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DIRECTORS' REMUNERATION POLICY

AT GAS NATURAL SDG, S.A.

7 MARCH 2017

1. Preamble and applicable regulations on remuneration policy.

Spanish Act 31 of 3 December 2014 (*Ley 31/2014*) ushered in a number of significant changes to the remuneration payable to Board members of listed companies. Of particular significance here is the change that article 249 bis j) of the Act makes to paragraph 1 of Article 529 *novodecies* of the Corporate Enterprises Act (*Ley de Sociedades de Capital*, hereinafter "LSC"), which now states that the General Shareholders' Meeting is tasked with approving the directors' remuneration policy upon a proposal from the Board of Directors. As a result, the decision was reached at the General Shareholders' Meeting of Gas Natural SDG, S.A. held in April 2015 to approve the Company's remuneration policy for financial years 2015, 2016 and 2017.

Meanwhile, the remuneration policy for 2018, 2019 and 2020 needs to be laid before the General Shareholders' Meeting for approval. While the 2018-2020 remuneration policy is substantially similar to the policy for the previous period, it does expand on the existing remuneration policy, especially in relation to coverage of civil liability for Board members, which was already addressed to some extent in the previous policy.

Accordingly, the following directors' remuneration policy will apply at GAS NATURAL SDG, S.A. over the 2018, 2019 and 2020 horizon, pursuant to the following terms.

2. Aim and principles of the remuneration policy.

A. Considerations that apply equally in relation to both executive and non-executive functions.

When establishing its remuneration policies -both those intended specifically for Board members and those intended more widely for employees- the Company seeks to generate sustainable value for the entire business group fronted by

GAS NATURAL SDG, S.A., while ensuring that the policy is both transparent and competitive. With this goal in sight, variable remuneration is not only pegged to the attainment of strictly financial objectives, but also includes mechanisms intended to influence the way those objectives are met.

The Appointments and Remuneration Committee and the Board of Directors have translated these objectives into a specific remuneration policy for directors and they periodically review the policy so as to ensure that it remains properly aligned with objectives at all times. Following the entry into force of Act 31/2014, the General Shareholders' Meeting has a number of additional legal duties and competencies, particularly the task of approving the remuneration policy at least once every three years and every time the policy undergoes change.

The remuneration policy follows the LSC and the Company's own Articles of Association by drawing a clear line between the rules governing remuneration of Board members when acting as such and those regulating the remuneration payable to Board members for executive functions.

B. Specific considerations concerning the remuneration of directors when acting as such.

Remuneration for directors arising from their status as such is based on the following principles:

- Remuneration must be sufficient for the purpose of compensating the dedication, expertise and responsibility demanded of them, but without compromising their independence.
- Remuneration must be on par with market standards and roughly reflect the remuneration paid to board members at peer companies of similar stature to GAS NATURAL SDG, S.A.
- Remuneration must be commensurate with the dedication and responsibility of the different Board members.

C. Specific considerations concerning remuneration payable to directors for executive functions.

The policy governing the remuneration payable to directors for their executive functions must:

- Provide suitable compensation through a full range of monetary and in-kind pay items and respect the diverse needs and expectations of directors in relation to their working environment. In tandem with this, the policy should serve to communicate organisational goals and business targets.

- Be suitably aligned with the Group's objectives on the relevant time horizons, thus helping to ensure that the Group is able to report consistent and sustainable results.

- Recognise the value-generating capacity of the executive due to their impact on the Group's results and their expertise and personal qualities, affording them a specific package of remuneration.

- Create a culture whereby executives and employees are committed to meeting the Group's objectives and whereby personal contribution and teamwork are both key.

- Systematically assess the results of their actions and the extent to which they are able to adapt to the competencies required of them at each point in time.

- Provide remuneration that is both fair and competitive. "Fair" in the sense that it should be commensurate with the degree of responsibility and criticality of the position. "Competitive" by offering a flexible market benchmark tailored to the prevailing circumstances in each case so as to attract and retain the finest talent out there.

- Guarantee that all these principles are effectively applied so as to ensure objective management.

- Ensure that the system of remuneration is reviewed periodically and ratified, modified or increased to reflect results as and when needed.

Accordingly, remuneration payable to directors as consideration for their executive functions seeks:

- To offer an overall package that proves competitive when compared to the remuneration offered by peer companies operating within and outside the energy sector (such companies being comparable in terms of stock market capitalisation, size, shareholding structure and international presence).

- To maintain a variable annual pay component pegged to the attainment of measurable objectives aligned with the interests of shareholders, including control and measurement systems. Therefore, variable remuneration will be based on a series of assessments that measure both individual performance and the Company's overall performance. The main yardstick for this process will be the Company's annual budget, although further benchmarks concerning the way the objectives are met (quality, efficiency, safety, etc.) will also need to be added.

- To incorporate multi-year variable remuneration elements to provide an additional incentive for meeting longer-term objectives. The main yardstick here will be the objectives set out in the Company's Strategic Plan.

- To set up a competitive system of employee remuneration, benefits and bonuses.

3. Director remuneration policy for Board-related business.

A. Regulatory framework and Articles of Association

Paragraph 1 of Article 529 *septdecies* of the LSC reads as follows:

1. The directors' remuneration policy shall determine the directors' remuneration for their position as such, within the remuneration system foreseen in the by-laws and must include, by necessity, the maximum amount of annual remuneration to satisfy all directors in that condition.

2. Remuneration for each director for their position shall be determined by the board of directors, who, for this purpose, shall take into account the duties and responsibilities attributed to each director, their position in board committees and any other objective circumstances considered relevant.

Article 217 of the LSC reads as follows:

4. In all cases, directors' remuneration must remain proportionate to the significance of the company, the economic situation at that moment and the market standards of comparable companies.

Meanwhile, Article 44 of the Company's own Articles of Association reads as follows:

1.- *The remuneration to be collected by directors for their status as such will consist of a fixed allocation.*

The director remuneration policy must necessarily state the maximum amount of annual remuneration to be paid to all of the directors for their status as such.

The remuneration for each director, for their status as such, shall be determined by the Board of Directors, having regard to the functions and responsibilities assigned to each director, their membership of Board committees and any other objective factors considered to be relevant.

The director remuneration policy must be approved by the Shareholders' Meeting at least every three years as a separate item on the agenda.

In any event, director remuneration must be reasonably proportional to the importance of the Company, its economic situation at any given time, and the levels in comparable companies in the market. The remuneration system that is established must be focused on promoting the Company's long-term profitability and sustainability and include the necessary safeguards to avoid the assumption of excessive risks and rewarding unfavourable results.

(…)
3.- Furthermore, the Company shall arrange a civil liability insurance policy for its directors."

B. Director remuneration policy for Board-related business.

Remuneration payable to directors for their status as such will consist of a fixed annual allocation.

This annual amount may well very, depending on the committee or committees on which each director sits and the responsibility required of each of them. It may also differ depending on the responsibility and functions assumed by each director on the Board itself or on the committees.

The Board of Directors may have regard to any other matters or circumstances deemed relevant, provided these are objective and are applied transparently.

The Board of Directors will be free to establish the frequency with which annual remuneration is to be paid.

Without prejudice to the terms of this and the following paragraph concerning the maximum permitted annual amount, the Board shall be free to establish director remuneration in any way it deems fit within the bounds of the law.

The directors shall also be named as insured parties under the civil liability insurance policy for directors and executives of the GAS NATURAL FENOSA Group, so as to cover any liability they may incur when carrying out and discharging their functions.

4. **Maximum annual amount of remuneration payable to directors for their position as such.**

A. Regulatory framework and Articles of Association.

Article 217 of the LSC reads as follows:

3. The maximum amount of annual remuneration for directors in their capacity as such must be approved by the general meeting and shall remain valid until amendment of the same is approved.

4. In all cases, directors' remuneration must remain proportionate to the significance of the company, the economic situation at that moment and the market standards of comparable companies.

Meanwhile, paragraph 1 of Article 529 *septdecies* of the LSC reads as follows:

1. The directors' remuneration policy shall determine the directors' remuneration for their position as such, within the remuneration system foreseen in the by-laws and must include by necessity, the maximum amount of annual remuneration to satisfy all directors in that condition.

B. Maximum amount of annual remuneration

Total annual remuneration for all directors combined due to their status as such shall not exceed 5,000,000 euros. This cap will remain in effect until modified.

5. Director remuneration policy for the performance of executive functions.

A. Regulatory framework and Articles of Association

Article 529 *octodecies* of the LSC reads as follows:

1. Remuneration of directors for fulfilling the executive duties foreseen in the approved contracts, pursuant to the provisions of article 249, shall be adjusted to the directors' remuneration policy, which, by necessity, must include the sum of fixed annual remuneration and variations thereof, during the period to which the policy refers; the different parameters for fixing variable components and the main terms and conditions of their contracts, paying particular attention to their duration, compensation for early severance or termination of the contractual relationship, exclusivity, post-contractual non-compete and loyalty pacts.

2. The board of directors is responsible for fixing directors' remuneration for performing their executive duties and for the terms and conditions of their contracts with the company, in accordance with the provisions of article 249.3 and the directors' remuneration policy, approved by the general meeting.

Article 44 of the Company's own Articles of Association reads as follows:

2.- Without prejudice to the remuneration payable to directors for their status as such, directors who have been assigned executive functions in the Company, regardless of the nature of their legal relationship with it, will be entitled to collect remuneration for the performance of those functions, which will be determined by the Board of Directors in accordance with the provisions of the director remuneration policy approved at the General Shareholders' Meeting and which will be set out in a contract to be signed by the director and the Company.

B. Director remuneration policy for the performance of executive functions

The director remuneration policy for the performance of executive functions will include:

1. Basic remuneration

An annual allocation determined by the Board of Directors upon the proposal of the Appointments and Remuneration Committee and to be added to the fixed remuneration payable for the director's seat on the Board of Directors and its committees. The sum of both items will constitute the director's fixed monetary remuneration.

Basic remuneration will vary each year at the discretion of the Board of Directors and upon a report of the Appointments and Remuneration Committee, depending on how the Company has performed and on the levels of remuneration observed at peer companies.

2. *Variable remuneration*

Variable remuneration must account for a relevant part of total remuneration and will be pegged to the performance of pre-defined, specific and measurable objectives that are directly aligned with the creation of value for shareholders along different time horizons.

2.1 Annual variable remuneration.

Annual variable remuneration will be based on a yearly assessment of the extent to which pre-defined, specific and measurable objectives have been attained in relation to economic and financial variables, efficiency and growth variables, and the important matters of quality and safety. This remuneration is pegged directly to the fulfilment of those objectives.

The objectives set for executive directors will be based on the indicators and weightings set by the Board of Directors, upon the proposal of the Appointments and Remuneration Committee, with the main yardstick being the budget for the Company approved by the Board of Directors.

Annual variable remuneration will be calculated by taking all fixed monetary remuneration and then applying to this amount a percentage based on the actual attainment of the pre-defined objectives.

2.2 Multi-year variable remuneration.

The Company may set up programmes and schemes to offer monetary incentives, pegged this time to the attainment of mid-term objectives. The aim here is to retain executive talent and motivate executive directors to meet these objectives, the aim of which is to maximise the creation of long-term value at GAS NATURAL FENOSA.

These programmes must be approved each year by the Board of Directors of GAS NATURAL SDG, S.A. upon the proposal of the Appointments and Remuneration Committee.

They are essentially multi-year remuneration plans targeting the specific years envisaged in each of them. Remuneration under the plans is pegged to the attainment of a set of objectives largely based on the Group's Strategic Plan in effect at the time in question. These objectives are directly aligned with shareholder interests by helping to generate value at the Company.

Attaining the various objectives will entitle the beneficiaries under the plan to receive the mid-term remuneration in the period in question. The Appointments and Remuneration Committee shall assess the extent to which the pre-defined objectives have been met and then present its findings to the Board of Directors for approval. However, entitlement to the bonus incentive may be made conditional on the beneficiary remaining in the Group's employ until 31 December of the last year of the programme, with the exception of the special situations envisaged in the terms and conditions governing the programme.

The Appointments and Remuneration Committee shall determine the extent to which the objectives under each of the Mid-Term Remuneration Programmes have been met and shall lay its findings before the Board of Directors for final approval of the amounts to be paid out to executive directors as multi-year variable remuneration.

Multi-year variable remuneration will be calculated by taking the amount of variable annual remuneration effectively paid and then applying to this amount a percentage based on the actual attainment of the pre-defined objectives.

2.3 Other variable remuneration.

The Board of Directors may establish remuneration pegged to the fulfilment of specific pre-defined objectives aimed at providing incentives for the attainment of specific one-off objectives. The Board of Directors may also, in exceptional cases, establish remuneration for accomplishing one-off feats or objectives that have made a sizeable contribution to the Company's results.

3. *Employee benefits*

Executive directors may be granted additional benefits beyond the pension entitlements and other benefits afforded under the Social Security system. These include the collective saving schemes, pension plans and life insurance policies awarded to Company executives, even when these additional benefits are channelled through different instruments due to the commercial nature of the relationship between executive directors and the Company.

The remuneration package may be further expanded with other types of benefits, including medical healthcare insurance, discounts on gas and electricity bills, and other employee benefits that apply generally to Company executives.

4. *Main clauses contained in the contracts of executive directors*

The remuneration, rights, obligations and other financial compensation intended for executive directors will be set out in a contract to be approved by the Board of Directors.

The contracts of executive directors must contain a clause requiring advance notice of at least six months except for cases of force majeure. They also feature an exclusivity clause for as long as the director remains with the Company and a non-disclosure undertaking, which will remain binding even after the contract has ended.

The contract may also envisage a fixed amount of compensation upon certain termination events occurring. In no event will any such compensation be payable in the event of any material breach deemed wilful or negligent of the professional obligations of executive directors, insofar as the breach causes serious harm to the interests of GAS NATURAL SDG, S.A.

The contract may also include a post-contractual non-compete clause binding for one year following termination. If this clause is breached, the director may be required to pay maximum compensation equivalent to one year’s total pay.

Last but not least, the contract shall specify that the executive directors have been named as insured parties under the civil liability insurance policy for directors and executives of the GAS NATURAL FENOSA Group, so as to cover any liability they may incur when carrying out and discharging their functions. The contract may also contain an undertaking by GAS NATURAL FENOSA to hold the executive director harmless in respect of any expenses incurred by them, or any damage or loss caused to them as a result of a third-party claim deriving from the performance of their functions, provided the case did not involve wilful misconduct or negligence on the part of the executive director.

5. *Other considerations*

The remuneration system and the basic terms and conditions of contract described above will apply equally to any new executive director who joins the Board of Directors while this policy remains in effect, with special regard paid to the functions and responsibility they assume and their professional experience.

Executive directors who do not render their services on a full-time basis will be treated similarly to full-time directors, although naturally their remuneration and other contractual terms and conditions will reflect their reduced commitment to Board business, meaning therefore that part of the remuneration and part of the contractual terms will not apply in their case.

6. Coverage of civil liability for directors

The reworded paragraph 3 of Article 44 of the Articles of Association, which the Board of Directors has laid before the General Shareholders' Meeting for its approval, reads as follows:

"3. Furthermore, the Company shall arrange a civil liability insurance policy for its directors."

The Company will arrange and pay the relevant premiums under a civil liability insurance policy intended for the board members of GAS NATURAL SDG, S.A., including executive directors, such policy to cover any liability they may incur when discharging their duties as directors.

The Company may do so by taking out and paying a global premium for a joint civil liability insurance policy for all Board members and executives, extending to both the parent company and all Group subsidiaries and affiliates.

Barcelona, 7 March 2017.

The Board of Directors of GAS NATURAL SDG, S.A.