

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

IDENTIFYING DATA OF THE ISSUER

END DATE OF THE REFERENCE FINANCIAL YEAR 31/12/2017

Corporate tax ID code A-08015497

Company Name:

GAS NATURAL SDG, S.A.

Registered office:

Avenida de San Luis, 77 – 28033 Madrid

A COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

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

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

Explain the remuneration policy

In establishing its remuneration policy, whether aimed specifically at its Directors or more generally at its executive personnel, the Company aims to attract, retain and motivate the best executive talent in the market and to act in an equitable manner on the basis of the results obtained. This will allow for the sustainable generation of value for the entire business Group over time, ensuring the transparency and competitiveness of its remuneration policy.

The Directors' remuneration policy was approved by the General Shareholders' Meeting on 20 April 2017, with the Board of Directors bearing responsibility for its periodic revision subject to a report from the Appointments and Remuneration Committee, with the aim of keeping the Company remuneration policy in line with market best practices. For this reason, in view of the approval of a new Strategic Plan for the Company and the proposal to reorganise the Board of Directors, the Board has proposed to the General Shareholders' Meeting to modify the Remuneration Policy, applicable during the 2018-2020 financial years and aligned with said Plan.

A. The Directors' remuneration for carrying out non-executive duties is based on the following principles:

- It must be sufficient to compensate for their dedication, qualifications and responsibility, without compromising their independence.
- It must serve a market approach, considering the fixed remuneration for directors of listed companies with a standing equal to that of the Company.
- It must enable the company to gain access to the best talent available at any given time.

The new Articles of Association establish a system of remuneration

through a fixed annual allocation and include the possibility of payment in shares or by reference to shares. The new Policy establishes a maximum amount of 3% of the Group's consolidated net profit for the immediately preceding year for all directors' remuneration.

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

B. On 6 February 2018, the Board of Directors agreed to a significant change in the management and administration structure of the Company by approving the appointment of a new executive Chairman following the departure of the former Chief Executive Officer (CEO) and Chairman of the Board of Directors. Until then, only the CEO had the role of Executive Director.

With regard to the CEO's remuneration policy, for the performance of their executive duties, detailed in section A.3, it was similar to the general remuneration policy of management personnel in the Gas Natural Fenosa Group, which includes, among other things, the following:

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

- Variable Remuneration: represented a significant part of the total remuneration and was linked to the achievement of predetermined, specific and quantifiable objectives, both in the short-term (annual) aimed at compliance with the Budget, and long-term (multi-annual), based on the achievement of objectives aligned with a group of key indicators consistent with the Company's current Strategic Plan.

In addition, the Board of Directors could establish other variable remuneration in the event of one-off operations, both with objectives linked to their achievement, and in terms of remuneration for objectives accomplished.

- The remuneration package for the CEO included a Social Welfare System, under the same conditions as those established regarding social welfare that supplements Social Security protection for the Company's Directors, although they were channelled through instruments that consider the commercial nature of the relationship that binds the CEO to the Company (Collective Savings Insurance, Pension Plan and Life Insurance). These instruments are detailed in section A.5 of this report.

- Social Benefits: additionally, their remuneration package was

completed by Health Insurance and a discount on gas and electricity consumption. These benefits are detailed in section A.10 of this report.

C. As of 6 February 2018, only the Executive Chairman meets the Executive Director requirements. The remuneration for the performance of these executive duties is composed of the following components:

- Fixed annual cash remuneration, including the remuneration received for membership of the Board of Directors of any GNF group company, including its parent company
- Annual variable remuneration that has a base equivalent to the fixed annual cash to which a percentage will be applied based on achievement metrics. It may be wholly or partially replaced each year, by mutual agreement, with a contribution to a social welfare system.
- Long-term incentive programme for the entire period of the Strategic Plan that will be adjusted according to the achievement degree of the objectives. The multi-year variable remuneration has a base equivalent to 1.25 times the fixed annual cash remuneration multiplied by the number of years covered by the multi-year plan, to which a percentage based on achievement metrics will be applied.
- Other social and welfare benefits equivalent to those generally recognised for the Company's executives (medical insurance, company car, life insurance, gas and electricity discounts, savings insurance)

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

Explain the process for determining the remuneration policy

The Appointments and Remuneration Committee is responsible for proposing to the Board the remuneration criteria for the Company Directors, as well as ensuring the transparency of the remuneration. The Board of Directors is responsible for approving the executive directors' remuneration for their executive or delegated duties and the Directors' remuneration for their non-executive duties within the framework approved by the General Shareholders' Meeting.

The new Articles of Association establish that the remuneration received by the Directors in their capacity as such consists of a fixed allowance and may include a payment in shares or referenced to shares under the terms established by the legislation in force. They also indicate that the remuneration policy must necessarily include the maximum amount of the annual remuneration to be paid by all the Directors.

The composition of the Committee as at 31 December 2017 was as follows:

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

The Commission that reported on the new proposal for the Board's Remuneration Policy on 21 May 2018 is the following:

Position	Name	Status
Chair	Mr Francisco Belil Creixell	Independent
Member	Mr Ramón Adell Ramón	Independent
Member	Rioja Bidco Shareholdings, S.L.U., represented by Mr de Jaime	Proprietary
Member	Mr William Alan Woodburn	Proprietary
Secretary	Mr Manuel García Cobaleda	Non-Executive Secretary

All members of the Committee have extensive experience in the business world and knowledge appropriate to the Committee's tasks.

A. The remuneration of the members of the Board of Directors for carrying out non-executive duties was determined by the Board of Directors during its meeting on 6 February 2018, following a report from the Appointments and Remuneration Committee. At its meeting on 21 May 2018, the Board amended these amounts with effect from 27 June 2018 in view of the Board's new composition and, in particular, the abolition of the Executive Committee. The amounts in force for both the first and second half of the year are detailed in section A.3.

B. Until 6 February 2018, only the CEO had the role of Executive Director. Their remuneration in 2018 has not been modified so it remained the same as in 2017.

C. As of 6 February 2018, only the Executive Chairman performs duties of this nature, with remuneration for these duties having been set by the Board of Directors during its meeting on 6 February 2018. The annual and multi-year variable remuneration scheme is conditioned directly by the objectives of the Company's Strategic Plan for the 2018-2022 financial years, approval of which is expected to take place at the Board meeting on 26 June 2018. Therefore, the objectives, metrics and, where applicable, maximum and minimum thresholds for the aforementioned annual and multi-year variable remuneration will be fixed once said Strategic Plan is available.

A.3 Indicate the amount and nature of the fixed components, with a breakdown, where applicable, of the remuneration for the performance of the executive

directors' senior management duties, of the additional remuneration as chair or member of any committee of the Board, of the expenses from their participation on the Board and its committees or other fixed remuneration as a director, as well as an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that are not paid in cash and the basic parameters by which they may be granted.

Explain the fixed components of the remuneration

A. The Directors' remuneration for the exercise of non-executive duties consists of a fixed annual allowance, with it also being envisaged that payment in shares or referenced to shares may be made.

The amount of remuneration for Directors for carrying out non-executive duties approved in 2017 for 2018 is as follows:

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

During its meeting on 6 March 2018, the Board of Directors fixed remuneration for the Coordinating Director at €30,000/year.

On 21 May 2018, the Board of Directors, in response to the proposed reorganisation of the Board of Directors and the new Strategic Plan, set the following amounts, which will be effective from 27 June 2018, coinciding with the newly configured Board of Directors.

- Chair of the Board of Directors: €1,100,000/year.
- Director: €175,000/year.
- President of a Committee: €90,000/year
- Member of a Committee: €60,000/year
- Coordinating Director: €30,000/year.

With regard to the remuneration that the CEO, as long as there was one, or the Executive Chairman might earn as members of the Board of Directors of other companies in the Group, these amounts are subtracted from their variable remuneration.

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

B. Until 6 February 2018, only the CEO had the role of Executive

Director. The fixed component of their remuneration for carrying out said duties has not been modified and therefore remains the same as in 2017, namely €1,537,987.50 a year (basic remuneration of €1,284,987.50 plus €253,000.00 for membership of the Board). On 6 February, a total of €158,000.58 was settled for the period extending from 1 January to that day.

C. At the meeting on 6 February 2018, the Board set the fixed component of the Executive Chairman's remuneration at €2,000,000 a year, including the remuneration received for membership of any management body of any GNF group company, including its parent company. The Executive Chairman's fixed cash remuneration of €2,000,000 a year is comprised of €1,100,000 for membership of the Board and the remainder - €900,000 - as fixed basic remuneration.

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

In particular:

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

Explain the variable components of the remuneration systems
A. The Directors do not receive this type of remuneration for carrying out non-executive duties.
B. Until 6 February 2018, only the CEO had the role of Executive Director.
The CEO's contract provided variable remuneration for their executive

duties through two programmes according to their objectives and time horizons:

Annual variable remuneration:

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

The Board of Directors has not established new objectives for 2018 and has instead agreed to settle this item for the same value it had in 2017, applying the proportional part of the period between 1 January 2018 and 6 February 2018 (10.14%) to it, which yielded an amount of €114,609.

Multi-year variable remuneration:

This remuneration, on a three-year basis, was founded on the achievement of mid-term objectives through programmes approved by the Board of Directors of Gas Natural SDG, S.A., at the proposal of the Appointments and Remuneration Committee.

At its meeting on 6 February, the Board of Directors agreed upon the final settlement of the PREMP 2016-2018 and PREMP 2017-2019 programmes, considering the average degree of compliance with the objectives of these three programmes proportionate to the performance time (which is 80%). These programmes maintained the characteristics indicated in the previous financial year. The settlement amounted to €589,150 for the PREMP 2016-2018 programme and €308,665 for the PREMP 2017-2019 programme.

C. As of 6 February 2018, the variable components of the Executive Chairman's remuneration system are as follows:

- Annual variable remuneration that has a base equivalent to the fixed annual cash remuneration to which a percentage based on achievement metrics will be applied.
- Long-term incentive program until the completion of the new strategic plan (2018-2022), that has a base equivalent to 1.25 times the fixed annual cash remuneration multiplied by the number of years covered by the multi-year plan, to which a percentage based on achievement metrics will be applied.

The objectives, metrics and, where applicable, maximum and minimum compliance thresholds may only be established at the time of approval of the Strategic Plan, which is scheduled for 26 June 2018. The new Articles of Association and the Remuneration Policy provide for the possibility of making a payment in shares or referenced to shares under the terms established by the legislation in force.

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

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

Explain the long-term savings systems
<p>A. The Directors do not receive this type of remuneration for carrying out non-executive duties.</p> <p>B. Until 6 February 2018, only the CEO held the role of Executive Director and the same conditions were recognised for them concerning social welfare that supplements Social Welfare protection as the Company's Directors, regardless of whether they were channelled through instruments that consider the commercial nature of the relationship that bound the CEO to the Company.</p> <p>The instruments through which the CEO's social welfare systems are organised were the following, all of them in the same terms as those recognised during the previous financial year:</p> <ul style="list-style-type: none">• <u>Collective Savings Insurance</u>. The CEO was given the right to receive a series of savings contributions for retirement. These contributions were governed by the rules set out in the Plan Regulations established to that end. Gas Natural SDG, S.A. annually contributed an amount equal to 20% of the CEO's fixed monetary remuneration to said instrument. Contingencies covered by the Plan were retirement, death before retirement and permanent disablement before retirement. They were not entitled to receive any amount for this item in the event of very serious and culpable breach of professional obligations that causes serious harm to the interests of the Company. <p>The Collective savings insurance was one of the benefits contained in the CEO's contract since its subscription in 2005, although in 2008 it was modified for all management staff, going from a so-called Internal Permanence Fund to external defined contribution Insurance, although the amount of the contributions has always been 20% of their total fixed remuneration.</p> <p>With regard to the compatibility of collective savings insurance with compensation, there is no express provision for its incompatibility, for which it must therefore be understood that they are not incompatible.</p>

- Pension Plan: under the same conditions as the directors of the Company regarding complementary social welfare. In this sense, the CEO was granted annual contributions to Pension Plans amounting to €10,000, which were delivered annually to the CEO in the amount of €10,000 for contributions to be made to the pension plan as deemed appropriate.

In the case of the consolidated rights corresponding to the Pension Plan, these were irrevocable and they were not entitled to them under any circumstance.

- Additionally, the CEO was the beneficiary of an insurance policy to cover the contingencies of death and absolute permanent disablement or severe disablement before retirement, in which Gas Natural SDG S.A. acts as policyholder, which took as the basis for calculating the annual premium amount the age of the CEO and the insured capital, with the insurance company establishing and communicating said premium. The insured capital, in the event that the anticipated contingencies occur (death, absolute permanent disablement or severe disablement), was equivalent to two years of basic remuneration.

C. As of 6 February 2018, the same benefits are recognised for the Executive Chairman as for the Company's Directors, although it may be channelled through instruments that take into account the commercial nature of the relationship that binds the Executive Chairman to the Company. These benefits are:

- Savings Insurance: The Executive Chairman is granted the right to receive a series of contributions that will be implemented in a defined-contribution insurance contract, which shall be governed by the rules laid down for that purpose. Gas Natural SDG, S.A. shall contribute annually to the aforementioned instrument an amount equal to 20% of the Executive Chairman's fixed cash remuneration, being able to pay the rights accrued on the date the Executive Chairman turns 65-years-old. The contingencies covered are survival to a certain date, death, permanent disablement and severe disability. They are not entitled to receive any amount for any of the contingencies in the event of serious and culpable breach of their professional obligations that causes serious harm to the interests of the Company.

With regard to the compatibility of savings insurance with compensation, there is no express provision for its incompatibility, for which it must therefore be understood that they are not incompatible.

- An insurance policy for temporary disablement situations (100% of the gross annual fixed remuneration received with the established limit of 18 months). They are also beneficiary

of an insurance policy to cover the contingencies of death and absolute permanent disablement or severe disablement, in which Gas Natural SDG S.A. acts as policyholder, which takes as the basis for calculating the annual premium amount the age of the Executive Chairman and the insured capital, with the insurance company establishing and communicating said premium. The capital insured in the event that the foreseen contingencies occur (death, total permanent disability or severe disability) is equivalent to 3.5 annual payments of gross total annual fixed remuneration.

Lastly, in the event of an agreement between the Executive Chairman and the Company, the Annual Variable Remuneration may be wholly or partially substituted annually by a business contribution to a suitable social welfare system.

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

Explain the compensation

The Directors do not receive this type of compensation for carrying out non-executive duties.

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

Explain the conditions of the executive directors' contracts

Until 6 February 2018:

The CEO's contract was amended in October 2016, stating that the compensation provided for in the termination clause of the contract due to a significant change in the Company shareholders had been paid, which was eliminated, extending its duration to the entire current term as CEO of the Company, in such a way that the amount of compensation at that time due to a significant change in shareholders was determined, but deferred and subject to new conditions.

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

The CEO's contract established compensation in the amount of three

annual instalments of the total remuneration as at the date of amending the contract for certain cases of termination of the contractual relationship: due to the decision of the Company, except for very serious and culpable breach of their professional obligations that causes serious harm to the interests of Gas Natural SDG, S.A.; due to a decision by the CEO; or due to the termination of the contract. In addition, and as a post-contractual non-competition agreement for one year, an indemnity equivalent to one year of total remuneration was established.

On 6 February 2018, the Board of Directors agreed to terminate the contract, pay the compensation of three years of total remuneration in the amount of €10,685,763 as well as the compensation for non-competition agreement for a total remuneration annuity of €3,561,921, as well as settling the outstanding amounts of the different remuneration items accrued in 2018 - fixed, annual variable and ongoing PREMP programmes.

According to the contract, the Company is was obliged to underwrite a civil liability insurance policy.

The Company has fully subscribed and paid up the corresponding global premium for civil liability insurance for Directors and Executives of GAS NATURAL SDG, S.A. and for most of the companies belonging to its Group, thus also covering as insured persons the Chief Executive Officer and all the other Directors of GAS NATURAL SDG, S.A, including both Executive and Non-Executive Directors, for the responsibilities that may be requested from them in the performance of their duties as directors, except in cases of wilful misconduct.

The Chairman had a non-executive role and therefore did not sign a contract with the Company.

As of 6 February 2018:

Currently only the Chairman has the role of Executive Director.

The Executive Chairman's contract was approved at the meeting of the Board of Directors on 6 February 2018, following a favourable report from the Appointments and Remuneration Committee.

It contains a 6 months notice clause by the Executive Chairman except in cases of force majeure, a clause on exclusivity during the exercise of their duties and a clause on confidentiality, both during the term of the contract, and once this term has expired.

The Executive Chairman's contract establishes an indemnity for the cessation or non-renewal of the position of Director in the amount of twice the sum of (i) an annual fixed cash remuneration, (ii) the annual variable remuneration and (iii) the part corresponding to a year of the long-term incentive plan (weighted by the degree of compliance achieved by comparing what was to be achieved at that time and what has actually been achieved), except for a serious and culpable breach of their professional obligations that causes significant damage to the interests of

Gas Natural SDG S.A. In addition, and as a post-contractual non-competition agreement for one year, an indemnity equivalent to one year's fixed cash remuneration is established.

The Executive Chairman's contract provides for the termination of the contract and indemnity payment in the event that he loses his executive duties and continues as non-executive Chairman. In this case, the compensation provided for is equivalent to the sum of (i) an annual fixed cash remuneration, (ii) the annual variable remuneration and (iii) the part corresponding to a year of the long-term incentive plan (weighted by the degree of compliance achieved by comparing what was to be achieved at that time and what has actually been achieved), except for a serious and culpable breach of their professional obligations that causes significant damage to the interests of Gas Natural SDG S.A.

In the event of the loss of the role of Chairman, remaining as CEO, a reduction of the remuneration provided in the contract is foreseen.

The contract established the obligation for the Company to include the Executive Chairman in the civil liability insurance policy that the Company has taken out for Directors and executives.

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

Explain the additional remuneration
This type of remuneration does not exist

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

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

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

Explain the remuneration in kind
A. The Company has fully subscribed and paid up the corresponding global premium for civil liability insurance for Directors and Executives of GAS NATURAL SDG, S.A. and for most of the companies belonging to its Group, thus also covering all the Directors of GAS NATURAL SDG, S.A, including both Executive and Non-Executive Directors, for the responsibilities that may be required of them in the performance of their duties as directors, except in cases of wilful misconduct.
B. and C. The remuneration package, both for the CEO up to 6 February 2018 and for the Executive Chairman, as of the same date, also includes a consumption discount (benefitting from a discount on electricity and gas

tariffs) and health care (collective policy under the expense reimbursement method). As of 6 February 2018, it also includes the use of a vehicle assigned under the renting modality.

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

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

This type of remuneration does not exist

- A.12 Any remuneration concept other than those mentioned above, whatever their nature or whichever group entity pays it, especially when it is a related-party transaction or its issuance distorts the true picture of the total remuneration earned by the director.

Explain the other remuneration components

There are no additional components

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

Explain the actions taken to reduce the risks

In establishing its remuneration policies, the Company aims to sustainably generate value for its shareholders, ensuring the transparency and competitiveness of its remuneration policy.

As indicated, the Company plans to approve a new Strategic Plan for the years 2018-2022 on 26 June. It is within the framework of this Plan, with which the remuneration policy must be aligned, that the mechanisms aimed at reducing exposure to excessive risks and ensuring alignment with the Company's long-term objectives will be specifically defined.

B POLITICA DE REMUNERACIONES PREVISTA PARA EJERCICIOS FUTUROS

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

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

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

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

A. Members of the Board of Directors' remuneration for the exercise of non-executive duties remained unchanged in 2017, meaning that the value has remained the same since 2007. Notwithstanding the above, for 2015 the Board of Directors decided to increase the amount of the fixed allowance for being on the Audit Committee and the Appointments and Remuneration Committee, considering the increased duties, dedication and responsibility that the new corporate governance scheme has established in recent years and considering that the allowance provided at Gas Natural Fenosa was significantly lower than that of comparable listed companies in general. As a result, in 2017, the structure was as follows:

- Chair of the Board of Directors: €550,000.00/year.
- Director: €126,500.00/year.
- Chair of the Executive Committee: €550,000.00/year.
- Member of the Executive Committee: €126,500.00/year.
- Member of the Appointments and Remuneration Committee: 25,000.00
- Member of the Audit Committee: €40,000.00/year.

The sum of these remunerations in 2017 is €4,667,500 owing to the change, as of September 2016, in the Company's corporate governance system.

B. The Chairman has a non-executive role and therefore has not signed a contract with the company.

The remuneration received by the Chief Executive Officer for executing executive or delegated duties during 2017 (although, in the case of variable remuneration, it will be paid in Q1 2018) is as follows:

1. Basic remuneration: On 7 March 2017, the Board of Directors agreed, on the proposal of the Appointments and Remuneration Committee, to establish the amount of 1,284,988 euros for the fixed remuneration for executive duties other than supervision duties or collegiate decisions.

The Appointments and Remunerations Committee, as in previous years, had internal advice from the Company's People, Organisation and Culture Department and external support on remuneration and compensation provided by the global consulting firm Deloitte, which has conducted

comparative market studies (benchmarking) on the remuneration levels of companies comparable to Gas Natural Fenosa by capitalization, size, shareholding structure and international implementation.

2. To calculate the annual variable remuneration of the CEO for the financial year 2017, which will be paid in the first quarter of 2018, indicators and weightings were taken into account that were set by the Board of Directors, subject to a report from the Appointments and Remuneration Committee. Specifically, in 2017 the following parameters were considered to determine the degree of compliance with the objectives:

- Economic Objectives, whose weight represents 50% of the total objectives, including the following (all of which refer to the figures approved in the budget for the financial year 2017 approved in January 2017 by the Board of Directors):

- o achievement of the EBITDA approved for the financial year 2017

Degree of compliance: 66.3%

- o achievement of the net income approved for the financial year 2017

Degree of compliance: 115%

- Efficiency Objective, which has a weighting of 10%, and is defined as the impact on the OPEX of the GNF group of the accumulated productivity plan in 2016 and 2017.

Degree of compliance: 115%

- business growth objectives, whose weight represents 20%, establishing the following:

- o Reach the established objective regarding the Net Increase of the Gas Supply Points (Spain and Latin America) (number of points)

Degree of compliance: 70.7%

- o Reach the expected increase in sales of gas energy in Spain, Europe and external LNG plus electricity in Spain (TWh)

Degree of compliance: 115%

- The following objectives linked to Quality, Safety and the Environment, whose weight represents 20%, have been established:

- o Valuation weighted by the number of clients of the NPS index score (Net Promoter Score)

Degree of compliance: 74.3%

Frequency index of low frequency labour accidents

Number of occasions on which the environmental limits for gas and electricity businesses are exceeded.

Degree of compliance: 115%

The objectives for the financial year 2017 were approved by the Board of Directors in its meeting on 7 March 2017. The assessment of the degree of compliance with the above objectives was approved by the Board of Directors during its meeting on 6 February 2018. The amount of the annual variable remuneration for the financial year 2017 and which will be paid in the first quarter of 2018, is 1,131 thousand euros, having reached an overall degree of achievement of 91.89%.

3. The CEO's multi-annual variable remuneration corresponding to the 2015-2017 plan will be paid during the first quarter of 2018, and its general mechanism has been explained in detail in section A.4.

The indicators used to determine the degree of compliance with the Medium-Term Remuneration Programme for the years 2015-2017 are related to the Company's EBITDA, as well as the evolution of its market capitalization.

These indicators and their weightings are as follows:

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

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

The assessment of the degree of compliance with the above objectives corresponding to the 2015-2017 programme, which matured in 2017, was approved by the Board of Directors during its meeting on 6 February 2018, and will be effectively paid during the first quarter of 2018, totalling 757 thousand euros having reached an overall degree of achievement of 73.75%.

4. The Directors have not received any advances, loans or guarantees and

there is no remuneration system based on shares.

The contributions to the CEO's forecast instruments amounted to 308 thousand euros in 2017. In addition, the premiums paid for life insurance totalled 13 thousand euros during the above financial year.

The amount corresponding to the gas and electricity discount and the health insurance premium amounted to 6 thousand euros during the above financial year.

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

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

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

i) Cash remuneration (in thousands of euros)

Name/Type/Accrual period financial year t	Salary	Fixed remuneration	Expenses	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of Board Committees	Compensation	Other items	Total year t	Total financial year t-1
RAFAEL VILLASECA MARCO/ CEO/ Executive	1,285	127		1,131	757	127		16	3,443	3,373
RAMÓN ADELL RAMÓN/ Independent		127				167			294	294
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI/ Proprietary Member		127				40			167	234
XABIER AÑOVEROS TRIAS DE BES/ Independent		127				40			167	142
FRANCISCO BELIL CREIXELL / Independent		127				152			279	211
ISIDRO FAINÉ CASAS / Proprietary Member		550				550			1,100	481
BENITA FERRERO-WALDNER / Economist		127				127			254	208
CRISTINA GARMENDIA MENDIZÁBAL / Independent		127				65			192	167
MIGUEL MARTINEZ SAN MARTIN / Proprietary Member		127				152			279	263
LUIS SUÁREZ DE LEZO MANTILLA/		127				40			167	167

Proprietary Member											
HELENA HERRERO STARKIE/ Independent		127				40				167	96
JOSU JON IMAZ SAN MIGUEL/ Proprietary Member		127				127				254	92
MARCELINO ARMENTER VIDAL/ Proprietary Member		127				127				254	92
ALEJANDRO GARCIA-BRAGADO DALMAU/ Proprietary Member		127				25				152	55
WILLIAM ALAN WOODBURN/ Proprietary Member		127				152				279	101
RAJARAM RAO/ Proprietary Member		127				167				294	107
MARIO ARMERO MONTES/ Proprietary Member		127								127	46

ii) Share-based remuneration systems

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

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

iii) Long-term savings systems

Name/Type/Total accrual period in financial years	Contribution for the year by the company (thousands of €)		Amount of accumulated funds (thousands of €)	
	Year t	Year t-1	Year t	Year t-1
RAFAEL VILLASECA MARCO	308	293	3,648	3,222

iv) Other benefits (in thousands of €)

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

Name/Type	Life insurance premiums		Guarantees provided by the company in favour of the directors	
	Year t	Year t-1	Year t	Year t-1
RAFAEL VILLASECA MARCO	13	25	n/a	n/a

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

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

i) Cash remuneration (in thousands of euros)

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

ii) Share-based remuneration systems

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

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

Director 1			
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iii) Long-term savings systems

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

iv) Other benefits (in thousands of €)

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

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

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

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

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

Name/Type	Remuneration earned in the Company				Remuneration earned in group companies				Total		
	Total cash remuneration	Amount of shares granted	Gross profit from the options exercised	Total financial year t	Total cash remuneration	Amount of shares delivered	Gross profit from the options exercised	Total financial year t group	Total year t	Total financial year t-1	Contribution to the savings systems during the financial year
RAFAEL VILLASECA MARCO/ CEO/ Executive	3,443			3,443					3,443	3,373	
RAMÓN ADELL RAMÓN/ Independent	294			294					294	294	
ENRIQUE ALCÁNTAR	167			167					167	234	

A-GARCÍA IRAZOQUI/ Proprietary Member										
XABIER AÑOVEROS TRIAS DE BES/ Independent	167			167				167	142	
FRANCISCO BELIL CREIXELL / Independent	279			279				279	211	
ISIDRO FAINÉ CASAS / Proprietary Member	1,100			1,100				1,100	481	
BENITA FERRERO- WALDNER / Independent	254			254				254	208	
CRISTINA GARMENDI A MENDIZÁB AL / Independent	192			192				192	167	
MIGUEL MARTINEZ SAN MARTIN / Proprietary Member	279			279				279	263	
LUIS SUÁREZ DE LEZO MANTILLA/ Proprietary Member	167			167				167	167	
HELENA HERRERO STARKIE/ Independent	167			167				167	96	
JOSU JON IMAZ SAN MIGUEL/ Proprietary Member	254			254				254	92	
MARCELIN O ARMENTER VIDAL/ Proprietary Member	254			254				254	92	
ALEJANDRO GARCIA- BRAGADO DALMAU/ Proprietary Member	152			152				152	55	
WILLIAM ALAN WOODBUR N/ Proprietary Member	279			279				279	101	
RAJARAM RAO/ Proprietary	294			294				294	107	

Member										
MARIO ARMERO MONTES/ Proprietary Member	127			127					127	46
TOTAL	7,869			7,869					7,869	6,129

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

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

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

	Number	% of the total
Votes cast	820,593,219	82

	Number	% over cast
Negative votes	102,575,953	12.50
Votes in favour	717,207,037	87.40
Abstentions	810,229	0.10

E OTHER INFORMATION OF INTEREST

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

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

GENERAL EXPLANATORY NOTE: This Annual Remuneration Report has been approved by the Company's Board of Directors at its meeting on 21 May 2018 and replaces the report first adopted on 6 February 2018.

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

Yes

No

Name or company name of the members of the board of directors who did not vote in favour of the approval of this report	Reasons (against, abstention, no assistance)	Explain the reasons