ /year) expected to be avoided each year through renewable energy projects (wind and solar), calculated by multiplying expected energy production (ex ante estimate) by a regional average emissions factor (peninsula and Canary Islands). This emissions factor has been calculated using the methodology used by UNFCCC Clean Development Mechanism (CDM) projects, which allows the use of either an average regional emissions factor excluding emissions from low-cost/must-run power stations when generation from these stations represents less than 50% of the electricity system total ("simple" method) or an average emissions factor from the entire regional electricity mix (including emissions from low-cost/must-run power stations) when generation from these stations represents more than 50% of the electricity system total ("average" method). The data used to calculate the applied emissions factor come from publicly available information sources based on official statistics.
Energy capacity (ex ante estimate)	Total power (MW) corresponding to the projects expected to be financed by Green Bonds.
Energy production (ex ante estimate)	Estimated annual electrical power generation (GWh/year) calculated by multiplying the energy capacity (ex ante estimate) by the estimated average number of operating hours per year for each project expected to be financed by Green Bonds.

Green bond independent review report



Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE GREEN BOND INDICATORS

To the Board of Directors of Gas Natural SDG, S.A.:

We have carried out our work to provide limited assurance on the Green Bond Indicators contained in the chapter 'Green Bond Report' of the 2017 Corporate Responsibility Report (hereinafter '2017 CRR') of Gas Natural SDG, S.A. and its subsidiaries (hereinafter 'Gas Natural Fenosa') for the year ended 31 December 2017, prepared in accordance with the criteria defined by Gas Natural Fenosa described in the section 'Glossary of indicators' (on page 377 of the 2017 CRR) in the chapter 'Green Bond Report' of the 2017 CRR, and defined in accordance with the 'Gas Natural Fenosa Green Bond Framework' published by the group and available on its website: (https://www.gasnaturalfenosa.com/files/Gas_Natural_Fenosa_Green_Bond_Framework_def.pdf).

Specifically, we have reviewed the Green Bond Indicators included in the sections 'Indicators for use of proceeds' and 'Environmental benefit indicators' (on pages 374 to 376 of the 2017 CRR) of the chapter 'Green Bond Report' of the 2017 CRR.

Responsibility of the Directors of Gas Natural Fenosa

The Directors of Gas Natural Fenosa are responsible for the preparation, content and presentation of the Green Bond Indicators included in the 'Green Bond Report' in accordance with the criteria established by Gas Natural Fenosa, and the definition of these criteria according to the 'Gas Natural Fenosa Green Bond Framework'. This responsibility includes designing, implementing and maintaining the internal control required to ensure that the Green Bond Indicators are free from any material misstatement due to fraud or error.

The Directors of Gas Natural Fenosa are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the Green Bond Indicators included in the 'Green Bond Report', is obtained.

Our Responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

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The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with Gas Natural Fenosa's personnel from various departments who have been involved in the preparation of the Green Bond Indicators.
- Analysis of the procedures used for obtaining and validating the data presented in the Green Bond Indicators.
- Analysis of the Gas Natural Fenosa's Green Bond Indicators adaptation to the requirements established by Gas Natural Fenosa, described in the section 'Glossary of indicators' of the 'Green Bond Report'.
- Verification of the traceability of the funds obtained through the Green Bond assigned to the financing of projects and of the unallocated funds, and verification that the investments made by Gas Natural Fenosa in projects through funds attributable to the Green Bond have been made in accordance to the criteria of the 'Gas Natural Fenosa Green Bond Framework'.
- Verification, through random sampling tests revisions, internal control tests and substantive and analytical tests on the quantitative and qualitative information of the Gas Natural Fenosa's Green Bond Indicators. We have also verified whether they have been appropriately compiled from the data provided by Gas Natural Fenosa's sources of information.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited Assurance Conclusion

As a result of the procedures carried out and the evidence obtained, nothing has come to our attention that causes us to believe that the Green Bond Indicators included in the Gas Natural Fenosa's 'Green Bond Report', for the financial year ending 31 December 2017, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the criteria established by Gas Natural Fenosa pursuant to the 'Gas Natural Fenosa Green Bond Framework'.



Use and Distribution

Our report is only issued to the Directors of Gas Natural Fenosa, in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the addressees of our report.

PricewaterhouseCoopers Auditores, S.L.

A handwritten signature in blue ink, appearing to read 'M. Luz Castilla', is written over a horizontal blue line.

M^a Luz Castilla

May 18, 2018

GRI content index

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EU26 Percentage of population unserved in licensed distribution or service areas.		Not available. The information systems do not allow the report of its information.	
EU27 Number or residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime.	Page 160		Page 393-398
EU28 Power outage frequency.	Page 160		Page 393-398
EU29 Average power outage duration.	Page 160		Page 393-398
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GRI 103: Management Approach 2016			
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305-3 Energy indirect (Scope 3) GHG emissions.	Page 208		Page 393-398
305-4 GHG emissions intensity.	Page 208		Page 393-398
305-5 Reduction of GHG emissions.	Page 209		Page 393-398
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GRI 103: Management Approach 2016			
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403-3 Workers with high incidence of high risk of diseases related to their occupation.	Page 296		Page 393-398
403-4 Health and safety topics covered in formal agreements with trade unions.	Page 285		Page 393-398
EU25 Number of injuries and fatalities to the public involving company assets.	Page 295		Page 393-398
Energy efficiency and consumption			
GRI 103: Management Approach 2016			
103-1 Explanation of the material topic and its Boundary.	Page 189		Page 393-398
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302-3 Energy intensity.	Page 191		Page 393-398
302-4 Reduction of energy consumption.	Page 209		Page 393-398
302-5 Reductions in energy requirements of products and services.	Page 209		Page 393-398
OG3 Total amount of renewable energy generated by source.	Page 24		Page 393-398
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GRI 103: Management Approach 2016			
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103-2 The management approach and its components.	Page 317		Page 393-398
103-3 The evaluation of the management approach.	Page 317		Page 393-398
GRI 103: Local communities 2016			
413-1 Operations with local community engagement, impact assessments, and development programs.	Page 329		Page 393-398
413-2 Operations with significant actual and potential negative impacts on local communities.	Page 329		Page 393-398
EU22 Number of people physically or economically displaced and compensation.		All individual displacement was avoided in 2017 as a result of the company's infrastructure development projects.	Page 393-398
OG10 Number and description of significant disputes with local communities and indigenous people.		No record of incidents of this type.	Page 393-398
OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned.		No record of incidents of this type.	Page 393-398

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GRI 103: Management Approach 2016			
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308-1 New suppliers that were screened using environmental criteria.	Page 308 and 310		Page 393-398
308-2 Negative environmental impacts in the supply chain and actions taken.	Page 310		Page 393-398
GRI 414: Supplier social assessment 2016			
414-1 New suppliers that were screened using environmental criteria.	Page 308 and 310		Page 393-398
414-2 Negative social impacts in the supply chain and actions taken.	Page 310		Page 393-398
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GRI 103: Management Approach 2016			
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103-2 The management approach and its components.	Page 217		Page 393-398
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401-3 Parental leave.	Page 237, 262		Page 393-398
EU15 Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.	Page 260		Page 393-398
EU17 Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.	Page 279		Page 393-398
EU18 Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.	Page 286		Page 393-398
Biodiversity			
GRI 103: Management Approach 2016			
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Biodiversity	Page	Omissions	External assurance
GRI 304: Biodiversity 2016			
304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Page 213		Page 322-326
304-2 Significant impacts of activities, products, and services on biodiversity.	Page 213		Page 322-326
304-3 Habitats protected or restored.	Page 215		Page 322-326
304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations.	Page 214		Page 322-326
EU13 Biodiversity of offset habitats compared to the biodiversity of the affected areas.	Page 215		Page 322-326
OG4 Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored.	Page 214		Page 322-326
Customer care and satisfaction			
GRI 103: Management Approach 2016			
103-1 Explanation of the material topic and its Boundary.	Page 129		Page 393-398
103-2 The management approach and its components.	Page 129		Page 393-398
103-3 The evaluation of the management approach.	Page 129		Page 393-398
GRI 417: Marketing and labelling 2016			
417-1 Requirements for product and service information and labelling.		The general terms and conditions of contracting for the services provided by Gas Natural Fenosa provide customers with the appropriate information about their rights and obligations and about the features of the services provided (gas and electricity). There are no records of breaches of agreements regarding the legal obligations required in each country in which the company operates in this area.	
417-2 Incidents of non-compliance concerning product and service information and labelling.	Page 359		Page 393-398
417-3 Incidents of non-compliance concerning marketing communications.	Page 359		Page 393-398
Assessment of human rights			
GRI 103: Management Approach 2016			
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Assessment of human rights	Page	Omissions	External assurance
GRI 412: Human Rights Assessment 2016			
<p>412-1 Operations that have been subject to human rights reviews or impact assessments.</p>	<p>The human rights policy of Gas Natural Fenosa is applicable to all the Group's activities in all companies in whose operations are controlled by Gas Natural Fenosa. In those companies in which Gas Natural Fenosa has a non-controlling interest, the company shall promote awareness and the application of this policy. The company is committed to evaluating all relevant risks, in terms of human rights, of third parties in relation to investment agreements or other contractual relationships. All the countries analyzed are considered to be exposed to certain risks, including low risks in OECD countries. Therefore, 100% of operations are analyzed against each HR issue; and 61% of the countries analyzed include a medium-high risks. In case any country is exposed to at least one medium risk affecting any HR, that country would be considered to be at risk.</p>		
<p>412-2 Employee training on human rights policies or procedures.</p>	<p>Knowledge of and compliance with the policy are strengthened at the company, through the communication and training plan, which includes an online course that is mandatory for all employees. At the end of 2017, 10,132 people had completed the course on the human rights policy.</p>		
<p>412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.</p>	<p>The Human Rights Policy includes the commitments of Gas Natural Fenosa to ensure that none of its activities or operations affect the respect for HR of people in the company or third parties who are related to it. From the Purchasing Unit, this commitment is extended to suppliers in the supplier evaluation process where they are required to accept the supplier's of Ethics Code. In addition to suppliers, the company is actively taking steps to include human rights matters in process for analyzing new investments, introducing this variable in any assessments of social impact and the company also carries out due diligence process.</p>		

Glossary of Key Corporate Responsibility Indicators

Key Corporate Responsibility Indicator	Description
Service excellence	
Overall satisfaction with service quality.	Customers' degree of satisfaction with the quality of global service on a scale from 1 to 10 (in Chile from 1 to 7), broken down by country or geographical region.
Commitment to results	
Net turnover (millions of euros).	Company turnover.
Gross operating profit. Ebitda (millions of euros).	Company earnings before interests, tax, depreciation and amortisation.
Total investments (millions of euros).	Resources used by the company in seeking future profit or return.
Net profit (millions of euros).	Gross profits before tax, interest, depreciation and general expenses.
Dividend (millions of euros).	Part of the company's profits which are distributed to its shareholders.
Classification evolution on the DJSI.	The company's global score in the annual Dow Jones Sustainability Index evaluation.
Responsible management of the environment	
Direct greenhouse gas emissions (GHG) (Mt CO ₂ e).	Greenhouse gas emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor (t CO ₂ /GWh).	Emission rate as a result of electrical generation activity arising from the ratio of the amount of atmospheric pollution emitted (tons of carbon dioxide) divided by energy generated (GWh).
Methane emissions in transportation and distribution (t CO ₂ e/km grid).	Methane emissions caused by natural gas transportation and distribution
Emissions of SO ₂ /electricity generated (g/kWh).	Sulphur dioxide emissions per kWh generated.
Emissions of NO _x /electricity generated (g/kWh).	Nitrogen oxide emissions per kWh generated.
Emissions of particles/electricity generated (g/kWh).	Particle emissions per kWh generated.
Generation of hazardous waste (kt).	Amount of more representative hazardous waste generated.
Recycling and energy recovery of hazardous waste (%).	Amount of hazardous waste that has been recycled.
Interest in people	
Headcount index (number of employees).	Number of company employees at year end.
Men/Women (%).	Number of male staff as against total company headcount at year end, as a percentage/number of women staff as against the company's total headcount at year end, as a percentage.
Women in management posts (%).	Percentage of women directors as against the total company employees with positions as directors at year end.
Personnel costs (millions of euros).	Monetary amount representing the staff expenses for the company (wages and salaries, Social Security expenses, defined contribution plans, defined benefit plans, works performed on the company's fixed assets, and others).
Training hours per employee.	Average training hours received by each employee (total hours of training as against total headcount at year end).
Annual investment in training (euros).	Total monetary amount invested by the company in employee training.
Employees covered by collective bargaining agreements (%).	Percentage of employees who are represented in a collective bargaining agreement as against total employees, at year end.
Health and safety	
Accidents requiring medical leave.	Number of accidents in the workplace leading the employee to take medical leave.
Days lost.	Days not worked due to medical leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.

Key Corporate Responsibility Indicator	Description
Health and safety	
Mortalities.	Number of workers who have died due to accidents at work.
Frequency rate.	Number of accidents with medical leave occurring during the working day for every million of hours worked.
Severity rate.	Number of days lost as a result of accidents at work for every 1,000 hours worked.
Incident rate.	Number of accidents in the workplace for every 1,000 employees.
Absenteeism rate of common illnesses and non-occupational accidents (%).	Workers' absences from their jobs as a consequence of common illnesses and non-occupational accidents, measured as the ratio of the number of working hours lost over the total theoretical working hours during the year.
Responsible supply chain	
Suppliers with contracts currently in force.	Number of suppliers from which any product or service has been contracted during the last year.
Total purchase volume awarded (millions of euros).	Total monetary amount used to cover the company's procurement.
Purchasing budget targeted at local suppliers (%).	Amount of budget used for the procurement of suppliers located in the geographical area from where the purchases are made over the total procurement budget.
Suppliers assessed according to environmental, social, and working practice criteria (number).	Suppliers which have filled in the rating questionnaire which is used to assess environmental, social and labour practice criteria.
Social commitment	
Evolution of the contribution from Gas Natural Fenosa (millions of euros).	Economic contribution to social action or investment and sponsorship and patronage programmes.
Breakdown by type of action (%).	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LGB) methodology.
Sponsorship and social action activities.	Number of sponsorship, patronage and social action activities carried out by the company.
Integrity and transparency	
Correspondence received by the Code of Ethics Committee.	Number of communications made by employees and suppliers relating to the Code of Ethics and Anticorruption Policy which have been received by the Code of Ethics Committee.
Correspondence received per 200 employees.	Ratio of number of communications received relating to the Ethical Code and the Anticorruption Policy which have been received by the Code of Ethics Committee for every 200 company employees.
Geographical origin of correspondence (%).	Percentage of communications relating to the Code of Ethics and the Anticorruption Policy which have been received by the Code of Ethics Committee, deriving from each country and against the total.
Average time for resolving correspondence (days).	Average number of days from the time the company receives the communications until it resolves them.
Audit projects analysed on the basis of the risk of fraud.	Number of audit projects analysed on the basis of the risk of fraud.
Communications received in the area of human rights.	Number of communications which the company has received concerning human rights.
Number of persons trained on the Human Rights Policy.	Number of employees who have taken part in training about the Human Rights Policy.
Level of compliance with the Corporate Responsibility Commitments	
Finalised.	100% of actions complete.
Major progress.	Major progress.
Intermediate progress.	50% of actions complete.
Little progress.	25% of actions complete.
Not started.	Actions not started.

Contents in accordance with the United Nations Guiding Principles Reporting Framework

Indicator	Page	Level of fulfilment
Governance of respect for human rights (A)		
A1. Policy commitment.	2017 CRR – pages 336–340 Human Rights Policy. Code of Ethics – pages 8–9	Complete
A1.1 Development of policy commitment.	2017 CRR – pages 336–340 Human Rights Policy – page 19	Complete
A1.2 Extent and scope of application of commitment.	2017 CRR – page 115 Human Rights Policy – pages 6 and 7	Complete
A1.3 Form of communication of commitment.	2017 CRR – pages 296–340 Human Rights Policy – pages 17 and 18	Complete
A2. Embedding respect for human rights.	2017 CRR – pages 100, 166, 295 and 336–340 Code of Ethics – page 8 Human Rights Policy – pages 17 and 18	Complete
A2.1 Organisation of responsibility in the field of human rights.	2017 CRR – pages 86, 107–108 and 336–340 Human Rights Policy – page 18	Complete
A2.2 Human rights issues escalated to the senior management and the governing board.	2017 CRR – pages 107–108 and 336–340 Human Rights Policy – page 18	Partial
A2.3 Raising employees' awareness about human rights issues	2017 CRR – pages 336–340 Human Rights Policy – pages 15 and 18	Partial
A2.4 Company's form of stating its commitment towards human rights in commercial relations.	2017 CRR – pages 292-301 and 336-340 Human Rights Policy – pages 11 and 17-18	Complete
A2.5 Lessons learnt about human rights and consequences which have arisen as a result.	2017 CRR – pages 292-301 and 336-340	Partial
Defining a focus of reporting (B)		
B1. Statement of salient issues.	2017 CRR – pages 348-357	Complete
B2. Determination of salient issues.	2017 CRR – pages 70, 348-357 and 358-359	Partial
B3. Choice of focal geographies.	2017 CRR – pages 348-357	Complete
B4. Additional severe impacts.	2017 CRR – pages 329, 336-340 and 361-371	Complete
Management of salient human rights issues (C)		
C1. Specific policies.	2017 CRR – pages 100-101, 221-222, 244-246, 260-263, 273-275, 276-278, 288-299, 311-315 and 328-331	Complete
C1.1 Importance of human rights policy for persons responsible for implementing it.	2017 CRR – pages 254, 262-263, 328-331 y 336-340	Complete

Indicator	Page	Level of fulfilment
Management of salient human rights issues (C)		
C2. Stakeholders commitment.	2017 CRR – pages 107-115, 243-245 and 299-300	Complete
C2.1 Identification of stakeholders to take part in salient human rights issues.	2017 CRR – pages 107-115 and 328-331	Partial
C2.2 Stakeholders which have had relations with the company in connection to human rights.	2017 CRR – pages 107-115, 236-237, 328-331 and 336-340.	Partial
C2.3 Influence of the stakeholders' vision regarding human rights issues.	2017 CRR – pages 107-115 and 327-328	Partial
C3. Assessing impacts.	2017 CRR – pages 27-29, 100-101, 108-110, 151-154, 236-237, 266-267, 288-299, 312-315 and 329-331	Complete
C3.1 Patterns or trends in human rights impacts.	2017 CRR – pages 27-29, 243-245 and 328-331	Partial
C3.2 Severe impacts on human rights.	2017 CRR – pages 328-331	Complete
C4. Integrating findings and taking action.	2017 CRR – pages 107-108, 328 and 334	Partial
C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues.	2017 CRR – pages 107-108, 328-334 and 336-340	Partial
C4.2 Tensions of human rights impacts.	2017 CRR – page 340 Human Rights Policy – Commitment 6	Partial
C4.3 Actions taken to prevent or mitigate potential impacts on human rights.	2017 CRR – pages 276-277, 288-301 and 340	Partial
C5. Tracking performance.	2017 CRR – pages 27-29, 100-101, 108-110, 151-154, 236-237, 266-267, 288-299, 312-315 and 329-331	Partial
C5.1 Effective management of human rights issues.	2017 CRR – pages 266-267	Partial
C6. Remediation.	2017 CRR – pages 328-331	Complete
C6.1 Means of claiming regarding human rights issues.	2017 CRR – pages 328-331 Code of Ethics – page 22	Partial
C6.2 People's capacity to make claims or complaints.	2017 CRR – pages 328-331 Code of Ethics – page 22	Partial
C6.3 Processing of claims and evaluation of effectiveness of results.	2017 CRR – pages 328-331 Code of Ethics – page 22	Partial
C6.4 Patterns and trends in claims or complaints.	2017 CRR – pages 328-331	Partial
C6.5 Repairs in relation to any impact relating to human rights.	2017 CRR – page 329	Complete

Independent review report

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Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON CORPORATE RESPONSIBILITY REPORT

To the Board of Directors of Gas Natural SDG, S.A.:

We have carried out an assurance engagement on the information stated below and included in the 2017 Corporate Responsibility Report of Gas Natural SDG, S.A. and its subsidiaries (hereinafter 'Gas Natural Fenosa') for the financial year ending 31 December 2017 (hereinafter the '2017 CRR'):

- Reasonable assurance of the Key Corporate Responsibility Indicators on Integrity and transparency stated on page 30 of the 2017 CRR.
- Limited assurance of:
 - The Corporate Responsibility Indicators stated in the Chapter 'GRI content index' on pages 382 to 388 of the 2017 CRR.
 - The Key Corporate Responsibility Indicators on Service excellence, Responsible management of the environment, Interest in people, Health and safety, Responsible supply chain and Social commitment stated on pages 29 and 30 of the 2017 CRR.
 - The level of compliance of corporate responsibility commitments shown in the 'Value actions' tables on pages 86, 108, 131, 165, 177, 219, 267, 303, 319 and 347 of the 2017 CRR.
- Moderate assurance of application of the principles of inclusivity, materiality and responsiveness as described in the information included in the section 'Compliance with benchmark standards' on page 369 of the 2017 CRR in accordance with the 2008 Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.

The Corporate Responsibility Indicators stated above have been prepared in accordance with the disclosures proposed in the GRI Standards of the Global Reporting Initiative (GRI) (hereinafter 'GRI Standards') and the Electric Utilities and Oil and Gas Sector Disclosures of the GRI Guidelines G4 version (hereinafter 'Electric Utilities and Oil and Gas GRI G4 Sector Disclosures') and with Gas Natural Fenosa's criteria set out in the section 'Glossary of Key Corporate Responsibility Indicators' on pages 389 and 390 of the 2017 CRR, which also includes the criteria for the level of compliance of corporate responsibility commitments.

The 2017 Key Corporate Responsibility Indicators on Commitment to results stated on page 29 of the 2017 CRR are from the Dow Jones Sustainability Index and the consolidated annual accounts of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2017, regarding which we issued our audit report on February 14, 2018 in which we express an unqualified audit opinion.

Our engagement has been carried out by a multi-disciplinary team made up of specialists in corporate social responsibility and social, environmental and financial business performance and specialists in assurance engagements.

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Responsibility of the Appointments and Remuneration Committee of Gas Natural SDG, S.A.

Gas Natural SDG, S.A.'s Appointments and Remuneration Committee is responsible for the preparation, contents and presentation of the 2017 CRR in accordance with the criteria referred to above and for establishing its corporate responsibility commitments and assessing their level of compliance. This responsibility includes establishing, implementing and maintaining the internal controls required to ensure that the information included in the 2017 CRR is free from material misstatement due to fraud or error.

The Company's Appointments and Remuneration Committee is also responsible for creating, implementing, adapting and maintaining the management systems where the information required to prepare the corporate responsibility indicators is obtained, and for monitoring the level of compliance of corporate responsibility commitments and application of AA1000APS (2008) principles.

Our responsibility

Our responsibility is to issue an assurance report based on the procedures carried out and evidence obtained by us. We have carried out our assurance engagement in accordance with the guidance of the International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised) 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard issued by AccountAbility.

In accordance with ISAE 3000 (Revised), the assurance engagement requires the application of procedures to obtain evidence on the quantification of the reviewed information included in the 2017 CRR and includes an assessment of the criteria used in preparing this information. The selected procedures depend on the auditor's judgment and include an assessment of the risks of material misstatement in the aforementioned indicators due to fraud or error. On making this risk assessment, the auditor takes into account the relevant internal control for the Company's preparation of the reviewed information to design procedures which are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The scope of a limited assurance engagement is substantially less extensive than that of a reasonable assurance engagement and, consequently, less assurance is provided.

The procedures that we have applied in this engagement have included consultations, observation of processes, inspection of documents, analytical procedures and review tests applied to a random sample. The procedures have generally been as follows:

- Meetings with the persons in charge of Gas Natural Fenosa and other key staff regarding the application of corporate responsibility policies.
- Interviews with staff of several departments involved in the preparation of the 2017 CRR including the persons in charge of obtaining, reviewing and consolidating the information included in the CRR.
- Analysis of the procedures and systems used to obtain and validate the information presented in the 2017 CRR.
- Analysis of the presentation of Gas Natural Fenosa's corporate responsibility indicators in the 2017 CRR and their adaptation to the disclosures proposed in the GRI Standards, the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures and the criteria established by Gas Natural Fenosa, and verification that these criteria have been consistently applied.



- Review of original support documentation (quantitative and/or qualitative) obtained from Gas Natural Fenosa's information management systems or external sources which are used to prepare the corporate responsibility indicators.
- Verification of the quantitative and qualitative corporate responsibility indicators, by review tests made on a random sample, including analytical and substantive tests.
- Analysis of internal and external documentation on the actions carried out by Gas Natural Fenosa in 2017 for each of its corporate responsibility commitments to review their level of compliance.
- Analysis of the documentation and actions related to the application of inclusivity, materiality and responsiveness principles of the AA1000APS AccountAbility Principles Standard.

In addition, we have applied the following procedures for our reasonable assurance engagement:

- Review of the information management systems where information related to the Key Corporate Responsibility Indicators on Integrity and transparency are obtained.
- Tests on the creation and effectiveness of the internal controls established for the procedures of obtaining and validating the information included in the Key Corporate Responsibility Indicators on Integrity and transparency.
- Substantive tests and analyses on variations of the Key Corporate Responsibility Indicators on Integrity and transparency and evaluation of the criteria established by Gas Natural Fenosa.

Our independence and quality control

We have complied with the requirement of independence and other requirements of the Code of Ethics for Accountants issued by the International Ethics Standard Board for Accountants (IESBA), based on the main principles of integrity, professional competence and due care, confidentiality and professional conduct.

PwC applies International Standard on Quality Control (ISQC 1) and consequently, our firm has a global quality control system which includes policies and procedures on the compliance of ethical requirements, professional standards and applicable statutory requirements.

Our reasonable assurance opinion

As a result of the procedures carried out and the evidence obtained, the Key Corporate Responsibility Indicators on Integrity and transparency of Gas Natural Fenosa for the financial year ending 31 December 2017 stated on page 30 of the 2017 CRR have been appropriately and reliably prepared, in all material respects, in accordance with the criteria established by Gas Natural Fenosa as stated in the section 'Glossary of Key Corporate Responsibility Indicators' on pages 389 and 390 of the 2017 CRR.



Our limited and moderate assurance conclusion

As a result of the procedures carried out and the evidence obtained, nothing has come to our attention that causes us to believe that:

- The Corporate Responsibility Indicators included in the Chapter 'GRI content index' of the 2017 CRR and the Key Corporate Responsibility Indicators on Service excellence, Responsible management of the environment, Interest in people, Health and safety, Responsible supply chain and Social commitment contain errors and have not been prepared, in all material respects, in accordance with the disclosures proposed in the GRI Standards and in the Electric Utilities and Oil and Gas GRI G4 Sector Disclosures, and with the criteria established by Gas Natural Fenosa.
- The level of compliance of the corporate responsibility commitments indicated in the 'Value Actions' tables of the 2017 CRR is not presented, in all material respects, in accordance with the criteria established by Gas Natural Fenosa.
- The information included in the section 'Compliance with benchmark standards' of the 2017 CRR regarding the application of the principles of inclusivity (establishing processes for the involvement and participation of stakeholders), materiality (balanced understanding of issues regarding sustainability which are relevant to the organisation and its stakeholders) and responsiveness (procedure to decide appropriate response to relevant stakeholder issues that affect its sustainability performance) has not been prepared, in all material respects, in accordance with the contents established in the AA1000APS (2008) AccountAbility Principles Standard.

Recommendations

During our assurance engagement, some observations and recommendations for improvements have come to our attention, which we have presented in an internal document. Set out below is a summary of the main recommendations regarding improvements to the application of the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, which do not alter our opinion or our limited or moderate assurance conclusions given in this report.

Inclusivity

Gas Natural Fenosa maintains an active and bidirectional dialogue with its stakeholders through different communication channels, which allow the Group to identify the relevant aspects for each one of them. The 2017 CRR presents the detail of the dialogue actions with the various stakeholders carried out throughout the year, including their frequency. It is recommended to continue deepening the internal and external dialogue, prioritizing those actions that make it possible to consider the expectations of the stakeholders in the business strategy in all the geographies in which Gas Natural Fenosa operates, and to bring the company even closer to its stakeholders.

Materiality

Gas Natural Fenosa has updated its materiality analysis in 2017, in which the relevant aspects for the Group are determined, to align its strategy and commitments in terms of corporate responsibility, with a special focus on the prioritization of the aspects and their relationship with the Sustainable Development Goals. It is recommended to continue advancing in the materiality analysis and in the link between the most relevant issues for the company's stakeholders with the subsequent sustainability strategic management and report. Likewise, it is suggested to continue with the prioritization of the key objectives to be focused on the deployment at the local level of the sustainability strategy, according to the agenda and the degree of achievement of the Sustainable Development Goals in each of the countries in which the company operates, to contribute to the achievement of these.



Responsiveness

After the validation in 2017 of the 2016-2020 Sustainability Master Plan of Gas Natural Fenosa by its Board of Directors, the company has begun its implementation through lines of action and specific actions. It is recommended to promote the internal communication of the Master Plan, encouraging the involvement and coordination of all corporate, business and geographical areas for its implementation and follow-up. It is also suggested to periodically report on the degree of achievement of defined commitments and actions, both internally and externally, by providing feedback through the monitoring and reporting of the key indicators defined, and by advancing in the internal control of non-financial information.

Use and distribution

Our report is issued solely for the Gas Natural SDG, S.A.'s Board of Directors, in accordance with the terms and conditions of our engagement letter for its publication together with Gas Natural Fenosa's 2017 Corporate Responsibility Report. We accept no responsibility to third parties other than the addressees of our report.

PricewaterhouseCoopers Auditores, S.L.

A handwritten signature in blue ink, appearing to read 'M^a Luz Castilla', is written over a blue horizontal line.

M^a Luz Castilla

May 18, 2018



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[102-3]

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