

# Tax Strategy and tax risks management and control Policy

Madrid, 9 January 2018



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## 1. Introduction

The Corporate Enterprises Act establishes that the Board of Directors is responsible for determining the tax Strategy and the tax risks management and control Policy. In this regard, the Board of Directors of Gas Natural SDG, S.A. has passed this document during the meeting held on January 9, 2018. This document, applicable to all the companies controlled by Gas Natural Fenosa, aims to establish the leading guidelines by which the tax risks management and control policy will be governed.

These tax policies of Gas Natural Fenosa are aligned with:

- a) the Corporate Responsibility Policy of Gas Natural Fenosa, which establishes as one of its commitments and principles of action *"acting responsibly in business management and complying with tax obligations in all jurisdictions in which the company operates, assuming the commitment of transparency and collaboration with the corresponding tax authorities"*.
- b) the Ethic Code of Gas Natural Fenosa, which establishes that *"all employees of the group must comply with the laws in force within the countries where they carry out their activities, taking into account the spirit and purpose of the same, and observing in all their actions an ethical behavior"*.
- c) the approved Code of Good Tax Practices (CGTP), dated on July 20, 2010, by the plenary session of the Large Business Forum (a body created by the State Tax Administration Agency and formed by the major spanish companies, including Gas Natural SDG, SA). This CGTP contains recommendations from the tax authorities, voluntarily assumed by Gas Natural Fenosa, aimed at improving the application of the tax system by increasing legal security, reducing litigation, reciprocal cooperation based on good faith, trustworthy relationships, and the application of responsible tax policies.
- d) the guidelines of the Organization for Economic Cooperation and Development (OECD) for multinational companies in tax matters and their recommendations regarding cooperative tax compliance.

## **2. Tax Strategy principles**

The tax Strategy of Gas Natural Fenosa is based on the following five sound principles of action:

### **2.1. Responsibility in compliance with tax obligations**

Gas Natural Fenosa is aware that the compliance with the tax obligations required in the countries in which it operates implies contributing to its economic and social progress. In this regard, it diligently manages the compliance with tax obligations according to the law and, in this sense, it takes reasonable measures to interpret the rules considering the will of the legislator and the interpretive criteria established by the competent tax authorities.

Gas Natural Fenosa applies the arm's length principle to its related party transactions, aligning the taxation with the effective realization of economic activity and the generation of value, in accordance with the assumption of risks and benefits in the jurisdictions in which it operates and with the local tax legislation and the international tax standards developed by the OECD.

### **2.2. Low tax risk profile**

Gas Natural Fenosa's tax Strategy is aligned with the values of the corporate culture and the low risk profile that has traditionally characterized the Group. For this, Gas Natural Fenosa is committed to establishing a low level of tolerance to tax risk and a prudent tax risk profile.

### **2.3. Adoption of tax treatments based on economic reasons**

Gas Natural Fenosa adopts tax treatments based on economic reasons or business practices commonly accepted, avoiding abusive tax planning practices or schemes.

In particular, Gas Natural Fenosa avoids the application of instrumental companies based in countries or territories considered as tax havens by the Spanish tax authorities, with the sole purpose of reducing the tax burden. In the exceptional case that the effective realization of an economic activity requires taking participation in an entity located in a territory qualified as a tax haven, the transaction will be subject to the approval of the Board of Directors after verifying that the location of the activity is not based on reducing Gas Natural Fenosa's taxation or transparency.

## **2.4. Transparency of tax information**

Gas Natural Fenosa promotes a clear, responsible and transparent communication with its different stakeholders in order to comply with the leading reporting standards on the group's tax situation.

In particular, it voluntarily discloses its total tax contribution and publishes the detail of the taxes paid within the main countries in which it operates, breaking down the taxes paid that imply a cost within the results and the taxes withheld on behalf of third parties.

## **2.5. Cooperation with tax Authorities**

Gas Natural Fenosa is committed to strengthen a relationship with the tax Authorities inspired by the principles of trust, good faith, transparency, collaboration, loyalty and the search for mutual understanding on the basis of reciprocity, all with the aim of facilitating the application of the tax system, increasing legal security and reducing litigation.

For the above, Gas Natural Fenosa supplies and makes available to the tax Authorities all the information regarding actions and decisions in tax matters in the shortest possible time.

## **3. Basic guidelines of the tax risks management and control Policy**

With the purpose of applying the tax policies in accordance with the defined tax Strategy, a tax risks management and control Policy has been established, which has been developed internally by means of the General Rule of Tax Control Framework of Gas Natural Fenosa.

The tax risks are classified as follows (i) compliance tax risk (derived from the lack of compliance with the tax obligations on time and in the appropriate manner), (ii) technical tax risk (derived from the uncertainty about whether the tax authorities will accept a tax treatment adopted in the tax returns filed or expected to be filed); and (iii) reputational risk (derived from the fact that the decisions taken in tax matters achieve notoriety in the social media and damage the image or reputation of the group).

The tax risks management and control Policy is based on the following five guidelines of action:

### 3.1. Tax governance clearly defined

The organizational principles ensure that the tax function is developed globally (with accountability over all tax matters of the group in the different areas of management), integrated (with a single criterion) and by professional (expert teams).

The global and integrated responsibility of the tax function is based on the centralization of the Tax units in charge of tasks related to filing returns and compliance with tax obligations, advice and definition of tax criteria, management and coordination of tax audits and litigation and communication and relationships with the tax Authorities. For the correct assumption of these functions, the Tax units consist of teams with technical and practical training in accounting, financial and tax matters that allows them to perform their tasks in an appropriate manner.

On the other hand, the business and corporate units are responsible for informing and involving the Tax units about the existence of any activity or transaction likely to have a tax impact in order to establish the necessary relationships that ensure the correct identification of all tax risks.

### 3.2. Procedures for controlling the tax risk arising from the *compliance*

Gas Natural Fenosa has developed procedures to define the group's main tax processes, in connection with both the filing returns and the compliance with tax obligations. Said procedures, describe the processes for properly assessing tax issues and identifying risks and control activities to ensure the integrity and quality of the tax returns. In addition, they include the identification of the responsible team members for managing and monitoring, minimizing the risk of error.

### 3.3. Procedures for the evaluation and control of uncertain tax treatments

All tax treatments (adopted or expected to be adopted in the tax returns) that are uncertain (which the tax authorities may not accept) are evaluated using a predefined methodology.

Based on the assessments performed and the defined risk tolerance level a mitigation, communication and, where appropriate, approval plan is established according to the procedures and levels of authorization documented in the General Rule of Tax Control Framework of Gas Natural Fenosa.

Additionally, there is a number of predefined significant transactions whose tax implications are reported by the CFO to the Board of Directors, prior to their approval.

### **3.4. Operation's supervision of the Tax Control Framework of Gas Natural Fenosa**

On a regular basis, and at least once a year, the Tax Governance and Control Unit performs a testing on the design and effectiveness of the Tax Control Framework of Gas Natural Fenosa, with the aim of evaluating whether the tax risks are adequately identified, assessed and controlled. In the event that significant control deficiencies are found out, improvement plans are put in place within the Tax Control Framework of Gas Natural Fenosa.

### **3.5. Periodical information of the tax situation to be provided to the Board of Directors**

Prior to drafting the consolidated annual accounts, the CFO, after informing and discussing with the Audit Committee, will inform the Board of Directors about the tax situations of Gas Natural Fenosa. This information will include, among other matters: (i) the tax policies applied during the year, (ii) the information regarding taxes by country together with the information included within the annual financial report, (iii) tax audits, litigations and the tax risks map; (iv) compliance with the obligations undertaken by the adherence to the Code of Good Tax Practices; and (v) the most relevant results arisen from the monitoring of the Tax Control Framework of Gas Natural Fenosa.