2016
Annual report

Gamesa

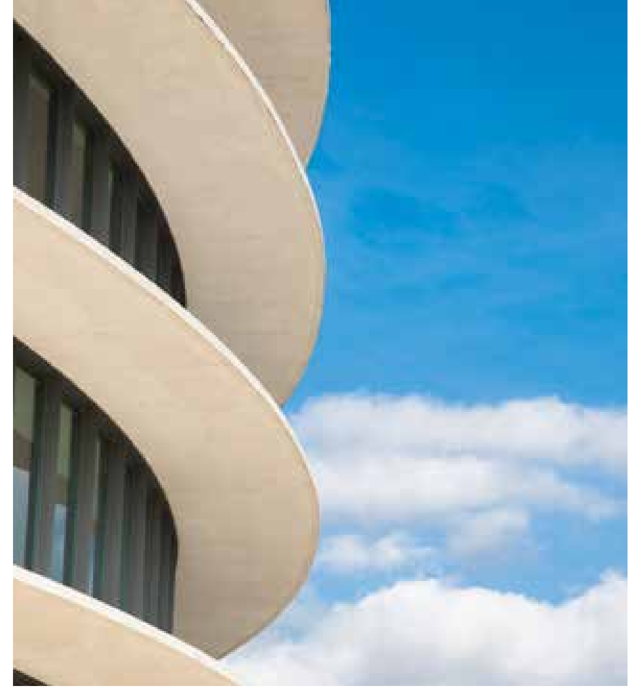
1976
2016

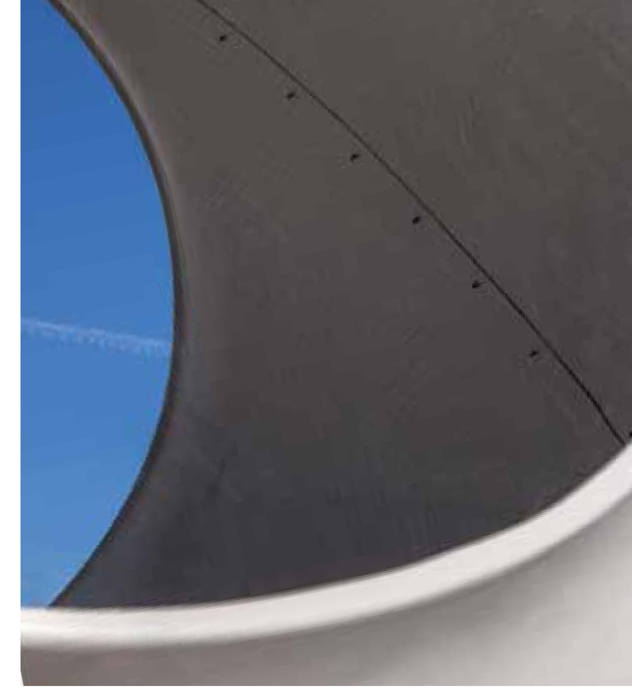
Gamesa
2016

2016

Gamesa
Annual report







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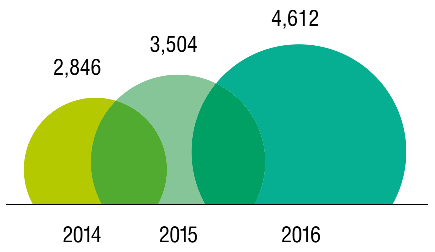
The year in figures

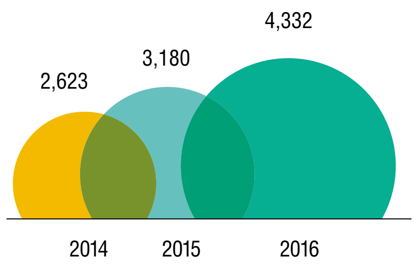
Financial indicators

Revenue

(€Mn)

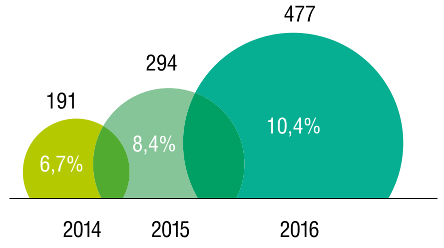


Sales volumes (MWe)



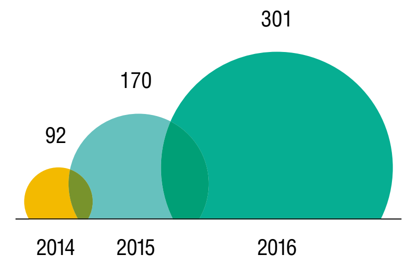
EBIT and EBIT margin

(€Mn)



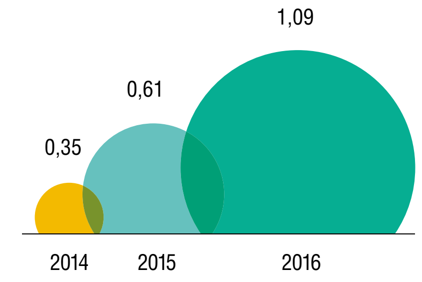
Net profit

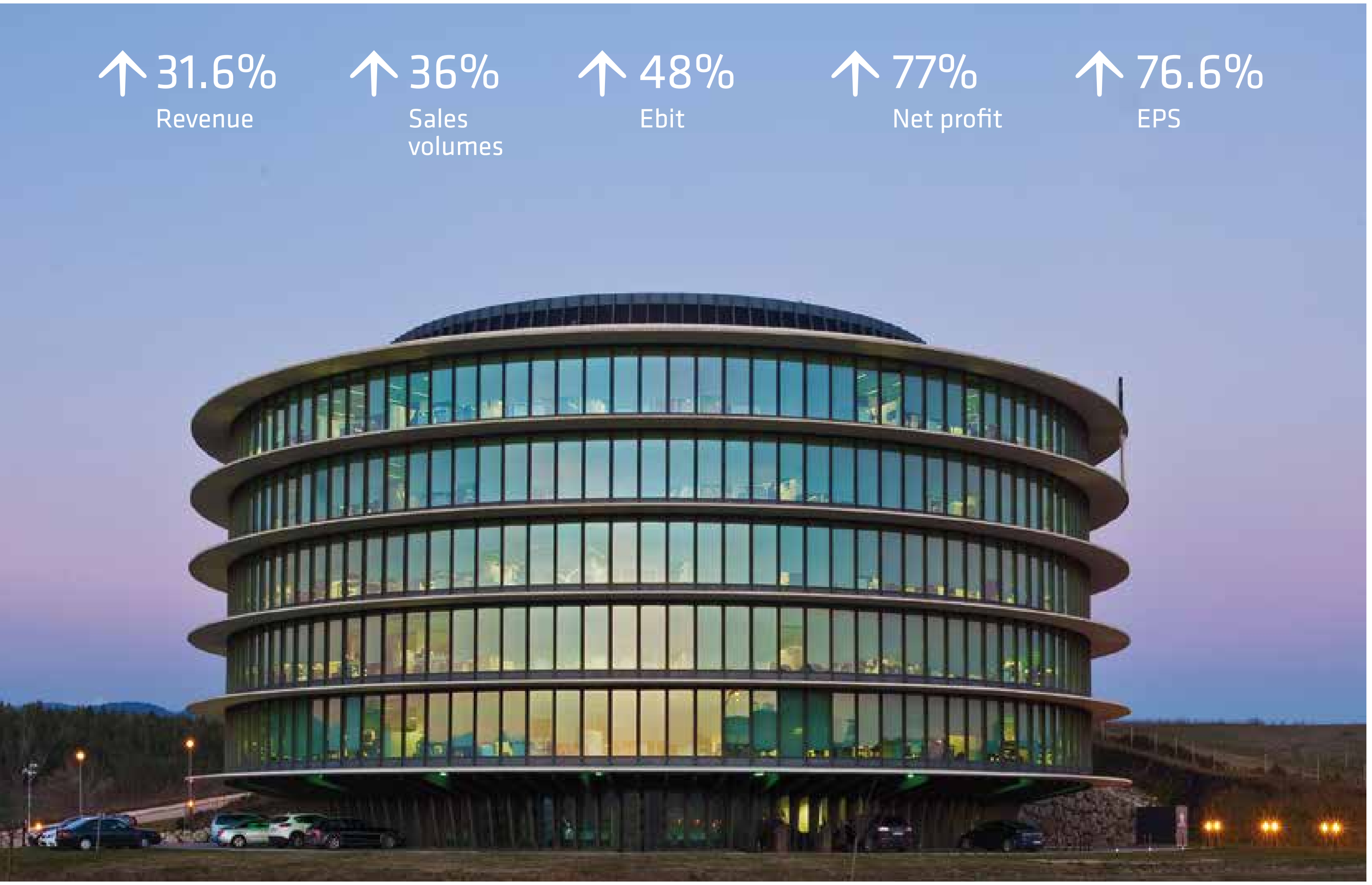
(€Mn)



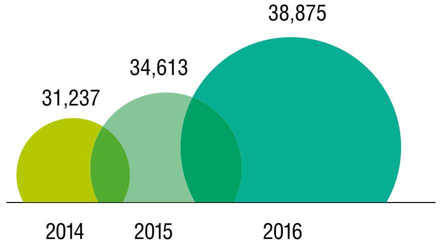
Earnings per share

(€)

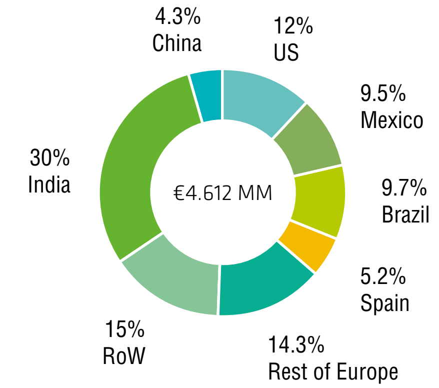




MWe Installed (cumulative)

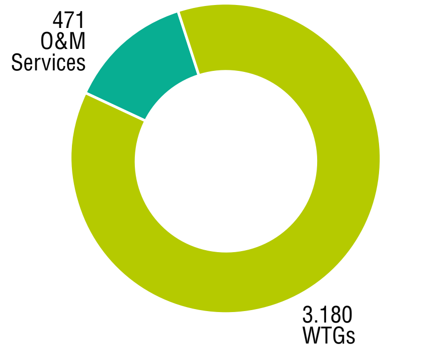


Geographic sales mix



Revenue by business line

(€Mn)

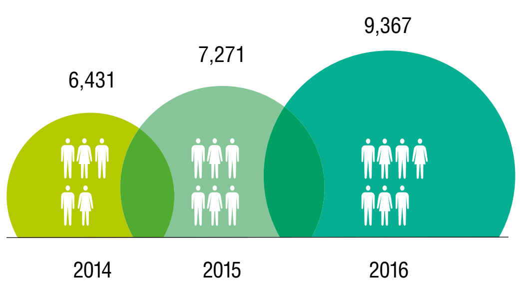


Balance sheet

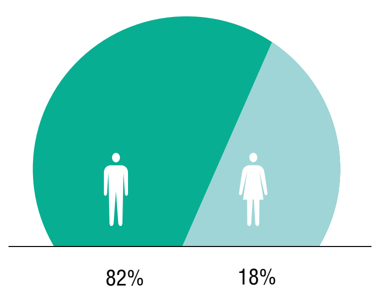
	2014	2015	2016
Working capital (Mn€)	71	12	-225
Cash (Mn€)	-143	-301	-682
Leverage ratio (ND/EBITDA)	-0,4x	-0,6x	-0,9x

Social indicators

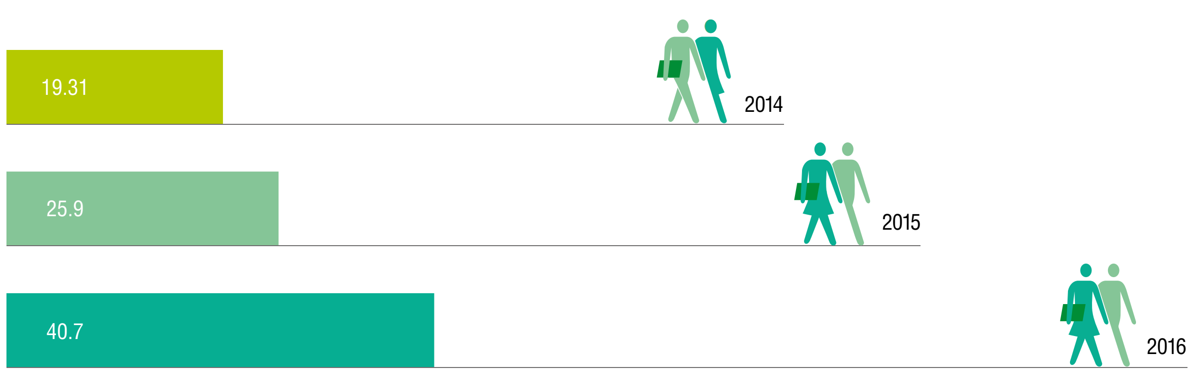
Workforce



Diversity

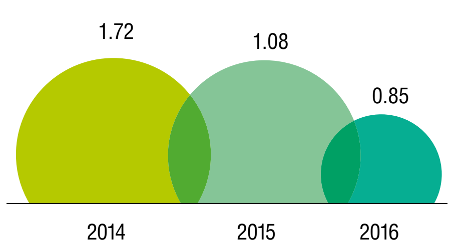


Training hours per employee



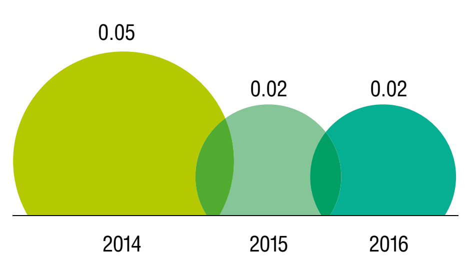
Lost-time injury frequency rate

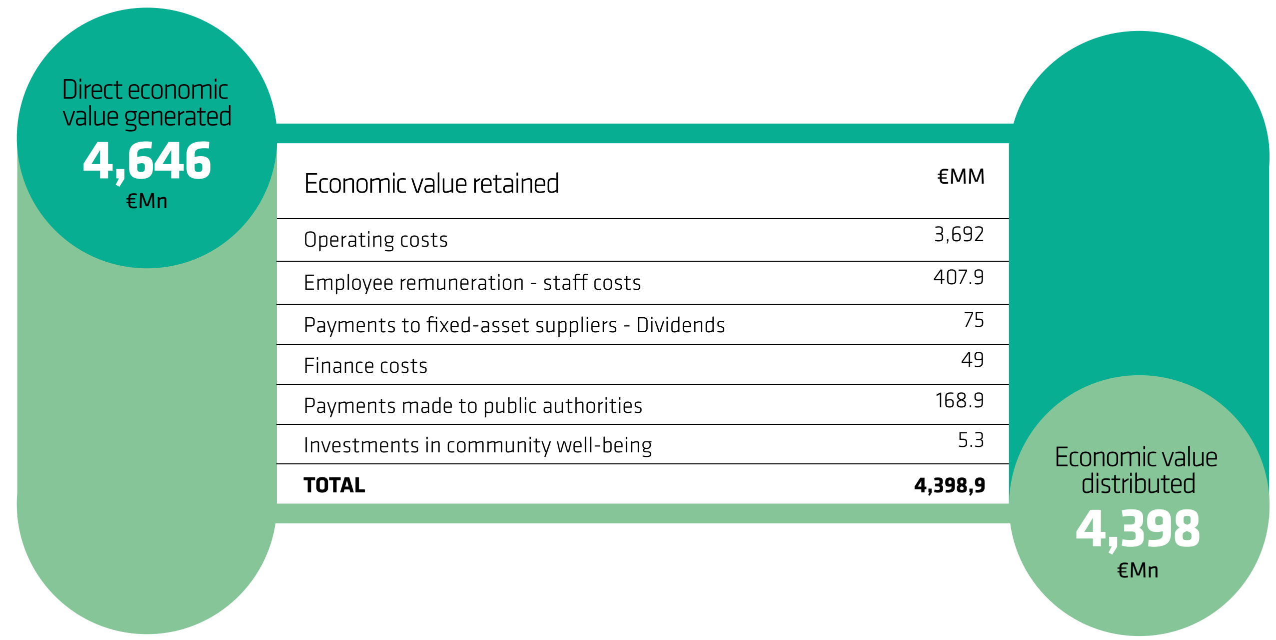
(N° of lost-time injuries per million hours worked)



Injury severity rate

(N° of days lost per million hours worked)





Economic value retained	€MM
Operating costs	3,692
Employee remuneration - staff costs	407.9
Payments to fixed-asset suppliers - Dividends	75
Finance costs	49
Payments made to public authorities	168.9
Investments in community well-being	5.3
TOTAL	**4,398,9**

Environmental indicators

	2016	**2015**	**2014**
Raw materials consumed (tonnes)	257,206	149,554	112,044
Power used (TJ)	521	452	308
Water consumed (m^3)	159,598	126,358	97,341
Waste generated (tonnes)	19,394	11,552	10,841
Discharges (m^3)	127,678	101,087	77,872
Carbon emissions (tonnes of CO_2)	30,156	36,855	29,879
Carbon emissions avoided (millions of tonnes of CO_2)	58.31	51.91	46.85
Energy consumption rate (GJ)	113	129	108
Water consumption rate (m^3)	35	36	34
Waste generation rate (tonnes)	4,2	3,2	3,8
Discharge generation rate (m^3)	28	28	27
Carbon emission rate (tonnes)	7	10	11
Carbon emission avoidance rate	1,384	1,447	1,264

Milestones

2016 will go down as a very important year in the history of Gamesa: not only did it celebrate its fortieth anniversary in the middle of last year, the company announced that it had reached an agreement with Siemens for the merger of their wind power businesses, creating new growth opportunities for the company. Below are the key milestones attained by the company over the course of the year:

January

Installation of 24 WTGs at an altitude of 3,400m in China

February

Gamesa celebrates its 40th anniversary

March

Entry into new markets: maiden orders in Sri Lanka and the Netherlands

April

First collective bargaining agreement covering office staff in Spain

May

Inauguration of the first prototype of the company's Offgrid solution in Aragón (Spain)

June

Gamesa and Siemens agree to merge their wind power businesses

July

Participation by the Gamesa DreamFooters, a team made up of Indian children at risk of social exclusion, in the Donosti Football Cup

September

Largest solar power order in India: turnkey construction of 130 MW

October

AGM at which Gamesa's shareholders ratify the merger with Siemens Wind Power

November

2 GW installed in Brazil

December

Début order for the G132-3.3 MW turbine

1

Our identity

Mission, vision and values

Our mission

To offer the most innovative and sustainable solutions in the renewable energy industry, creating long-term value for all of our stakeholders.

With a track record dating back 40 years, Gamesa is currently the world's fourth largest OEM in the onshore wind industry. Its reach extends to over 50 countries on all five continents. To achieve this position, Gamesa works end to end, designing, manufacturing and installing wind turbines, managing maintenance and operation services and developing, building and selling wind farms.

Gamesa pursues profitable and sustainable growth. It boasts a solid balance sheet and a competitive portfolio of products and services that contribute to continually improving the efficiency and cost of energy and creating long-term value for all its stakeholders: shareholders, employees, customers, suppliers and society as a whole.

What we aspire to

We aspire to lead the renewable energy industry at the global level in order to steer the transition towards a sustainable world.

Technology, the falling cost of energy and the fight against climate change are accelerating the transformation of the global energy model towards complete decarbonisation. This transformation is already high on the agendas of all large companies, public institutions, governments and conscientious citizens.

Gamesa actively supports any long-term commitment to combating climate change. At present, the turbines installed by Gamesa prevent the emission of 55 million tonnes of carbon per annum. Moreover, the company is committed to having a net zero footprint by 2025.

In light of the major opportunities for development in the renewable energy sector, in emerging and mature markets alike, Gamesa is poised for continued growth in its traditional onshore business as well as in the offshore, solar power and offgrid segments.

Our values

Gamesa marries an entrenched industrial and technological culture with specific values: talent, integrity, innovation and excellence.

Integrity. We do business honestly and transparently. We uphold solid business ethics and take a zero tolerance stance towards any form of dishonest practice. We enforce these pledges by means of strict compliance with applicable legislation and stringent ethic principles and internal policies.

Talent. Gamesa is a people-oriented company with a team of 9,000 highly-qualified professionals who share a culture based on talent, teamwork and diversity.

Innovation. We are among the players in our industry most committed to innovation. We reinvent ourselves constantly to add value for all our stakeholders.

Excellence. We strive for excellence by means of organisational flexibility at the process level, solid methodology that is embedded worldwide and project execution guided by the most stringent quality standards.

40 years of Gamesa

1976-2016

1976
Gamesa is incorporated, under the name of Grupo Auxiliar Metalúrgico, working on management of industrial projects and technology for emerging businesses.

1986
Start-up of activities in the aeronautic sector.

1990
Iberdrola invests in Gamesa.

1993
Participation in the construction of a new aircraft for Embraer.

1994
Entry into the wind energy sector.

1995
Gamesa installs its first wind farm in the hills of El Perdón (Navarre, Spain).

1996
Gamesa develops its first wind farm in La Plana (Aragón, Spain).

1998
Start of wind farm maintenance outside of Spain, in Baja California (Mexico).

1999
Installations reach the 1-GW mark.

2000
IPO.

2001
Gamesa's shares included in the Spanish blue-chip stock index, the Ibex 35.

Start of international expansion with projects in Portugal, France, Greece, Ireland, the UK, the US, China and Mexico.

2002
Gamesa installs the first 2-MW turbine.

Acquisitions of Echesa (gearboxes), Cantarey (generators), Enertrón (converters), Made and Navitas.

2003
Entry into new markets: Germany, Italy, India, Vietnam, Egypt, Japan, Korea, Taiwan and Morocco.

2004
Debut supply order in India. First manufacturing facilities set up in the US and China.

2006
Aeronautic business disposed of to focus on the renewable energy business.

2007
Alliance struck with the Daniel Alonso group for the manufacture of turbine towers.

2008
First factory opened in India.

2009
Installation of the first prototype from the 5-MW platform.

2010
Manufacturing capabilities established in Brazil.

2014
The company ranks as the #1 OEM in India for the first time.

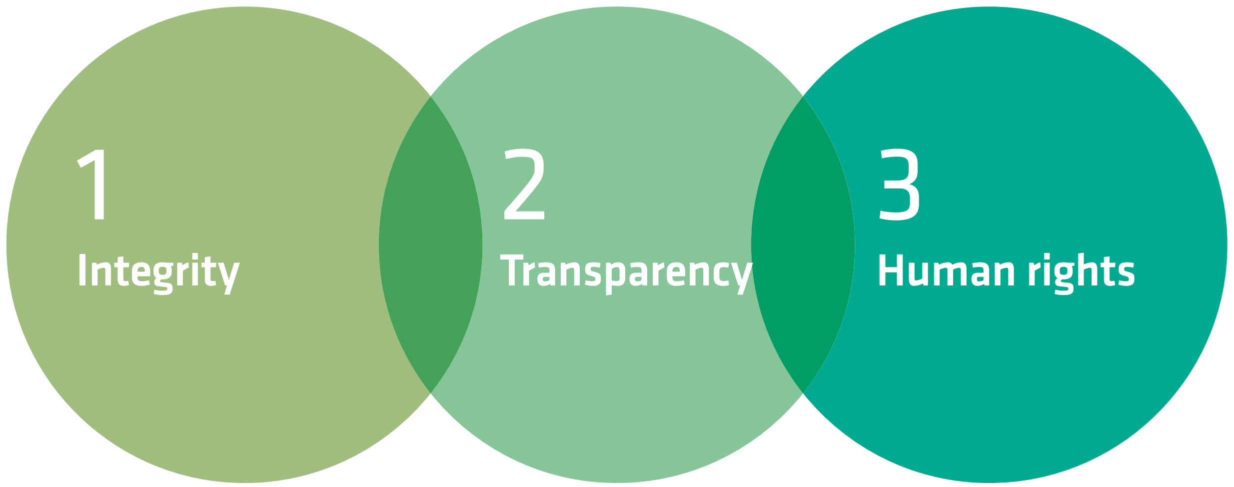
2015
Creation of Adwen, a joint venture for the development of the offshore business. Launch of the 3.3 MW platform. Entry into the solar power business in India.

2016
Installation of the first offgrid prototype.

Our priorities

Gamesa's Corporate Social Responsibility strategy is articulated around how the company wants to be positioned in the long term (horizon: 2025). As such, it addresses the aspects of corporate citizenship of importance to its various stakeholders, building their legitimate expectations into its decision-making and everyday management. This long-term vision is coupled with short- and medium-term initiatives so that the company adapts continually to prevailing demands on the business.

Our priorities and the progress made



1 Integrity

Development of an integrity framework to encourage communication, knowledge and enforcement of the Code of Conduct and emanating compliance and crime & fraud prevention rules and procedures.

Initiatives executed

- Update of the Corporate Social Responsibility Policy.
- Adoption of a responsible tax behaviour policy.
- Development and oversight of the whistle-blowing channel.
- Update of the Code of Conduct and related training sessions.
- Review and rollout of the crime and fraud prevention protocol and internal oversight.

2 Transparency

Enhanced transparency by means of the implementation of tools designed to consolidate the CSR reporting effort, systematically track non-financial KPIs and facilitate the real-time reporting of these metrics.

Initiatives executed

- Active collaboration with organisations for the development of the CSR effort.
- Participation in international non-financial reporting projects.

3 Human rights

Integration of human rights considerations into managerial processes so that these rights are further embedded into our operations.

Initiatives executed

- Establishment of the 'Global labour agreement on social responsibility'.
- Tightening of corporate security standards by means of operating procedures and periodic assessments.

To this end, in 2015, in tandem with the 2015-2017 Business Plan, Gamesa rolled out its Master Corporate Social Responsibility Plan for 2015-2017. This plan maps out the corporate priorities that it believes must frame the company's economic performance and is structured around seven programmes that are being executed by means of 26 lines of initiative and 50 specific actions, having first identified the matters of greatest importance to its stakeholders with a view to providing a reasonable response to their expectations.

4 Labour practices

Development of fair labour practices covering employment terms, working conditions, management-employee dialogue, career development and workplace health and safety.

Initiatives executed

- Development of training programmes designed to reinforce the safety culture among Gamesa employees and contractors.
- Development of a Diversity and Inclusion Policy and tracking of related KPIs.
- Introduction of checks to guarantee non-discriminatory hiring.
- Encouragement of career development.
- Promotion of a culture of work-life balance and shared responsibility.
- Reduction of accident rates by 10% and ongoing implementation of preventative safety measures.
- Workplace climate surveys to measure the extent of implementation of good labour practices .

5 Supply chain

Responsible development of the supply chain factoring in due diligence measures covering matters related to ethics, transparency and supervision of supplier relations.

Initiatives executed

- Approval of a Supplier Relations Policy.
- Development of a Code of Conduct for Suppliers.
- Development of a CSR audit process: over 100 suppliers audited.

6 Local communities

Promotion of effective engagement with local communities, stepping up support for education and culture, job creation, community well-being and the development of skills from which to make a living.

Initiatives executed

- Creation of a CSR committee in India.
- Specific social action plan for Gamesa India.
- Sizeable investment in community projects (€500,000 in 2015-2017).

7 Environment

Protection of environmental capital, adopting practices designed to reduce pollution, use natural resources sustainably, protect and/or restore natural habitats and fight climate change.

Initiatives executed

- Systematic calculation of the company's environmental footprint.
- Maintenance of environmental management certification under ISO 14001.
- Verification of greenhouse gas emissions under ISO 14064.
- Electricity supplied to all plants and offices generated 100% from renewable sources.

For more information, refer to page 10 of Gamesa's Corporate Responsibility Report .

Organization 2016

Board of Directors

Chairman

Ignacio Martín
(Executive) (1)

Deputy Chairman

Juan Luis Arregui
(Independent) (1 and 4)

Members

José María Vázquez
(Independent) (2)

Gerardo Codes
(Proprietary) (1)

Francisco Javier Villalba
(Proprietary) (3 and 4)

Sonsoles Rubio
(Proprietary) (2)

José María Aldecoa
(Independent) (1 and 5)

Gloria Hernández
(Independent) (2)

Luis Lada
(Independent) (1)

José María Aracama
(Independent) (2 and 3)

Andoni Cendoya
(Independent) (3 and 4)

Secretary and Board Member

Carlos Rodríguez-Quiroga
(Executive)

Deputy Secretary, non member

José Antonio Cortajarena

Miembro de:
(1) Executive Committee
(2) Audit and Compliance Committee
(3) Appointments Committee
(4) Remunerations Committee
(5) Lead Independent Director

For more information on the directors' backgrounds, see page 14 of the 2016 Annual Corporate Governance Report, which can be found on Gamesa's website

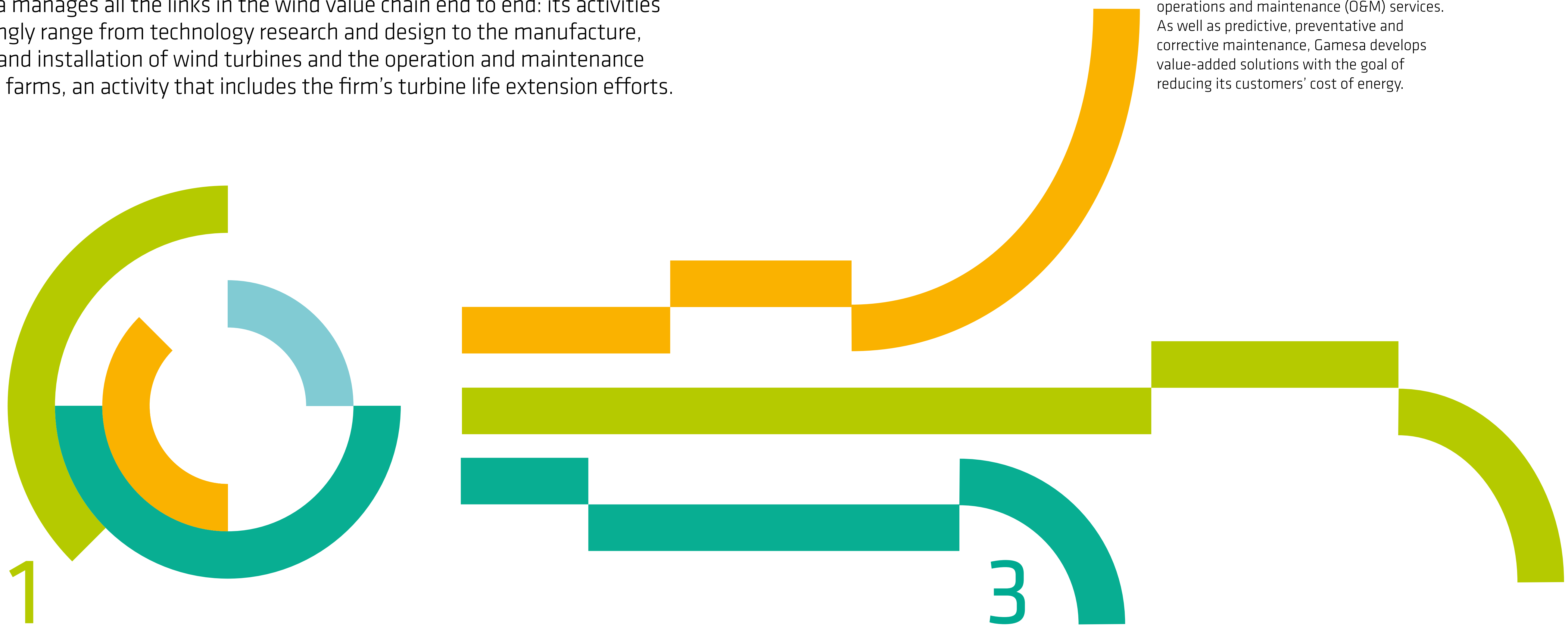
Management

Executive Chairman
Ignacio Martín

- **Director of Internal Audit**
  Félix Zarza
- **Chief Financial Officer**
  Ignacio Artázcoz
- **Business CEO**
  Xabier Etxeberria
  - **CEO APAC**
    Álvaro Bilbao
  - **CEO USA**
    Borja Negro
  - **CEO EMEA**
    Ricardo Chocarro
  - **CEO India**
    Ramesh Kymal
  - **CEO Latam**
    José Antonio Miranda
- **Chief Corporate General Secretary**
  José Antonio Cortajarena
- **Business Development Managing Director**
  David Mesonero

Business lines

Gamesa manages all the links in the wind value chain end to end: its activities accordingly range from technology research and design to the manufacture, supply and installation of wind turbines and the operation and maintenance of wind farms, an activity that includes the firm's turbine life extension efforts.



1 Wind turbines

On the technology front, Gamesa designs and develops wind turbines, undertaking the entire OEM process, from conception to manufacture, assembly, logistics management, installation and commissioning. The ability to custom-develop turbine parts ensures design excellence and the highest standards of quality, while compressing delivery times and enabling quicker technical support during maintenance.

The ability to develop and build wind farms on a turnkey basis, one of the solutions offered by the company, sets Gamesa apart in the marketplace. This activity includes all the tasks associated with the development of a wind power generation project: from site identification and permitting to the ultimate sale and maintenance of the facility.

2 Operation and maintenance

Gamesa rounds out its end-to-end service offering with an extensive range of operations and maintenance (O&M) services. As well as predictive, preventative and corrective maintenance, Gamesa develops value-added solutions with the goal of reducing its customers' cost of energy.

3 Technological diversification

Gamesa's technology development capabilities have fostered the creation of subsidiaries specialised in electric and mechanical equipment designed not only with wind power but also other markets in mind, namely, Gamesa Electric, Gearbox and Offgrid.

Gamesa Electric

The company provides end-to-end and flexible electric system solutions using next-generation manufacturing processes; it is capable of mass production as well as tailored ad-hoc solutions for customers worldwide.

Gearbox

This unit custom designs, makes and sells gearboxes for businesses with stringent operating demands; it also provides support services to extend gearbox lives. Gamesa's strategy is to extend the useful life any damaged gearbox by fully reconditioning rather than merely repairing it.

Offgrid

The idea underpinning this new line is to service communities and industries isolated from the electricity grid. With this objective in mind, the company has developed its first offgrid prototype; it combines wind and solar power generation with diesel and storage battery fuelled power.

International presence

Wind farm development

Manufacturing plant

Offices

Operation and Maintenance

Europe and RoW

Algeria
10 MW

Azerbaijan
8 MW

Belgium
25 MW

Bulgaria
90 MW

Cyprus
20 MW

Egypt
780 MW

Finland
123 MW

France
224 MW

Germany
210 MW

Greece
159 MW

Hungary
10 MW

Ireland
54 MW

Israel
21 MW

Italy
1,729 MW

Jordan
66 MW

Kenia
14 MW

Maurice Island
9 MW

Mauritius
30 MW

Morocco
238 MW

Poland
763 MW

Portugal
494 MW

Romania
314 MW

South Africa

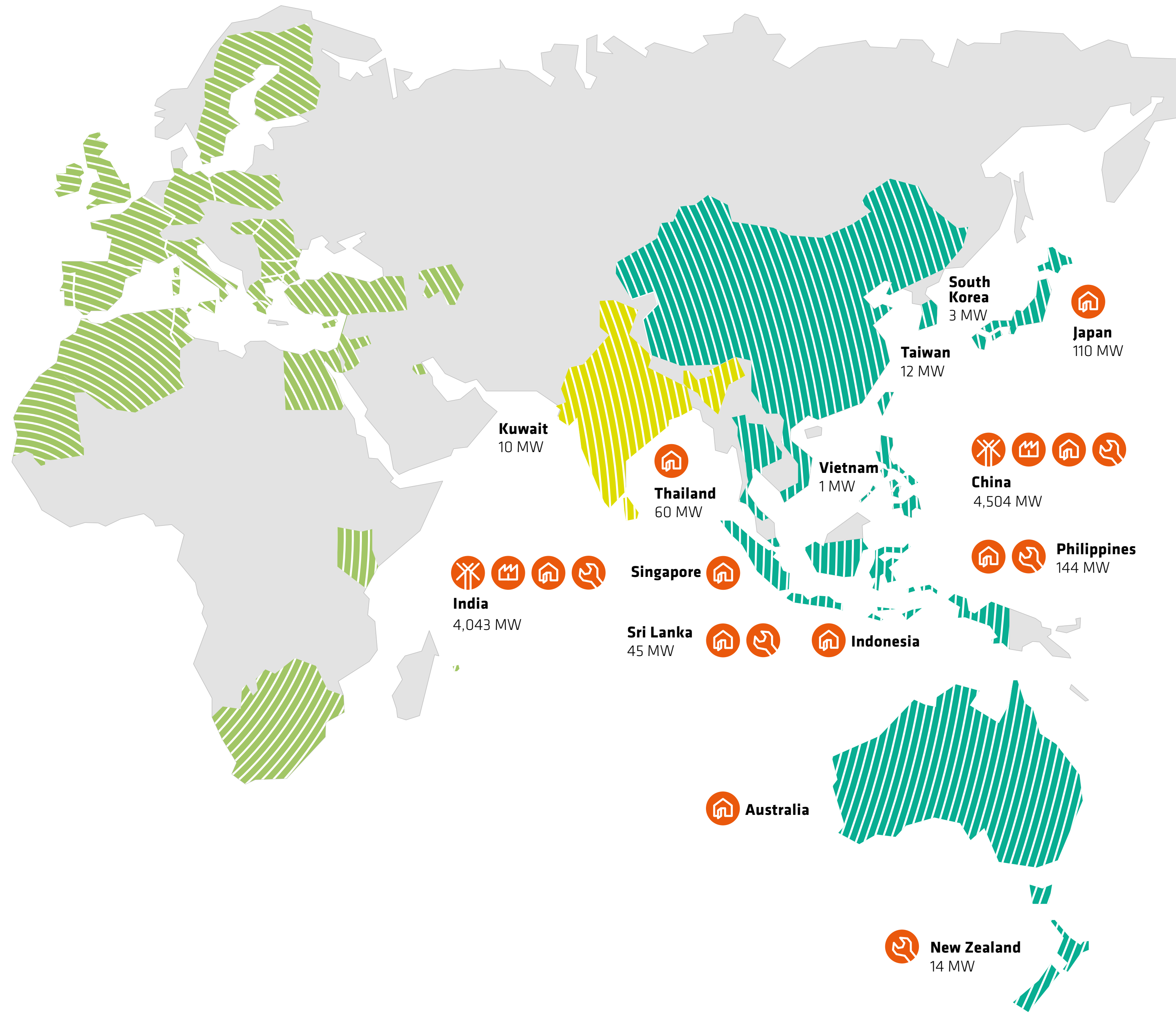
Spain
12,203 MW

Sweden
108 MW

Tunisia
242 MW

Turkey
166 MW

UK
757 MW



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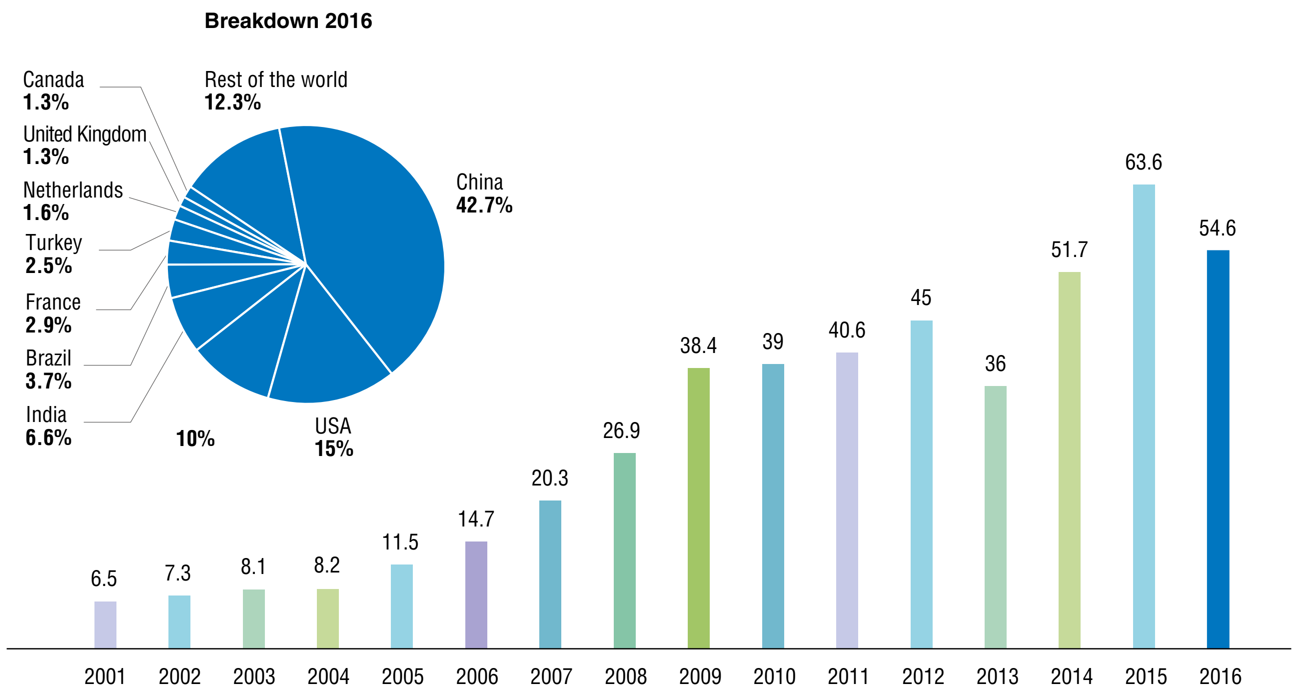
Performance in 2016

Market environment and outlook

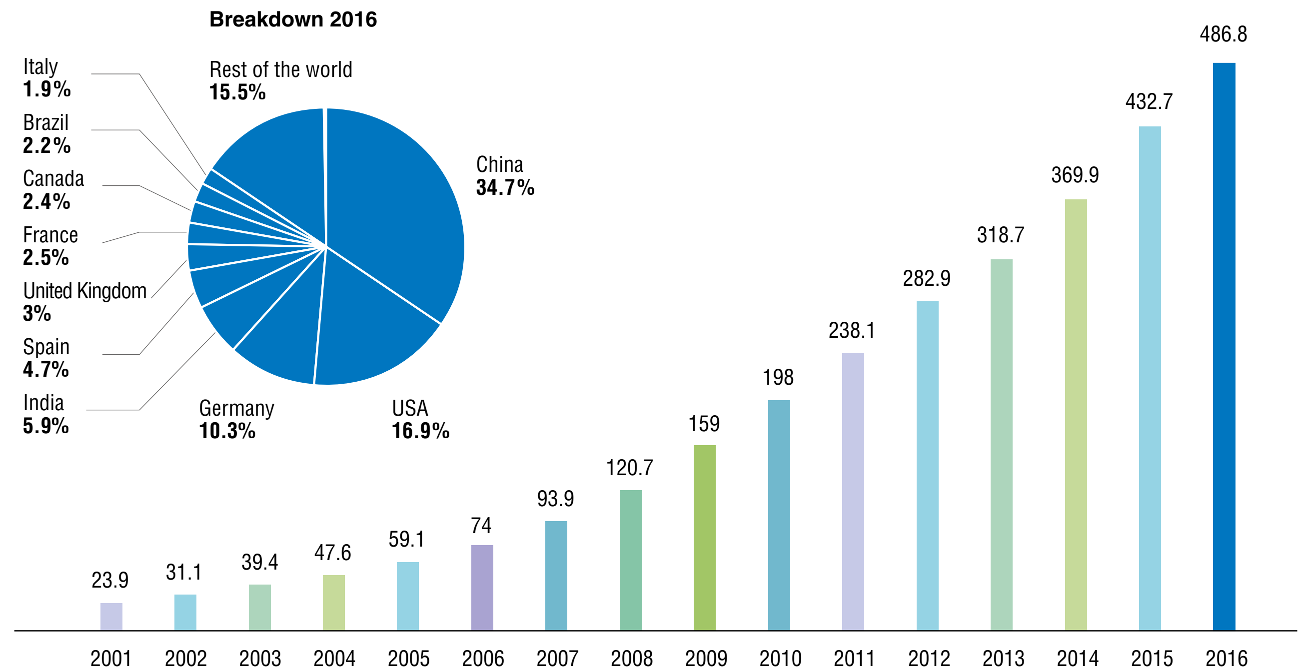
Annual capacity additions

(GW) Source: GWEC



Cumulative capacity

(GW) Source: GWEC



The global wind market expanded to 487 gigawatts (GW) in 2016, according to Global Wind Energy Council (GWEC) data, 54 GW of new capacity having been added during the year, which was 14% below the record 63 GW notched up in 2015.

The main reason for the lower growth in new capacity additions was the slowdown in China, which nevertheless topped the global ranking of annual installed capacity, installing 23.3 GW in 2016, down from nearly 31 GW in 2015.

China, followed by the US (new capacity: 8.2 GW) and Germany (5.4 GW) accounted for 68% of the new capacity installed in 2016, nations which in turn led the cumulative capacity ranking, followed by India, which hit a new national record, having installed 3.7 GW last year. Brazil, meanwhile, installed over 2 GW.

Europe's cumulative installed base reached 161 GW, with nearly 14 GW of new capacity added last year, mainly by Germany, France, Turkey and the Netherlands.

In Spain, wind capacity increased by 38 megawatts (MW) to 23 GW, according to the Spanish wind power business association, the AEE. Since the Spanish energy sector was reformed in 2013, just 65 MW of new capacity has been added in Spain, compared to 2,334 MW during the preceding three years.

Elsewhere, 2.2 GW of new capacity was added in the offshore segment, which is 4% of all new capacity installed in 2016, increasing cumulative global offshore capacity to 14 GW. According to GWEC figures, Europe is the driving force behind this technology, as it is home to 13 GW of the 14 GW installed to date. By country, the UK and Germany lead the sector, while China has installed 1 GW.

Outlook

According to MAKE Consultancy, the pace of installations will be similar to that of 2016 in 2017 at close to 55 GW, ticking slightly higher to around 58-59 GW in 2018 and 2019.

The growing number of countries committed to renewable energy in order the halt the tide of climate change, coupled with the increasing competitiveness of renewable sources, including wind, is laying the foundations for solid growth in the wind industry over the short, medium and long term.

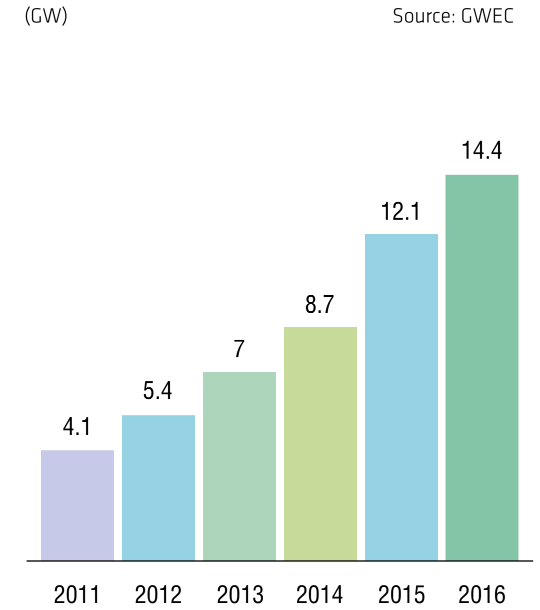
This support for renewables was evident in the speed with which the Paris Agreement, signed by 195 countries on 12 December 2015, took effect (4 November 2016).

The 2016 United Nations Conference of Parties took place in Marrakesh (Morocco) (COP22) and accelerated the deployment of the agreements reached in Paris during the prior climate change summit (COP21). More specifically, the 2016 summit ratified public support for clean technologies. This, together with constant downtrend in costs, will ensure steady growth in demand for renewable sources until 2025, by which time global installed capacity is expected to have reached 800 GW.

Against this backdrop of growing governmental support and wind cost-competitiveness, it is estimated that by 2040 clean sources of energy, i.e., those that do not emit greenhouse gas emissions, will represent 60% of total installed capacity, compared to 31% at the end of 2015. The developing economies (non-OECD), led by China and India, will account for the bulk of the new capacity installed as a result of growing demand for energy in these markets, driven by economic growth and electrification.

Market environment and outlook

Offshore wind market



Wind power installations through 2040 are estimated at 1,825 GW, implying €3 trillion of investment.

Short term, the outlook is for stability, with the emerging markets and offshore business as its growth engines. Prevailing forecasts point to exponential growth in offshore capacity before reaching cruising speed in 2020 by which time the worldwide cumulative installed base is expected to have reached 40 GW.

The emerging economies are expected to increase their installed bases at an average annual pace of 8.4% through 2020, whereas annual growth in the offshore segment is estimated at over 38%, spearheaded by northern Europe (mainly Germany and the UK) and China.

Asia

Asia remains the world's largest wind energy market, with cumulative installed capacity of 203 GW; this market is also expected to be the fastest growing in the short, medium and long term, led by China. Installed capacity in China stands at over 168 GW, which is 34.7% of the global total.

In the wake of the tariff cuts introduced in 2016, the Chinese market stabilised, with 23 GW of new capacity added. The Asian giant is expected to continue to add between 20 GW and 23 GW per annum over the coming years (2017-2020).

In 2016, China passed its eighth five-year plan for guiding the country's economic and social development through 2020; the plan sets an ambitious public target of lifting the wind power base to 200 GW by the end of the plan and the share of the generation mix commanded by wind to 20% by 2030.

This commitment to cutting its carbon emissions, combined with the need to continue to increase its generation capacity, make China the market expected to add the most wind power capacity over the coming decade.

India, meanwhile, the number-two market in Asia in terms of installed capacity, increased its cumulative base to 29 GW in 2016.

Having held its first 1-GW capacity auction in 2016, India is demonstrating its firm commitment to providing investors with stability and certainty; this mechanism is likely to give this market a fresh boost. According to MAKE Consultancy's forecasts, India is set to continue to play a very prominent role on the global wind stage: between 2017 and 2025, it is set to take the third spot in the onshore wind market, behind China and the US.

United States

With cumulative installed capacity of 82 GW, the US is the world's second largest market, behind China.

Current estimates call for additional capacity of 56 GW between 2017 and 2023, fuelled by extension of the production tax credit (PTC) regime from 2015 until 2019, which has lent the sector regulatory stability. Moreover,

Market environment and outlook

a clarification was published in 2016 with respect to the PTC regime, allowing a margin of four years for commissioning
a wind farm from when construction begins. This means that projects initiated in 2019 can be commissioned any time up until 2023 and still avail of the tax breaks.

Latin America

Cumulative installed capacity in Latin America reached 18.8 GW in 2016, driven by Brazil, Chile, Mexico and Uruguay.

In Brazil, installed capacity crossed the 10 GW milestone in 2016. Although demand for electricity in this market has yet to recover and the decision as to whether to call new capacity auctions will depend on a turnaround, the main analysts still see Brazil as one of the Latin American wind market's growth engines.

In Mexico, where 454 MW was installed in 2016, the electricity reforms initiated in 2015 stipulate that 35% of the country's electricity be generated from renewable sources in 2024. To attain this goal, in 2016, the Mexican government launched two long-term renewable energy auctions which garnered very strong interest. Current forecasts call for the installation of around 1 GW of wind capacity per annum in the coming years. The next renewable energy auction is scheduled to be launched during the second half of 2017.

Argentina, for its part, is aiming to have 8% of its electricity generated from renewable sources in 2017 and 20% by 2025. In the summer of 2016, this nation launched its first renewable energy auction ('RenovAr'); the initial auction size was 600 MW in terms of wind capacity but in the end 708 MW was allocated. Leveraging the success of that first round, in October 2016, the government launched round 1.5, originally with the plan of auctioning off 400 MW of wind capacity but ultimately adjudicating more than 700 MW.

Europe

Europe's cumulative installed base reached 161 GW in 2016, with nearly 14 GW of new capacity added in the year, mainly by Germany, France, Turkey and the Netherlands.

Germany commissioned 5.4 GW of new capacity in 2016, well down from the 6 GW installed in 2015, when the first offshore facilities were installed.

However, the outlook for this market is favourable as a result of the establishment of the auction system as the remuneration regime for onshore wind power with effect from 1 January 2017. The calendar for 2017 calls for three auctions for the adjudication of 3.6 GW in total; a total of 2.8 GW will be auctioned off in four tenders in each of 2018 and 2019. Beyond 2020, the plan is to auction off 2.9 GW of capacity per annum over three rounds.

Spain, meanwhile, adjudicated 500 MW of wind power in January 2016 in the country's first wind auction; it adjudicated another 2,979 MW of wind capacity (out of a total 3,000 MW) in a second auction in May 2017 in which wind power competed with other technologies.

Africa & Middle East

The only country on the African continent to register growth in 2016 was South Africa, which added 418 MW of wind capacity. As a result, Africa's installed base rose to 3.9 GW.

Although Morocco did not install any new capacity last year, the growth forecasts are upbeat, as the government is targeting a wind contribution to the energy mix of 14% by 2020.

Egypt, meanwhile, is expected to install 3.6 GW between 2017 and 2020 in order to comply with its goal of having 20% of its generation mix come from renewable sources by 2022 (12% of which wind power).

2015-2017 Business Plan and 2016 earnings performance

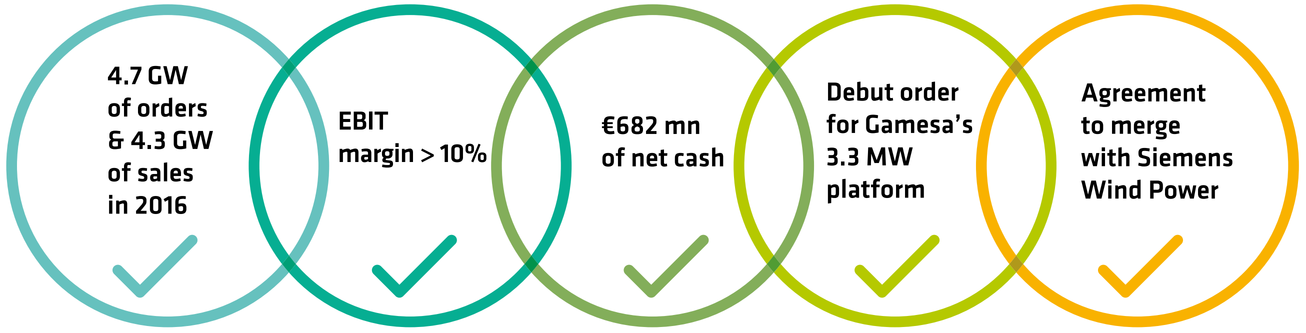
In June 2015, Gamesa presented its 2015-2017 Business Plan, designed to consolidate the profitable growth embarked on under the prior plan (2013-2015).

To achieve this overarching goal, it set itself five priorities.

Gamesa's compelling performance from when the new plan was set in motion until year-end 2016 has enabled it to deliver these targets one full year ahead of schedule (i.e., in 2016), underpinning upward revisions to the original guidance in July and November of last year.

Business Plan: priorities for 2015-2016 and delivery in 2016

1. To tap growth opportunities in emerging and developed markets
2. To control overhead and work tirelessly to trim variable costs
3. To maintain a healthy balance sheet
4. To boost the competitiveness of the product and service portfolio, enhancing the firm's positioning in mature markets
5. To ready the company for what lies beyond 2017



Targets delivered

1. Profitable growth

Gamesa recorded revenue growth of 31.6% in 2016 to €4.61 billion, fuelled by growth in revenue in the wind turbine division (+37%). Indeed, the WTG business unit registered strong sales volumes: 4,332 MWe, marking growth of 36.2% compared to 2015.

Gamesa's profitable growth strategy is underpinned by sales diversification. By region and sales volume (in MW), the biggest contributors in 2016 were India (38%) and Latin America (24%). EMEA, the US and Asia Pacific contributed 17%, 12% and 9%, respectively.

This strong competitive positioning has become a commercial force; in 2016, the company registered a record order intake of 4,687 MW, 1,386 MW of which secured in the last quarter of the year (+33%).

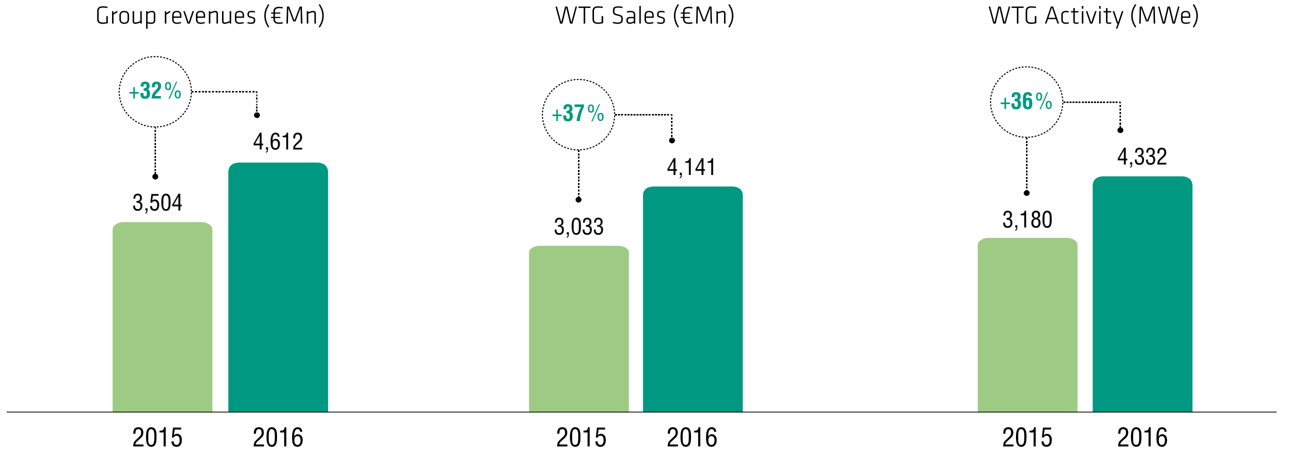
As a result, the company has locked in2 63% of its sales volume guidance for 2017 (c.5,000 MWe).

Within the orderbook, the presence of the G114-2.0 MW-2.5 MW and G126-2.5 MW turbines stand out: their weight in the sales mix jumped from 50% in 2015 to 67% in 2016. Factoring in the first order for the G132-3.465 MW, the contribution by the new models rises to 70% of all orders received.

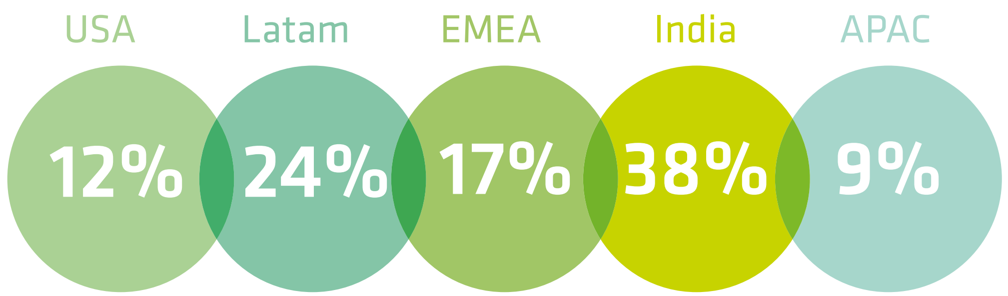
This momentum enabled Gamesa to continue to increase its global market share. Indeed, Gamesa climbed to fourth place on the global ranking of wind turbine OEMs compiled by FTI Consulting, as well as on the list prepared by Bloomberg New Energy Finance (BNEF).

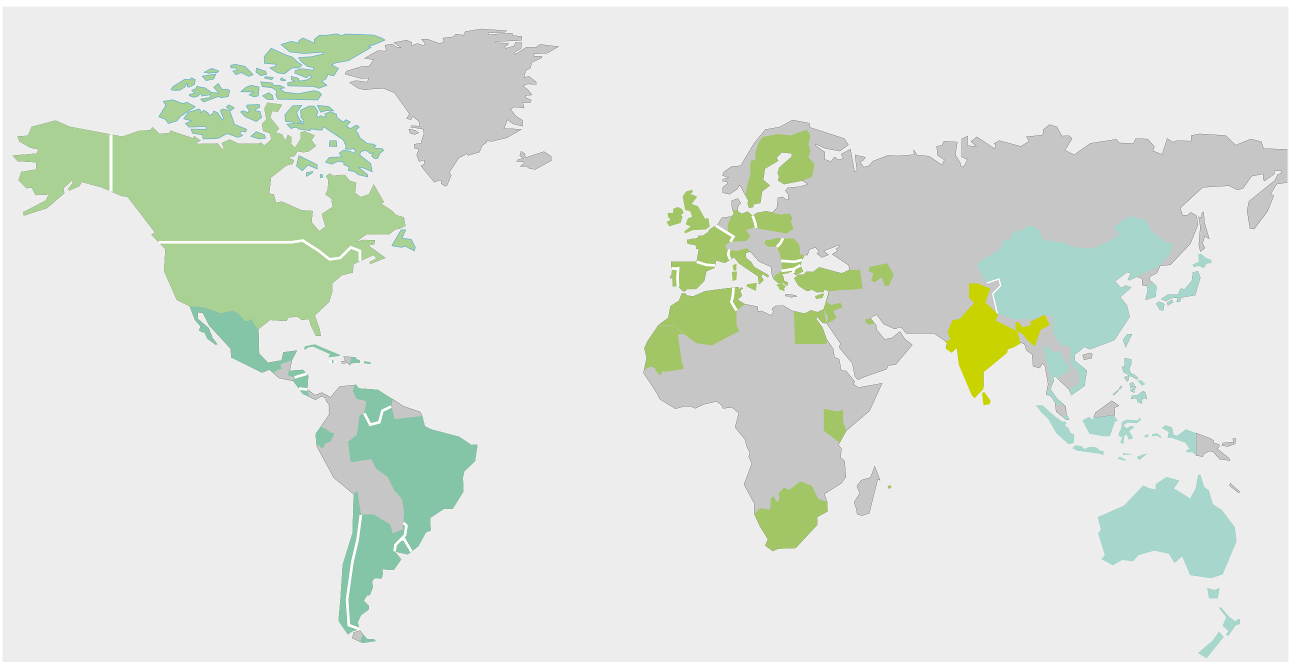
The operations and maintenance division, meanwhile, generated stable revenue of €471 million in 2016, albeit with clearly improved margins.

Sales trend year-on-year



Total sales volume in 2016: 4,332 MWe

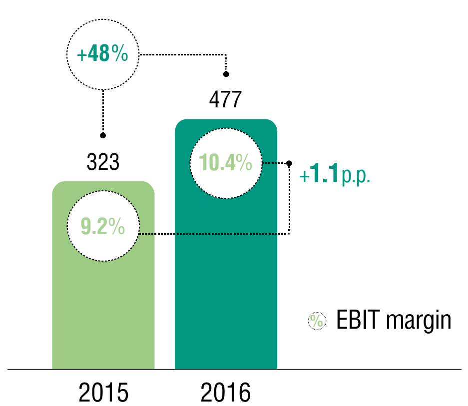




2. Controlling overhead and cutting variable costs

Gamesa is working tirelessly to streamline its variable costs, control its overhead and roll out quality excellence programmes. This effort was evident in the company's improved profitability: in 2016, it posted EBIT of €477 million, up 48% year-on-year, implying an EBIT margin of 10.4%. Net profit amounted to 301 million euros (+77%).

EBIT evolution (€Mn)



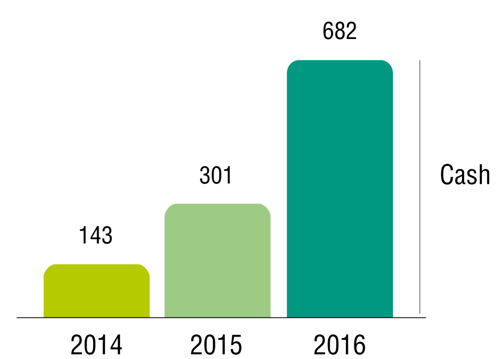
2015-2017 Business Plan and 2016 earnings performance

3. Balance sheet strength

Gamesa's strategy is also articulated around the strength of its balance sheet. Against this backdrop, in 2016, cash flow generation reached a new record of €423 million, enabling the company to end 2016 with a net cash position of €682 million (vs. €301 million at year-end 2015).

The combination of profitable growth and control over investment in fixed assets and working capital is enabling Gamesa to continue to meet the value creation promise made to its shareholders: at 30%, the company's ROCE was 11 points above the 2015 figure.

Net financial debt evolution (€Mn)



4. Competitiveness of the product and service portfolio

Gamesa has continued to work to develop its portfolio of products and services. This strategic priority is key to reducing its customers' cost of energy, maintaining its technological and competitive edge and improving its positioning in developed economies and emerging markets in which it has yet to establish a foothold.

To date under the 2015-2017 Business Plan, Gamesa has launched two new turbines - the G132-3.3 MW and the G126-2.5 MW. Orders have already been placed.

5. Readiness beyond 2017

While making progress on delivery of the financial targets set down in the 2015-2017 Business Plan, in 2016, Gamesa took a major step in the process of putting in place its long-term strategy when it executed an agreement to merge with Siemens Wind Power in order to create a global wind industry giant.

In parallel, the company explored opportunities in sectors that present compelling synergies relative to its traditional wind business, such the solar power and offgrid segments; these efforts may begin to add value from 2018.

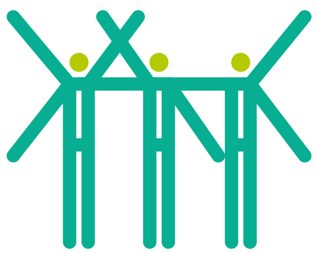
- In May 2016, in La Muela (Aragon), the company inaugurated a prototype of its offgrid system for the supply of power to remote areas without access to the grid, such as islands, mines and certain rural areas. The system is pioneering on account of its bundling of four sources of power - wind power, solar power, diesel-powered generation and energy storage batteries - into a solution with installed capacity of over 2 MW.
- India's solar potential has been sized at 750 GW. The government's goal is to lift installed capacity to 100 GW by 2022, compared to 3.8 GW today.

Merger between Gamesa and Siemens Wind Power

On 17 June 2016, Gamesa and Siemens entered into an agreement to merge their wind business, a transaction that closed in early April 2017.

The deal gives rise to a leading player in the global wind power industry, one with a presence in more than 90 markets, industrial capacity in the leading wind markets and a combined installed base of 75 GW. The combined company will begin life with an order pipeline valued at some €21 billion, revenue of €11 billion and adjusted EBIT of €1.1 billion, using pro forma figures as of December 2016. The new company, headquartered in Zamudio (Vizcaya), will continue to trade on the Spanish stock exchange, becoming one of the largest industrial stocks in the Ibex-35, Spain's benchmark blue chip index.

Key figures



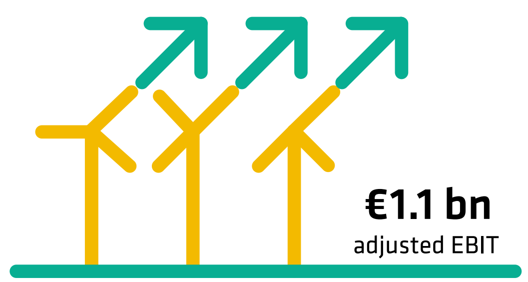
27,000
professionals

75 GW
installed base

+90
countries with turbines

€21 bn
order intake

€11 bn
of annual revenue



€1.1 bn
adjusted EBIT

Siemens will own 59% of the enlarged company's shares and Iberdrola will hold 8%. The remainder will be freely floated.

The registered office and headquarters of the combined company will be based in Spain, as will the onshore business; the offshore business will be based between Hamburg (Germany) and Vejle (Denmark).

The merged company will boast a strong presence in fast-growing segments

Onshore:
The competitive wind turbine technologies cover all wind classes and site conditions. The portfolio enables us to fulfil all customer requirements, helping to reduce the cost of energy.

Offshore:
The company offers full-scope solutions for our customers such as offshore wind turbine design, installation as well as comprehensive service.

Its competitive technologies help to minimise risk and optimize return on investment of offshore wind power plants.

Servicios:
The company offers flexible service solutions that are tailored to customers' diverse operating models, advanced diagnostics and digitalization capabilities, as well as customized offshore offerings.

Value creation for all stakeholders:

- Shareholders: these stakeholders will hold an interest in a leading wind energy player. Gamesa's shareholders received a special cash dividend of €3.59 per share - the highest in the company's history and 25 times the dividend distributed in 2015 - upon the merger's close.
- Customers: the merged company offers a broader portfolio of products, services and solutions. The combination of the two firms' technologies will translate into even lower turbine costs and, by extension, a lower cost of energy.
- Employees: the merger brings the company's professionals new geographies and business areas in which to continue to develop their careers.
- Suppliers: the supply chain will gain access to new markets and projects. They will work with a stronger company, one with a truly global reach and a presence in both the onshore and offshore segments.

Gamesa's share price performance

Over the past five years, Gamesa has seen its market capitalisation multiply nearly 14-fold: its shares have gone from trading at €1 in July 2012 to around €21 today. This cumulative gain of 1,374% compared with a return of 47% for Spain's bellwether Ibex-35 index in which the company's shares are traded.

2016 was marked by a widespread equity market recovery. Most of the world's equity indices notched up gains last year, with the benchmark indices in the countries in which Gamesa has a significant presence, including the S&P 500 (US), Nikkei (China), S&P Europe 350 (Europe) and BSE Sensex (India), rallying.

This positive market momentum, coupled with the company's solid performance throughout 2016 –healthy earnings, business vitality and geographic diversification- was evident in its share price performance.

Against this backdrop, Gamesa's shares closed the year 21.8% higher at €19.27, making it one of the best-performing stocks of 2016.

The shares hit a low early in the year, on 21 January (€13.78), before the negotiations to merge with Siemens Wind Power emerged. They hit their high for the year of €21.77 on 22 September.

The share price performance also reflects the market's warm take-up for the planned merger with Siemens Wind Power. Indeed, Gamesa's shares have gained over 18% since the merger agreement was signed on 17 June.

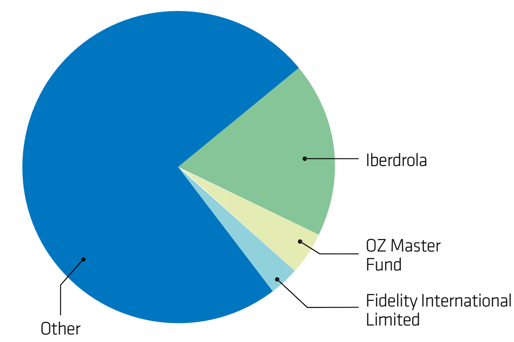
It is worth highlighting the fact that Gamesa earmarked €42 million to cash dividends in 2016. It paid an ordinary dividend of €0.1524 per share, implying a payout of 25%.

In addition, at the Annual General Meeting, the company's shareholders also approved the distribution of a special cash dividend of €3.591 per share (before withholdings), which was paid out by Gamesa after the merger closed.

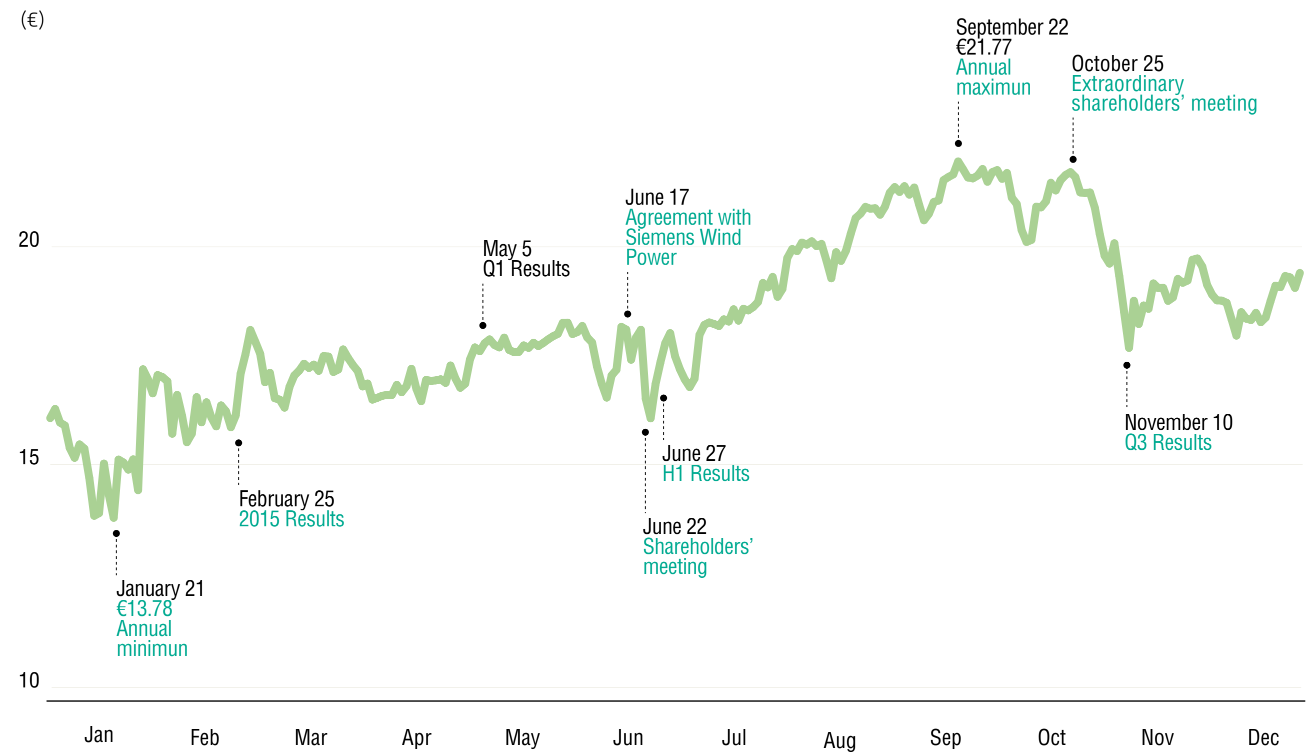
Share capital

Gamesa's share capital stood at €47,475,693.79 at year-end 2016, made up of 279,268,787 shares, represented by book entries, all of the same class, all fully subscribed and paid in and each with a par value of €0.17. Its shares have been traded on the four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao).

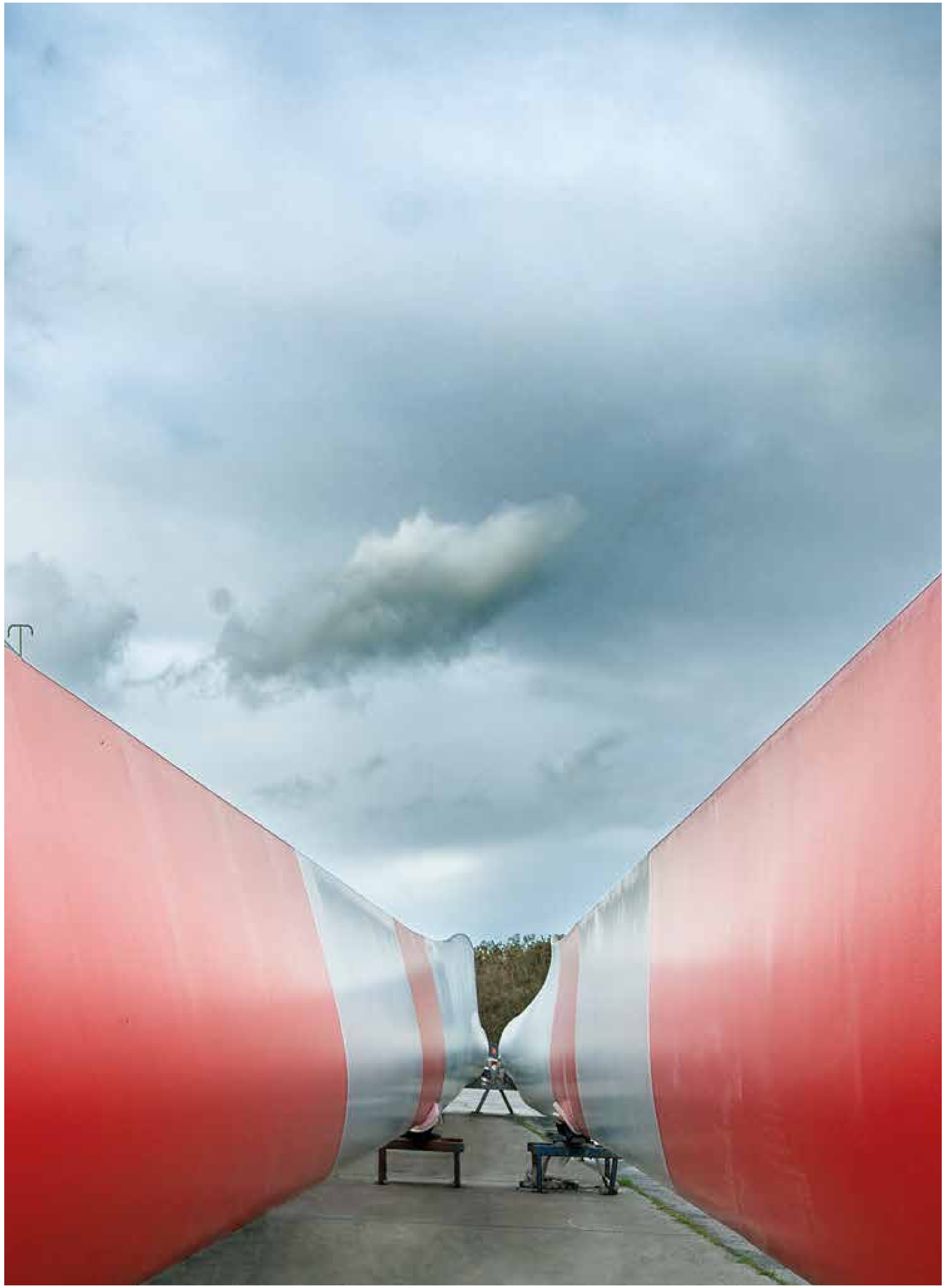
Significant shareholders



Acumulated gain in 2016



For more information about Gamesa's share price performance and share capital, refer to the Shareholders & Investors tab on the corporate website.



Business model

International footprint

Gamesa divides its business into five core regions: India, EMEA, APAC, the US and Latam. Between them, they generated sales of 4,332 MW in 2016.

India

2016 was another very good year for Gamesa's business in India. The region once again accounted for the biggest sales volume: at over 1,600 MW, it represented 38% of total company sales. Moreover, for the third year in a row, Gamesa ranked as the leading OEM in India, according to data published by MAKE Consultancy.

Gamesa's success in this region is primarily attributable to its strong strategic commitment to this market, where it has three proprietary manufacturing facilities, underpinned by a strong local supply chain, made up of close to 2,000 suppliers, and a solid sales network.

Indeed, at the end of 2016, the company started up its new factory in the town of Nellore, in the state of Andhra Pradesh, one of the country's fastest-growing wind power producing regions. With 400 employees and configured to produce the G114-2.0 MW class S, a turbine custom-designed for the country's low wind speeds, this facility complements the company's blade plant in Halol (Gujarat), nacelle factory in Mamandur (Chennai, Tamil Nadu) and repair centre in Red Hills (Chennai, Tamil Nadu).

With nearly 3,000 employees in India, the company has installed over 2,662 wind turbines since establishing a presence in this market. It also boasts an extensive and well-diversified customer base in India which notably includes independent power producers and industrial groups, as well as state-owned companies.

Commitment to solar power

In 2016, Gamesa commissioned solar power facilities with aggregate capacity of 58 MW in the Indian states of Tamil Nadu, Telangana and Uttarakhand. The company engineered and designed these facilities, supplied the photovoltaic inverters and commissioned them.

Moreover, it received the Rising Star prize awarded by the trade journal *Solar Quarter* during Solar Power Week. This prize endorses the company's capabilities in this segment.

In parallel, the pipeline continued to grow, with the company securing a number of new orders in 2016, most notable among which:

- An agreement with Indian developer Atria Power for the EPC construction of 130 MW of solar power capacity at two developments located in the regions of Karnataka and Andhra Pradesh, in southern India. This is the largest solar order received by Gamesa since it entered this sector in India in 2015.
- An order for the EPC development of 12 MW of solar power in the state of Tamil Nadu. The company will engineer and design the facility, supply the photovoltaic inverters and commission the project.

In 2016, Gamesa also landed its first solar power order in Sri Lanka, where it will develop 20 MW for the industrial conglomerate Laugfs Power Limited. The company will build the facility under an EPC arrangement, meaning it will engineer and design the facility, supply the photovoltaic inverters made by Gamesa Electric and commission them, foreseeably in October 2016. This development is being built in the province of Hambantota, in the south of the island.

Latin America

Latin America made a vital contribution to Gamesa's business throughout 2016, generating sales of 1,200 MW, which is 24% of the total sales volume, mainly in Mexico and Brazil. Gamesa has emerged as a key player in these two markets, in which it is the number one and number two OEM, respectively. In all, the company is present in 14 countries in the region, where it has installed over 5,000 MW.

Brazil

Since Gamesa entered the Brazilian market six years ago, it has built up a position as one of the leading OEMs, having installed over one thousand turbines (2 GW). Ten per cent of the turbines installed to date correspond to the G114-2.1 MW a turbine custom-designed to harness as much power as possible at a lower cost in the constant, low-turbulence wind conditions typical of Brazil. The company also handles operations and maintenance services for its customers in this market.

Gamesa's commitment to the development of wind power and the industrial fabric in Brazil is evident in its efforts to establish a competitive local supply chain: purchases from this supplier base, made up of close to 1,200 firms, amounted to over €300 million in 2016.

Mexico

Since it began to do business in Mexico back in 1999, Gamesa has installed 1,100 turbines nationwide (almost 1,900 MW), cementing its position as the leading OEM in this market. With nearly 270 employees in Mexico, the company is also an active player in the wind farm development and operation and maintenance service segments.

Its vertically-integrated approach to the wind business, coupled with early penetration of this market, has emerged as one of Gamesa's key competitive advantages in Mexico and cemented its ranking as the country's leading OEM by market share.

In 2016, the company secured new orders which consolidate its positioning in Mexico. Notably, the first order for the company's new turbine, the G132-3.465 MW, a product which guarantees the lowest cost of energy across a broad spectrum of sites: Gamesa has been contracted to supply 57 of these turbines.

EMEA

The sales contribution by Europe, Middle East and Africa (EMEA) amounted to 17% in 2016, a year in which Gamesa sold over 730 MW and secured important orders for the installation of turbines and the EPC development of wind farms in various markets, including Poland, France, Italy, Greece, the UK and Spain. In addition, the company operates and maintains a portfolio of 12,694 MW in this region.

One of last year's key milestones in this region was Gamesa's entry into the Dutch market for the first time, having been commissioned to supply 11 MW to replace several old turbines at various wind farms, specifically with three of Gamesa's G58-850 kW turbines and 10 of its G52-850 kW turbines.

In 2016, Gamesa also reaffirmed its strategic commitment to the Spanish market, where it is the leading OEM, with a market share in excess of 50%, having installed over 12,000 MW nationwide. In the wake of the latest energy sector reforms, the company will build a 20-MW wind farm for Villar Mir Energía (fitted with 10 of the company's G114-2.0 MW turbines) at the Valiente wind farm in Huesca under an EPC contract.

Also in Spain, Gamesa secured a 7-year agreement with the Vapat Group for the provision of operations and maintenance services covering an installed base of 216 MW. In Spain alone, Gamesa manages a portfolio of 7,620 MW under its end-to-end O&M offering, servicing more than 400 customers.

APAC

In a year in which the pace of new capacity installations slowed in China, from 32.5 GW in 2015 to 31.3 GW in 2016, according to the data published by GWEC, the region comprising Asia-Pacific and China (APAC) continued to contribute to the company's growth.

APAC accounted for 9% of Gamesa's total sales volume (measured in MW) in 2016.

China

Gamesa's presence in China, where it has supplied over 4,500 MW to date, goes back 16 years.

The strategy of maintaining a local presence and the development of a competitive supply chain, with 89% of inputs sourced locally, drove Gamesa's sales in China to over 250 MW in 2016, 9% of the total.

One of the company's key competitive advantages in the Chinese market is its technological prowess, specifically its ability to offer products custom-configured for the region's needs, such as turbines which can be installed at more than 3,000 metres above sea level, turbines capable of withstanding strong coastal winds and turbines resistant to the extremely low temperatures of the north-east.

Gamesa's Asian footprint also extends to Vietnam, the Philippines, Taiwan, South Korea, Japan and Sri Lanka.

Another business milestone worth highlighting from 2016 is the order secured in **Indonesia** Indonesia for the supply of 75 MW at the first wind farm to be built in the country, a high-potential wind market. This order also marks a product milestone as it is the first time the G114-2.5 MW turbine will be installed in Asia-Pacific (excluding China).

This project falls under the scope of the Indonesian government's plan for lifting generation capacity, combining traditional and renewable sources, to 35 GW by 2019. Longer term, its goal is to have 23% of output generated from renewable sources by 2025.

Elsewhere, Gamesa increased its presence in **Thailand,** signing two new contracts in 2016. One of these marks a technological feat as it will imply installing Asia's tallest wind turbines. With towers stretching 153 metres high, these turbines - 18 units of the G114-2.0 MW model and 15 of the G114-2.1 MW - are the tallest ever supplied by Gamesa.

United States

Gamesa boasts a solid presence in the US market. Having installed nearly 4,900 MW in the US to date, the company has been steadily cementing its presence in this market, establishing itself as one of the country's leading turbine OEMs.

This region accounted for 12% of the company's total sales volume in 2016..

The supply of 298 MW at the El Cabo wind farm in the US, developed by Avangrid Renewables, an Iberdrola Group company, is one of the biggest orders in Gamesa's history and entails the delivery of 142 of its G114-2.1 MW turbines.

Industrial strategy

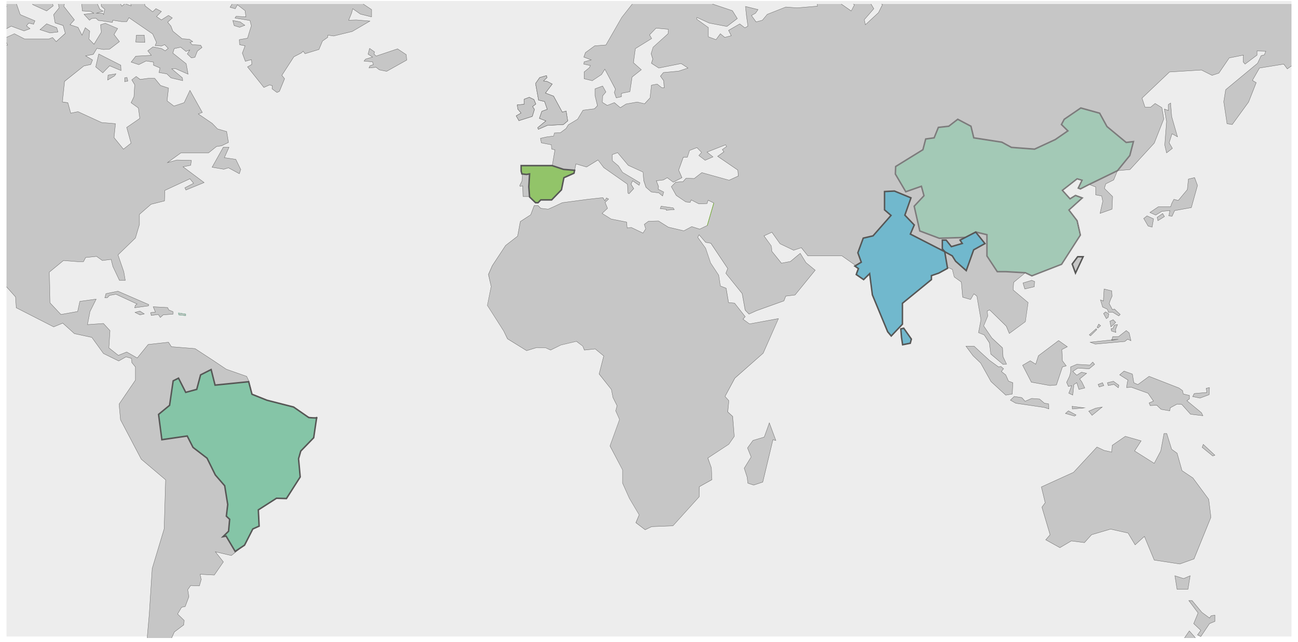
Manufacturing footprint

Brazil
Nacelles and towers

Spain
Nacelles, blades, generators, gearboxes, converters and towers

India
Nacelles, blades and towers

China
Nacelles, generators, and converters



The industrial strategy pursued by Gamesa combines in-house manufacturing with production through a professional supplier base. This configuration endows the company with a more efficient, nimble and flexible productive structure, one that is capable of providing an adequate and end-to-end solution to the needs posed by each customer and operating region. In this manner, the company ensures that it continues to reduce its customers' levelised cost of energy (LCoE).

In deciding which strategy to pursue in each instance, Gamesa analyses several factors, such as the forecast outlook for demand, development of the local supply chain and component criticality, among others.

In-house production: the 'Make' strategy

Spain and China are Gamesa's main production and supply hubs; this is where it manufactures the key components of its turbines - blades, nacelles, gearboxes and other electric parts (generators and converters) - for both the local and export markets. It also has in-house manufacturing capabilities in India (nacelles and blades) and Brazil (nacelles). Meanwhile, Windar, the joint venture with the Daniel Alonso group, handles tower production.

This sizeable proprietary manufacturing base enables tight control over the production process, while locking in the required technological know-how and ensuring timely new developments. At present, Gamesa makes 60% of the components contained in its turbines in-house.

Supply chain: 'Buy' and 'Build-to-print' strategies

In parallel, Gamesa continues to develop its supply chains in its business markets with the goal of gaining flexibility, adapting production to demand variability by compressing delivery times and optimising logistics processes.

Against this backdrop, the 'Buy' strategy, under which it procures key parts from suppliers, accounts for between 25% and 50% of the industrial equation, depending on the part in question.

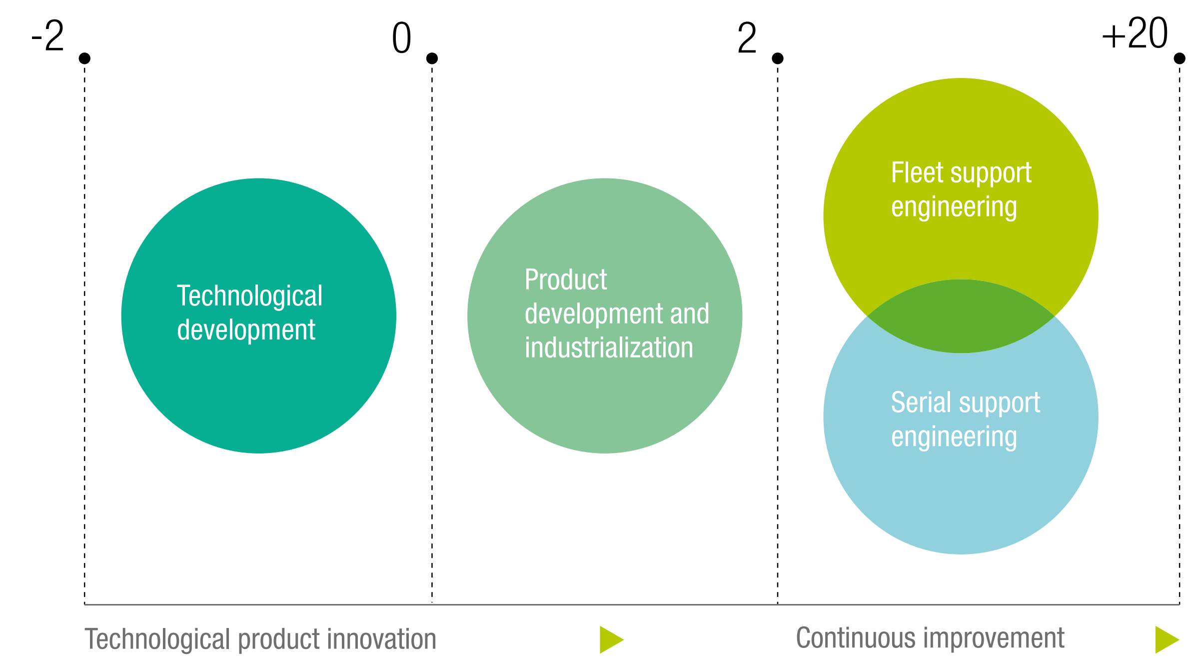
The 'Build-to-print' strategy, meanwhile, consists of showing suppliers how to make specific parts using Gamesa's own design specifications; this strategy currently accounts for 45% of gearbox production and 22% of blade production and its incidence continues to rise. This formula facilitates the introduction of new products with a much faster turnaround.

In 2016, Gamesa increased its global supplier base to 10,300 firms. The level of local purchases stands at 90% in China, 60% in India and 72% in Brazil.

For more information, refer to the Suppliers section of this report (page 86) and section G4-12 of the 2016 Corporate Responsibility Report.

Innovation

Innovation at Gamesa step by step



Innovation is a cornerstone of Gamesa's strategy and a vital component of its business strategy. Gamesa takes a holistic approach to innovation, embedding it not only into all its products and services but also into all the areas comprising the company and its everyday management processes.

As a technology company, the main thrust of Gamesa's innovation efforts are the products it designs, including its wind turbines and its wind farm O&M-enabling technology. By means of technological innovation, the company's wind turbines are delivering a steadily declining cost of energy for their users, eking out competitive gains as part of the evolution towards a clean and sustainable energy model.

Gamesa has a medium-term technology strategy which itemises the key areas of innovation on which to focus its development efforts (fleshed out below) and the specific management plans for implementing each project. They range from pure innovation work to product development, industrialisation and continuous improvement.

In addition, before backing any product or service enhancement, Gamesa analyses a series of variables to make sure the proposed solutions are feasible from a design standpoint, economically viable and value-adding for its customers.

In 2016, Gamesa invested €168 million, or 4.8% of total revenue, in its innovation effort. This places it among the 320 European companies that earmark the most money to innovation and ranks it among the top 15 players in Spain in this respect.

It has R&D centres in Pamplona, Madrid and Zamudio (Spain) and local engineering teams in India, China, Asia Pacific, North America and Latin America.

Lastly, Gamesa seeks to position itself as a benchmark in the R&D arena. To this end it has established agreements with universities and technology centres with which it is collaborating on a range of research projects.

In 2016, Gamesa made further progress on its 2015-2017 Technology Strategy Plan, which complements the Business Plan drawn up for the same period. This Plan establishes the key lines of strategic initiative on the innovation front:

- Development of new wind turbines;
- Projects for continuously improving existing products; and
- Operations and maintenance products and services.

Technological product innovation

The Product Strategy Committee, made up of the heads of the company's main business divisions, the Business

CEO and the regional CEOs, is tasked with analysing and selecting the innovations and new products to be developed by the company. In doing so, it factors in the customers' needs in every region, coupled with the necessary industrial resources.

The 2015-2017 Plan contemplates the new 3.3 MW platform, launched in 2015, and the adaptation of the 2.5 MW platform for the Indian and Brazilian markets.

After the new products have been selected for development, the next step in the process is decision-making by the Product Development Committee in relation to the technological specifications of each product.

In addition to the new turbine developments, this Plan also contemplates innovation for the sake of innovation. This translates into developments which keep Gamesa at the cutting-edge technology-wise and constitute a barrier to entry. This R&D effort takes shape through the Technology Research Selection Process (TRSelect), a systematic innovation scheme designed to detect, evaluate and prioritise technological needs in which the patenting effort is crucial.

Against this backdrop, in recent years Gamesa has established itself as one of the most active industrial wind players on the patent front, with a portfolio of 816 patent applications worldwide, of which 166 patent families or inventions and 518 patents have been legally protected by several countries' patent and trademark offices.

Moreover, according to the 2016 report issued by the independent firm, Totaro & Associates, the company resulting from the merger between Gamesa and Siemens Wind Power will be the world's second most important OEM by number of patents.

Continuous improvement

Continuous improvement or incremental innovation enables the incorporation of improvements into existing products, services and processes.

Gamesa articulates its continuous improvement programmes around Group-wide processes whose high-level goal is to contribute to gradually reducing the cost of energy in the wind value chain. To this end, each year the company performs a process known as *Model Year* to compile all the improvements detected by the various areas within the company and by customers and suppliers which pave the way for product enhancements.

Culture of innovation

One of Gamesa's objectives is to bring about cultural change by actively engaging its people in improving the firm's processes. To achieve this goal, it has several tools for fostering a culture of innovation among its employees.

The first is the Gamesa Awards contest launched in 2016. To participate in this competition, employees are asked to present the most innovative practices implemented by them in the prior year, outlining what was achieved as a result.

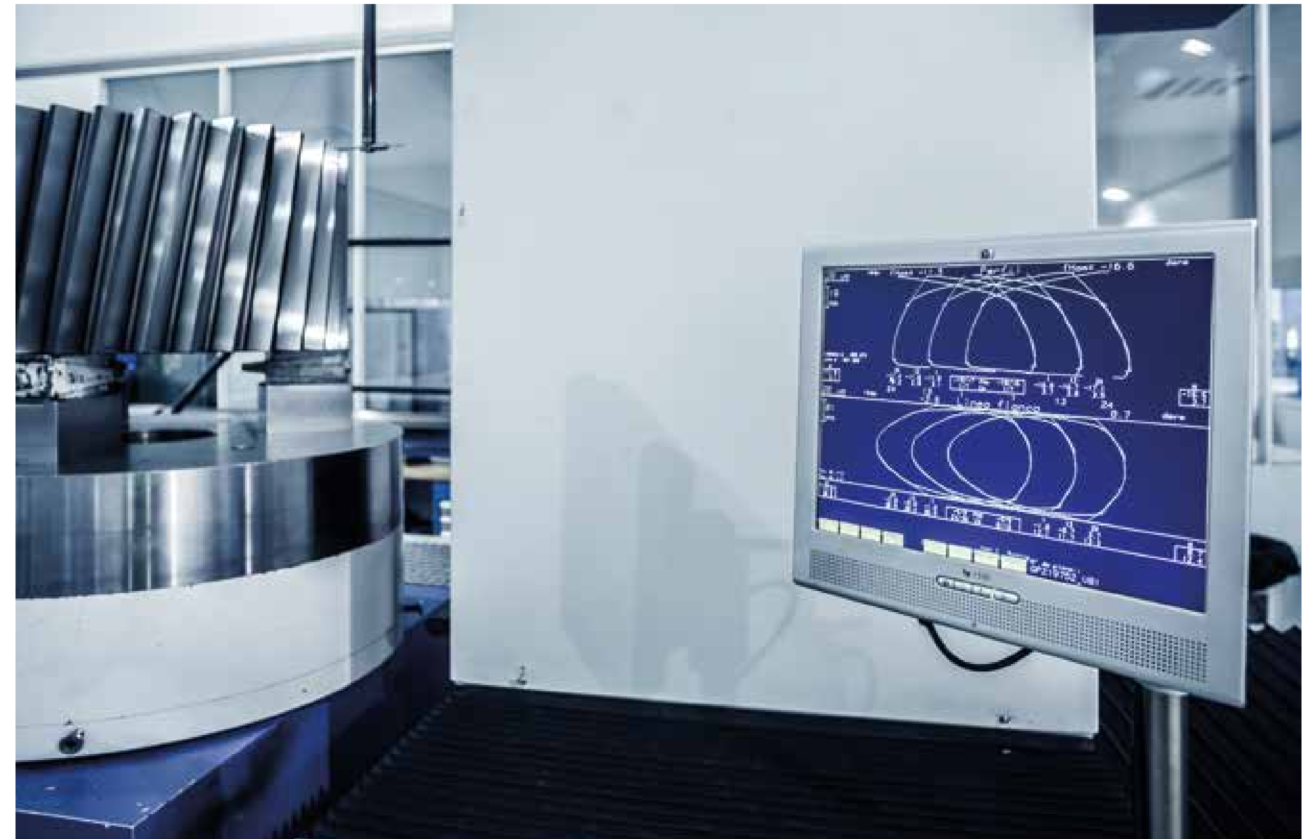
An in-house then panel analyses all the projects and selects the prize winners, who receive their awards during the Gamesa Forum summit which brings together the company's executives once a year. The nearly 300 proposals received in 2016 provide ample evidence of the existence of a culture of continuous improvement and innovation at the firm.

On account of its particular relevance in the innovation sphere, the company's Technology area also has a series of special tools:

- A best idea competition in which all its technology experts participate. In this instance the most novel solutions are added to the firm's pipeline of technology research projects.
- An annual event for reflecting on the technology strategy known as Technology Away Day.
- A technology intelligence monitoring project involving reports underpinned by conferences, congresses and observation of patents published to provide the firm's technology experts with state-of-the-art know-how.

The company also has several mechanisms for tapping the innovation potential of its surroundings and fostering an open innovation environment:

- A Technology Proposals inbox created to gather all external technology proposals received at Gamesa.
- A Tech-gamwatch inbox to centralise all third-party requests relating to intellectual property.



Participation in R&D projects

- **Windtrust.** Effort to demonstrate, using a full-scale onshore prototype (2 MW), a universe of technologies designed to substantially enhance turbine reliability. Several technologies have been successful applied to the rotor, wind turbine control and power electronics. Specifically, the application of serrated teeth technology to blades, developed jointly with LM Windpower, reduces noise emissions by 2 decibels.
- **Innwind.** Effort to demonstrate, using small-scale prototypes, representative of an offshore environment, a host of technologies which go beyond the current state of the art. The technologies tested are articulated around the design of turbine concepts which depart from their onshore counterparts, the design of lightweight rotors and of electromechanical conversion systems for a 10-MW to 20-MW turbine.
- **Demowind.** This project is focused on the development of new control features designed to boost energy output in certain turbine operation and wind conditions.

Renewable energy

Gamesa is present across the entire wind value chains by means of an end-to-end, vertically-integrated model: from technology research and design to the manufacture, supply and installation of wind turbines and the operation and maintenance of wind farms, a process which includes the firm's life extension efforts.

The company complements its business with the creation of subsidiaries specialised in electric and mechanical equipment designed not only with wind power in mind but also for other markets such as the hydro-electric, industrial and nuclear power segments. In addition, Gamesa's 2015-2017 Business Plan explicitly alludes to the scope for exploring business opportunities which complement its traditional wind business, as has materialised in its entry into the solar segment in India and development of its offgrid prototype.

Wind Turbines

Gamesa manages the entire process of developing a wind turbine, from its conception and design, to its manufacture, assembly, supply, installation and commission, while also handling their subsequent operation and maintenance.

To ensure the quality of the production process, Gamesa operates a manufacturing network made up of proprietary manufacturing facilities and suppliers (for more information, refer to page 56) in the world's leading wind markets, in this manner guaranteeing a rapid and appropriate response to local needs. It also boasts a sales network with a reach in some 20 countries around the world.

In 2016, Gamesa once again ranked as one of the world's top wind turbine OEMs, with an installed base of 38,874 MW (almost 27,000 WTGs) in 53 countries.

Gamesa offers a broad and versatile portfolio of turbines designed to optimally satisfy its customers' needs and reduce the cost of energy:

- Gamesa 2.0 MW: A market benchmark on account of its outstanding capacity factor and high profitability levels, this platform combines a 2.0-MW generator with five different rotor sizes - diameters of 80, 87, 90, 97 and 114 metres - for optimal performance no matter the site or wind conditions.
- Gamesa 2.5 MW: In order to reduce the cost of energy in the 2.0-3.0 MW segment, Gamesa offers a 2.5 MW platform - the natural evolution of the 2.0 MW platform - which comes in rotor diameters of 106, 114 and 126 metres and new tower options.
- Gamesa 3.3 MW: This platform, launched in 2015, harnesses the technology proven in the 2.0-MW and 2.5-MW platforms by leveraging the same mechanical and electrical systems, while boosting nominal capacity to 3.3 MW. The first model, the G132-3.3 MW turbine, has blades spanning 64.5 metres and comes in four different tower heights, from 84 to 134 metres, so that it can be adapted for each region. A wind farm equipped with ten G132-3.3 MW turbines would generate sufficient equivalent energy to supply a town of around 50,000 inhabitants and prevent the emission of 49,500 tonnes of carbon dioxide (equivalent to the emissions of 16,500 cars).
- Gamesa 5.0 MW: This platform represents the next generation of Gamesa turbines, capable of maximising the amount of wind energy harnessed. The company has opted to apply the stringent design and validation concepts used in industries as demanding as the aeronautics sector. Its innovative modular design

and technology ensure maximum reliability while complying with the most stringent international grid-connection codes and environmental standards.

Offshore wind turbines

In early March 2015, Gamesa set up a joint venture with Areva for the development of the offshore business. This venture, called Adwen, with offices in Spain, Germany, France and the UK, combines Gamesa's and Areva's know-how and track records in the wind sector. Adwen has been 100%-owned by Gamesa since January 2017.

Adwen has an end-to-end product and service portfolio which can be adapted for each project's specific needs:

- The Adwen 8 MW platform, initiated by Areva and fine-tuned using Gamesa know-how.
- The Adwen 5 MW platform, which encompasses two complementary 5 MW turbines: the AD 5-135 and the AD 5-132.

The Wind Turbines unit also encompasses the development and construction of wind farms, a line of activity which includes all the tasks related to wind generation projects: from site identification to permitting and ultimate sale of the wind farm. The ability to develop and build wind farms on a turnkey basis sets Gamesa apart in the marketplace, particularly in markets such as India and Mexico where the company has emerged as a key player in the self-supply segment.

Operations and maintenance

Gamesa's end-to-end proposition in the wind power industry is rounded out by its operations and maintenance (O&M) services area which manage 24,311 MW for more than 400 customers in 41 countries.

These servicing capabilities are a fundamental tool for the creation of value from the development, management and profitable operation of wind projects. Against this backdrop, the company offers value-added programmes designed to maximise turbine power generation and reduce the overall cost of operating a wind farm in order to minimise the cost of energy.

- Life extension: a series of structural reforms designed to prolong the useful lives of turbines made by Gamesa and other manufacturers from 20 to 30 years.
- Energy Thrust®: a product developed by Gamesa to make its 660-kW, 850-kW and 2.0-MW platforms more efficient. This system, endorsed by the independent assurance provider DNV-GL and already implemented in 2,700 turbines in operation in 18 countries, has the ability to increase turbine output by up to 5% on average. Energy Thrust® enables adaptation of wind turbines to specific site conditions, boosting the volume of power delivered to the grid in all wind conditions and improving the efficiency and performance of Gamesa's entire fleet in the process.
- Overhaul: the complete reconfiguration of wind turbines' electric and electronic systems so that they can generate as much as 5% more energy; an overhaul also configures them for application of the life-extension programme features, thereby guaranteeing availability until year 30 of the turbine's useful life.
- Advanced maintenance: ONE FOR ALL®, innovative solutions that eliminate the need for cranes, thereby reducing the cost of major repairs considerably.
- Solutions that leverage the use of big data to improve wind asset reliability and reduce their maintenance costs.
- O&M solutions and services for the wind turbines made by other OEMs.

Technological diversification

Gamesa's technology development capabilities have fostered the creation of subsidiaries specialised in electric and mechanical equipment designed not only with wind power but also other markets in mind, such as Gamesa Electric and Gearbox.

Gamesa Electric

This company provides end-to-end and flexible electric system solutions using next-generation manufacturing processes; it is capable of mass production as well as tailored ad-hoc solutions for customers worldwide.

Gamesa's vertically-integrated model and its technology development capabilities have enabled it to establish itself as a global benchmark in the provision of electric power equipment for energy segments such as the photovoltaic, hydro-electric, nuclear, electric traction and marine propulsion markets, as well as wind. With over 25 years of experience and proprietary technology, Gamesa Electric is a pioneer in the power electronics market, and has over 80 years' experience manufacturing electric motors and generators.

Gearbox

This unit custom designs, makes and sells gearboxes for businesses with stringent operating demands; it also provides support services to extend gearbox lives.

Gamesa's strategy is to extend the useful life of gearboxes by fully reconditioning them rather than merely putting them back together (i.e., simply replacing the damaged parts with new ones, securing a useful life equivalent to the period until the first fault at best).

Gearbox's operations and productive and organisational structures are flexible and collaborative, giving it the ability to act and adapt to external changes swiftly in terms of new model designs and updates to existing products.

Solar

Gamesa has made a strategic commitment to the solar power market in India, one of the targets laid down in the company's 2015-2017 Business Plan. India's solar potential has been sized at 750 GW. The government's goal is to lift installed capacity to 100 GW by 2022, compared to 3.8 GW today. Gamesa has already installed nearly 70 MW since entering the Indian solar market in 2015.

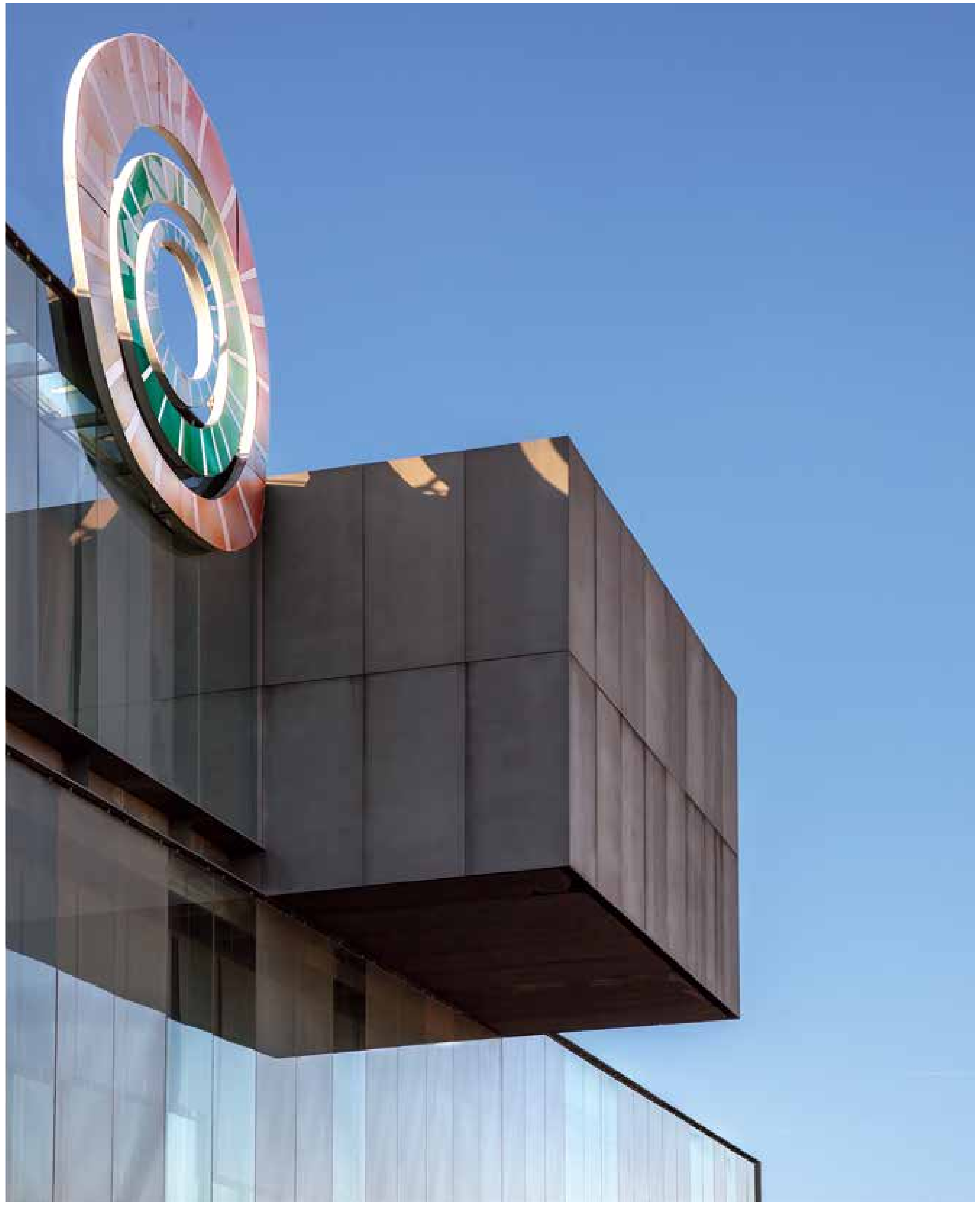
Offgrid

The idea underpinning this new line is to service communities and industries isolated from the electricity grid. With this objective in mind, Gamesa has developed its first offgrid prototype; it combines wind and solar power generation with diesel and storage battery fuelled power.

In 2016, the company achieved a new milestone in the development of this technology when it installed and commissioned a lithium battery with the ability to store 429 KW in the prototype in place in La Muela (Aragón).

4

Corporate governance and risk management



Corporate governance

Throughout 2016, the company continued to strengthen its corporate governance strategy, which is articulated around the principles of transparency and independence, to guarantee managerial excellence and safeguard the legitimate interests of its various stakeholders.

Among other initiatives, it is worth highlighting the measures taken in respect of the merger with Siemens Wind Power designed to reinforce the government regime, in keeping with best practices and international standars.

More specifically, an Extraordinary General Meeting was called for 25 October to ratify a series of changes to the composition of the Board of Directors, subject to the transaction's close.

Firstly, the size of the Board of Directors will be increased, from 12 members at present to 13. Moreover, a significant increase in the number of female directors was ratified. Four new female directors of different nationalities will join the board after the merger closes: Rosa María García, Mariel von Schumann, Lisa Davis and Swantje Conrad. This marks solid progress towards boardroom parity as 46% of the seats on the company's highest governance body will be held by women.

These appointments will put the company ahead of its target of having 30% female boardroom representation by 2020 and ahead of the level urged in Recommendation No. 14 of Spain's Code of Good Governance for Listed Companies.

Governing bodies: the Board, its Committees and the AGM

Gamesa's governance is articulated around two bodies: the Board of Directors and the Annual General Meeting.

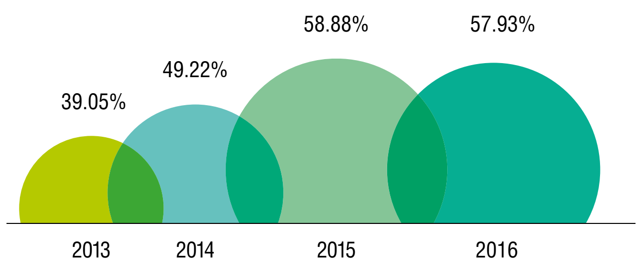
The Board of Directors is Gamesa's highest decision-making body, except in respect of the matters requiring shareholder vote. The board performs general supervisory duties and establishes the company's general strategies and policies with the overriding aim of generating value for its shareholders and other stakeholders. Its operations and remit are regulated in the Board Regulations.

In order to carry out its duties, the board is assisted by an Executive Committee, which has been vested with general decision-making powers, and three expert committees: the Audit and Compliance Committee, the Appointments Committee and the Remuneration Committee.

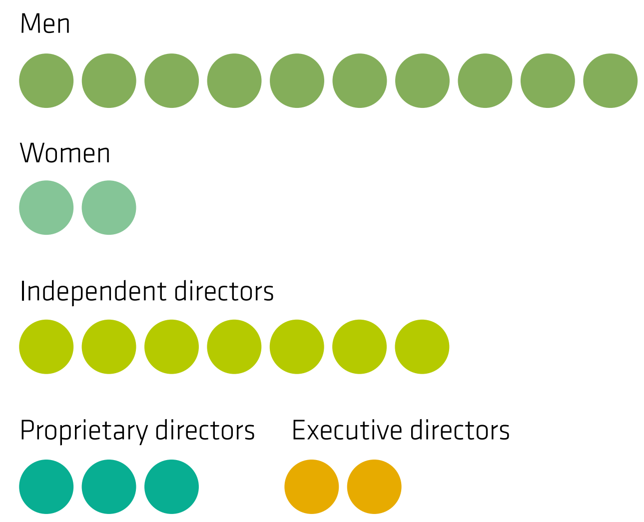
Gamesa's board composition is balanced. It currently comprises 12 directors, two of whom are executive, with the remaining 10 external. Of the 10 external directors, seven are independent and three are proprietary.

All the directors stand out for the professional, ethical and independent manner in which they perform their duties. The board combines directors with extensive financial track records and others with a more industrial background.

AGM quorums in prior years



Composition of the Board of Directors



The **Annual General Meeting** is the meeting at which, subject to the required quorum, the company's shareholders decide by majority vote on the matters falling within their purview. All shareholders are bound by the resolutions ratified at the Annual General Meeting.

Director selection

By means of multiple evaluation processes, Gamesa's Board of Directors identifies the profiles and skills needed for optimal performance. Candidates who bring knowledge of Gamesa's business in all its dimensions - economic, environmental and social - in Spain and abroad, are highly valued in this respect.

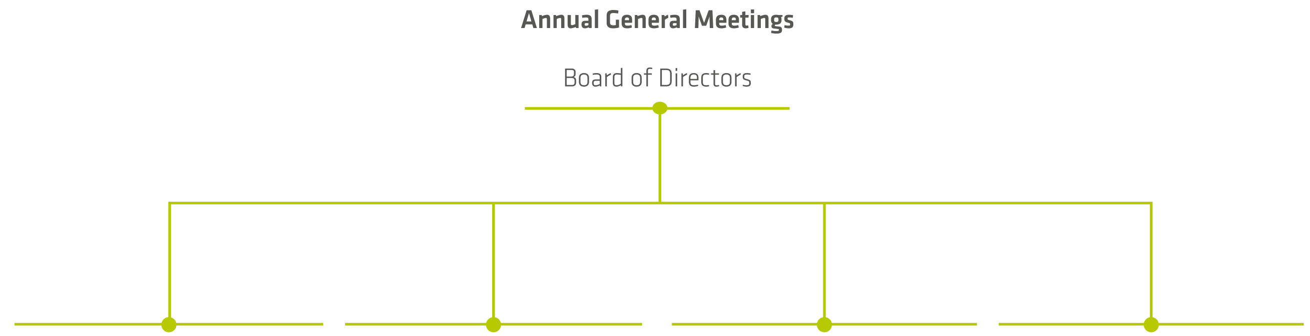
The Appointments Committee is tasked with performing these director selection policies, following the guidelines laid down in the company's 'Director Selection Policy', which is articulated to ensure candidates are honourable, in good standing, skilled and experienced. The board regulations stipulate that the majority of directors be external - including proprietary and independent directors - relative to executive directors.

As for boardroom gender diversity, following the appointments ratified at the October Extraordinary General Meeting, which are conditional upon the close of the merger between Gamesa and Siemens Wind Power, Gamesa will actually exceed its target of having 30% female representation by 2020. Once these appointments are effective, some 46% of the company's board members will be female.

Conflicts of interest

Gamesa prioritises transparency in its market and shareholder reporting effort. The Annual Corporate Governance Report itemises the mechanisms in place to detect and resolve potential conflicts of interest between Gamesa and its directors, officers or significant shareholders. In addition, the notes to the company's annual financial statements disclose the transactions involving conflicts of interest that were authorised by the Board of Directors, along with any conflicts of interest arising in the course of the financial year to which the statements relate.

Under the Board Regulations, if a director is party to a conflict of interest, he or she must notify the board of such situation, via its chairman, and refrain from participating in debates, votes, decision-making and execution with



Executive Committee

Participates in business management and supports the board's decision-making work.

Audit and Compliance Committee

An advisory and reporting body. Its duties include supervision of the audit systems, the financial reporting process, control over the risk management systems and review of the corporate governance framework.

Appointments Committee

Also an advisory and reporting body, its main duties include supervision of the composition and performance of the Board of Directors and the senior management team.

Remuneration Committee

This advisory and reporting body is tasked with oversight of director and senior officer remuneration.

Board committees

Executive committee

Position	Name	Class of director
Chairman	Ignacio Martín	Executive
Members	Juan Luis Arregui	Independent
	José María Aldecoa	Independent
	Luis Lada	Independent
	Gerardo Codes	Proprietary

Audit and compliance committee

Position	Name	Class of director
Chairwoman	Gloria Hernández	Independent
Members	Sonsoles Rubio	Proprietary
	José María Vázquez	Independent
	José María Aracama	Independent

Appointments committee

Position	Name	Class of director
Chairman	Andoni Cendoya	Independent
Members	José María Aracama	Independent
	Francisco Javier Villalba	Proprietary

Remuneration committee

Position	Name	Class of director
Chairman	Andoni Cendoya	Independent
Members	Juan Luis Arregui	Independent
	Francisco Javier Villalba	Proprietary

Further information on the composition of the governance bodies can be found in the Annual Corporate Governance Report and on Gamesa's corporate website.

In-house rules and regulations

- Bylaws
- The General Meeting Regulations
- The Board Regulations
- Regulations of the Audit and Compliance Committee
- Regulations of the Appointments Committee
- Regulations of the Remuneration Committee
- Internal Regulations for Conduct in the Securities Market
- Code of Conduct

Corporate policies:

- Corporate governance and compliance policies
- Risk management policies
- Social responsibility policies

regard to transactions and matters in which they have a vested interest.

The mechanisms for detecting and resolving potential conflicts of interest are upheld by the following bodies:

- The Audit and Compliance Committee: reports on transactions which may imply conflicts of interest.
- The Remuneration Committee: reports on these transactions when they entail a release from compliance with directors' contractual obligations.
- The Board of Directors or the Annual General Meeting, as the case may be: authorises transactions which may imply conflicts of interest.

Director performance

In 2016, Gamesa evaluated the board in terms of composition diversity; committee effectiveness and composition; fulfilment of its duties and engagement with other governance bodies; and the individual performance of each of its directors, including an analysis of their skills development.

This evaluation process was undertaken with the assistance of external consultants and took the form of working sessions involving the Appointments Committee and its Secretary and the areas of the company responsible for corporate governance, a review of Gamesa's in-house rules and regulations and, lastly, a benchmarking exercise in respect of best corporate governance practices.

Remuneration policy

Remuneration of Gamesa's directors and senior officers is regulated in the company's bylaws and board regulations and is articulated around the principles of proportionality and transparency.

The members of Gamesa's Board of Directors receive a fixed annual payment, which depends on the committees they sit on, plus a fee for every board and committee meeting they attend.

For performance of his executive duties, the Chairman & CEO also receives a fixed salary, an annual bonus and a medium/long-term bonus. Both bonuses are tied to delivery of specific, quantifiable objectives aligned with Gamesa's corporate interests. The Board of Directors, at the recommendation of the Remuneration Committee, is responsible for determining the level of delivery of these targets.

Further information about Gamesa's remmuneration policy can be found in the 2016 Remmuneration Report and on Gamesa's corporate website.

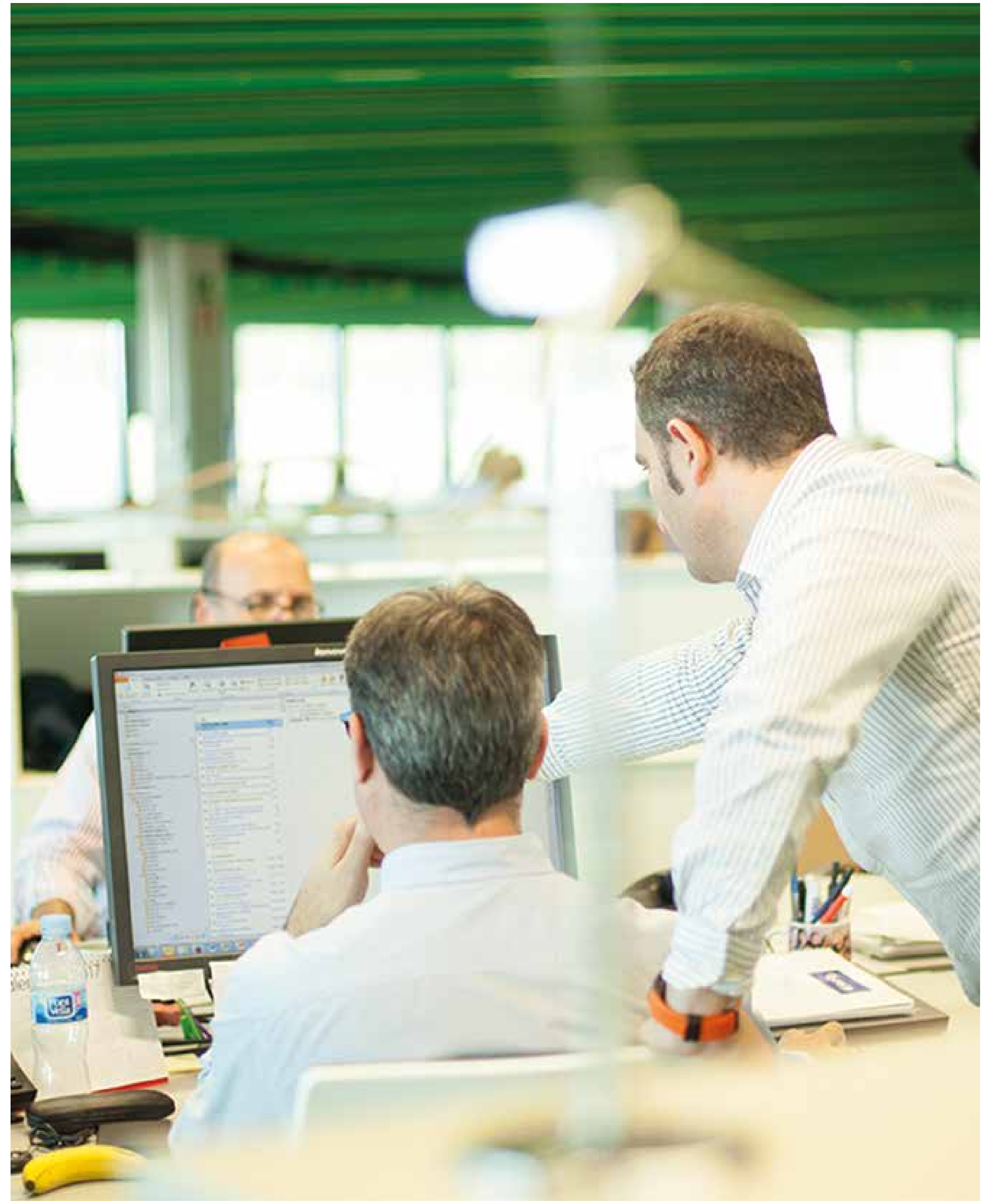
Risk control and management

Gamesa has a General Risk Control and Management Policy which establishes the general framework for monitoring and managing the risks to which the company is exposed. The key objectives of this policy are to ensure compliance with the law, regulations, rules and contractual obligations to which the company is bound and to underpin its performance on all dimensions.

In addition, the company has other policies and procedures designed to maximise and protect its value from an economic, social and environmental perspective, establishing risk tolerance thresholds as required.

Gamesa uses an Enterprise Risk & Opportunities Management (ERM) model to control and manage its risks. The ERM stems from the guidelines established in the regulations governing the Board of Directors and its steering committees and is based on renowned international methodologies.

The core ERM system was approved by the Board of Directors in 2015 and establishes the guidelines and general framework underpinning the key elements of the ERM so that a common set of standards is upheld: management objectives and philosophy, dynamic identification, aggregation, evaluation, mitigation and control of risks, risk tolerance thresholds, communication, reporting and supervision, integrity, business ethics, skills and the allocation of related responsibilities.

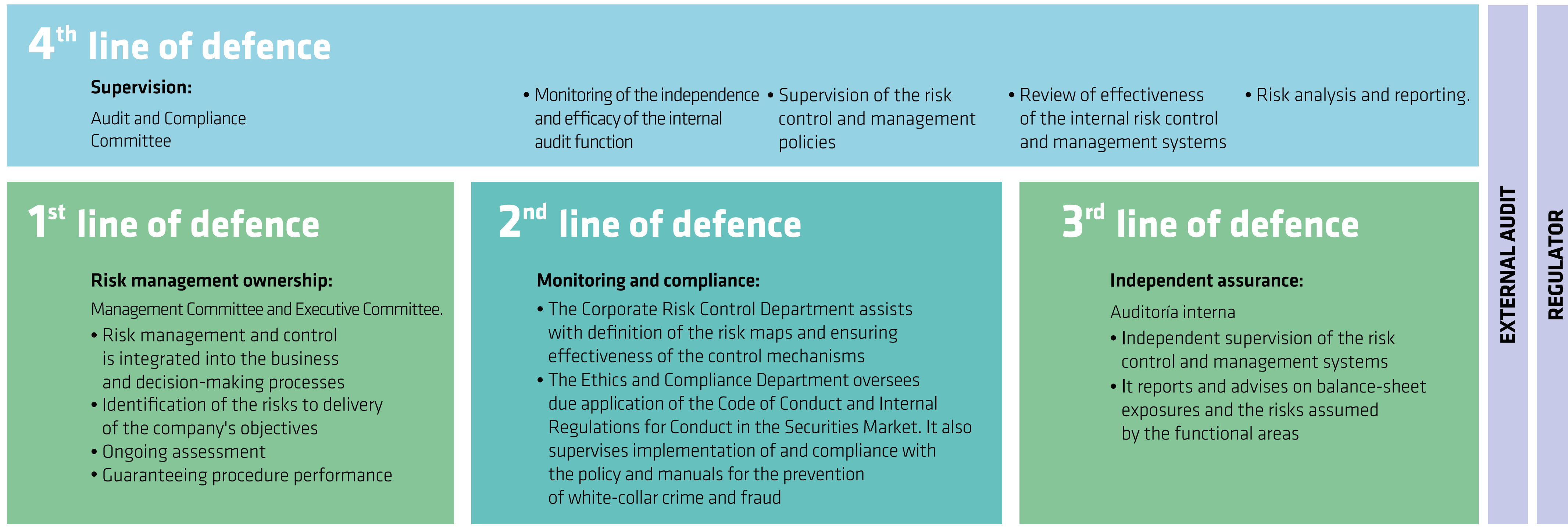


In this manner, the ERM is articulated around an organisational structure comprising four lines of protection and defence, designed to enable the firm to tackle and manage its significant risks and opportunities, as depicted in the image on the right.

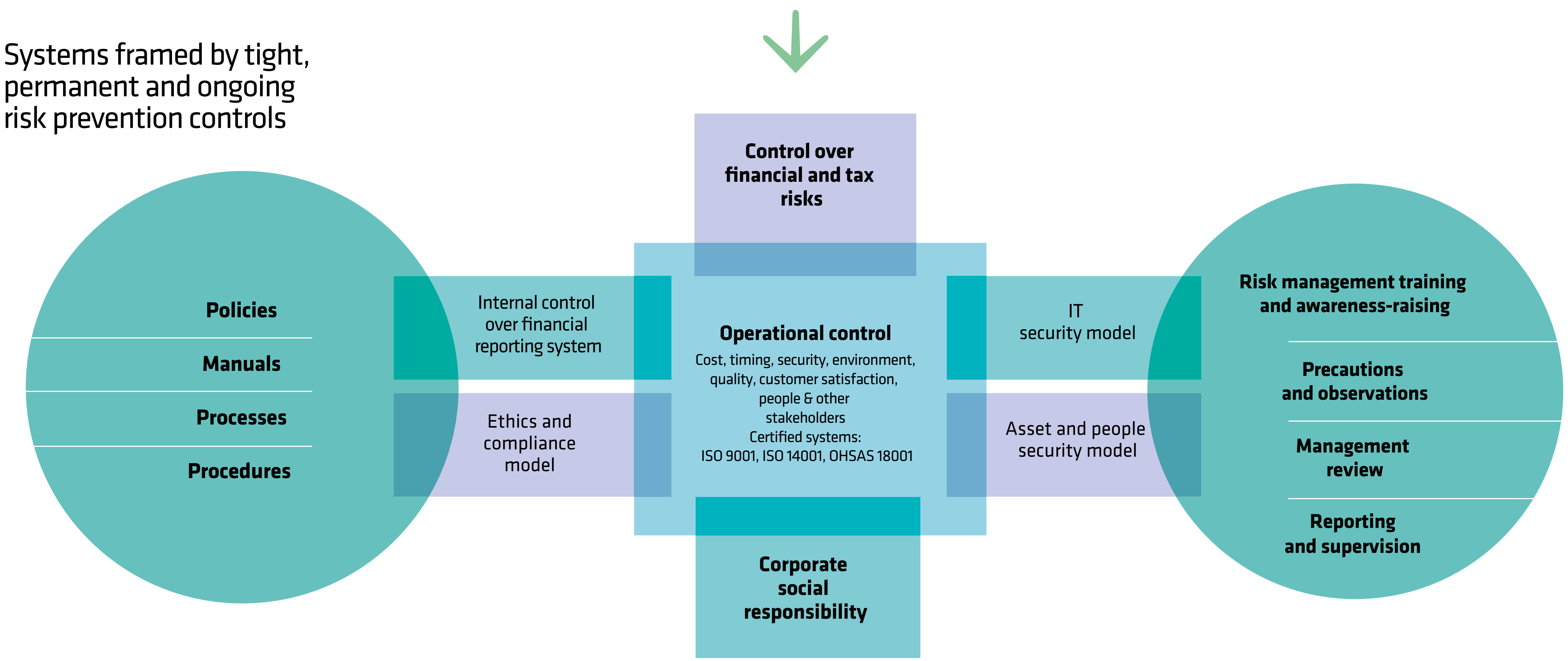
Establishment of the internal and external context in which Gamesa carries on its business activities, framed by proactive and process-embedded risk management, is accompanied by risk tolerance thresholds and permanent and continuous controls over the main components of the ERM system (financial, tax, operational, financial reporting, IT security, ethics and compliance and CSR related risks), which take the form of specific policies and indicators.

Between these limits and controls lies delivery of the targets set out in the prevailing Business Plan, which must be achieved while stringently and unwaveringly complying with the law and the company's corporate governance rules, most particularly those embodied in the Code of Conduct, in the principles and good practices outlined in the Corporate Tax Policy and under the company's zero-tolerance stance towards illicit conduct and fraud, as laid down in its policy for the prevention of white-collar crime and fraud.

Lines of defence



Systems framed by tight, permanent and ongoing risk prevention controls



Key risks and their control

As a general rule, Gamesa's risk management and control policy defines risk as any threat in the form of an event, development or omission that could prevent the organisation from achieving its business objectives and/or executing its business strategies successfully, which is why the firm's risk management and control systems are integrated into the strategy planning and target-setting process; in this manner they contribute to the creation of value for the company's various stakeholders and to its sustainable and profitable development.

In deploying its strategic and business plans, Gamesa faces a series of risks and opportunities that are intrinsic to the sector in which it operates and the countries in which it does business that could jeopardise delivery of the targets enshrined in the current 2015-2017 Business Plan.

The main risks to which the company is exposed, which were systematically monitored throughout 2016, along with the associated responses and permanent control and supervision systems, are grouped into four categories:

Strategic and business environment risks (externals)

Risks	Control and mitigation mechanisms
Country and global risk	•Security model designed to guarantee the continuity and safety of the business, people and assets in the countries in which the company operates by means of early alerts (economic, social, political, natural, health), contingency and emergency plans and risk management procedures.
Tax risks	• A host of mechanisms established in the framework tax risk control and analysis rules. • Regular reporting to the company's governing and supervisory bodies on compliance with best tax practices. • Application of the Corporate Tax Policy.
Price pressure	• Tracking of developments on the technology and regulatory fronts, market and demand shifts and other political changes.
Sector consolidation and growth beyond 2017	• Merger agreement with Siemens Wind Power for the combination to two highly complementary companies in terms of markets, businesses, customers, product portfolios and operating and management capabilities, translating into the ability to deliver a benchmark CoE.

Risks relating to the information used to take decisions or disclosed for legal reporting purposes

Risks	Control and mitigation mechanisms
The risk that the company's financial information is not reliable and/or completed	• The ICFR system uses a 'top-down' control model for risk identification purposes. • The controller and finance departments perform a series of controls to ensure the reliability of the information used in the period-end consolidation and financial reporting processes. • The Board of Directors is tasked with supervising and approving the financial statements submitted to the regulator and disclosed to the market.

Corporate governance, ethics and compliance related risks

Risks	Control and mitigation mechanisms
Risks associated with control over compliance with the company's corporate governance rules:	• The Code of Conduct was updated in 2016 and training was provided to all employees. • Tailored crime prevention manuals which include specific detection and prevention controls. • Whistle-blowing channel which allows employees to confidentially report breaches of potential significance.

Process risks or risks derived from the company's activities (product-services)

Operational risks	Control and mitigation mechanisms
Risks related to the supply chain:	• Ongoing monitoring and control to proactively track the potential effects an incident at a supplier of critical parts or services could have. • Control over single suppliers. • Supplier audits. • Control via the Achilles programme. • Ethics and compliance checks.
Risks related to the competitiveness of the product and service portfolio and improving the company's positioning in mature markets:	• Mitigated by delivering the product development plan. • Optimisation of the start-up curve and profitability in terms of the CoE. • First order for the G132-3.465 MW; G126-2.5 MW, named best WTG of the year by *Windpower*.
Risks related to IT security, including potential cyber attacks:	• IT security model: back-ups, physical access controls at the Data Processing Centre, internal and external logical access controls, controls over software maintenance and installation and controls over the segregation of duties.
Risks susceptible to underwriting by third parties:	• Insurance policies. • External certification (ISO 9001, ISO14001, OHSAS 18001).
Financial risks	**Control and mitigation mechanisms**
Exchange rate risk:	• Increased local sourcing. • Hedging by means of derivatives. • Ongoing monitoring of open exposures to exchange rate variability while complying at all times with overall exchange rate hedging limits.
Market risk (price)	• Risk passed onto customers via sales contract clauses.
Market risk (interest rate)	• Regular assessment of exposure via borrowings to rate and term risk.
Liquidity risk	• Maintenance of cash and highly-liquid, short-term and non-speculative instruments with top-notch financial institutions. • Maintenance of a debt profile to match the nature of the commitments to be financed.
Credit risk	• The company sells its products and services to customers with suitable credit histories; these customers' creditworthiness is duly analysed. • If a given customer does not have a credit rating, other mechanisms are used, such as irrevocable letters of credit and credit insurance, to ensure collection. •Analysis of customers' financial solvency.
Risks that could jeopardise the company's balance sheet health and/or earnings performance:	• Continual cash flow monitoring. • Control over the working capital requirement. • Monitoring and control of financial needs and attendant compliance with covenants.

Further information can be found in section E of the Annual Corporate Governance Report.

Business ethics and transparency

Gamesa strives to foster a preventative culture underpinned by a zero-tolerance stance on illicit or fraudulent conduct. In pursuing its business activities, the company upholds and defends solid governance principles based on corporate transparency, mutual trust between the company and its shareholders/investors and the outright rejection of corruption.

Gamesa oversees application of its Code of Conduct and the Internal Regulations for Conduct in the Securities Markets and supervises implementation and compliance with the policy, programme and implementing manuals for the prevention of white-collar crime and fraud at the company.

Code of Conduct training

The Code of Conduct, which is reviewed periodically, embodies and evidences Gamesa's commitment to ethical conduct and transparency in everything it does by establishing a host of principles and rules of conduct designed to guarantee the ethical and responsible behaviour of all Gamesa professionals in the course of carrying out their activities.

In 2016, Gamesa's Ethics and Compliance Department focused its efforts on promoting the corporate ethics culture and training the company's employees on the Code of Conduct and related manuals. To this end, it organised a number of events, most notable among which:

- The provision of 110 briefing sessions to over 2,400 professionals in Spain, Italy, Brazil, the US and Mexico covering the Code of Conduct, the Conflict of Interests Prevention Rules, the Crime Prevention Model and the Whistle-Blowing Channel.
- To educate employees about the cornerstones of Gamesa's business ethics culture, management conducted an awareness campaign which included a brochure and a business card listing the different channels for reporting any potentially illicit or irregular conduct observed.
- It also distributed posters featuring the slogan *Your commitment, our commitment; Our ethics, your ethics* and published related content on the intranet.
- Participation in a number of events organised by the world of academia such as the University of Castile-La Mancha and the National Compliance Congress and in training programmes such as that run by International Transparency, a non-government organisation devoted to combating corruption all over the world.

The effort to fight fraud

Gamesa combats corruption in all its forms and works to establish the best guidelines for governing individual conduct and the processes defining how work is performed and decisions are taken.

Some of these measures were created, revised and updated in 2016, reinforcing Gamesa's commitment in this area. By way of example, a section of the Code of Conduct was devoted exclusively to the effort to combat fraud and the zero-tolerance stance on corruption and bribery. The map of corporate crime risks and controls was similarly updated in a number of countries and clauses were added to contracts specifically prohibiting corruption in all its forms.

Human rights

The company has explicitly committed to upholding human rights and this pledge is enshrined in its Corporate Social Responsibility and other corporate policies, such as its Diversity and Inclusion Policy and its Supplier Contracting and Relations Policy. To put this culture into practice, the Code of Conduct regulates specific human rights related behaviour, establishing oversight mechanisms and disciplinary measures.

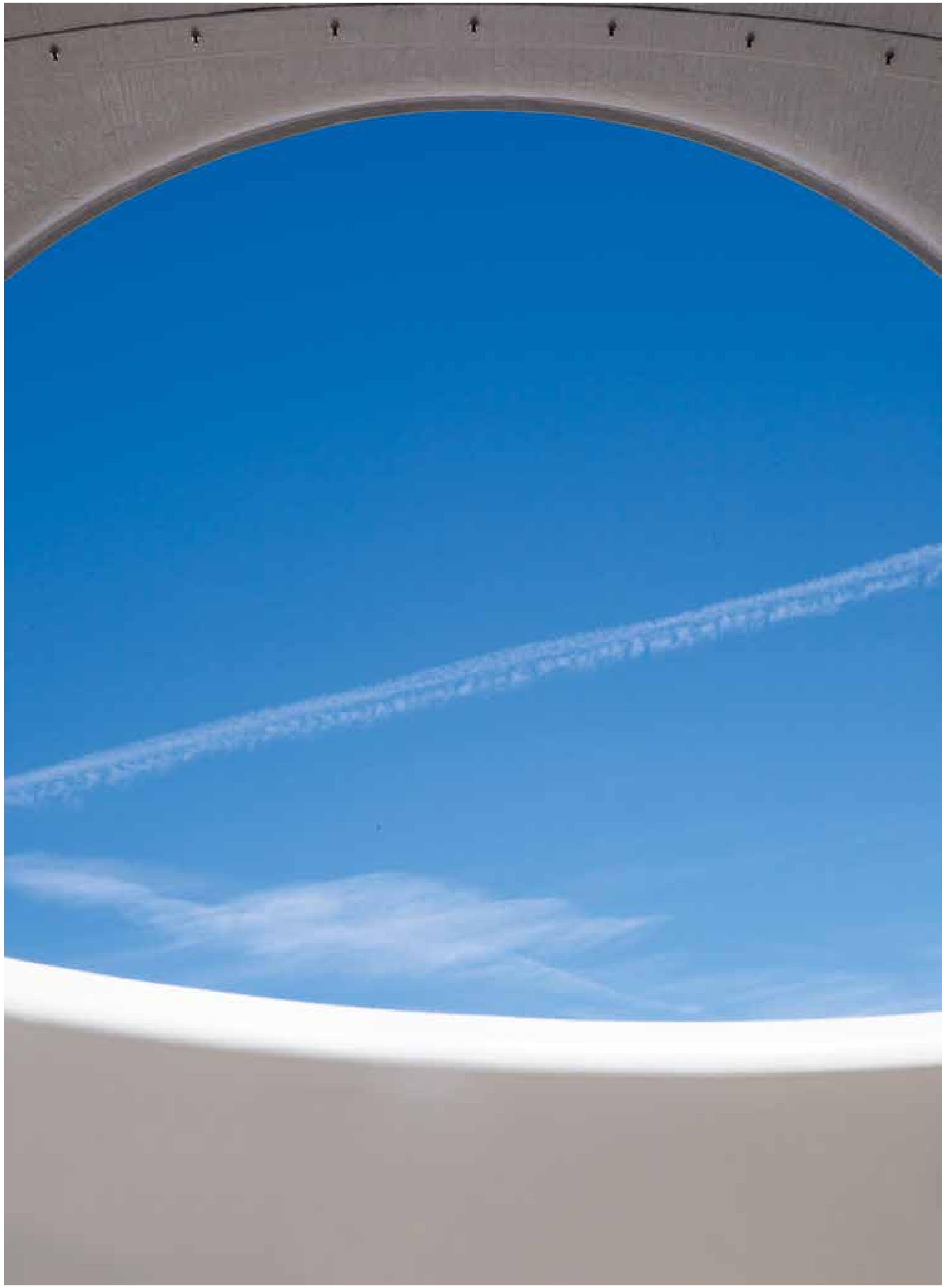
Gamesa also works to eliminate child labour (labour by any child at an age at which he or she is required to be in school) and all forms of forced labour. It has put in place the policies, commitments, procedures and measures necessary to minimise this risk. The importance attributed to these fundamental labour rights is enshrined in the company's Code of Conduct.

Social responsibility on the part of suppliers

Gamesa's efforts to combat fraud and corruption and ensure protection of basic human rights extends to the company's suppliers by explicitly including a clear-cut stance against fraud and corruption in its general purchasing terms and purchase agreements. The aim is to ensure that all suppliers dealing with Gamesa embrace the company's principles, values and codes, while also endorsing the firm's Supplier Contracting and Relations Policy.

In addition, these general clauses and master supply agreements include specific corporate social responsibility clauses which are binding upon the supplier and are based on the United Nation's Universal Declaration of Human Rights, the World Labour Organisation's conventions and the Global Compact Principles. To guarantee that suppliers comply with these obligations, Gamesa evaluates its suppliers' potential human rights risks by means of quality controls and periodic audits.

For further information about this chapter, refer to section D.6 of the 2016 Corporate Governance Report and sections G4-12, G4-HR10, G4-57 and G4-58 of the 2016 Corporate Social Responsibility Report. The corporate policies and Code of Conduct referred to in this chapter are also available on Gamesa's website.



5

Engaging with its surrrondings

Employees

Gamesa's employees are its most valuable asset and a key enabling success factor in the company's 40th anniversary. The organisation is committed to providing them with training and job opportunities in a safe and healthy environment. It respects their diversity and fosters communication with them. The key strategic initiatives of the firm's Human Resources policy pivot around the company's people, its organisational development and knowledge management.

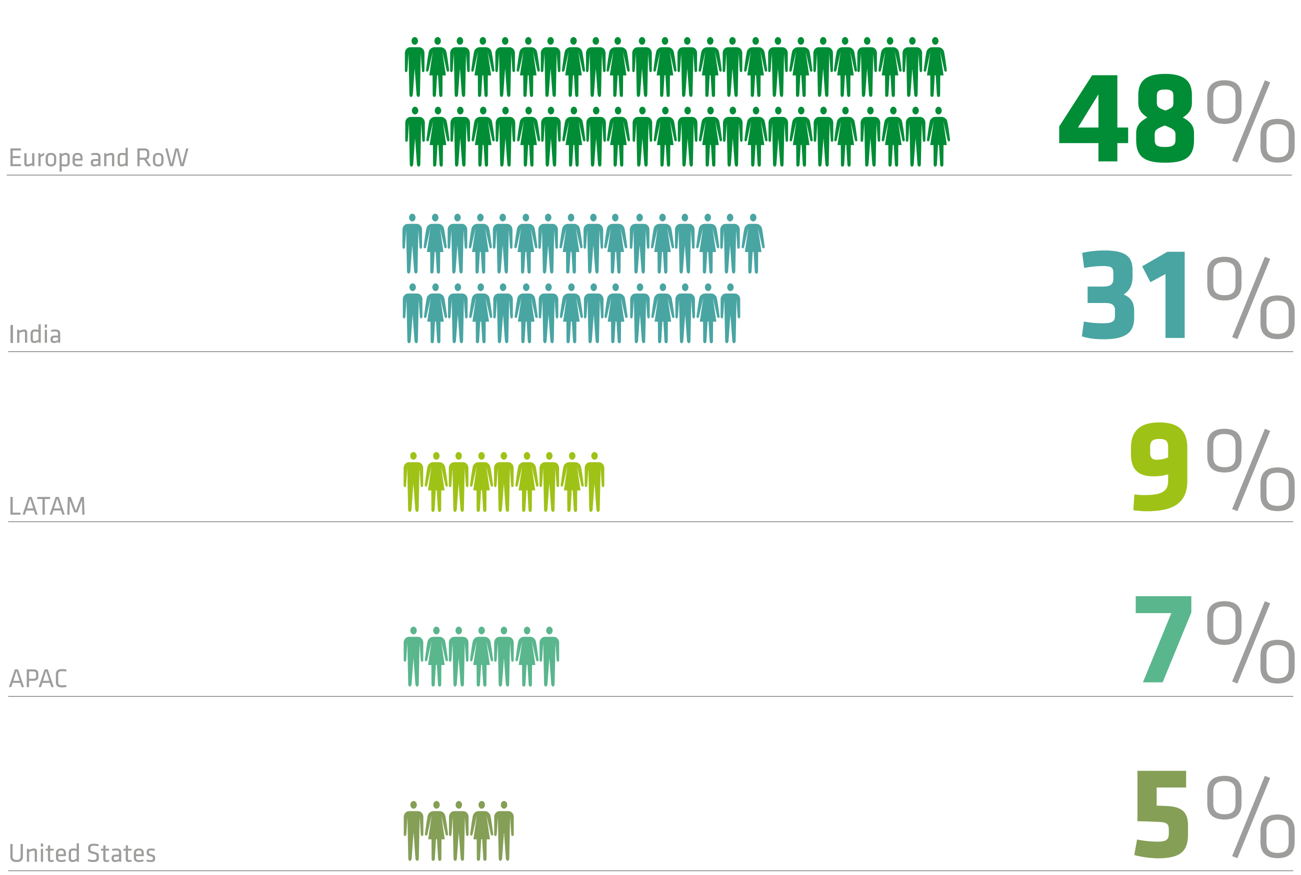
The Human Resources Department seeks to create an increasingly cross-cutting and flexible organisation articulated around basic business processes, thereby facilitating rapid decision-making.

At year-end 2016, the company's headcount stood at 9,100, up 23% year-on-year. Over the course of the year, Gamesa hired 1,700 people, 61% of whom under the age of 30. Employment rose across all regions. However, the pace of hiring in Latin America and India stands out; indeed, India was home to 72% of the new hires, reflecting the significant growth in business volumes in this market.

Committed to talent

Gamesa has global hiring policies which define all the selection process milestones and are based exclusively on professional criteria. In this manner, it guarantees optimal

Geographic breakdown of headcount



management of the various phases of the talent selection process, from candidate recruitment to evaluation, hiring and subsequent incorporation.

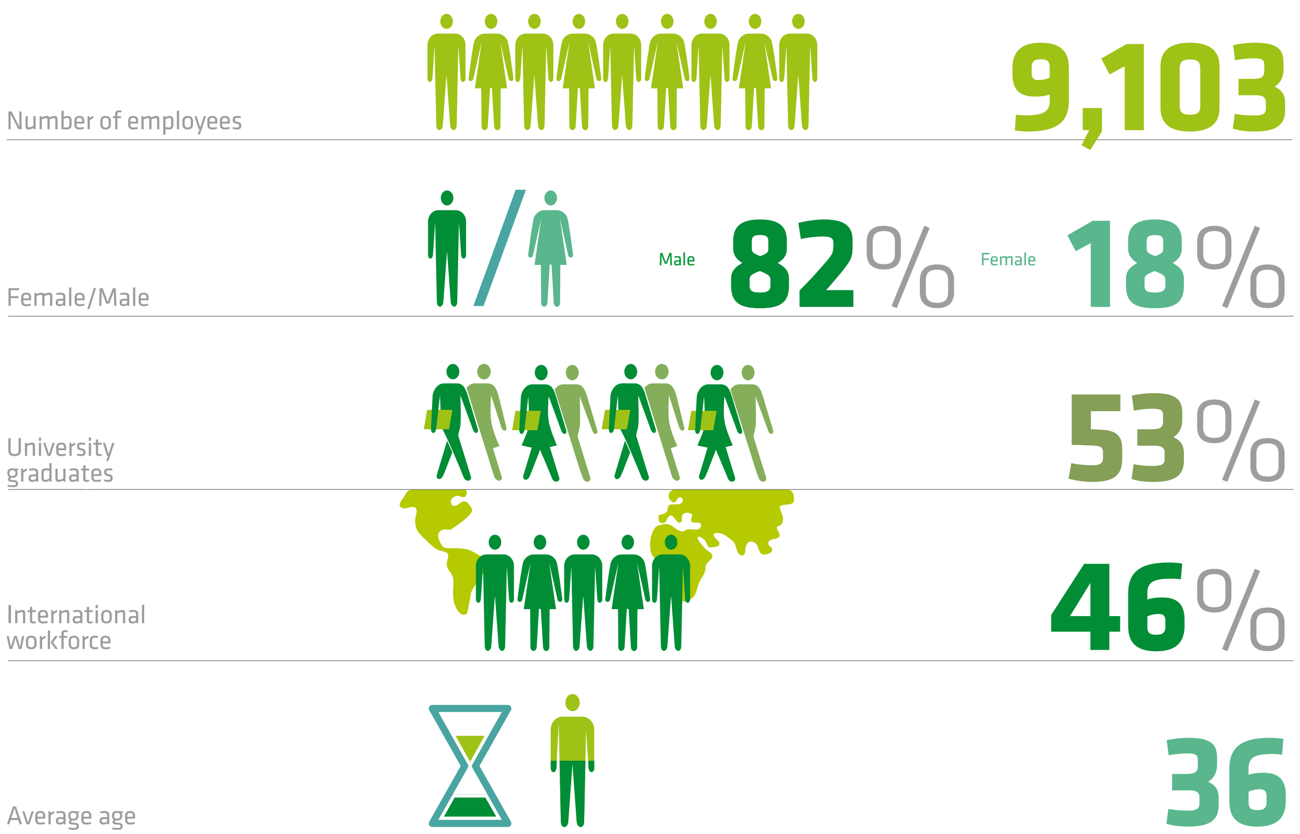
The hire of local talent in its various operating markets has always been a focal point of the company's selection policy. As a result, 83% of Gamesa's management positions are held by local professionals.

In parallel, with a view to fostering the transfer and cross-fertilisation of its know-how and in response to the company's international expansion, Gamesa champions international mobility; the chance to be reassigned to a new market for a long stay was availed of by 124 employees in 2016, up 25% from 2015, while a further 1,100 are on short-term international assignments.

In 2016, the company rolled out Gamesa Talent Environment (GATE), the firm's new end-to-end talent management tool, created with the aim of boosting and facilitating employee career development and centralising all HR information in a single portal.

On the training front, in 2016, the company earmarked over 330,000 hours to courses, nearly twice the number of hours imparted of 2015. This means that on average every Gamesa employee received nearly 41 training hours in 2016.

Social and environmental figures



These activities include the programmes run by Gamesa Faculty, a centre focused on ensuring continual learning by covering the needs created by constant technological evolution and developments in the wind power sector.

The Faculty provides service in-house to all Gamesa employees all over the world from a central training centre in Spain and permanent local training centres in the US, China, India and Mexico, as well as providing training to third parties (301 non-company individuals received training in 2016).

Performance evaluation - a process which covers 60% of Gamesa's employees - is key to determining employees' training needs.

In addition, in 2016, the company continued to provide the career development and talent scouting programmes implemented in 2014:

- The High Potential Candidates Programme, designed to accelerate the development and training of promising talent.
- The Gamesa Leadership Programme, designed to enhance the skills and attitudes needed to work on complex projects and in international environments, and also to boost and facilitate knowledge-sharing throughout the entire organisation.
- The internal mentoring programme, targeted at key top-performing and highly-promising professionals.
- The Gamesa Premium Scholarship Programme, an initiative designed to get young graduates involved in company projects, giving them responsibilities and duties within a multi-disciplinary team.

- Gamesa 360: internal training courses focused on technical skills while entrenching knowledge of the business model and organisational processes.
- The company's Comprehensive Course Catalogue comprises over 100 training courses divided into four major topics: skills, technical knowledge, health and safety and languages.

Remuneration and compensation policy are also crucial tools in attracting and retaining the best professionals. This system is designed to boost individual performance and reward employees for their hard work and commitment, while ensuring fair and competitive pay. Gamesa's remuneration model is based on the equal opportunities principle in order to prevent any form of discrimination, ensure compliance with labour laws in all its operating markets and fairly reward its employees for their efforts.

Diversity and equal opportunities

Professionals of 56 different nationalities work side by side at Gamesa. This diversity of cultures, ethnic groups, beliefs and languages enables the company to be more innovative, creative, sensitive and committed to society.

The organisation's commitment to equal opportunities, respect for diversity and its zero-tolerance stance on discrimination - expressly enshrined in the company's Code of Conduct - form the foundation of Gamesa's cross-cutting Diversity and Inclusion Policy, which applies in all its operating markets.

These pledges were reinforced in 2016 by means of:

- The Diversity Charter: in 2016, the company renewed its membership of this initiative, promoted by the Diversity Foundation and championed by the European Commission and Spanish Ministry of Equality; signature of this Charter commits Gamesa to compliance with equal opportunities and anti-discrimination legislation.
- Execution of several collaboration agreements with Spain's Ministry of Health, Social Affairs and Equality:
  - To encourage boardroom gender balance. At Gamesa, at least 30% of board members must be female.
  - To increase the percentage of women in executive positions and on management committees. To this end the company has set itself the target of increasing the number of women in pre-management positions from 19% to 25% and in management positions (including the female presence on the management committee) from 9% to 20% by 2018.
  - To promote awareness about gender violence and help victims of domestic violence to find work.
- In the US, the company sponsors the women's association associated with Women of Wind Energy (WoWE). The association promotes the training, career development and promotion of women with the aim of building diversified workforces in the renewable energy sector.

These initiatives emanate from Gamesa's signature in 2010 of the UN Women's Empowerment Principles. Those principles, developed by means of an international multi-stakeholder consultation process and the result of a collaboration between the United Nations Development Fund for Women (UNIFEM) and the United Nations Global Compact, provide a perspective on gender matters that enable businesses to measure and analyse their initiatives and progress.

In addition, in Spain, as part of Gamesa's second Equality Plan, two new work-life balance measures were introduced: firstly, the opportunity to work from home from week 32 of a pregnancy, to the extent compatible with the woman's job duties; and secondly, the introduction of irregular working hours for professionals availing of reduced working hours for reasons of legal guardianship, ensuring their daily presence and again, so long as the job duties and workplace circumstances so permit.

Labour relations

Relations between Gamesa and its employees are regulated by the labour regulations prevailing in each country and the collective bargaining agreements entered into with the workers' representatives, as warranted.

In Spain there are 37 works committees, which the company met with on 307 occasions in 2016; the company also holds round-table events to address their specific needs, such as the psychosocial risk assessment and training.

The negotiation committee met on 17 occasions in 2016, an effort that concluded with the execution of the first collective bargaining agreement covering corporate office staff in Spain; this agreement was published in the Official State Journal on 4 August 2016. This agreement marks a milestone for the company as it establishes a single set of employment terms and conditions for nearly 2,000 employees. In parallel, management continued to meet regularly with the unions or their representatives at Gamesa.

Elsewhere, the committee set up to monitor the Global Labour Agreement signed with the firm's main Spanish unions and IndustriALL Global Union continued its work, meeting three times in 2016.

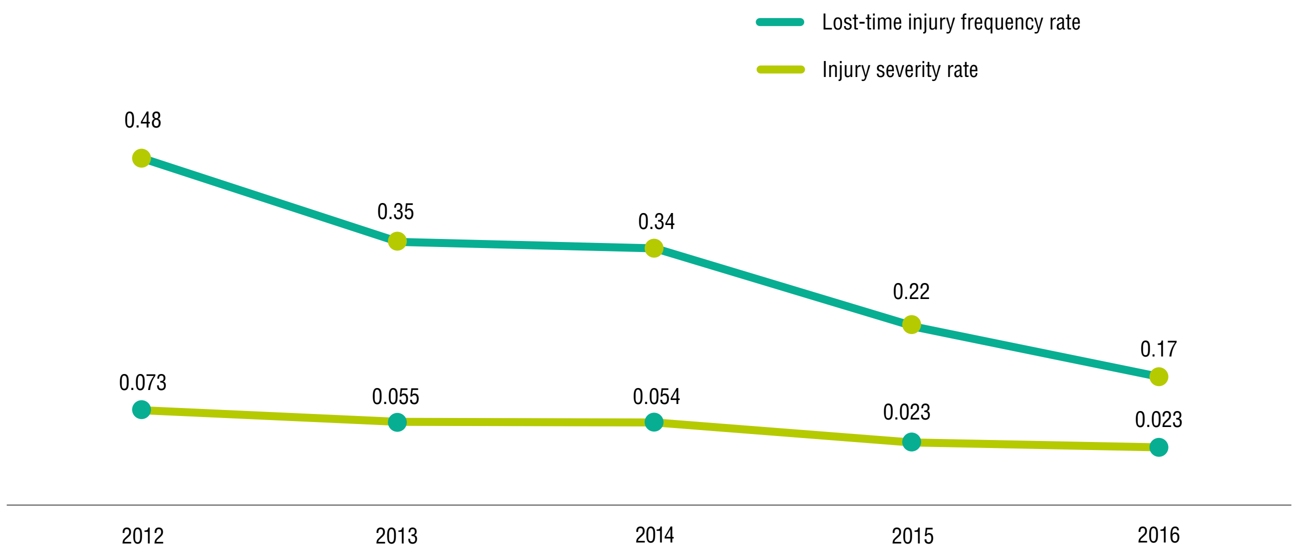
Outside of Spain, management and employees continued to communicate actively

- In Mexico, all operations are covered by the agreement signed with the sector union, SUTERM.
- In Brazil, six agreements were signed covering remuneration, working hours and workday flexibility.
- In the US, meanwhile, the company has two collective bargaining agreements, one covering the Services warehouse staff in Fairless Hills and the second covering the centre in Ebensburg.

Health and safety excellence

The company actively promotes an accident prevention policy and culture to ensure workplace health and safety, to which end it complies with prevailing legislation in each market and establishes as many preventative measures as are needed. Guided at all times by the criteria of excellence and continuous improvement, the company applies an integrated health and safety, environment and quality management policy which meets stringent international standards.

Health and safety performance indicators



Gamesa delivered a further reduction in its accident rates in 2016, extending the trend of recent years and marking an all-time low. Notably, the lost-time injury rate fell significantly.

In addition, Gamesa received the National Prize for Workplace Safety (17th edition of the Diplóos Award) which is awarded annually by the APA (acronym in Spanish for the Association for the Prevention of Workplace Accidents), an entity devoted to fostering and encouraging studies and publications and the adoption of measures designed to enhance working conditions.

The organisation has an OHSAS 18001-certified global workplace health and safety management programme which is helping to reduce accident rates while boosting productivity and fostering a culture of prevention.

Gamesa proactively analyses the causes of its accidents and tracks other performance indicators, evidencing how entrenched its safety philosophy is in its everyday management, as demonstrated in the following figures:

- 99 full audits
- 967 specific training initiatives
- 100% of accidents/initiatives investigated
- 10,463 safety inspections and 4,380 planned preventative actions
- 96.6% compliance in medical check-ups

Further information can be found in section 11.a of the 2016 Corporate Social Responsibility Report.

Customers

Gamesa works tirelessly to respond to its customers' needs and expectations optimally, reliably and competitively. To this end, the company seeks to identify the matters of priority importance in measuring customer satisfaction, enhance the channels it uses to engage with customers and make its product and service proposition as high quality as possible, factoring in changes in the economic, social and technological environment.

Gamesa is present in 55 countries worldwide and is a leading player in several of its markets. Its positioning in Mexico, Brazil, the US, China and EMEA stands out.

This leadership, coupled with a regional sales organisation, made up of 18 offices around the world, brings proximity and direct and personal relationships with customers, a better understanding of their needs, more information about the products on offer and the ability to handle enquiries and claims.

Close and direct relationship

In order to stay in close and ongoing contact, Gamesa has continuous feedback mechanisms and processes, most notable among which its satisfaction surveys. Every two years, the Customer Satisfaction Project, which takes the forms of an in-person customer survey, enables the company to establish a direct line of communication and evaluate the quality of its products and services, measuring aspects related to the projects' development, construction and operation phases.

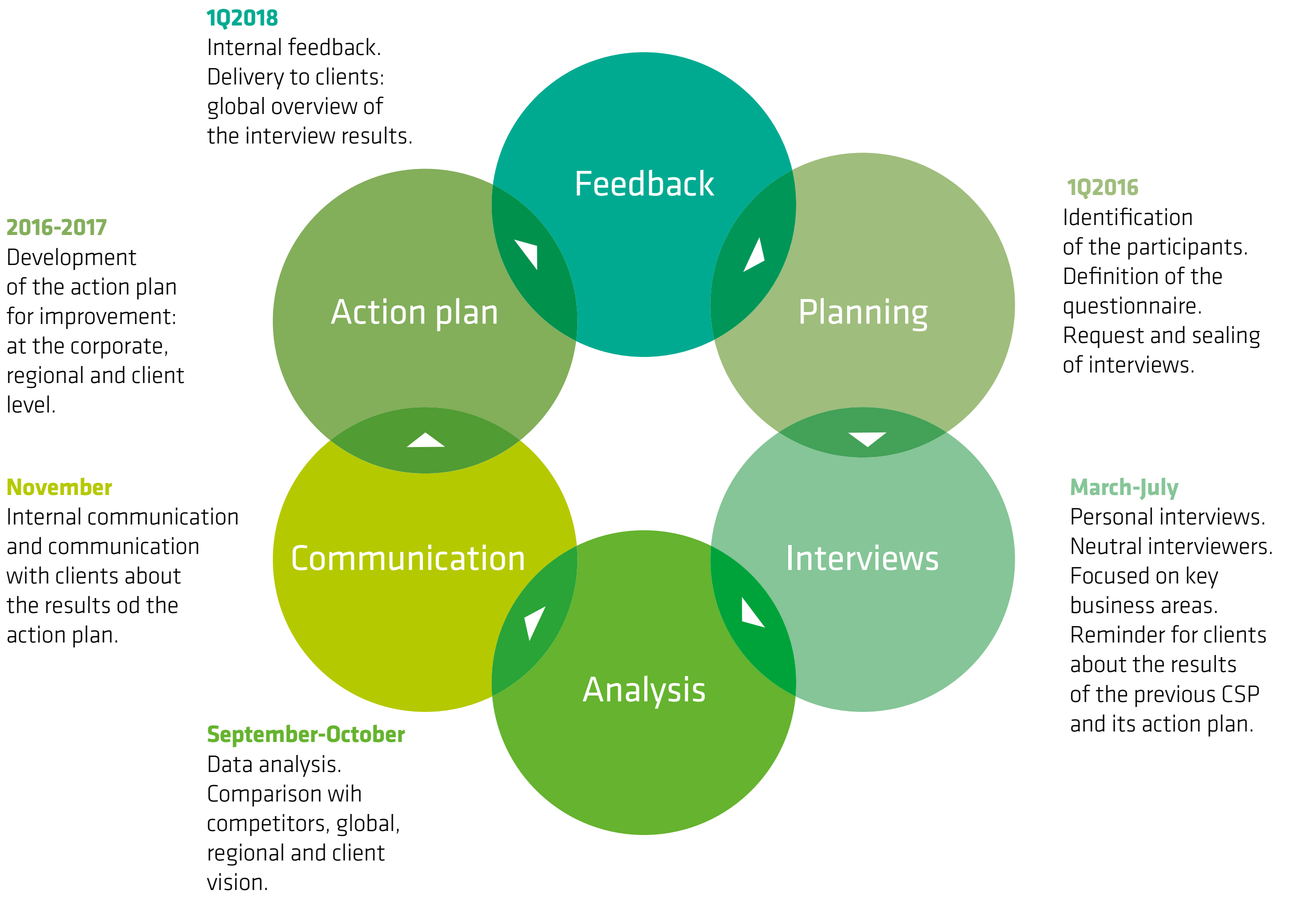
Ninety per cent, or 201 customers from 117 firms and 26 countries, participated in Gamesa's last customer satisfaction survey, carried out in 2016. This tool is very valuable for Gamesa, as it enables it to rapidly pinpoint strengths and weaknesses in management and performance during the various stages of its projects, with the aim of developing and executing action plans at the global, regional and customer-specific levels. The seventh edition of the survey revealed a widespread improvement on all counts.

Other formulae that help strengthen the company's business relations include its participation in trade fairs and the organisation of specific events with customers, such as product and technological service conferences and seminars, and the Customer Loyalty Programme.

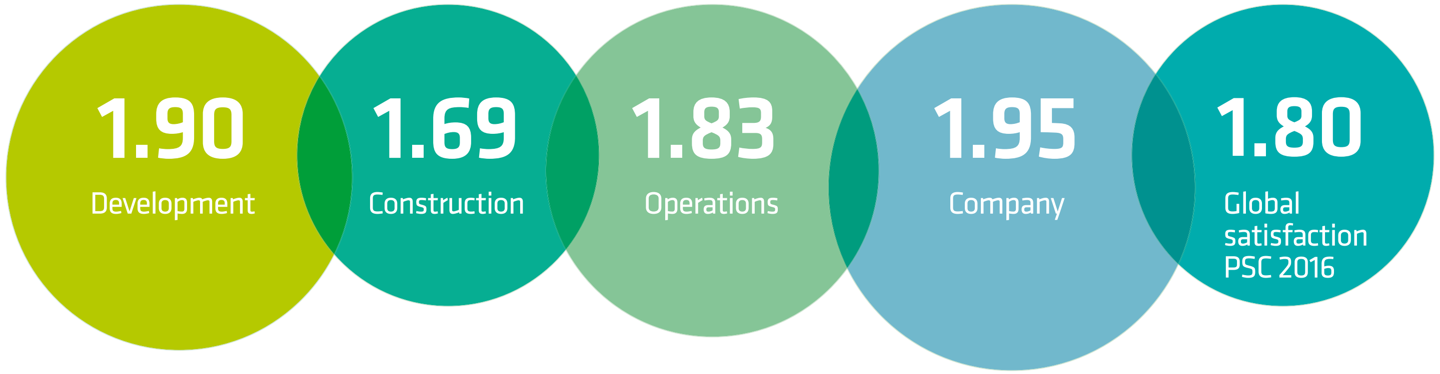
Among the international trade fairs in which Gamesa participated in 2016, the following stand out:

- China Wind Power 2016: this is the most important trade fair in China and Asia-Pacific; Gamesa participated with a 81m² stand, showcasing its products and services tailored for the local market. It also participated in the event's conference cycle.
- WindEnergy Hamburg 2016: Gamesa attended Europe's largest wind event, exhibiting its newest turbine models, the G132-3.3 MW and the G126-2.5 MW, as well as its services solutions for the European market. The company also participated in a number of expert talks and presentations during the event.
- Brazil WindPower 2016: the main sector trade fair in Latin America. The company leveraged this forum to present its products for this market and also participated in the symposium, making technical presentations.

Metodology CSP 2016-2018



Results of the 2016 survey



- AWEA 2016: Gamesa participated in the largest trade fair in the US, showcasing the latest products and services targeted at this market. It also participated actively in the various conferences and panel discussions and organised over 150 meetings with customers
- Mexico WindPower 2016: for the fifth year in a row, the company presented its products and services at this fair, as well as participating in the conference line-up.

Seminars and Customer Loyalty Programme

Gamesa organised six seminars over the course of 2016, attended by 220 customers from 90 companies. This event was organised for the first time in Argentina, Vietnam, South Africa, Sri Lanka and Pakistan. During these events, the company presented its business strategy for the various markets, along with its tailored products and services.

The idea behind the Customer Loyalty Programmes is to strengthen customer relations and define personalised loyalty strategies. Loyalty events were accordingly organised in all of the company's regions in 2016, in addition to specific initiatives with individual customers, noteworthy among which:

- The Gamesa Customer Loyalty Annual Event, US. Held in New Orleans in May 2016, this event gathered 167 people from 58 difference companies.
- The Gamesa Customer Loyalty Annual Event, EMEA. Organised in Pamplona and La Rioja (Spain) to coincide with the inauguration of the G126-2.5 MW and G132-3.3 MW prototypes, these meetings brought together 25 customers from 16 companies in Europe.
- The Gamesa Customer Loyalty Annual Event, Latam. The Sao Paulo (Brazil) event gathered customers from Brazil, Chile, Argentina, Costa Rica and Honduras.
- The Gamesa Customer Loyalty Annual Event, Asia. Celebrated in Kuala Lumpur (Malaysia), the Asian loyalty event brought together 18 people from 12 different companies from India, China, Indonesia and the Philippines.

Product excellence

Gamesa is a product and service developer. It has created one of the most comprehensive and versatile portfolios in the market, underpinned by over 23 years accumulating experience and know-how in the wind industry, with the aim of offering products that are ideally suited to the varying wind conditions encountered from site to site.

In 2016, the company continued to expand its product suite, introducing new rotors and tower heights, and services range, expanding its value-added service offering. The following product launches stand out:

- The G132-3.465 MW, the natural evolution of the G132-3.3 MW.
- The G114-2.1 MW CS, targeted at the Brazilian market. This new version of the turbine is specifically adapted to suit conditions in the Brazilian market and comes on the heels of the versions already tailored for the Indian and Chinese markets.
- The Very High Altitude (VHA) variant, available for sites located as high as 3,400 metres above sea level.
- The Very High Temperature (VHT) variant, for sites where temperatures can soar above 50°C.

- New tower heights, notable among which the 153m tall towers or the 2.0-MW platform, the 134m hybrid polygon tower and the 154m tower, both of which available for the 3.3-MW platform.

Wind turbine platforms

In developing these products and services, Gamesa draws on its operational excellence, underpinned by its ability to innovate continuously, its global manufacturing capabilities, its relentless search for solutions that maximise profitability and reduce the cost of energy and its commitment to health and safety.

Against this backdrop, Gamesa's customer pledge is based on a permanent sense of duty to service, credibility and value creation; it develops solutions that exceed its customers' expectations and do not imply risks for their health or safety.

To this end, the company evaluates its products' impacts in sustainability terms on all its processes – design, manufacturing, assembly, field installation, commissioning and after-sales service - at the drawing-board stage, establishing activities, responsibilities and work flows to ensure complete (internal and external) customer satisfaction, ensuring a safe work environment, guaranteeing maximum respect for the environment and implementing an advanced quality management system.

Wind turbine platforms

2.0-MW and 2.1-MW platform

Name	Class	MW	High [*] (m)
G80	Class IA	2.0	60/67/78/100
G87	Class IA	2.0	78/90
G90	Class IA	2.0	55/78/90
G97	Class IIA/IIIA/CS	2.0	78/90/100/104/120
G114	Class IIA/IIIA	2.0	80/93/125
G114	Class IIIA/CS	2.1	80/93/106/125

2.5-MW platform

Name	Class	MW	High (m)
G106[1]	Class IA	2.5	72/80/93
G114	Class IIA	2.5	68/80/83/125
G114	Class IIA	2.625	68/80/93/125
G126[1]	Class IIIA	2.5	84/102/129
G126[1]	Class IIIA	2.625	84/102/129

3.3-MW platform

Name	Class	MW	High (m)
G132[1]	Class IIA	3.3	84/97/114/134
G132[1]	Class IIA	3.465	84/97/114/134

5.0-MW platform

Name	Class	MW	High (m)
G132	Class IIA	5.0	95/120/140

(1) Under development

(*) Diferent versions and optional kits are avalaible to adapt machinery high or low temperature and saline or dusty environment.

Shareholders

Gamesa uses several channels for engaging with its shareholders and the investment and analyst communities. The main tools used to engage with this stakeholder group are: the Investor Relations Department, the Shareholders' Office and the Annual General Meeting. In addition, all of the information of interest to shareholders is uploaded onto the corporate website, specifically the investors and shareholders tab, which received over one million visits in 2016.

The Shareholders' Office is the channel used by Gamesa to provide personal attention to the company's non-institutional shareholders, to which end it offers a dedicated shareholder phone line (900-504-196), a dedicated e-mail inbox (info_accionista@gamesacorp.com) and regular mail correspondence. In 2016, the Shareholders' Office fielded over 360 enquiries through these channels.

This Office also handles requests for information related to the Annual General Meeting. The company sets up online forums to facilitate shareholder communication in the run-up to its shareholder meetings. In 2016, Gamesa held its Annual General Meeting on 22 June; it was attended by shareholders with an aggregate ownership interest in the company of 59.24%. It also held an Extraordinary General Meeting on 25 October.

The **Investor Relations Department,** for its part, deals with the institutional investor and research analyst communities; the inbox set up specifically to cater to these stakeholders' concerns received 443 enquiries in 2016. This Department continued to engage actively with institutional investors and analysts by means of multiple meetings in the leading financial centres: Madrid, London, Frankfurt, Boston, Geneva, Zurich, Paris, Amsterdam and New York. It is in permanent contact with some 32 research brokerages. The company also participated in nine institutional investor conferences in London and Madrid.

Lastly, in 2016, the company organised a special conference with analysts and investors to present the merger with Siemens Wind Power to the market.

Presence in socially-responsible indices

Gamesa is part of the benchmark international sustainability indices: the Dow Jones Sustainability Indices, FTSE4Good, Ethibel Sustainability Index and Carbon Disclosure Project, among others.

It also featured on rankings that are more specialised in the renewable energy, sustainable development and climate change fields, such as the Cleantech Index, the Global Challenge Index and the S&P Global Clean Energy Index.

Suppliers

Gamesa establishes relations with its suppliers, contractors and professional service providers based on trust, transparency and the sharing and cross-fertilisation of know-how and skills. In this manner, it is articulating an ethical, responsible, sustainable and competitive supply chain, capable of contributing to the company's cost of energy demands and framed at all times by the stringent standards of quality which define the company.

To this end, the company has a specific Supplier, Contractor and Service Provider Relations and Contracting Policy, which was updated in 2015 and provides a group-wide framework for the management and control of procurement activities. In this manner, Gamesa ensures the impartiality and objectivity of its supplier selection processes and puts in place the channels and mechanisms needed to ensure that it suppliers' conduct is ethical, to which end it has pledged to take action if any of them breaches the values and principles enshrined in the company's Code of Conduct.

In 2016, Gamesa remained strategically focused on the reinforcement of its supply chain, helping to generate wealth and contribute to economic stability in the process. Specifically, it increased its base of suppliers to 9,917 companies worldwide, from which it purchased €3.72 billion worth of goods and services, which is 22% more than in 2015.

By geography, India (25%), Spain (24%), China (17%), the US (10%) and Brazil (8%) accounted for the largest shares of the purchasing pie. The company also fosters its suppliers' global development by offering them the possibility of supplying beyond their home markets to other regions in which Gamesa has business operations.

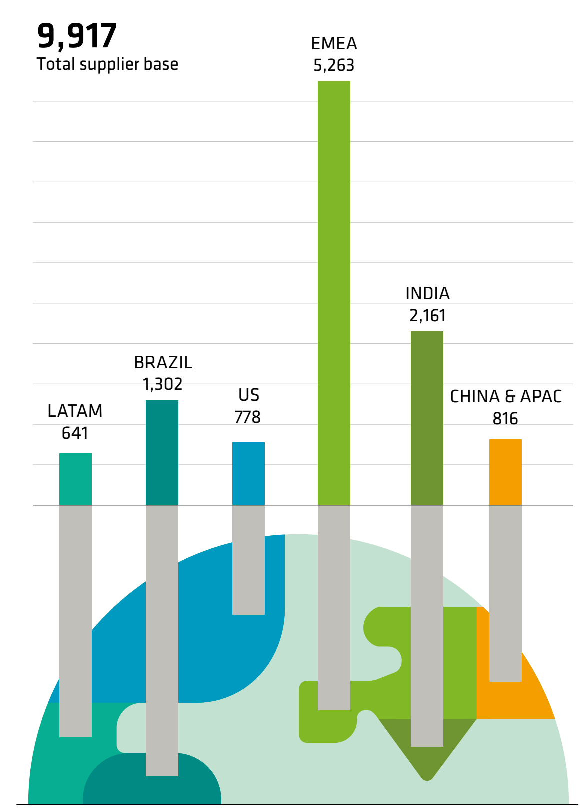
Supplier development

Gamesa also earmarks its own resources (materials and quality development engineering hours) to upgrading its suppliers' facilities in order to boost their technological development and competitiveness.

By way of example, in India the company has helped develop suppliers of hydraulic parts (Hydratech), infusion resin (Aditya Birla) and large cast parts (Synergy Greem, Classic Tools and SE Forge).

In China it has developed suppliers of blades (Aeolon), blade gearings (TMB), major cast parts (Danian Heavy and Dahua), pitch cylinders (Hydratech) and tower interiors (Alluwind).

Supply chain: number of suppliers in 2016



In Brazil, Gamesa has certified suppliers of boiler parts (Jumbo and Painco), blade gearings (Kaydon) and buts and bolts (Friedberg and Metalbrax).

In EMEA, meanwhile, suppliers have been coached to provide main axes bearings (ZKL), cast axes (Lucchini) and yaw engines (Emod).

Lastly, in Mexico, Gamesa expanded the number of blade manufacturing lines at the TPI factory.

In short, it fosters local skills training by means of the regional decentralisation of its supply chain. This is resulting in an increasingly global supplier profile: worldwide suppliers with local presences, new local suppliers and the international expansion of existing suppliers.

This is evident in the fact that the percentage of local supplies stood at 91% in China, 62% in India and 72% in Brazil in 2016.

In addition, in response to the prevailing business plan, the Procurement Department has worked together with the Technology and Quality Departments on reducing the cost of energy by means of design changes to the company's turbines that optimise Annual Energy Production (AEP), such as the design of ad-hoc turbines for specific markets. For example, the design of the G114 CS specifically for the Indian market with its 106m tall tower or the AEP booster project dubbed Max Power (increasing nominal capacity by 5%) conceived of to make its turbines more competitive. In tandem it continued to work on redesigning its parts. It also adapted its transformers in Europe to comply with the Ecodesign Directive.

In short, in 2016, the company successfully concluded 379 projects, encompassing different product platforms, for the creation of alternative suppliers between China (94), India (140), EMEA (86) and Brazil (59).

Responsible supply chain

As far as sustainability is concerned, the Procurement Department applies a supplier management model that strives to create value in the long term by managing the opportunities and risks arising along the economic, environmental and social dimensions.

To meet the guidelines stipulated in the 2015-2017 Master Corporate Social Responsibility Plan, the company continues to roll out the Achilles-Repro platform, an administrative supplier control tool which covers areas such as supplier: i) corporate social responsibility; ii) quality management; iii) workplace health and safety; iv) environmental management; v) technical expertise; and vi) human resources.

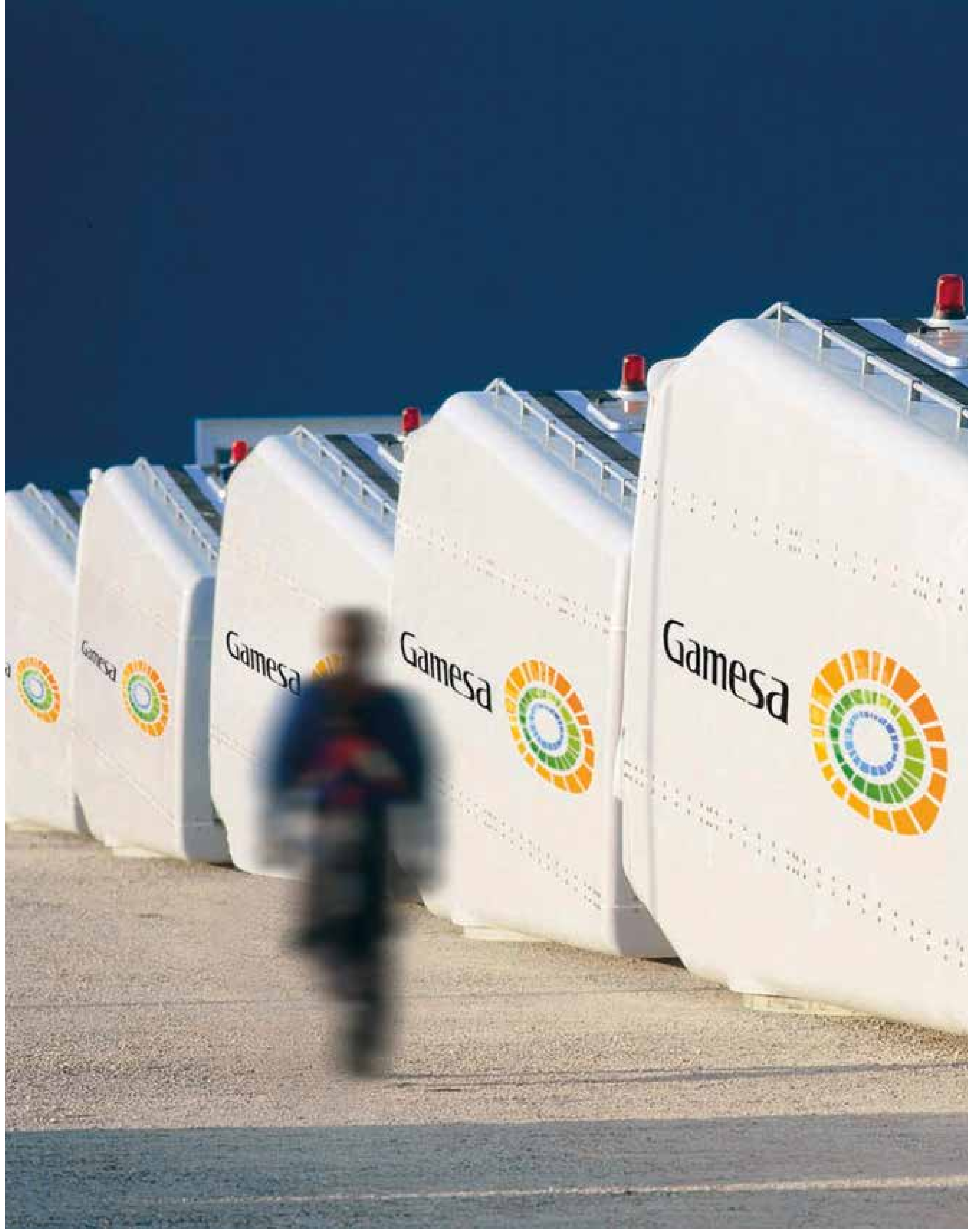
This supplier registration and assessment platform provides the company with valuable metrics with respect to the above-listed considerations; it can also be used for audit purposes.

At year-end 2016, 1,031 Gamesa suppliers were registered in the Achilles-Repro system; these suppliers account for aggregate invoices of close to €390 million.

Supplier quality

Supplier management at Gamesa is based on its Supplier Quality Manual. The goal of this manual is to itemise and explain the procedures and requirements governing cooperation between Gamesa and its suppliers with the aim of ensuring that outstanding quality for our customers at all levels of the supply chain. The manual also outlines the three basic processes articulating the Gamesa-Supplier relationship in order to guarantee quality:

1.Supplier rating process: this process describes the rating a supplier needs in order to be assigned orders for materials or parts. When selecting and evaluating suppliers, Gamesa carries out several audits to verify the suppliers' capabilities beyond their level of certification.



Against this backdrop, in 2016, Gamesa approved 50 new suppliers. The suppliers are evaluated using social and environmental criteria, among others.

2. Production parts approval process: this step ensures that the supply process is well defined and meets Gamesa's specifications, while ensuring process stability so that quality products are supplied on an ongoing basis throughout the useful life of the product; moreover, it provides objective evidence with respect to the robustness of the product.

3. Series life management process: this step paves the way for the materialisation of changes in processes and/or products; modifications in Gamesa's specifications; and management of deviations and/or the costs of non-performance. Specifically, the Supplier Quality Assurance Department tracks non-performance costs continually, as a result of which it is aware of and can readily sort and manage any incidents at Gamesa suppliers.

As part of the life management process, this Department evaluates its suppliers' quality management and results quarterly, also assessing their environmental performance and checking their occupational health and safety certifications. In 2016, 174 existing suppliers were so evaluated and were assigned scores or A, B, C or D depending on their performance.

Gamesa assesses its main suppliers in-house along technical, economic, environmental and social criteria. Among other things, the company analyses the existence of an environmental policy, specific workplace health and safety aspects and the human rights record and ethical conduct of its suppliers.

In fact, Gamesa's General Purchasing Terms and Conditions explicitly refer to respect for human rights and labour practices as well as evidencing a clear-cut zero-tolerance stance on fraud and corruption which the company is working to implement across its supplier base.

When negotiating supply agreements, in addition to the contractual terms required under prevailing legislation, Gamesa negotiates the inclusion of the social responsibility clauses enshrined in the Code of Conduct applicable to its suppliers.

This Code includes rules designed to ensure that the labour conditions across its supply chain are safe, that their employees are treated respectfully and fairly and that their business conduct is ethically, socially and environmentally responsible.

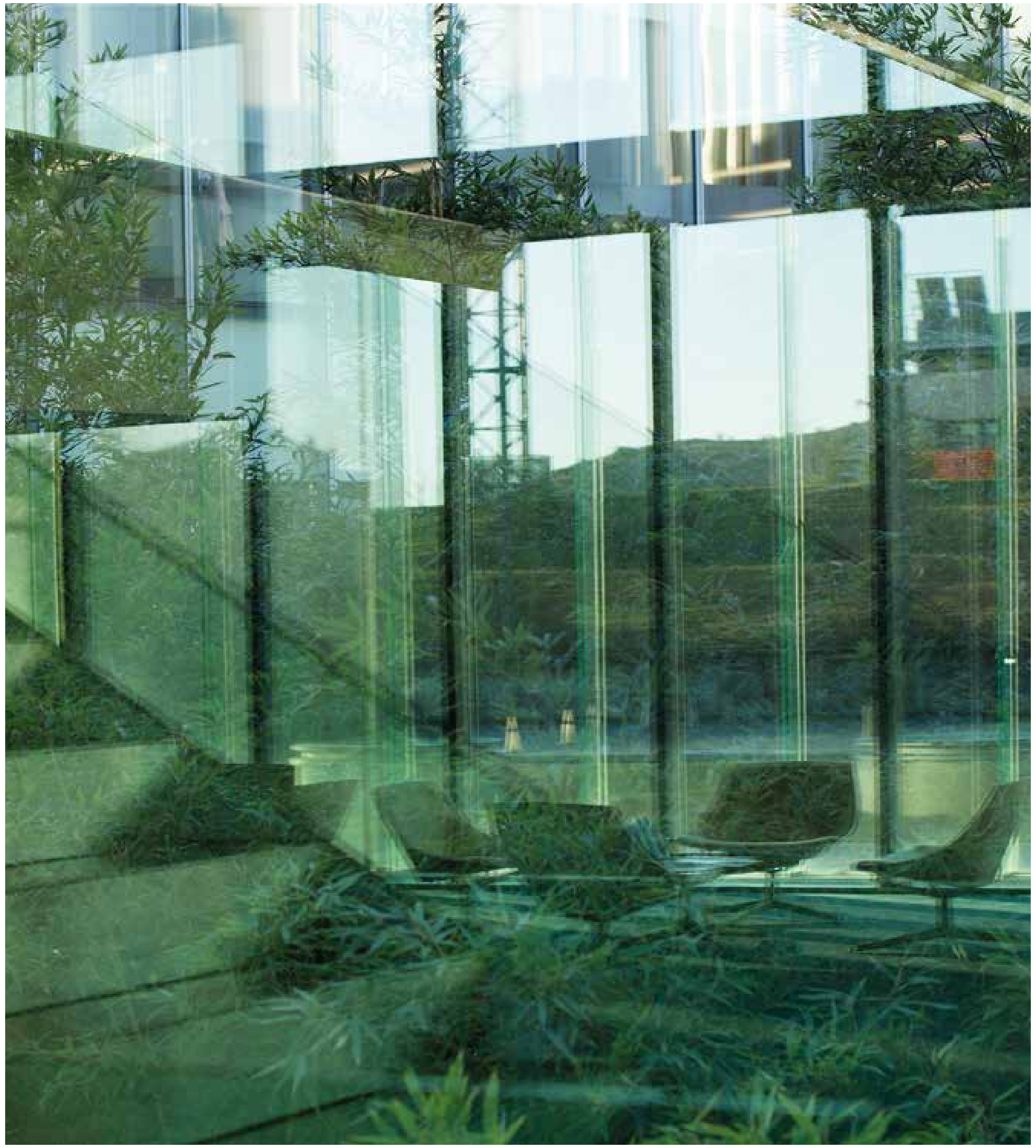
One of the programmes which Gamesa's 2015-2017 Master CSR Plan pivots around is the responsible development of its supply chain. Against this backdrop, the company is working on a series of initiatives, such as a system for registering, classifying and controlling suppliers which will analyse, classify and evaluate key suppliers, *key* meaning suppliers which could adversely or materially impact delivery of the company's strategic objectives in the event of non-compliance or defective performance.

Elsewhere, the supplier audit system, in the process of being implemented, is emerging as an effective tool for evaluating the performance of key suppliers in respect of the expectations vested in them in applicable policies and codes, while ensuring continuous supplier improvement in parallel. By year-end 2016, the company had fully audited 132 of its key suppliers.

Other communication tools include the supplier portal, designed to facilitate the exchange of technical documentation, and Gamesa's website, which hosts the general purchasing terms and quality manual for suppliers.

Further information can be found in the 2016 Corporate Responsibility Report.

Environmental performance



One of the Gamesa's top priorities is to take care of the environment. The company strives to carry out all its business activities in all its geographies in a sustainable manner. To this end, Gamesa is committed to continuously improving its environmental record and applying best practices. It aim is to protect the environment by taking a preventative approach and fostering awareness and education.

By means of its integrated health & safety, environment and quality (HSEQ) policy, Gamesa guarantees a safe workplace, propitious to stringent environmental respect throughout its products' entire life cycle and all along its value chain - from turbine design to end of product life.

Gamesa's Code of Conduct includes environmental preservation as one of its core lines of initiative. The company's employees are also called on to help minimise the environmental ramifications of their activities and use of its facilities.

Emissions

The company's pledge to reducing its environmental footprint has led it to take a number of initiatives, including efforts to cut emissions, enhance biodiversity, foster energy efficiency, prevent contamination and correctly manage the waste generated in the course of its business activities. Gamesa also attempts to use water rationally and sustainably and to manage the risks associated with its scarcity.

Although Gamesa emits greenhouse gases in the course of its business operations, it also contributes directly to combating climate change. The more than 38 GW of capacity installed by Gamesa around the world prevent the emission of approximately 58 million tonnes of CO_2 every year by placing clean energy generated from renewable sources onto the market. Moreover, the turbines installed in 2016 (4,262 MW) will prevent the emission of 138 times more GHG emissions than the emissions generated during their manufacture.

Carbon neutral by 2025

Gamesa has embraced the challenge of becoming carbon neutral by 2025. This is one of the most ambitious climate commitments a company can take on.

Carbon neutrality implies specific commitments on the part of Gamesa in terms of measuring, reducing and/or offsetting the CO_2 deriving from its direct and indirect emissions over the coming years (2015-2025). The roadmap devised to deliver this commitment includes a combination of mitigating and adaptive measures, such as:

- Energy-efficiency measures to reduce emissions in the logistics area by at least 10% and in the operations area by 15% (measured in tonnes of CO_2e per installed MW) by 2025.
- Initiatives for the purchase of clean technology electricity by the factories and offices by 2025.
- Adaptive measures such as the promotion and use of electric vehicles, more environmentally-friendly mobility plans and projects to attain the ability to fully recycle wind turbine materials at the end of their life cycle.
- Carbon offsetting mechanisms that will materialise, as a function of various scenarios, in the trading of emission allowances.

Climate change policy

Gamesa is aware that climate change is a threat to the markets and sustainable development. This is why it has formulated a Climate Change Policy. It is designed to promote renewable energy sources to deliver a more environmentally-friendly, low-carbon global energy generation model.

This climate change pledge is in sync with the group-wide Corporate Social Responsibility Policy under which Gamesa fosters the sustainable use of resources, a culture of respect for our natural surroundings and a commitment to combating climate change by reducing the environmental ramifications of its activities, protecting biodiversity and championing awareness and education in this arena.

Gamesa has signed up to several initiatives associated with its greenhouse gas reduction target such as the American Business Act on Climate Pledge and the Paris Pledge for Action. In this manner, Gamesa has embraced the precautionary approach to environmental protection prescribed in Principle 15 of the Rio Declaration.

Consumption by Gamesa in 2016

Raw materials

257,206t consumed **27t** year/employee

Energy

521 Tj consumed **56 Gj** year/employee

Water

159,598 m³ consumidos **17 m³** empleado/año

Emissions

30,156t CO_2 emitted

58.31t CO_2 prevented **8.3 MM** TOE prevented

Waste

19,394t generated **2.07t** year/employee

Energy efficiency

Gamesa continued to make progress on paring back consumption in 2016, implementing measures to make the company more energy-efficient. It carried out initiatives designed to reduce consumption and boost energy efficiency in several areas. For example, it fine-tuned its energy management, an effort that prevented the consumption of close to 330,051 kWh, equivalent to 81.51 tonnes of CO_2 equivalent (CO_2e).

In addition, by purchasing renewable sources of energy, Gamesa prevented the emission of a further 14,827 tonnes of CO_2e.

The products sold by Gamesa are designed to deliver enhanced environmental protection and energy efficiency at the global level. The eco-designed criteria used to develop two of the company's turbines, the G128-4.5 and G114-2.0 MW, have been externally certified.

The eco-design process minimises the products' environmental impact, maximises energy efficiency and lowers the cost of energy at every stage of a wind turbine's life cycle: design, materials and parts procurement, production, distribution, installation, operation & maintenance and dismantling.

In addition, Gamesa uses life cycle assessment (LCA) methodology to evaluate the environmental burdens associated with a given product, process or activity, factoring in the entire life cycle. This assessment was performed for the G90 platform in accordance with the UNE-EN-ISO 14040 and 14044 standards. An environmental production declaration (EPD) has additionally been obtained for the G90-2.0 MW, G114-2.0 MW, G128-5.0 MW and G132-5.0 MW turbines.

Waste

Within its environmental management strategy, Gamesa is particularly focused on efficient waste management. In 2016, the company generated 19,394 tonnes of waste and the ratio of hazardous to non-hazardous waste was close to 1:7.

In 2016, Gamesa generated 2 tonnes of waste per employee.

Notably, Gamesa recycles or reuses 54% of the hazardous waste it generates (up from 37% in 2015); this figure rises to 82% in the case of non-hazardous waste.

Biodiversity

DIn the course of doing business, Gamesa interacts with several ecosystems, landscapes and species. The company uses a number of mechanisms to preserve biodiversity and minimise its impact on the environment.

Before it builds a wind farm, Gamesa conducts an environmental impact study and establishes corrective measures to prevent, mitigate or offset any potential damage. Later, the wind farms are operated in compliance with the permits granted by the environmental authorities in each region, subject to the restrictions and obligations imposed to guarantee environmental protection.

In addition, the company establishes plans for monitoring and controlling its facilities performance to prevent potential environmental risks. Lastly, it protects the development of species and habitats by means of proactive conservation management and site research with the aim of having a net positive impact on the environment. No incidents were recorded in protected habitats in 2016.

Progress made in 2016

Gamesa substantially improved its environmental performance in 2016. Highlights:

- Improvement in the end use given to waste with the percentage of waste sent for recycling, recovery and/or reuse rising by 3.7% year-on-year.
- Verification for the sixth year in a row of the company's greenhouse gas emissions under ISO 14064.
- Eco-design certification for the G128-5.0 MW and G132-5.0 MW turbines, whose environmental product declarations (EPD) were published by Environdec.
- Collaboration with Iberdrola and Scottish Power on obtaining the EPD for the Kilgallioch wind farm.

Further information can be found in section II.10 of the 2016 Corporate Responsibility Report.

Communities

Gamesa's business activities help generate value in the communities in which it has a significant presence. More specifically, the company boosts these local economies, directly through job creation and its investments, as well as via the payment of taxes.

In addition to this economic value, the company's community influence extends beyond the strict impact of its business operations, taking the form of a longer-term commitment. As a result, Gamesa complements its business endeavours with initiatives designed to improve the living standards in the communities it engages with.

Primarily in India, but also in Spain and the other regions in which it does business, Gamesa has rolled out a series of community work programmes which are focused on the following areas:

- Local development cooperation work
- Access to education and skills development
- Local culture preservation
- Provision of health services
- Fortification of the community and its groups and constituents from an institutional standpoint
- Environmental, social and cultural programmes which involve local networks and multiple institutions.

All of these initiatives are articulated annually around the organisation's Social Action Programme under which it encourages its employees to submit the projects they would like to see the company support financially. Gamesa received 106 employee proposals for the 2016-2017 edition of this programme, from which it selected the following initiatives for execution over the course of 2017:

- India. Juan Bonal Foundation. Financial skills training and empowerment for aboriginal women via micro-credits for agricultural projects in the region of Gujaratt
  Under this programme, 100 women living in Gujarat at risk of social exclusion will be provided with the knowledge and skills needed to work with crops. The high-level goal is to train them so that they can get the most from their land during the various seasons of the year (Monsoon, summer and winter) and to supply them with the materials they need to grow their crops correctly.
- India. Bal Vikas. Nursery school for Motiya
  The aim of this charitable project is to build a nursery school that will take care of the town's children while their fathers and mothers work. This will give their parents with peace of mind at work while their children learn to read and write.
- India. Krida Vikas Sanstha Nagpur. Gamesa Soccer League III
  This third edition of the programme will enable youths from rural areas of India to fine-tune their sporting skills at a football training campus where they will also be educated on how to care for the environment and eat healthily.
- Brazil. CROPH (acronym in Portuguese for the Regional Coordination of Human Development Work) Computer Rooms II
  The computer room project in Brazil is aimed at fostering technological literacy by means of dedicated centres where adolescents at risk of exclusion can hone their computer skills free of charge.
- Mexico. Encouragement of healthy lifestyles among girls, boys and youths in the Istmo de Oaxaca region
  Execution of this project will reinforce the lines of initiative carried out by the Aerogubiños Sports School in the Unión Hidalgo community in Oaxaca. More specifically, healthy lifestyle habits will be fostered under the programme, boosting community health and thereby raising community well-being.
- Brazil. *Mulheres que criam*, Camaçari
  This programme is targeted at contributing to the financial stability of the mothers group called *Nossa Senhora do Amparo*: by supporting the printing school's activities, the aim is to generate work and income for economically vulnerable working mothers.

Key projects contemplated under the 2015-2016 Social Action Plan rolled out in 2016:

- Education project for indigenous children (Mexico). The goal of this project is to help raise education standards in schools for indigenous children across four Mexican states (Chiapas, Oaxaca, Puebla and Yucatán), by making sure that these children finish their schooling knowing how to read and write (in collaboration with UNICEF).
- Computer Rooms I (Brazil). The Brazilian computer rooms project fosters technological literacy by means of dedicated centres where adolescents at risk of exclusion can hone their computer skills free of charge (in collaboration with Brazil's CROPH).
- Solar-powered horticulture project (India). The philanthropic project entails installing drip irrigation systems fuelled by solar power to benefit rural households in India's Kadiri region who depend on horticulture for a living (in collaboration with the Vicente Ferrer Foundation).
- Gamesa Soccer League II (India). The 2016 edition of the soccer programme was increased to accommodate 1,000 youths from rural India, up from 372 in the prior year's maiden edition. The participants in this programme fine-tune their sporting skills at a football training campus where they are also educated on how to care for the environment and eat healthily (in collaboration with Krida Vikas Sanstha-Nagpur).
- Social inclusion centre (Uruguay). The goal of this project is to kit out a premises on loan from the Uruguayan electric utility (UTE) for the purpose of building a climbing gym for vulnerable children and youths in Montevideo (Uruguay) (in collaboration with the La Muralla Foundation).

Social Action Plan in India

On account of its specific needs in areas such as education, healthcare and social inclusion, India has its own Social Action Plan, called Gamesa Community Spirit, whose mission is to carry out local community initiatives.
This Plan is articulated around the following strategic programmes:

- Gamesa Academic Excellence Programme
  This programme makes it possible for around 500 pupils from rural environments to receive the same basic education as is received by students living in urban areas. This initiative includes the Shuddi project, which is aimed at educating the students in hygiene by installing wash basins in rural schools.
- Gamesa Gram Arogya Kendra
  The purpose of this initiative is to support sustainable medical care projects in rural villages located close to Gamesa's wind farms. The priority focuses are eyesight and care for pregnant women in these towns, for which the company provides the necessary resources and check-ups, as well as follow-up medical cards.
- Gamesa Vocational Training Programme
  This initiative encompasses two different initiatives. The first consists of a programme for the recycling of wood waste for conversion into furniture for rural schools located close to Gamesa's facilities in Mamandur and Redhills (Chennai). The other initiative, My Career, teaches rural students how to perform turbine operations and maintenance work with the aim of giving them vocational training and sustainable work.
- Employee volunteering
  This programme attempts to raise Gamesa India employees' social awareness, while engaging them in community work. A series of events are scheduled around this project, including Wind Day, International Deaf Week, blood donation drives and charitable donation campaigns.

Initiatives undertaken in Spain

Gamesa also runs specific initiatives in Spain with the aim of contributing to wealth generation and environmental preservation:

- FIEB (Foundation for research into ethology and biodiversity) - First gene bank for Iberian birds of prey
  Gamesa is collaborating with the FIEB on the creation of the first national gene bank for Iberian specie, a tool destined to help their conservation. This initiative fosters genetic diversity, enhances efforts to breed in captivity and facilitates access to the genetic make-up of specimens from species with residual populations.
- Gamesa Scholarship Programme
  This scholarship programme helps bring young graduates into the workforce. Each year, Gamesa recruits high-potential students from the top Spanish universities who enter a training programme which lasts between 12 and 18 months. During this stint, the young graduates spend time in different departments and regions.

Gamesa also participates actively in sector and business associations and organisations. In 2016, Gamesa collaborated actively with 45 organisations and associations in Spain and 47 in the rest of the world, contributing a total of €1,249,294.

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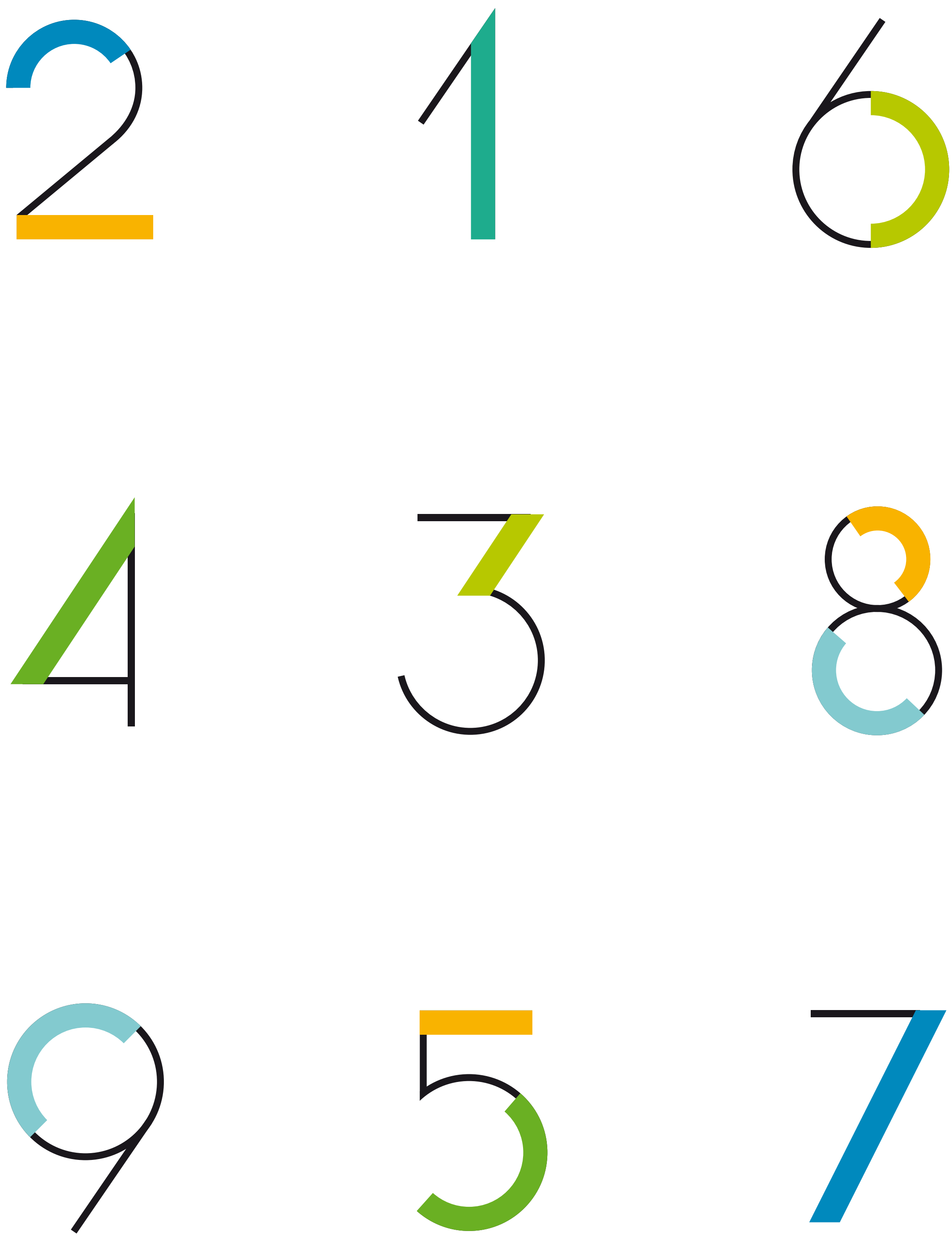


Gamesa
2016

Financial statements

Auditors’ Report

Gamesa Corporación Tecnológica S.A. and Subsidiaries

Consolidated Financial Statements and Consolidated Management Report for the year ended December 31, 2016

Auditors’ report on information relative to the internal control over financial reporting (ICFR) for 2016.

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Translation of a report and consolidated financial statements originally issued in Spanish.
In the event of discrepancy, the Spanish-language version prevails (See Note 39)

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of GAMESA CORPORACIÓN TECNOLÓGICA, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated statement of financial position at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Director´s responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and consolidated results of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and the other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

The original signed in Spanish

February 23, 2017

Consolidated balance sheets at december 31, 2016 and 2015(*)

Thousands of euros

Assets	Notes	12.31.16	12.31.15(*)
Non-current assets			
Intangible assets			
Goodwill	8	388,174	388,410
Other intangible assets	9	169,491	135,975
		557,665	**524,385**
Property, plant and equipment	10		
Property, plant and equipment in use		400,797	327,282
Property, plant and equipment in the course of construction		19,847	31,889
		420,644	**359,171**
Investments accounted for using the equity method	11	121,592	127,026
Non-current financial assets	13		
Derivatives	22	91	7,584
Investment securities		25,009	36,423
Other non-current financial assets		5,631	3,384
Other non-current financial assets, related companies	32	102,286	99,883
		133,017	**147,274**
Deferred tax assets	25	435,367	421,788
Total non-current Assets		**1,668,285**	**1,579,644**
Current assets:			
Inventories	14	1,035,633	803,259
Trade and other receivables	15 and 17	1,226,396	988,838
Trade receivables from related companies	32	285,319	81,581
Tax receivables	26	301,437	213,083
Other receivables		18,834	42,171
Current financial assets			
Derivative financial instruments	22	12,040	9,662
Other current financial assets	12	20,848	16,789
Other current financial assets from related companies	12 and 32	9,673	7,559
		42,561	**34,010**
Cash and cash equivalent	16	1,295,268	869,333
Total current assets		**4,205,448**	**3,032,275**
Current assets classified as held for sale	36	21,350	28,746
Total assets		**5,895,083**	**4,640,665**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 39 and the Appendix are an integral part of the consolidated balance sheet at December 31, 2016.

Thousands of euros

Equity and liabilities	Notes	12.31.16	12.31.15(*)
Equity			
Of the Parent	18		
Share capital		47,476	47,476
Share premium		386,415	386,415
Other reserves		1,098,958	976,921
Unrealised asset and liability revaluation reserve		(25,699)	7,675
Translation differences		3,151	(15,551)
Treasury shares		(46,897)	(46,244)
Net profit for the year		301,278	170,216
Other equity instruments			
		1,764,682	**1,526,908**
Of non-controlling interests	19	320	296
Total equity		**1,765,002**	**1,527,204**
Non-current liabilities:			
Provisions for contingencies and charges	23	258,929	256,912
Bank borrowings	21	424,523	444,902
Other non-current liabilities	24	38,187	43,940
Deferred tax liabilities	25	112,887	115,648
Derivative financial instruments	22	7,176	3,869
Total non-current liabilities		**841,702**	**865,271**
Current liabilities			
Bank borrowings and other financial liabilities			
Bank borrowings	21	120,034	102,899
Derivative financial instruments	22	59,903	4,265
		179,937	**107,164**
Trade and other payables	17	2,405,145	1,788,901
Trade payables to related companies	32	407,358	148,721
Other payables			
Tax payables	26	173,823	100,273
Other current liabilities		120,593	102,288
		294,416	202,561
Total current liabilities		**3,286,856**	**2,247,347**
Current liabilities associated with assets classified as held for sale	36	1,523	843
Total equity and liabilities		**5,895,083**	**4,640, 665**

Consolidated income statements for the years ended december 31, 2016 and 2015(*)

Thousands of euros

	Notes	2016	2015 (*)
Continuing operations			
Revenue	7 and 29.A	4,611,983	3,503,802
+/- Changes in inventories of finished goods and work in progress		123,712	79,575
Procurements	29.B	(3,238,991)	(2,478,139)
Other operating income	29.A	76,660	63,448
Staff costs	29.C	(407,925)	(341,050)
Other operating expenses	29.D	(404,597)	(307,490)
Depreciation	29.E	(124,600)	(96,053)
Provisions	29.E	(157,047)	(133,305)
Net impairment losses on assets		(1,818)	31,957
Operating income		**477,377**	**322,745**
Finance income	29.F	26,443	13,599
Finance costs	29.G	(49,305)	(47,125)
Exchange differences (gains and losses)		(14,968)	(10,632)
Results of companies accounted for using the equity method	11	(3,996)	(24,988)
Profit before tax from continuing operations		**435,551**	**253,599**
Income tax on profit from continuing operations	27	(124,415)	(76,553)
Net profit for the year from continuing operations		**311,136**	**177,046**
Discontinued operations:			
Profit from the year from discontinued operations	36	(8,740)	(7,172)
Net profit for the year		**302,396**	**169,874**
Non-controlling interests	19	(1,118)	342
Total profit for the year attributable to the parent		**301,278**	**170,216**
Earnings per share in euros (basic and diluted) from continuing and discontinued operations attributable to the parent	**35**		
From continuing operations		1.1203	0.6424
From discontinued operations		(0.0316)	(0.0260)
Earnings per share in euros (basic and diluted)		1.0887	0.6164

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 39 and the Appendix are an integral part of the consolidated income statement for 2016 .

Consolidated statements of comprehensive income for the years ended december 31, 2016 and 2015(*)

Thousands of euros

	Notes	2016	2015(*)
Consolidated profit for the year		**302,396**	**169,874**
Total income and expense recognised directly in equity			
Items that can be transferred subsequently to results:			
Income and expense transferred directly to equity			
Arising from cash flow hedges	18.C	(41,413)	9,260
Translation differences		18,702	(14,125)
Tax effect	18.C	14,321	(3,001)
		(8 ,390)	**(7,866)**
Total transfers to profit or loss			
Arising from cash flow hedges	18.C	(8,438)	(516)
Tax effect	18.C	2,156	170
		(6,282)	**(346)**
Other comprehensive income		**(14,672)**	**(8,212)**
Total comprehensive income		**287,724**	**161,662**
Attributable to the Parent		286,606	162,004
Attributable to non-controlling interests	19	1,118	(342)
Total comprehensive income		**287,724**	**161,662**
From continuing operations		296,464	168,834
From discontinued operations		(8,740)	(7,172)

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 39 and the Appendix are an integral part of the consolidated income statement for 2016 .

Consolidated statements of changes in equity for the years ended december 31, 2016 and 2015(*)

Thousands of euros

	Share capital	Share premium	Unrealised asset and liability revaluation reverse	Restricted reserves		
				Legal reserve	Reserve for redenomination of capital in euros	Reserve for treasury shares
Balances at January 1, 2015 (*)	**47,476**	**386,415**	**1,762**	**8,632**	**1**	**24,873**
Total comprehensive income for 2015	-	-	5,913	-	-	-
Distribution of 2014 profit						
Other reserves	-	-	-	862	-	-
Dividend in charge of the outcome of 2014	-	-	-	-	-	-
Treasury share transactions (Notes 3.P and 18.E)	-	-	-	-	-	21,371
Incentive plans (Note 18.E)	-	-	-	-	-	-
Other transactions	-	-	-	-	-	-
Balances at December 31, 2015 (*)	**47,476**	**386,415**	**7,675**	**9,494**	**1**	**46,244**
Total comprehensive income for 2016	-	-	(33,374)	-	-	-
Distribution of 2015 profit						
Other reserves	-	-	-	-	-	-
Dividend in charge of the outcome of 2015	-	-	-	-	-	-
Treasury share transactions (Notes 3.P and 18.E)	-	-	-	-	-	11,783
Incentive plans (Note 18.E)	-	-	-	-	-	(11,130)
Other transactions	-	-	-	-	-	-
Balances at December 31, 2016	**47,476**	**386,415**	**(25,699)**	**9,494**	**1**	**46,897**

	Reserve for treasury shares	Treasury shares	Other reserves	Translation differences	New profit for the year	Interim Dividend	Non-controlling interests	Total equity
Balances at January 1, 2015 (*)	**24,873**	**(24,873)**	**850,612**	**(1,426)**	**91,848**	**-**	**93**	**1,385,413**
Total comprehensive income for 2015	-	-	-	(14,125)	170,216	-	(342)	161,662
Distribution of 2014 profit								
Other reserves	-	-	68,204	-	(69,066)	-	-	-
Dividend in charge of the outcome of 2014	-	-	-	-	(22,782)	-	-	(22,782)
Treasury share transactions (Notes 3.P and 18.E)	21,371	(21,371)	(120)	-	-	-	-	(120)
Incentive plans (Note 18.E)	-	-	1,639	-	-	-	-	1,639
Other transactions	-	-	847	-	-	-	545	1,392
Balances at December 31, 2015 (*)	**46,244**	**(46,244)**	**921,182**	**(15,551)**	**170,216**	**-**	**296**	**1,527,204**
Total comprehensive income for 2016	-	-	-	18,702	301,278	-	1,118	287,724
Distribution of 2015 profit								
Other reserves	-	-	128,025	-	(128,025)	-	-	-
Dividend in charge of the outcome of 2015	-	-	-	-	(42,191)	-	-	(42,191)
Treasury share transactions (Notes 3.P and 18.E)	11,783	(11,783)	616	-	-	-	-	616
Incentive plans (Note 18.E)	(11,130)	11,130	(7,231)	-	-	-	-	(7,231)
Other transactions	-	-	(26)	-	-	-	(1,094)	(1,120)
Balances at December 31, 2016	**46,897**	**(46,897)**	**1,042,566**	**3,151**	**301,278**	**-**	**320**	**1,765, 002**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 39 and the Appendix are an integral part of the statement of changes in consolidated total equity for the year 2016.

Consolidated statements of cash flows from continuing operations for the years ended december 31, 2016 and 2015(*)

	Notes	2016	2015(*)
Consolidated statements of cash flow			
Cash flows from operating activities:			
Profit before tax		426,811	246,427
Adjustments for:			
Depreciation charge, provisions and allowances	9,10,22 and 29.E	281,647	229,358
Incentive Plan	18.E and 29.C	153	1,639
Finance income and costs	29.F and 29.G	23,394	45,475
Results of entities valued by the equity method	11	3,996	24,988
Net impairment losses on non-current assets	10 and 11	1,818	(29,111)
Changes in working capital			
Change in trade and other receivables		(493,238)	14,861
Change in inventories		(262,083)	(257,211)
Change in trade and other payables		869,480	233,355
Effect of translation differences on working capital of foreign companies		(3,819)	(8,017)
Payments of provisions	23	(117,326)	(88,235)
Income taxes charged/(paid)		(54,622)	(60,612)
Interest received		18,614	11,899
Interest paid		(38,506)	(39,752)
Net cash flows from operating activities (I)		**656,319**	**325,064**
Cash flows from investing activities:			
Acquisition of subsidiaries, net of the existing liquid items	2.G	8,500	(2,544)
Investments in intangible assets	9	(71,979)	(55,520)
Investments in property, plant and equipment	10	(139,104)	(112,338)
Investments in other non-current financial assets	13	(8,322)	(3,672)
Investments in other current financial assets		(6,347)	(8,005)
Receipts from disposals of intagible assets and property, plant and equipment	10	4,681	11,140
Receipts from disposal of financial and non financial assets	13	12,640	685

Thousands of euros

	Notes	2016	2015(*)
Net Cash flows from investment activities (II)		**(199,931)**	**(170,254)**
Cash flows from financing activities:			
Equity amortisation/(issue) of subsidiaries	**11**	-	5,880
New bank borrowings		14,333	222,441
Dividends paid		(42,191)	(22,782)
Dividends charged	**13.A**	1,980	3,006
Cash outflows relating to bank borrowings		(29,847)	(304,619)
Acquisition and disposals of treasury shares		616	(120)
Net cash flows from financing activities (III)		**(55,109)**	**(96,194)**
Effect of foreign exchange rate changes on cash and cash equivalents (IV)		**24,656**	**(311)**
Effect of changes on cash and cash equivalents and of transfers to assets classified as held for sale (V)		**-**	**-**
Net increase in cash and cash equivalents from continuing operations (I+II+III+IV+V)		**425,935**	**58,305**
Cash and cash equivalents from continuing operations at beginning of year	**16**	**869,333**	**811,028**
Total cash and cash equivalents from continuing operations at end of year	**16**	**1,295,268**	**869, 333**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 39 and the Appendix are an integral part of the consolidated statement of cash flows for 2016

Notes to the Consolidated Annual Accounts for the year ended December 31, 2016

1 Formation of the Group and its activities

The Company Gamesa Corporación Tecnológica, S.A. (hereinafter “the Company” or “GAMESA”) was incorporated as a public limited liability company on January 28, 1976. Its registered office is located at Parque Tecnológico de Vizcaya, Edificio 222, Zamudio (Bizkaia - Spain).

Its company purpose is the promotion and development of companies through temporary ownership interests in their share capital, for which it can perform the following transactions:

a) Subscription and acquisition of shares, or securities that are convertible into shares, or which grant rights for their preferential acquisition, in companies whose shares may be listed or not on Spanish or foreign stock markets.

a) Subscription and acquisition of fixed-income securities or any other securities issued by the companies in which it holds an interest, as well as the granting of participating loans or guarantees.

a) Direct provision to investees of counselling, technical assistance and other similar services related to the management of investees, to their financial structure or to their production or marketing processes.

The indicated activities will focus on the development, design, manufacture and supply of products, installations and technologically advanced services in the renewable energy sector.

All the activities which make up the aforementioned company purpose may be carried on in Spain or abroad, and may be carried on indirectly (totally or partially) through the ownership of shares or other equity investments in companies with an identical or a similar corporate purpose. The Company may not carry on any business activity for which the applicable legislation provides for specific conditions or limitations unless it fully meets such conditions or limitations.

The Company’s bylaws and other public information on the Company may be consulted on the website www.gamesacorp.com and at its registered office.

In addition to the operations carried on directly, GAMESA is the head of a group of subsidiaries that engage in various business activities and which compose, together with the Company, the GAMESA Group (“the Group” or “the GAMESA Group”). Therefore, in addition to its own separate financial statements, the Company is obliged to present Group Consolidated Financial Statements for the Group including its interests in joint ventures and investments in associates. The companies that form part of the Group are listed in the Appendix.

The GAMESA Group currently operates as a manufacturing group and principal supplier of cutting-edge products, facilities and services in the renewable energy industry, as well as maintenance services rendered into the following business units (Note 7):

- Wind Turbines (*)
- Operation and maintenance

(*) Wind turbine manufacturing includes the development, construction and sale of energy plants.

A Information on the environment

In view of the business activities carried on by the GAMESA Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, the directors did not include any specific disclosures relating to environmental issues in the accompanying notes of the Consolidated Financial Statements.

2 Basis of presentation of the Consolidated Financial Statements and basis of consolidation

A Basis of presentation

The Consolidated Financial Statements for 2016 of the GAMESA Group were formally prepared:

- By the directors of GAMESA, at the Board of Directors Meeting held on February 22, 2017.
- Since 2005, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, including the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The Consolidated Financial Statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value. The principal accounting policies and measurement bases applied in preparing the GAMESA Group's Consolidated Financial Statements for 2016 are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement basis with a material effect on the Consolidated Financial Statements.
- So that they present fairly the consolidated equity and consolidated financial position of the GAMESA Group at December 31, 2016, and the consolidated results of its operations and its consolidated cash flows in the year then ended.
- Based on the accounting records kept by GAMESA and by the rest of the Group companies. However, since the accounting policies and measurement basis used in preparing the Group's Consolidated Financial Statements for 2016 (IFRS) could differ from those used by the Group companies when preparing their individual financial statements in accordance with local standards, the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards (IFRS).

The Consolidated Financial Statements of the GAMESA Group for 2015 were approved by the shareholders at the General Meeting of GAMESA held on June 22, 2016 and were filed at the Bizkaia Mercantile Registry. The Group's 2016 Consolidated Financial Statements have not yet been approved by the shareholders at the General Meeting. However, the Board of Directors of GAMESA considers that these Consolidated Financial Statements will be approved without any changes.

B Adoption of new or revised international financial reporting standards (IFRS)

In 2016 new accounting standards and amendments came into force and were therefore taken into account when preparing these Consolidated Financial Statements as the following:

B.1 Standards and amendments published by the IASB (International Accounting Standards Board) and adopted by the European Union for its aplication in Europe from January 1, 2016:

- Annual improvements to IFRS – Course 2012-2014.
- Amendments to IFRS 11, Accounting for Acquisitions of shareholdings in Joint Operations
- Amendments to IAS 16 and IAS 38, Clarification of acceptable depreciation methods.
- Amendments to IAS 1, Initiative on information disclosure.
- Amendments to IFRS 10, IFRS 12 and IFRS 28, Investment entities: Application of the Exception of Consolidation.

These standards did not have a significant impact on these Consolidated Financial Statements.

B.2 At the date of preparation of these Consolidated Financial Statements there the following standards, amendments and interpretations whose effective date is subsequent to December 31, 2016 have been issued:

Standards, amendments and interpretations		Mandatory application for years beginning from
Amendments to IAS 7	Initiative on Information Disclosure	January 1, 2017
Amendments to IAS 12	Recognition of Tax Assets	January 1, 2017
IFRS 9	Deferred for Unrealized Losses	January 1, 2018
IFRS 15	Revenue from Customers Contracts	January 1, 2018
Clarifications to IFRS 15	Revenue from Customers Contracts (issued April 12, 2016)	January 1, 2018
Amendments to IFRS 2	Classification and Valuation of Transactions with Action-based price	January 1, 2018
Amendments to IFRS 4	Application of the IFRS 9 Financial Instruments with the IFRS 4 Insurance Contracts	January 1, 2018
Amendments to IAS 20	Transfers of Investment Properties	January 1, 2018
Interpretation of IFRIC 22	Transactions in Foreign Currency and Advance Payments	January 1, 2018
Annual improvements to IFRS, 2014-2016 Cycle	-	January 1, 2017 / 2018
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sales or Assets Contribution between an Investor and his Associate or Joint Venture	Indefinitely Postponed

To the date of preparation of the present Consolidated Financial Statements and based on analysis performed to date by the Group, the application of most of them will not have a significant impact on the consolidated financial statements on its scheduled date of application.

However the following standards published but not yet effective, the GAMESA group believes that they could have a significant impact on its Consolidated Financial Statements when they are applicable.

IFRS 15 Revenue from Contracts with Customers

The IFRS 15 establishes the criteria for the accounting records of the revenue from contracts with customers. The Group is currently analyzing the potential impacts that the application of this rule might have on its Consolidated Financial Statements, based on this analysis, we have identified a series of expected impacts related to the following aspects:

- The Group carried out a large part of their sales through assets construction contracts and other more complex constructions. For this type of contracts revenues will come recognizing based on the stage of completion of the same in accordance with the accounting policy adopted at present. In accordance with the accounting policy defined in IFRS 15 for the estimation of the time of recognition of income which requires a transfer of control of the goods or services and that offers a series of indicators to assess such transfers, there may be contracts that are currently considered as of continuing the good or service transfer with the new standard would not have this consideration and would be recognized on a point in time that would coincide with the transfer of control.
- On the other hand, the registration of warranty provisions and maintenance revenue could be modified with the application of the IFRS 15 and instead of expenses to be considered would be one part of the revenue that the Group includes in its contracts.
- Finally, the Group is currently analysing the differences that might exist in the treatment of discounts, incentives, modified, adjustments to prices, etc that may arise in negotiations with customers, and the different legal characteristics that can have in the countries where it operates in contracts with clients that can affect the time of recognition of income.

The Group, considering the characteristics of existing contracts and contracts that may be made during the next financial year, estimates that the modifications introduced by the IFRS 15 can have an impact on its Consolidated Financial Statements but also believes that the impact will be limited and the breakdown of the causes and impacts will give enough information so that users can compare the income statements under the standard currently in force and the IFRS 15.

IFRS 9 Financial Instruments

The Group finds that the main changes that the application of this standard offers will be those related to the documentation of hedge policies and strategies, as well as in the estimation of the expected impairment in the financial assets.

The changes in any case will not have a relevant impact on the overall presentation of the Consolidated Annual Accounts.

IFRS 16 Leases

IFRS 16 sets that the tenants must recognize in its balance of situation the assets and liabilities arising from of all lease contracts (except for them agreements of lease to short term and which have by object actives of low value).

The Group has lease contracts of relevant amount, mainly land, buildings and machinery, which are currently registered as operating leases, registering the payments on straight line basis throughout the contract term.

The Group is currently in an estimation process of the impact of this new standard estimating the reasonably certain term in which the lease is going to be made , based on the not cancelable periods and on the periods that is estimated will be extended the term in those cases in which there is a reasonable certainty. In addition to the lease term, assumptions should be applied to calculate the discount rate.

Notwithstanding the above, the standard allows several transitional alternatives, prospective and retrospective, and some practical solutions for the first application that makes that currently it is not possible to determine the impact that will have the future application of the standard although non-cancellable lease commitments contained in Note 29.D can be used as approximation to the desired impact.

On the other hand, depreciation of the right to use subject to lease assets and recognition of interest on the payment obligation will lead to a different presentation of the amounts recognized in the income statement as a lease expense under the current standard. The classification of payments into the statement of cash flows will also be impacted by this new regulation.

C Functional and presentation currency

The accounting records kept by Group companies are measured using the currency of the principal economic environment in which the company operates («functional currency»). The Consolidated Financial Statements are shown in thousands of euros, which is GAMESA Group's functional and presentation currency.

Transactions denominated in currencies other than the euro are recognised in accordance with the policies described in Note 3.L.

D Responsibility for the information

The information gathered in these Consolidated Financial Statements is the responsibility of GAMESA's Board of Directors.

E information relating to previous year

As required by IAS 1, the information related to 2016 contained in these notes to the Consolidated Financial Statements is presented, for comparison purposes, with the information relating to 2015 and, accordingly, it does not constitute the GAMESA Group's statutory Consolidated Financial Statements for 2015.

F Basis of consolidation

Subsidiaries

The subsidiaries over which the GAMESA Group exercises control were consolidated by full consolidation method.

Subsidiaries are all companies (including structured entities) over which the Group has control. The Group controls a company when it receives, or is entitled to receive, variable yields due to its involvement in the investee company and it has the capacity to use its control to influence these yields.

Subsidiaries are consolidated from the date on which control is transferred to the Group and they are out of the scope from the date that control ceases.

Joint ventures

A joint venture is an entity in which two or more parties maintain joint control, which is understood to be the distribution of control by a contract concluded in the joint venture agreement and which exists only when the decisions regarding relevant activities require the unanimous consent of the parties sharing control.

GAMESA Group records its stakes in joint ventures on an equity basis.

Associated companies

The associates over which the GAMESA Group is in a position to exercise significant influence, but not control, were accounted for in the consolidated balance sheet using the equity method. For the purpose of preparing these Consolidated Financial Statements, it was considered that the GAMESA Group is in a position to exercise significant influence over companies in which it has an investment of between 20% and 50% of the share capital, except in specific cases where, although the percentage of ownership is lower, the existence of significant influence can be clearly demonstrated. Also, significant influence is deemed not to exist in cases where, although an ownership interest of more than 20% is held, the absence of significant influence can be clearly demonstrated. Significant influence is deemed to exist when the GAMESA Group has the power to influence on the financial and operating policies of an investee (Notes 2.G and 11).

A list of GAMESA's subsidiaries, joint ventures and associates, together with the consolidation or measurement bases used in preparing the accompanying Consolidated Financial Statements and other relevant information are disclosed in the Appendix of these Consolidated Financial Statements.

Basic standards of consolidation

The operations of GAMESA and of the consolidated companies were consolidated in accordance with the following basic principles:

- The Group is considered to be carrying out a business combination when the assets acquired and liabilities assumed constitute a business. The Group accounts for each business combination by applying the acquisition method, which entails identifying the acquirer, determining the acquisition date-which is the date on which control is obtained- and cost of acquisition, recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and, lastly, recognising and measuring goodwill or a gain from a bargain purchase.
- Goodwill arising as described in the preceding paragraph has not been amortised since January 1, 2004, the date of transition to IFRS, although it is reviewed for impairment at least once a year (Note 8).
- Goodwill is initially measured as the amount in excess paid, the amount of any non-controlling stake in a target company and, in a business combination carried out by stages, the fair value at the acquisition date of any prior stakes in the target company's equity, if any, above the fair value of the identifiable net assets acquired. If the total amount paid, the non-controlling stake recognised and the interest previously maintained is less than the fair value of the acquired company's net assets in the event of very favourable conditions, the difference is recognised directly in the income statement.
- Identifiable assets acquired and liabilities assumed are initially valued at their fair value at the acquisition date.
- For each business combination, the buyer will assess in the acquisition date, the components of non-controlling shareholdings held by the acquiree that constitute current ownership and grant the holder the right to a proportional part of the company's net assets in the event of liquidation, at:

a) fair value, or

b) the proportional part that the current ownership instruments represent in the amounts recognised by the acquiree as net identifiable assets.

All other components of non-controlling shareholdings will be measured at their fair value at the date of acquisition, unless IFRS require another basis of valuation.

- The value of non-controlling shareholdings in equity and results of the fully consolidated subsidiaries is presented under "Equity - Of Non-Controlling Interests" in the consolidated balance sheet and "Profit for the Year - Attributable to Non-Controlling Interests" in the consolidated income statement.
- Any contingent compensation to be transferred by the Group is recognised at fair value on the date of acquisition. Subsequent changes in the fair value of the contingent compensation that is considered to be an asset or a liability are recognised in the income statement or a change in other comprehensive results in accordance with IAS 39. Contingent compensation that is classified as equity is not remeasured and subsequent payment is recorded under equity.
- Acquisitions-related costs are recognised as expenses in the year in which they are incurred and, therefore, are not considered to be an increase in the cost of the combination.
- In business combinations achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss.
- Purchases and sales of non-controlling interests in companies that are and continue to be subsidiaries both prior and subsequent to the aforementioned transactions are considered to be transactions between shareholders and, therefore, the payments made will be recognised in the Group's consolidated equity (Note 19).
- When the Group loses control over a subsidiary, it derecognises its assets (including goodwill) and liabilities and the non-controlling interest at the carrying amount thereof at the date on which control is lost. The consideration received and the investment retained in the aforementioned company are measured at their fair value at the date when control is lost and any gain or loss is recognised in profit or loss.
- The financial statements of foreign companies were translated to euros using the year-end exchange rate method. This method consists of translating to euros all the assets, rights and obligations at the exchange rates prevailing at the date of the Consolidated Financial Statements, the consolidated income statement items at the average exchange rates for the year, and equity at the historical exchange rates at the date of acquisition (or in the case of retained earnings at the average exchange rates for the year in which they were generated), and the differences are recognised with a charge or a credit, as appropriate, to "Equity - Of the Parent - Translation Differences" in the consolidated balance sheet.
- The accompanying Consolidated Financial Statements include certain adjustments to bring the accounting policies and procedures applied by the subsidiaries into line with those of GAMESA.
- All balances and transactions between fully and proportionally consolidated companies have been eliminated in the consolidation. Gains that arise on intra-group transactions that are recognised as assets are also eliminated (including transactions with associated companies).
- The result of accounting for ownership interests using the equity method (after eliminating results on intra-Group transactions) is reflected under "Equity - Of the Parent – Other Reserves" and "Results of Companies Accounted for Using the Equity Method" in the accompanying consolidated balance sheet and consolidated income statement, respectively. The equity method consists of initially recognising the investment at cost and subsequently adjusting it, based on the changes in the portion of the entity's net assets that corresponds to the investor, recognising in the investor's profit or loss the corresponding portion of the investee's result for the year (Note 11).

G Changes in the scope of consolidation

The most significant inclusions in the scope of consolidation in 2016 and 2015 were as follows:

Constitution or acquisition of new companies

Year 2016

Company constituted / acquired	Holding company of the stake	Percentage of stake of the Group
Gamesa Apac, S.L.U.	Gamesa Energía, S.A.U.	100%
Gamesa Latam, S.L.U.	Gamesa Energía, S.A.U.	100%
Smardzewo Windfarm Sp. z o.o	Gamesa Energía, S.A.U.	100%
SPV Parco Eolico Banzi S.r.l.	Gamesa Energía, S.A.U.	100%
Gamesa Thailand Co., Ltd	Gamesa Eólica, S.L.U.	100%
Lindomberget Vindenergi AB	Gamesa Wind Sweeden, AB	100%
Shuangpai Majiang Wuxingling Wind Power Co., Ltd	International Wind Farm Development VII S.L.	100%
Nuevas Estrategias de Mantenimiento, S.L.	Gamesa Energía, S.A.U.	50%
SEPE de la Brie des Etangs	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de la Tête des Boucs	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Chepniers	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Orge et Ornain	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Bonboillon	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Souvans	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Sambourg	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Pringy	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Soudé	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Chaintrix Bierges	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Plancy l'Abbaye	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Coupetz	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%

Company constituted / acquired	Holding company of the stake	Percentage of stake of the Group
SEPE de Trépot	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Bouclans	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Savoisy	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de La Loye	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Longueville sur Aube	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Sceaux	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Guerfand	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE d'Orchamps	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Vaudrey	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Pouilly-sur-Vingeanne	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Mantoche	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Vernierfontaine	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Broyes	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Saint-Lumier en Champagne	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Songy	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Margny	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Saint Bon	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Cernon	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Champsevraine	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Romigny	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%

Company constituted / acquired	Holding company of the stake	Percentage of stake of the Group
SEPE de Sommesous	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Clamanges	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Saint Amand	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Landresse	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
SEPE de Mailly-le-Camp	Gamesa Inversiones Energéticas Renovables, S.A.U.	100%
9ren España, S.L. y sociedades dependientes	Gamesa Corporación Tecnológica, S.A / Gamesa Energía, S.A.U.	100%

On December 17, 2015, the GAMESA Group subscribed a purchase-sale agreement for the acquisition of 50% of the share capital of Nuevas Estrategias de Mantenimiento, S.L., a Spanish company mainly dedicated to the design, production, development and commercialization of engineering and technological solutions for an amount of €4,500 thousands, being this operation subject to the compliance of several precedent conditions that have been finally resolved in May 2016, moment at which the results of this society are integrated using the equity method (Note 11). Other mentioned companies are fully consolidated.

Year 2015

Company incorporated / acquired	Holding company of the stake	Percentage of stake of the Group
Adwen Offshore, S.L.	Gamesa Energía, S.A.U.	50%
Gamesa Eólica, S.L. "Branch Jamaica"	Gamesa Eólica, S.L.U.	100%
Gamesa Belgium, S.R.L.	Gamesa Eólica, S.L.U.	100%
Gamesa Israel Ltd.	Gamesa Eólica, S.L.U.	100%
Gamesa Mauritius Ltd.	Gamesa Eólica, S.L.U.	100%
B9 Energy O&M Limited	Gamesa Wind UK, Ltd.	100%

At the end of 2015, the aforementioned companies were fully consolidated with the exception of Adwen Offshore, S.L. which is integrated by the equity method.

On March 9, 2015, the GAMESA Group signed with Areva, S.A. (hereinafter "AREVA") and other companies of its group, the necessary agreements for the constitution of a company participated 50% by both groups to which each part provides with its offshore business and through which that business was exclusively performed (Note 11 and 38).

On July 29, 2015 the GAMESA Group subscribed a purchase-sale agreement for the acquisition of 100% of the share capital of B9 Energy O&M Limited, a North Irish company mainly dedicated to the render of wind farm maintenance services both in Ireland and United Kingdom, for an amount of €2,687 thousands (Note 8). At the acquisition date, that company had cash and cash equivalents for an amount of €143 thousands.

Exits from the scope of consolidation - Sales

Year 2016

Company	Activity	Registered Adress	%
SAS SEPE Champagne Berrichonne	Operation of wind farms	France	100%
Sistemas Energéticos La Jimena, S.A.	Operation of wind farms	Spain	100%
Energiaki Kali Chitsa, S.A.	Operation of wind farms	Greece	100%
Energiaki Flabouro EPE	Operation of wind farms	Greece	100%
Llynfi Afan Renewable Energy Park Ltd.	Operation of wind farms	UK	100%
Parco Eolico Forleto Nuovo 2 S.r.l	Operation of wind farms	Italy	100%

Year 2015

Company	Activity	Registered Adress	%
Medicine Bowl Wind LLC	Operation of wind farms	USA	100%
Southern Windfarm sp. Zoo. W Organizacji	Operation of wind farms	Poland	100%
Windfarm Horst GmbH	Operation of wind farms	Germany	100%
Société D'exploitation Du Parc Eolien Du Tonnerois	Operation of wind farms	France	100%
Suchan Sp z.o.o.	Operation of wind farms	Poland	100%
SAS SEPE du Plateu	Operation of wind farms	France	100%
Eólica dos Arbolitos, S.A.P.I. de C.V.	Operation of wind farms	Mexico	100%
New Broadband Network Solutions, S.L.	Manufacturing and Holding Company	Spain	31.19%

Exits from the scope mainly corresponded to wind farms that have been sold during 2016 and 2015 and whose net assets were classified as stock, so that the sale of them, as it is stated in Note 3.A., has been registered in "Revenue" of 2016 and 2015 consolidated income statement, for an equivalent to the sum of the wind farm's shares price and the net debt related to that wind farm.

Exits from the scope of consolidation - Winding up of companies

Year 2016

Company	Activity	Registered Adress	%
Gamesa Bulgaria, EOOD	Development of wind farms	Bulgaria	100%
Abruzzo Vento, Srl	Operation of wind farms	Italy	100%
2Morrow Energy, LLC	Operation of wind farms	USA	100%
Llanfynydd Renewable Energy Park Ltd.	Operation of wind farms	UK	100%
Shap Renewable Energy Park Ltd.	Operation of wind farms	UK	100%

Year 2015

Company	Activity	Registered Adress	%
Sistemas Energéticos Ortegal, S.A.	Electric power production	Spain	80%
Ger Cerbal S.R.L.	Electric power production	Romania	100%
Ger Jirlau S.R.L.	Electric power production	Romania	100%
Ger Ponor S.R.L.	Electric power production	Romania	100%
Ger Pribeagu S.R.L.	Electric power production	Romania	100%
Ger Bordusani S.R.L.	Electric power production	Romania	100%
Coemga Renovables, S.L.	Operation of wind farms	Spain	100%
Coemga Renovables 1, S.L.	Operation of wind farms	Spain	100%
Gamesa Wind (Tianjin) co. Ltd, Shanxi Branch	Manufacturing wind turbine components	China	100%
Zefiro Energy S.R.L.	Operation of wind farms	Italy	100%

Changes in the shareholdings of subsidiaries

Year 2016

On December 30, 2016 the GAMESA Group acquired the participation of 51% of 9Ren España, S.L., reaching 100% of this company. The compensation for this 51% has amounted to 8.5 million of euros (Note 11).

Year 2015

The GAMESA Group increased its stake in Lingbo SPW AB in 2015, until reaching the 100% of the stake of that company over which already had the control. That amendment did not have a significant impact in the net consolidated equity at December 31, 2015.

Likewise, on March 9, 2015 the GAMESA Group has given the 100% of its stake in Sistemas Energéticos Arinaga, S.A. for the set-up of the new subsidiary at 50% with AREVA focused on the offshore business (Notes 10.A and 11).

Other corporate transactions

Year 2016

During 2016, the company Cametor, S.L. has been absorbed by merger in Gamesa Energía, S.A.Unipersonal society by what has not meant any variation in the perimeter of the group.
Also, during the year 2016 has been modified the name of the following companies:

Previous Denomination	New Denomination
Sistemas Energéticos Ventorrillo, S.A.U.	Sistemas Energéticos Ladera Negra, S.A.U.
SAS SEPE Ecueille	SAS SEPE Cote du Cerisat
Windfarm 38 Gmbh	Windfarm Ganderkesee-Lemwerder GmbH
Sistemas Energéticos los Nietos, S.A.U.	Sistemas Energéticos Tomillo, S.A.U.
Infraestructura Generación Valdeconejos, SL.	Sistemas Energéticos Finca de San Juan, S.L.
Harelaw Renewable Energy Park Ltd.	Sellafirth Renewable Energy Park Limited
International Wind Farm Developments III, S.L.	Sistemas Energéticos Tablero Tabordo,S.L.U.
Aberchalder Renewable Energy Park Ltd.	Bargrennan Renewable Energy Park Limited

Year 2015

During 2015, the company Compass Transworld Logistics, S.A. was taken over through merger into the company Gamesa Eólica, S.L.U. so that no variation in the scope of the Group has been occurred.

Additionally, during 2015 the company Gamesa Wind Poland, Sp. Zoo was taken over through merger into the company Gamesa Energía Polska Sp. Zoo. The company Gamesa Energy Sweeden AB was merged by absorption in the company Gamesa Wind Sweden AB, changes that did not have effect on the scope of the Group.

Likewise, during 2015, Cantarey Reinosa, S.A. and Gamesa Electric Power Systems, S.L. were absorbed by Gamesa Electric, S.A. This change did not affect to the scope of the Group.

Finally, during 2015, Gamesa Inversiones Energéticas Renovables S.C.R de régimen simplificado, S.A.Unipersonal has changed its firm name to Gamesa Inversiones Energéticas Renovables, S.A.Unipersonal; also, Gamesa Wind Turbines Private, Ltd changed its firm name to Gamesa Renewable, Ltd.

3 Accounting principles and policies and measurement methods applied

A Revenue recognition

Revenue from sales is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies' business, net of discounts and applicable taxes. Sales of goods are recognised when the goods have been delivered and title thereto has been transferred and services are recognised when rendered. Revenue from construction contracts is recognised in accordance with the GAMESA Group's accounting policy described in Note 3.B.

Sales of wind farms whose non-current assets are classified as inventories (Note 3.G) are recognised under "Revenue" in the consolidated income statement for the total price of the shares of the wind farm plus the amount of the net borrowings relating to the facility (total debt less current assets). At the same time, the related inventories are derecognised with a charge to "Changes in Inventories of Finished Goods and Work in Progress" in the consolidated income statement. The difference between the two amounts represents the operating profit or loss obtained from the sale.

Each wind farm that has been already sold adopts the legal structure of a public or private limited liability company (see Appendix), the shares of which are fully consolidated in the accompanying Consolidated Financial Statements. As a general rule, a wind farm is effectively sold once it has entered into operation and has successfully completed the start-up period.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

B Stage of completion

The GAMESA Group applies the percentage of completion method (Note 17) to firm wind farm construction contracts and contracts for the sale of WTGS to non-Group third parties that have the following characteristics:

- There is a firm commitment for the buyer.
- The total revenues to be received may be estimated with an acceptable degree of confidence.
- The costs up until fulfilment of the contract, and the degree of completion to date, can be reliably estimated.
- If the contract is unilaterally finished by the buyer, the latter is obliged to compensate the GAMESA Group for at least the costs and profit margin accrued up to the date of termination.

This policy involves the recognition as revenue in the consolidated income statement of the result of applying to the estimated overall profit margin on each contract for the sale of wind farms the stage of completion of the wind farm at the end of the reporting period.

In the case of the manufacture and assembly of WGTS for third parties outside the GAMESA Group, the stage of completion is measured by reference to economic criteria, calculating the proportion that contract costs incurred until the end of the reporting period bear to the estimated total contract costs to be incurred until contract completion.

The GAMESA Group recognises the total cost incurred plus the relevant margin in excess of that corresponding to the related stage of completion under “Trade and Other Receivables” and “Trade Receivables from Related Companies” in the consolidated balance sheet with a credit to “Revenue” in the consolidated income statement. The costs incurred on the manufacture of wind turbines and the relevant construction of wind energy plants are charged against the heading “Procurements” in the consolidated income statement (Note 17).

If the total estimated costs exceed the contract revenue, the related loss is recognised immediately in the consolidated income statement (Notes 3.Q).

If circumstances arise that change the initial estimates made for ordinary income, costs or the extent of completion, the estimates are changed. Revisions may result in increases or decreases in estimated income and costs and they are reflected in the income statement in the period in which the circumstances giving rise to those revisions are known by management.

C Goodwill

Goodwill is initially measured as the amount in excess paid, the amount of any non-controlling stake in a target company and, in a business combination carried out by stages, the fair value at the acquisition date of any prior stakes in the target company’s equity above the fair value of the identifiable net assets acquired. If the total amount paid, the non-controlling stake recognised and the interest previously maintained is less than the fair value of the acquired company’s net assets in the event of very favourable conditions, the difference is recognised directly in the income statement.

Goodwill is not depreciated and at least at the end of each financial year it has to be estimated if there has been any impairment that reduce its recoverable value to an amount smaller than the net cost registered, doing, in such case, an appropriate provision (Note 3.F).

D Other intangible assets

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets - Development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

In accordance with IFRS, the GAMESA Group classifies as intangible assets the expenses incurred in the development of projects for which it can be demonstrated that the following conditions have been met:

- The expenditure is specifically identified and controlled by project and its distribution over time is clearly defined.
- They are feasible projects from a technical standpoint; it is intended to complete the projects and it is possible to use the results thereof.
- There are technical and financial resources to be able to complete the project.
- The project development expenditure can be measured reliably.
- Future economic benefits will foreseeably be generated through the sale or use of the project by the GAMESA Group.

If it cannot be demonstrated that these conditions have been met, development expenditure is recognised as an expense in the period in which it is incurred.

In-house work performed by the GAMESA Group on intangible assets is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of the hourly costs of the employees engaged therein), and is recognised with a credit to the account “Other Operating income - Group work on non-current assets” in the consolidated income statement (Note 29.A).

The amortisation of development expenditures begins when the projects are in the conditions necessary for them to be capable of operating in the manner initially intended by the GAMESA Group. The expenditure is amortised in general on a straight-line basis over the estimated period of time that the new product will generate economic benefits, in a maximum of 5 years.

Concessions, patents, licences, trademarks and similar

The amounts recognised by the GAMESA Group in connection with concessions, patents, licences and similar items relate to the costs incurred in their acquisition, which are amortised on a straight-line basis over the estimated useful lives of the assets, which range from five to ten years.

Software

The acquisition and development costs incurred in relation to the basic computer systems used in the management of the GAMESA Group are recognised with a charge to “Other Intangible Assets” in the consolidated balance sheet. The costs of maintaining computer systems are charged against the consolidated income statement in the year in which they are incurred.

Computer software is amortised on a straight-line basis over five years from the entry into service of each application.

E Property, plant and equipment

Property, plant and equipment, which are all for own use, are stated in the balance sheet at acquisition cost less any accumulated depreciation and any recognised impairment losses. In addition to purchase price, acquisition cost includes non-recoverable indirect taxes and any other costs related directly to the entry into service of the asset for its intended use (including interest and other borrowing costs incurred during the construction period).

The costs of expansion, modernisation or improvements leading to increase productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised, together with the borrowing costs incurred during the construction period only. Repairs that do not lead to a lengthening of the useful lives of the assets and maintenance expenses are charged to the income statement for the year in which they are incurred.

In-house work performed by the GAMESA Group on property, plant and equipment assets is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of the hourly costs of the employees engaged therein), and is recognised with a credit to the account "Other operating income - Group work on non-current Assets" in the consolidated income statement (Note 29.A).

The GAMESA Group depreciates its property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life:

	Average estimated useful life
Buildings	20 – 33
Plant and machinery	5 – 10
Other property, plant and equipment	3 – 10

Since the GAMESA Group does not have to incur any significant costs in relation to the closure of its facilities (disassembly or other similar costs) the accompanying consolidated balance sheet does not include any provisions in this connection.

F Asset impairment

At the end of each financial statements, the GAMESA Group reviews its non-current assets to determine whether there is any evidence that those assets might have suffered an impairment loss. If there was any evidence, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the GAMESA Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of goodwill and other intangible assets with an indefinite useful life or which have not yet came into operation, at the end of each reporting period GAMESA Group systematically analysis their recoverability, unless they present signs of impairment, in which case it will be directly estimated the recoverable amount of that asset (Notes 3.C, 8, 9 and 10).

The recoverable amount is the higher of its value in use and its fair value less the costs to sell, which is taken to be the present value of the estimated future cash flows. In assessing value in use, the assumptions used in making the estimates include pre-tax discount rates, growth rates and expected changes in selling prices and costs. The GAMESA Group estimates pre-tax discount rates which reflect the time value of money and the risks specific to the cash-generating unit. The growth rates and the changes in selling prices and costs are based on in-house and industry forecasts and experience and future expectations, respectively.

The discount rates used by the GAMESA Group are based on the weighted average cost of capital (WACC), which is 8.2% (8.5% in 2015), depending on the risks associated with each specific asset.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference with a charge to the consolidated income statement. Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which must not be reversed.

G Inventories

"Inventories" in the consolidated balance sheet includes the assets that the GAMESA Group:

- holds for sale in the ordinary course of its business,
- has in process of production, construction or development to this end, or
- expects to consume them in the production process or in the provision of services.

Raw materials and supplies, work in progress and finished goods are stated at the lower of average acquisition or production cost and realisable value.

Goods held for resale are stated at the lower of acquisition cost and market value.

The non-current assets (basically WTGS, fixtures and civil engineering work) of the wind farms that are included in the scope of consolidation and are held for sale are classified as inventories and are measured in the same way as other inventories, including the borrowing costs borne until they are ready for use.

If a wind farm held for sale has been in operation for more than one year and has no related third-party purchase commitment, purchase option or similar agreements, and none is any foreseen, the non-current assets assigned thereto are transferred from "Inventories" to "Property, Plant and Equipment - Property, Plant and Equipment in Use" in the consolidated balance sheet.

Obsolete, defective or slow-moving inventories have generally been registered at realisable value.

H Financial assets and liabilities

Financial investments

Investments are recognised initially at fair value plus the transaction costs for all financial assets not carried at fair value through changes in profit or loss. Financial assets stated at fair value through changes in profit and loss are initially recognised at their fair value and the transaction costs are expensed in the income statement.

The GAMESA Group classifies its current and non-current financial assets in the following four categories:

- Financial assets at fair value through changes in profit or loss: These assets have certain of the following characteristics:
  - The GAMESA Group intends to generate a profit from short-term fluctuations in their prices.
  - They have been included in this asset category since initial recognition, since they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
  - Derivative financial instruments that do not qualify for hedge accounting.

  The financial assets included in this category are stated in the consolidated balance sheet at fair value, and the changes in fair value are recognised under "Finance Costs", "Finance Income" and "Exchange Differences (Gains and Losses)", as appropriate, in the consolidated income statement.

  The GAMESA Group recognises in this category derivative financial instruments which, although they are effective as hedges in accordance with the GAMESA Group's risk management policies, do not qualify for hedge accounting under IAS 39, Financial Instruments. At December 31, 2016 and 2015, the impact of these financial instruments on the accompanying Consolidated Financial Statements is not material (Note 22).

- Held-to-maturity investments: These are financial assets with fixed or determinable payments and fixed maturity that the GAMESA Group has the positive intention to hold until the date of maturity. The assets included in this category are measured at amortised cost, and the interest income is recognised in profit or loss on the basis of the effective interest rate. The amortised cost is understood to be the initial cost minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. The effective interest rate is the discount rate that, at the date of acquisition of the asset, exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds through its residual life.

  At December 31, 2016 and 2015, the GAMESA Group did not have any financial assets in this category.

- Loans and receivables: These are financial assets originated by the companies in exchange for supplying cash, goods or services directly to a debtor. The assets included in this category are also measured at "amortised cost" and are tested for impairment.

- Available-for-sale financial assets: These are financial assets not classified in any of the aforementioned three categories, nearly all of which relate to equity investments. These assets are presented in the consolidated balance sheet at fair value, which in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in this market value are recognised with a charge or a credit to "Equity - Of the parent - Unrealised asset and liability revaluation reserve" in the consolidated balance sheet until these investments are disposed of, at which time the accumulated balance of this heading related to these investments is fully allocated to the consolidated income statement.

  However, investments in the share capital of unlisted companies whose fair value cannot be measured reliably are measured at acquisition cost. This procedure was used for all the available-for-sale financial assets at December 31, 2016 and 2015 (Note 12).

Management of the GAMESA Group decides on the most appropriate classification for each asset on acquisition and reviews the classification at the end of each reporting period.Category of financial assets at fair value

Category of financial assets of fair value

Following is the analysis of the financial instruments which at December 31, 2016 and 2015 were measured at fair value subsequent to their initial recognition, classified in categories from 1 to 3, depending on the fair value measurement method:

- Category 1: their fair value is obtained from directly observable quoted prices in active markets for identical assets and liabilities.
- Category 2: their fair value is determined using observable market inputs other than the quoted prices included in category 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices).
- Category 3: their fair value is determined using measurement techniques that include inputs for the assets and liabilities that are not directly observable in the market.

	Fair value at December 31, 2016			
Thousands of euros	**Category 1**	**Category 2**	**Category 3**	**Total**
Non-current financial assets				
Derivative financial instruments (Note 22)	-	91	-	91
Current Financial Assets				
Derivative financial instruments (Note 22)	-	1,790	10,250	12,040
Non-current liabilities				
Derivative financial instruments (Note 22)	-	(7,176)	-	(7,176)
Current liabilities				
Derivative financial instruments (Note 22)	-	(42,818)	(17,085)	(59,903)
Total	**-**	**(48,113)**	**(6,835)**	**(54,948)**

	Fair value at December 31, 2015			
Thousands of euros	**Category 1**	**Category 2**	**Category 3**	**Total**
Non-current financial assets				
Derivative financial instruments (Note 22)	-	7,584	-	7,584
Current Financial Assets				
Derivative financial instruments (Note 22)	-	9,662	-	9,662
Non-current liabilities				
Derivative financial instruments (Note 22)	-	(3,869)	-	(3,869)
Current liabilities				
Derivative financial instruments (Note 22)	-	(4,265)	-	(4,265)
Total	**-**	**9,112**	**-**	**9,112**

The market value of the various financial instruments is calculated as follows:

- The market value of derivatives listed on an organised market is their market price at year-end.
- Hedging and trading derivatives consist of forward exchange rate contracts, interest rate swaps and raw material swaps (electricity). These forward exchange rate contracts have been stated at fair value using the forward exchange rates listed on an active market. Interest-rate swaps are measured at fair value using forward interest rates extracted from observable yield curves. Raw material swaps are measured at fair value using the prices and interests from observable yield curves. The effects of discounting are generally not significant for level 2 derivatives.
- To measure derivatives not traded on an organised market, the GAMESA Group uses assumptions based on year-end market conditions. Specifically, the fair value of interest rate swaps is calculated by discounting at a market interest rate the difference between the swap rates, and the market value of foreign currency forward contracts is determined by discounting the estimated future cash flows using the forward rates existing at year-end; and the market value of raw material swap contracts are calculated by discounting the estimated cash flows, estimating the future prices at the year end.
- The amounts reflected in level 3 refer to the options given and received for the purchase of Adwen, which is described in Note 38.
- The Group's policy is to recognize transfers to or from the fair value hierarchy levels on the date of the event concerned or the date on which the circumstances that gave rise to the transfer change.
- There have been no transfers at any level during 2016.
- The measurement criteria for the derivatives at December 31, 2016 are those taken into consideration by IFRS 13, considering credit risk, including the one of GAMESA, over the fair value of certain financial instruments. Credit risk is the possibility of incurring a loss if the counter party to a transaction does not fully comply with its financial obligations agreed by contract in due time, form or amount. However, in general terms, it may also be defined as a decline in the value of assets due to the impairment of the counterparty's credit rating, even in the case where the counterparty fully complies with agreed payments. The impact due to the adjustment for credit risk made to the measurement of financial instruments depends on several factors.
  - A higher nominal amount implies a larger loss in the event of delinquency by one of the parties.
  - Longer-term means higher credit risk.
  - Counterparty credit ratings are the primary risk factor.
  - Guarantees are signed in order to reduce the exposure to counterparty credit risk.

The application of IFRS 13 to the measurement of derivatives at December 31, 2016 and 2015 did not give rise to any significant impact.

The effect of credit risk on the measurement of financial instruments depends on their future settlement. In the event that the settlement is favourable to the Group, a credit spread for the counterparty is included to quantify the probability of non-payment at maturity. Otherwise, if the settlement is expected to be negative for the Group the credit risk itself is applied to the final settlement for the Group. To determine whether or not the future settlements are favourable to the Group, a stochastic model must be used that simulates the performance of the derivative in various scenarios using complex mathematical models based on the volatility of the underlying asset, and applying the resulting credit spread in each simulation. The fair value of the rest of the financial assets and liabilities measured at amortized cost is considered to approximate their carrying value in accordance with IFRS 13.

Impairment of financial assets

Except for the financial assets classified at fair value through profit or loss, the financial assets are analysed by GAMESA Group in order to test them for impairment periodically and at least at the end of each reporting period. A financial asset is impaired if there is objective evidence that the estimated future cash flows of the asset have been affected as a result of one or more events that occurred after the initial recognition of the financial asset.

The GAMESA Group considers that a significant or prolonged decrease in fair value to below cost of unlisted shares classified as available for sale is objective evidence that the instrument has become impaired.

For the other financial assets, the GAMESA Group considers the following to be objective indicators of impairment:

- financial difficulty of the issuer or significant counterparty;
- default or delay in interest or principal repayments; or
- likelihood that the borrower will go bankruptcy or a financial reorganisation process.

Cash and cash equivalents

"Cash and Cash Equivalents" in the consolidated balance sheet includes cash on hand, demand deposits and other highly liquid short-term investments that can be readily realised in cash (within a maximum of 3 months) and are not subject to a risk of changes in value (Note 16).

Bank borrowings

Loans, bonds and similar interest-bearing items are initially recognised at the amount received, net of direct issue costs, under "Bank Borrowings" in the consolidated balance sheet. Borrowing costs are recognised on an accrual basis in the consolidated income statement using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the year in which they arise. Also, obligations under finance leases are recognised at the present value of the lease payments under this consolidated balance sheet heading (Note 21).

Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting (Note 22)

Financial derivatives are initially recognised at fair value in the consolidated balance sheet and the required valuation adjustments are subsequently made to reflect their fair value at all times. Gains and losses arising from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedge which is highly effective, in which case it is recognised as follows:

- In the case of fair value hedges, changes in the fair value of the derivative financial instruments designated as hedges and changes in the fair value of a hedged item due to the hedged risk are recognised with a charge or credit, as appropriate, to the consolidated income statement.
- In the case of cash flow hedges, the changes in the fair value of the hedging derivatives are recognised,

in respect of the ineffective portion of the hedges, in the consolidated income statement, and the effective portion is recognised under "Equity - Of the parent - Unrealised asset and liability revaluation reserve" and "Equity - Of the parent - Conversion Differences", respectively, in the consolidated balance sheet. If a hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, this balance is taken into account in the initial measurement of the asset or liability arising from the hedged transaction. If a hedge of a firm commitment or forecasted transaction does not result in the recognition of a non-financial asset or a non-financial liability, the amount recognised under "Equity - Of the parent - unrealised asset and liability revaluation reserve" in the consolidated balance sheet is recognised in the consolidated income statement in the same period as that in which the hedged item affects the net profit or loss.

The GAMESA Group tests the effectiveness of its hedges, and the related tests are performed prospectively and retrospectively.

When hedge accounting is discontinued, any cumulative loss or gain at that date recognised under "Equity - Of the parent - Unrealised asset and liability revaluation reserve" is retained under that heading until the hedged transaction occurs, at which time the loss or gain on the transaction will be adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognised under the aforementioned heading is transferred to the consolidated income statement.

Derivatives embedded in other financial instruments are treated as separate derivatives in accordance with the policies described in this Note for the other derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not stated at fair value, and the changes in value are recognised with a charge or a credit to the consolidated income statement.

Financial liabilities and equity instruments

The financial liabilities and equity instruments issued by the GAMESA Group are classified on the basis of the nature of the issue as liabilities or equity instruments, as appropriate.

The GAMESA Group considers equity instruments to be any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Disposal of financial instruments

The GAMESA Group derecognises financial instruments only when the contractual rights on the cash flows from the assets expire, or the financial asset and substantially all the risks and rewards of ownership are transferred to another entity.

The Group derecognises the collection rights assigned ("factorized") and drawn down, since the rewards, rights and risks associated with these accounts receivable are contractually transferred to the factor, and, specifically, the factor assumes the related bad debt risk. The unmatured balances receivable arising from without-recourse factoring transactions at December 31, 2016 that were derecognised by the Group amounted to €197 million (€120.5 million at December 31, 2015). The average amount of factored receivables in 2016 was €109 million (€175.5 million in 2015).

An exchange of debt instruments between a lender and borrower, provided that the instruments have substantially different conditions, will be recognised as the cancellation of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the current conditions governing a financial liability or a portion thereof (regardless of whether or not it is attributable to financial difficulties affecting the debtor) is recognised as a cancellation of the original financial liability and a new financial liability is recognised (Note 21).

I Non-current assets (or disposal groups of assets) classified as held-for-sale and discontinued operations

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use, for which they must be available for immediate sale in their present condition and their sale must be highly probable.

For the sale of an asset or disposal group to be highly probable, the following conditions must be met:

- The GAMESA Group must be committed to a plan to sell the asset or disposal group.
- An active programme to locate a buyer and complete the plan must have been initiated.
- The asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to be qualified for recognition as a completed sale within one year from the date of classification as held for sale.
- It is unlikely that significant changes to the plan will be made.

Assets and disposal groups classified as held for sale are measured in the consolidated balance sheet at the lower of carrying amount and fair value less costs to sell. Also, non-current assets are not depreciated while they are classified as held for sale.

There are events and circumstances that could spend the period necessary to complete the sale beyond one year. An extension of the period required to complete a sale does not mean that the asset (or disposable group of assets) is classified as held-for-sale if the delay is caused by events or circumstances outside of the company's control and there is sufficient evidence that the company remains committed to its plan to sell the asset (or disposable group of assets).

A discontinued transaction or activity is a component that has been sold or otherwise disposed of, or classified as held for sale and:

- represents a significant line of business or a geographic area and which may be considered to be independent from the rest;
- forms part of an individual and co-ordinated plan to sell or otherwise dispose of a significant line of business or a geographic area of operations that may be considered to be independent from the rest, or
- is a subsidiary acquired solely for the purpose of resale.

J Leases

The GAMESA Group classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are classified in the appropriate asset category in the consolidated balance sheet based on their nature and function at the lower of the fair value of the leased asset and the aggregate present values of the amounts payable to the lessor plus the purchase option, with a credit to "Bank borrowings" in the consolidated balance sheet. These assets are depreciated using methods similar to those used for the assets owned by the GAMESA Group (Notes 3.D, 3.E and 10).

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

K Segment reporting

Reporting on operating segments is presented in accordance with the internal information that is provided to the maximum decision-taking authority. The maximum decision-taking authority has been identified, and is responsible for assigning resources and evaluating performance of operating segments, as the Board of Directors which is in charge of taking strategic decisions.

L Transactions in foreign currency

Group companies

The functional currency of most of the GAMESA Group companies is the euro.

For all of the GAMESA Group's foreign companies with a functional currency other than the euro, the functional currency is the same as the local currency. Therefore, there are no functional currencies which are different from the local currencies in which each company pays the corresponding income tax. Consequently, changes in exchange rates do not give rise to any temporary differences which might lead to the recognition of a deferred tax asset or liability.

Transactions and balances

Transactions in a currency other than the functional currency of the GAMESA Group companies are translated to euros at the exchange rates prevailing on the date of the transaction. During the year, exchange differences between the exchange rate at which the transaction was translated and the exchange rate at which the collection or payment was translated are recognised with a charge or a credit to the consolidated income statement.

Also, foreign currency fixed-income securities and receivables and payables at December 31, of each year are translated to the functional currency at the exchange rates prevailing at the consolidated balance sheet date. Any exchange differences arising are recognised with a charge or a credit, as appropriate, to "Exchange differences (Gains and Losses)" in the consolidated income statement.

Exchange differences arising on a monetary item that forms part of the net investment in a company's foreign investment is recognised in profit and loss in the separate financial statements for the reporting company, or in the individual financial statements for the foreign business, as appropriate. In the Consolidated Financial Statements that can attain the foreign business and the reporting company, those exchange differences are initially recognised as a component separate from equity under the heading exchange differences and they are subsequently recognised in profit and loss when the foreign business is disposed or the investment is recovered fully or partially by other means (Note 20).

The hedges that the GAMESA Group uses to reduce foreign currency risk are described in Note 22.

The detail of the equivalent euro value of the monetary assets and liabilities denominated in currencies other than the euro held by the GAMESA Group at December 31, 2016 and 2015 is as follows:

	Equivalent value in thousands of euros			
	12.31.2016		12.31.2015	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Pound Sterling	23,939	14,351	5,428	2,216
US Dollar	499,801	476,588	524,599	663,275
Japanese Yen	2,048	2,046	1,931	702
Egyptian Pound	13,033	9,219	25,649	14,969
Chinese Yuan	332,669	250,434	274,089	289,796
Polish Zloty	27,069	2,187	5,945	6,788
Indian Rupee	637,975	556,782	381,159	263,946
Brazilian Real	260,715	282,972	280,326	248,149
Moroccan Dirham	26,377	1,601	9,950	18,851
Romanian Lev	1,843	1,451	762	5,003
Mexican Peso	153,231	21,901	94,418	5,525
Other currencies	68,881	49,378	23,660	37,725
Total	**2,047,581**	**1,668,910**	**1,627,916**	**1,556,945**

The detail of the main foreign currency balances, based on the nature of the items concerned, is as follows:

	Equivalent value in thousands of euros			
	12.31.2016		12.31.2015	
Nature of the Balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trade receivables (Note 15)	930,083	-	934,781	-
Cash and other equivalent liquid assets (Note 16)	1,117,498	-	693,135	-
Payables	-	1,628,052	-	1,491,301
Bank borrowings (Note 21)	-	40,858	-	65,644
Total	**2,047,581**	**1,668,910**	**1,627,916**	**1,556,945**

M Government grants

Government grants related to assets are deducted from the carrying amount of the assets financed by them and, therefore, they reduce the annual depreciation/amortisation charge relating to each asset over its useful life (Notes 9 and 10).

Grants related to income are allocated to income in the year in which the related expenses are incurred. "Other operating income" in the consolidated income statements for 2016 and 2015 includes €959 and €664 thousands, respectively, in this connection (Note 29.A).

N Classification of current and non-current liabilities

Liabilities are classified as current or non-current on the basis of the projected period to maturity, disposal or settlement. Therefore, non-current liabilities are amounts due to be settled within more than twelve months from the date of the consolidated balance sheet, except as explained below.

Loans and credit facilities assigned to wind farms held for sale are classified at current or non-current on the basis of the period in which the wind farm will foreseeably be sold, since such sale, which is carried out through the sale of the shares of the public/private limited liability companies in which these wind farms are legally structured, entails the exclusion from the scope of consolidation of all the assets and liabilities of the wind farms.

Accordingly, regardless of the repayment schedule contractually relating to these borrowings, the total amount of borrowings assigned to the wind farms that will foreseeably be sold within twelve months from year-end is classified as a current liability.

O Income tax

Since 2002 GAMESA and certain subsidiaries located in the Basque Country subject to local income tax legislation pay taxes under the special consolidated tax regime. This regime is now regulated under the chapter VI of the title VI of the local Income Tax Regulation 11/2013, of December 5, of the Bizkaia Historical Territory.

Also, since 2010 the subsidiaries located in the Autonomous Community of Navarre Gamesa Eólica, S.L., Gamesa Innovation and Technology, S.L. Unipersonal and Estructuras Metálicas Singulares, S.A. Unipersonal have filed consolidated tax returns pursuant to Navarre Corporation Tax Regulation 24/1996, of December 30.

Since 2005, Gamesa Technology Corporation, Inc. and its subsidiaries are taxed by the Federal Income Tax under the Consolidated Tax consolidation of the United Estates, being Gamesa Technology Corporation, Inc. the parent company of the Fiscal Group.

Foreign companies and the rest of the Spanish companies that are not taxed under tax consolidation are taxed in accordance with the legislation in force in their respective jurisdictions.

The income tax expense is accounted for using the balance sheet liability method. This method consists of determining deferred tax assets and liabilities on the basis of the differences between the carrying amounts of assets and liabilities and their tax base, using the tax rates that can objectively be expected to apply when the assets are realised and the liabilities are settled. Deferred tax assets and liabilities arising from direct charges or credits to equity accounts are also accounted for with a charge or credit to equity.

However, if the deferred taxes arise from the initial recognition of an asset or liability on a transaction other than a business combination that at the time of the transaction has no effect on the tax gain or loss, they are recognised.

The GAMESA Group recognises deferred tax assets to the extent that it is expected that there will be future taxable profits against which tax assets arising from temporary differences can be utilised (Notes 25 and 27).

Deferred income tax is provided on temporary differences arising on subsidiary's undistributed profits, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Double taxation and other tax credits and tax relief earned as a result of economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised.

P Parent Company treasury shares

The treasury shares held by the Parent of the GAMESA Group at year-end are recognised at acquisition cost with a charge to "Equity - Of the Parent - Treasury Shares" in the consolidated balance sheet (Note 18.E).

The gains and losses obtained by the GAMESA Group on disposals of treasury shares are recognised with a charge or a credit to the Group's consolidated equity.

Q Provisions

A distinction is drawn between:

- Provisions: present obligations at the balance sheet date arising from past events which are uncertain as to their amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events beyond the control of the consolidated companies; or possible obligations, whose occurrence is unlikely or whose amount cannot be reliably estimated.

The Group's Consolidated Financial Statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled and whose amount can be measured reliably. Contingent liabilities are not recognised in the Consolidated Financial Statements but rather are disclosed, except for those which arise in business combinations (Notes 2.G).

Provisions - which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year - are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are recognised when the liability or obligation arises with a charge to the relevant heading in the consolidated income statement based on the nature of the obligation, for the present value of the provision when the effect of discounting the obligation is material.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the best estimate of the expenditure required by the GAMESA Group to settle its liability, calculated on the basis of historical information and reports drawn up by the Technical Department (Note 23).

Present obligations deriving from those contracts considered to be onerous are recognised and recorded as provisions (Notes 3.B and 23). Onerous contracts are considered to be those in which the unavoidable costs to comply with the associated obligations exceed the financial benefits that are expected to be received from those contracts.

Court proceedings and/or claims in progress

At December 31, 2016 and 2015, certain litigation and claims were in progress against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and its Directors consider that the provisions recognised for this purpose are sufficient and that the outcome of these proceedings and claims will not have an additional material effect on the Consolidated Financial Statements for the years in which they are settled (Note 23).

At December 31, 2016 and 2015, there were no significant contingent liabilities or provisions that had not been recognised or disclosed in these Consolidated Financial Statements.

R Termination benefits

Under current labour legislation, the consolidated companies are required to pay termination benefits to employees terminated under certain conditions. The provisions related to restructuring processes when the Group has the implicit obligation to cover an outflow of resources due to the existence of a detailed formal plan and the generation of valid expectations among affected parties that the process will take place, either because the plan has started to be executed or because its main characteristics have been announced. The provisions for restructuring only include the payments that are directly related to restructuring that are not associated with the Group's continuing operations.

S Share-based payment

Equity-settled share-based payments are measured at the fair value of these obligations at the date of grant. This fair value is expensed on a straight-line basis over the vesting period, based on the GAMESA Group's estimate of the shares that will ultimately be delivered and credited to equity (Note 18.E).

Fair value is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan.

If a concession of equity instruments is cancelled or liquidated during the period in which the concession is irrevocable (for a reason other than cancellation for failure to comply with the conditions for its irrevocable nature), GAMESA Group recognises the cancelation or liquidation as an acceleration of the consolidation of rights and, accordingly, will immediately recognise the amount in accordance with the preceding paragraphs that otherwise would have been recognised for the services received over the course of the period remaining for complying with the conditions.

For cash-settled share-based payments, a liability equal to their current fair value determined at each balance sheet date is recognised.

T Consolidated cash flow statement

The GAMESA Group presents the consolidated cash flow statement using the indirect method, whereby first the net profit or loss is presented, which is then corrected for the effects of non-monetary transactions, of all manner of deferred and accrued payment items resulting from collections and payments in the past or in the future, and of consolidated income statement items associated with cash flows from activities classified as investing or financing activities.

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: The principal revenue-producing activities of the GAMESA Group companies and other activities that are not investing or financing activities.
- Investing activities: The acquisition, sale or disposal through other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: Activities that cause changes in the size and composition of equity and liabilities and do not form part of operating activities.

There have been no significant additional non-monetary transactions in 2016 and 2015.

U Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year by the weighted average number of ordinary shares outstanding during the year, excluding the average number of GAMESA shares held.

Diluted earnings per share are calculated by dividing the net profit or loss for the year by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Company. For such purposes, conversion is deemed to take place at the start of the period or when the potentially dilutive ordinary shares are issued, where they have become outstanding during the period in question.

Basic earnings per share in 2016 and 2015 coincided with diluted earnings per share, since there were no potential shares outstanding in those years (Note 35).

V Dividends

Any interim dividends approved by the Board of Directors are deducted from "Equity - Of the Parent" in the consolidated balance sheet. However, the final dividends proposed by the Board of Directors of GAMESA to the shareholders at the General Meeting are not deducted from equity until they have been approved by the latter.

During the fiscal years 2015 and 2016 have not been distributed interim dividends.

W Interest cost

General and specific interest expense directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily require a substantial period of time to be prepared for use or sale, the cost of those assets is added, up until the time at which they are substantially prepared for use or sale.

Financial income obtained on the temporary investment of specific loans until used on qualifying assets is deducted from the interest expense that may be capitalised.

All other interest expenses are recognised in the income statement in the year in which they are incurred.

4 Financial risk management policy

The GAMESA Group is exposed to certain financial risks that it manages by grouping together risk identification, measurement, concentration limitation and oversight systems. GAMESA's Corporate Management and the business units coordinate the management and limitation of financial risks through the policies approved at the highest executive level, in accordance with the established rules, policies and procedures. The identification, assessment and hedging of financial risks are the responsibility of each business unit, also coordinating at Group level.

A Market risk (foreign currency risk)

This risk arises as a result of the international transactions carried out by the GAMESA Group in the ordinary course of its business. Part of its revenues and its expenses are denominated in US dollars, Indian rupees, Chinese yuan, Brazilian reals and Mexican pesos and, to a lesser extent, other currencies apart from the euro. The main line of action of the hedging strategy is based on maximizing natural hedging of the business by locating the supply of components and the manufacturing in the main regions where the GAMESA Group is established and sells its products (e.g. India, Brazil, China, Mexico, etc.).

In line with this, the Group also includes in certain circumstances formulas to mitigate exchange rate risk in the contracts with its clients.

However, the Group also uses financial instruments and hedging strategies in order to manage the exposure of the results to the foreign currency risk, which are affected by fluctuations that occur in the exchange rates.

In order to manage and minimise this risk, the GAMESA Group uses hedging strategies, since its objective is to generate profits only through its ordinary business, and not by speculating in relation to exchange rate fluctuations.

For this purpose, the Group analysis the impact of the foreign currency risk on the basis of its firm order book, the forecasted portfolio and the planned transactions that are highly probable on the basis of contractual evidence. Risk exposure limits are established each year for a time horizon, although a time horizon of less than one year is also considered which enables the Group, where necessary, to adapt to market trends, always associated with its net cash flows.

The Group's risk management policy is to cover up to a maximum of 85% of projected cash flows in each principal currency in the following period ranging normally from 18 to 24 months. Periodically, new cash flow forecasts are updated in order to manage the adequate hedging strategy.

The main foreign currency balances at December 31, 2016 and 2015 are detailed in Note 3.L to the accompanying notes to the Consolidated Financial Statements.

The instruments used to hedge against this risk are basically exchange rate swaps (Note 22).

The following table shows the effects on profit and loss and equity of the changes in exchange rates at the year-end for the Group's most significant currencies:

Thousands of euros

		Debit / (Credit) (*)			
		Devaluation 5% of euro		Appreciation 5% of euro	
Currency	**Exchange rate at 12.31.2016**	**Impact on profits before taxes**	**Impact on equity before taxes**	**Impact on profits before taxes**	**Impact on equity before taxes**
US Dollar	1.0541	(1,636)	(10,231)	1,480	9,257
Chinese Yuan	7.3202	(1,620)	(5,450)	1,466	4,931
Indian Rupee	71.5922	(4,963)	(12,573)	4,490	11,375
Brazilian Real	3.4305	(1,207)	(5,725)	1,092	5,180
Mexican Peso	21.7742	(451)	(2,950)	408	2,669

Thousands of euros

		Debit / (Credit) (*)			
		Devaluation 5% of euro		Appreciation 5% of euro	
Currency	**Exchange rate at 12.31.2015**	**Impact on profits before taxes**	**Impact on equity before taxes**	**Impact on profits before taxes**	**Impact on equity before taxes**
US Dollar	1.0887	(866)	(6,426)	783	5,814
Chinese Yuan	7.0608	(1,585)	(13,365)	1,434	3,652
Indian Rupee	72.0203	(2,903)	(9,390)	2,627	8,503
Brazilian Real	4.3117	(940)	(4,345)	851	3,931
Mexican Peso	18.7873	(556)	(2,316)	503	2,096

(*) Income and equity increase in negative and expenses and equity decrease in positive.

B Market risk (price)

The price risk considered by the Group is related to the price of raw materials that the Group mitigates, in general, transferring the risk to customers through sales contracts.

C Market risk (interest rate)

The GAMESA Group uses external financing sources for the performance of some of their operations, and it is exposed to rising interest rates on its debt.

Loans at variable rates expose the Group to interest rate risk, which is partially offset by cash held at variable rates. Loans at fixed rates expose the Group to fair value interest rate risks.

The hedging instruments assigned specifically to debt instruments are limited to a maximum of the same nominal amounts and have the same established maturities as the hedged items (Note 22).

The GAMESA Group carries out management of interest rate risk analyzing periodically, at least every six months, the loans exposure to the interest rates and terms, determining the ideal percentage of fixed or variable rate, always with non-speculative hedging purposes.

The debt structure at December 31, 2016 and 2015, drawing a distinction between fixed and floating rate borrowings (Note 21), is as follows:

	Thousands of euros			
	2016		2015	
	Excluding hedges	**Including hedges**	**Excluding hedges**	**Including hedges**
Fixed Income	-	218,455	-	220,777
Variable Rate	544,557	326,102	547,801	327,024

The floating-rate debt is basically tied to the LIBOR or EURIBOR.

The sensitivity of results and equity to changes in interest rates, taking into consideration the effect of the interest rate hedging derivatives, is as follows:

	Thousands of euros			
	Debit / (Credit) (*)			
	Variation in interest -0.25%		Variation in interest +0.25%	
	Impact on profits before taxes	**Impact on equity before taxes**	**Impact on profits before taxes**	**Impact on equity before taxes**
Year 2016	(992)	(8)	992	8
Year 2015	(1,646)	(6)	1,646	6

(*) Income and equity increase in negative and expenses and equity decrease in positive.

D Liquidity risk

The GAMESA Group's policy consists of holding cash and highly liquid non-speculative short-term instruments through leading banks in order to be able to meet its future obligations. Also, it attempts to maintain a financial debt structure that is in line with the nature of the obligations to be financed and, therefore, non-current assets are financed with long-term financing (equity and non-current borrowings), whereas working capital is financed with current borrowings.

Also, in 2016 the GAMESA Group had an average of unused credit facilities equal to approximately 67.12% of the bank financing drawn down (66.42% in 2015).

E Credit risk

The GAMESA Group is exposed to credit risk to the extent that a counterparty or customer does not meet its contractual obligations. Products and services are sold to customers that have an appropriate and adequate credit history with respect to which solvency analysis are established.

In addition, the GAMESA Group's customer portfolio is mainly made up of large electric companies with high credit ratings. For customers with no credit rating and in the case of international sales to non-recurring customers, mechanisms such as irrevocable letters of credit and insurance policies are used to ensure collection. Also, the financial solvency of customers is analysed and specific terms and conditions are included in contracts aimed at guaranteeing payment of the stipulated price.

The analysis of the age of financial assets outstanding for which no provision whatsoever has been deemed necessary at December 31, 2016 and December 31, 2015 is as follows:

	Thousands of euros	
	2016	**2015**
90 – 180 days	34,607	18,784
More than 180 days	94,161	85,107
Total	**128,768**	**103,891**

Moreover, historically the Group considered that, due to the characteristics of the customers, receivables with a maturity that is less than 90 days have no credit risk because it is considered the normal payment period of the industry.

The credit quality of cash and other cash equivalents at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
AA-	1,921	7,506
A+	373,311	32,009
A	130,084	188,195
A-	152,508	114,197
BBB+	477,512	209,702
BBB	28,702	204,655
BBB-	48,483	50,074
BB+ or lower	82,747	62,995
Total	**1,295,268**	**869,333**

5 Estimates and sources of uncertainty

The preparation of these Consolidated Financial Statements made it necessary for the GAMESA Group to make assumptions and estimates. The estimates with a significant effect on the accompanying Consolidated Financial Statements are as follows:

- The GAMESA Group recognises by reference to the stage of completion revenue from wind farm and WTGS sale contracts that meet the requirements established in this regard (Note 3.B). This requires that a reliable estimate must be made of the revenue from each contract and the total contract costs, as well as of the percentage of completion at year-end from technical and economic standpoints.

- As indicated in Note 3.D and 3.E, the GAMESA Group determines the estimated useful lives and the relevant depreciation/amortisation charges for its intangible assets and property, plant and equipment. The Group will increase the depreciation/amortisation charge where useful lives are shorter than previously estimated, and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.
- The GAMESA Group estimates the current provisions required for guarantees for possible repairs and start-up costs that the Group will have to incur in connection with sales of WTGSs (Note 3.Q).
- The GAMESA Group has made certain assumptions in order to calculate the liability arising from obligations to employees (Notes 3.R and 18.E). The fair value of those financial instruments granted as share-based payments that are not traded in an active market is determined by using measurement techniques. The Group uses judgments to select a variety of methods and to develop assumptions that are primarily based on the market conditions existing at each balance sheet date. Changes in these assumptions would not have a significant impact on these Consolidated Financial Statements.
- The impairment tests require the estimation of the future evolution of the businesses and the most appropriate discount rate in each case. The GAMESA Group believes that its estimates in this area are adequate and coherent with the current economic environment and they reflect its investment plans and the best estimates available regarding its future revenues and income, and it considers that its discount rates adequately reflect the risks relating to each cash generating unit.
- GAMESA analysis its accounts receivable and, on the basis of its best estimates, quantifies the amount thereof that could be uncollectible (Note 15).
- The Group is subject to income taxes in numerous jurisdictions. A significant level of judgment is required to determine the worldwide provision for income tax. There are many transactions and calculations with respect to which the ultimate calculation of the tax is uncertain in the ordinary course of business. The Group recognizes liabilities for potential tax claims based on an estimation of whether or not additional taxes will be necessary. When the final tax result differs from the amounts which were initially recognised, such differences will have an effect on income tax and the provisions for deferred taxes in the year in which they are deemed to arise (Note 27).
- The GAMESA Group recognises deferred tax assets, tax loss carryforwards and unused tax credits and tax relief only to the extent that their future realisation or utilisation is sufficiently assured (Note 25).
- As it is indicated in Note 36, the assets and liabilities relating to the development activity in the United States are presented as disposal groups held for sale after the decision by Management to suspend the development and sale of wind farms in the United States.
- Operations of the GAMESA Group in the United Kingdom mainly correspond with the activity of operation and maintenance of wind farms, as well as, promptly, the execution of construction projects and commissioning underway farms. The direction of GAMESA believes that the risk posed by their activities of operation and maintenance in the United Kingdom is not significant. With regard to the activity of construction of parks, the part of the risk related to the effects of exchange rate changes on operations is being covered in accordance with the general policy of covering exchange risks (Note 4.A).

  Although these estimates were made on the basis of the best information available at December 31, 2016 and 2015 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

6 Application of results

At the date of preparation of these Consolidated Financial Statements, the Management Board of Directors of GAMESA, in line with the dividend policy communicated to the market, estimates that will propose to the General Shareholders' Meeting for its approval, the proposed distribution of net profit for the year 2016 as shown below, determined according to Spanish accounting regulations applicable to the Statutory Financial Statements of the company:

	Thousands of euros
Basis of distribution	
Profit for the year	87,105
Total	**87,105**
Distribution	
Voluntary reserves	11,784
Dividend	75,321
Total	**87,105**

As is described in the Note 37, GAMESA has signed an agreement of merger with Siemens. The General Shareholders' Meeting of October 25, 2016 approved the merger and also, agreed subject to the effectiveness of the same, changes in the composition of the Board of Directors as well as an increase in capital to meet the exchange with 401,874,595 new shares. In the event that the effectiveness of the merger took place before the Ordinary General Shareholders' Meeting of 2017, it corresponds to the constituted Management Board to propose the corresponding agreement of dividend distribution between all the shares after the aforementioned capital increase.

7 Segment reporting

The reportable segments of the GAMESA Group are adapted to the operating configuration of the business units and to the financial and management information used by the executive boards of the Group being the following at December 31, 2015 and 2014:

- Wind Turbines (*)
- Operation and maintenance

(*) Wind turbine manufacturing includes the development, construction and sale of energy plants

The segments were taken to be business units, since the GAMESA Group is organisationally structured in this manner, and the internal information generated for the Board of Directors and is also presented in this way.

A Information by business units

Revenue

The breakdown, by segment, of consolidated revenue for the years ended December 31, 2016 and 2015 is as follows:

		Thousands of euros
Segment	**2016**	**2015**
Wind Turbines	4,140,818	3,033,097
Operation and Maintenance	471,165	470,705
Net revenue from continued operations	**4,611,983**	**3,503,802**

Profit for the year

The breakdown, by segment, of the contribution to the profit after tax for the years ended December 31, 2016 and 2015 is as follows:

		Thousands of euros
Segment	**2016**	**2015**
Continuing Operations		
Wind Turbines	407,367	230,417
Operation and Maintenance	70,010	63,164
Capital gains and constitution of Adwen (Note 11)	-	29,164
Total Results Segment Operations	**477,377**	**322,745**
Unassigned results	(51,684)	(75,976)
Corporate income tax	(124,415)	(76,553)
Results for the year attributable to the Parent company	**301,278**	**170,216**

(*) This item includes financial results

There are costs of structure supporting both business units, which amount is subject to allocation among both segments. The allocation is performed according to the contribution that each business unit has in the amount of the consolidated turnover of the Group.

Expenses and financial income and corporation tax have not been assigned to the operating segments because they are jointly managed by the Group.

B Geographical information

In addition, the GAMESA Group currently operates in the following geographical markets:

- Spain
- Rest of Europe
- United StatesChina
- India
- Brazil
- Mexico
- Rest of the world

The most significant disclosures in this regard are as follows:

Revenue

The breakdown, by geographical segment, of revenue at December 31, 2016 and 2015 is as follows:

		2016		2015
Geographical area	**Thousands of euros**	**%**	**Thousands of euros**	**%**
Spain	239,346	5.2%	312,137	8.9%
Rest of Europe	658,959	14.3%	428,417	12.2%
United States	555,236	12.0%	469,179	13.4%
China	199,140	4.3%	274,549	7.8%
India	1,378,654	29.9%	814,005	23.2%
Brazil	447,211	9.7%	620,045	17.7%
Mexico	438,835	9.5%	179,426	5.1%
Rest of the world	694,602	15.1%	406,044	11.7%
Total	**4,611,983**	**100%**	**3,503,802**	**100%**

Total assets

The breakdown, by geographical segment, of the total assets at December 31, 2016 and 2015 is as follows:

		12.31.2016		12.31.2015
Geographical area	**Thousands of euros**	**%**	**Thousands of euros**	**%**
Spain	2,163,123	36.7%	1,711,184	36.9%
Rest of Europe	187,385	3.2%	334,582	7.2%
United States	542,635	9.2%	539,153	11.6%
China	472,333	8.0%	409,490	8.8%
India	1,301,287	22.1%	716,370	15.4%
Brazil	560,106	9.5%	499,695	10.8%
Mexico	458,974	7.8%	219,289	4.7%
Rest of the world	209,240	3.5%	210,902	4.6%
Total	**5,895,083**	**100%**	**4,640,665**	**100%**

Investment in assets

The breakdown, by geographical segment, of the investments in property, plant and equipment and other intangible assets at December 31, 2016 and 2015 is as follows:

	12.31.2016		12.31.2015	
Geographical area	**Thousands of euros**	**%**	**Thousands of euros**	**%**
Spain	105,804	50.1%	76,453	45.5%
Rest of Europe	558	0.3%	4512	2.7%
United States	3,510	1.7%	9,324	5.6%
China	11,128	5.3%	13,388	8%
India	61,767	29.2%	41,711	24.8%
Brazil	8,080	3.8%	18,061	10.8%
Mexico	19,550	9.3%	3,548	2.1%
Rest of the world	686	0.3%	861	0.5%
Total	**211,083**	**100%**	**167,858**	**100%**

8 Goodwill

The disclosure of "Goodwill" by cash-generating units is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
"Wind Turbines" cash generating unit	266,862	266,862
"Operation and Maintenance" cash generating unit	121,312	121,548
Total	**388,174**	**388,410**

On July 29, 2015, the GAMESA Group subscribed a purchase-sale agreement for the acquisition of 100% of B9 Energy O&M Limited share capital, a North Irish company mainly dedicated to the maintenance of wind farms both in Ireland and in the United Kingdom for an amount of €2,687 thousands.

Goodwill that arose from that operation amounted to €1,654 thousands and has been totally assigned to the "Operation and Maintenance" cash generation unit.

As indicated in Note 3.C, at least once a year the Group assesses whether its goodwill has become impaired. In this regard, for the purposes of performing the impairment test, the goodwill was entirely allocated to each of the cash-generating units that are consistent with the segments identified by the Group (Note 7): "Wind Turbines" and "Operation and Maintenance", since they are both the smallest identifiable groups of assets that the Group's directors use to monitor them, as provided for in IAS 36.

A Goodwill allocated to the "wind turbine" cash-generating unit

For the goodwill identified with the WTGS cash generation unit, the recoverable amount of the cash generating unit taken as a whole was measured by reference to their value in use, which was calculated on the basis of cash flow projections (approved by management) which represent the best estimates covering a period of 5 years and an estimated residual value as a perpetual return of a year that does not contain cyclical or seasonal factors, with a growth rate of 1%.

The cash flows considered correspond to those generated by the cash generating unit "Wind turbines", engaging in general in the design, development, manufacture and sale of WTGSs and their related components, and the research and development activities associated therewith, and the promotional activities necessary to sell wind energy plants. These production activities are planned and managed jointly by the management of GAMESA regardless of the geographic location of the promotion and installation activity, based on availability and efficiency criteria.

In order to calculate the value in use, the assumptions made include the discount rate based on the weighted average cost of capital (WACC), which reflects time value of money and the risks specific to each cash-generating unit, amounting 8.2%.

From a business standpoint, the following key assumptions were made in 2016:

- Growth in the MW sold (4,332 MW in 2016), in line with the update of the Business Plan 2015-17 with the latest market estimates and projections of the Company, mainly due to the increase in the global demand, particularly in the emerging countries' markets.
- Maintenance in the actual recurrent operating margins.
- Investment control in line with the Business Plan´s guides, and progressive improvement in line with the Business Plan 2015-17, of working capital over sales ratio, due to the aligning of the production to the portfolio entries and to the optimization of all the items composing the current assets (inventories, trade receivables, etc.).

Based on the estimates and projections available to the Directors of GAMESA, the income forecasts attributable to each of the cash generating unit to which the aforementioned goodwill was allocated adequately support the amounts of goodwill recognised at December 31, 2016.

In addition, from a perspective of analysing sensitivity, the GAMESA Group has applied sensitivity calculations to the results of this impairment test, recording the following reasonable changes in the key assumptions:

- 5% decrease in the MW sold in coming years.
- 5% decrease in average margin per MW.
- 5% increase in fixed costs.

These sensitivity analysis performed individually for each key assumption would not reveal the existence of any impairment.

Furthermore, GAMESA has performed a sensitivity analysis, consisting of increasing the discount rate by 50 basis points and decreasing the growth rate by 50 basis points, which would not lead to the need to record any impairment.

B Goodwill allocated to the "operations and maintenance" cash-generating unit

For the goodwill identified with the operating and maintenance cash-generating unit, the recoverable amount of the cash generating unit taken as a whole was measured by reference to their value in use, which was calculated on the basis of cash flow projections (approved by management) which represent the best estimates covering a period of 5 years and an estimated residual value as a perpetual return of a year that does not contain cyclical or seasonal factors, with a growth rate of 1%.

The cash flows taken into consideration relates to those generated by the business unit "Operations and Maintenance", generally engaged in operating and maintenance activities at wind energy plants in the portfolio. These production activities are planned and managed jointly by the management of GAMESA regardless of the geographic location of the promotion and installation activity, based on availability and efficiency criteria.

In order to calculate value in use, the assumptions made include the discount rates based on the weighted average cost of capital (WACC), include the factors involved in which the time value of money and the risks associated with the cash generating unit, which stand at 8.2%.

From a business standpoint, the following key assumptions were made in 2016:

- Growth in the MW maintained over the coming years in accordance with update of the Business Plan 2015-17 with the latest market estimated and projections of the Company.
- Increase in the EBIT margin above the wind turbine segment.

Based on the estimates and projections available to the Directors of GAMESA, the income forecasts attributable to each of the cash generating unit to which the aforementioned goodwill was allocated adequately support the amounts of goodwill recognised and, therefore, no problems regarding the recovery of the aforementioned goodwill were detected at December 31, 2016.

In addition, from a perspective of analysing sensitivity, at December 31, 2016 GAMESA Group applied sensitivity calculations to the results of this impairment test, recording the following reasonable changes in the key assumptions:

- 5% decrease in the MW maintained in coming years.
- 5% decrease in average margin per MW.
- 5% increase in average Cost per MW.

These sensitivity analyses performed individually for each key assumption would not reveal the existence of any impairment.

Furthermore, GAMESA has performed a sensitivity analysis, consisting of increasing the discount rate by 50 basis points, which would not lead to the need to record any impairment.

Therefore, in accordance with the estimates and projections available to the Group, the outlook for both the Wind Turbine and Operating and Maintenance cash generating units to which the goodwill is assigned adequately support the value of the goodwill recognised at December 31, 2016 and, as a result, there is no impairment whatsoever.

9 Other intangible assets

The changes in "Other Intangible Assets" in the consolidated balance sheet in 2016 and 2015 were as follows:

Thousands of euros	Development Costs	Concessions, patents, licenses, trademarks and similar	Computer software	Prepayments	Total
Cost					
Balance at 01.01.2015	**536,920**	**28,059**	**83,795**	**653**	**649,427**
Additions	44,234	2,263	5,623	3,400	55,520
Disposals	(257,155)	-	(751)	-	(257,906)
Exchange differences in foreign currency	2,417	361	215	-	2,993
Transfers	-	-	2,909	(2,909)	-
Balance at 12.31.2015	**326,416**	**30,683**	**91,791**	**1,144**	**450,034**
Changes in the consolidation method	-	409	1,370	-	1,779
Additions	54,669	3,622	8,550	5,138	71,979
Disposals	(68)	-	(5,906)	-	(5,974)
Exchange differences in foreign currency	94	174	147	-	415
Transfers	1,782	-	5,871	(5,108)	2,545
Balance at 12.31.2016	**382,893**	**34,888**	**101,823**	**1,174**	**520,778**
Amortisation					
Balance at 01.01.2015	**(203,509)**	**(22,066)**	**(61,174)**	**-**	**(286,749)**
Charge for the year (Note 29.E)	(22,911)	(191)	(9,135)	-	(32,237)
Disposals	22,133	-	721	-	22,854
Exchange differences in foreign currency	(124)	(14)	(112)	-	(250)
Transfers	-	-	-	-	-
Balance at 12.31.2015	**(204,411)**	**(22,271)**	**(69,700)**	**-**	**(296,382)**
Changes in the consolidation method	-	(409)	(1,370)	-	(1,779)
Charge for the year (Note 29.E)	(31,585)	(286)	(9,409)	-	(41,280)
Disposals	-	-	5,983	-	5,983
Exchange differences in foreign currency	(95)	(7)	(50)	-	(152)
Transfers	-	-	-	-	-
Balance at 12.31.2016	**(236,091)**	**(22,973)**	**(74,546)**	**-**	**(333,610)**
Impairment losses					
Balance at 01.01.2015	**(127,211)**	**(420)**	**-**	**-**	**(127,631)**
Impairment loss recognised in the year	2,600	-	-	-	2,600
Exchange differences in foreign currency	(1,912)	-	-	-	(1,912)
Transfers	109,266	-	-	-	109,266
Balance at 12.31.2015	**(17,257)**	**(420)**	**-**	**-**	**(17,677)**
Impairment loss recognised in the year	-	-	-	-	-
Exchange differences in foreign currency	-	-	-	-	-
Disposals and reversal of impairment losses corrections and other	-	-	-	-	-
Balance as at 12.31.2016	**(17,257)**	**(420)**	**-**	**-**	**(17,677)**
Total other intangible assets at 12.31.2015	**104,748**	**7,992**	**22,091**	**1,144**	**135,975**
Total other intangible assets at 12.31.2016	**129,545**	**11,495**	**27,277**	**1,174**	**169,491**

During 2016 and 2015, the main increase in "Development costs" is due to the development of the "WTG" division (mainly in the subsidiary Gamesa Innovation and Technology, S.L. Unipersonal), of new wind turbine models (mainly the development of the G132 – 3.3 MW wind turbine) and optimization of the components performance for an amount of €51,458 thousands and €42,058 thousands, approximately and respectively.

The remaining capitalised development expenditure corresponds to improvements in technology fully in use.

At December 31, 2014 the most significant development project related to the Multi-MW platform which allowed the development of both onshore and offshore projects and that took part in the transmission of offshore business to Adwen Offshore, S.L. in 2015 as described in Note 11, and whose effect made this section decrease for an amount of €145,755 thousands at the ending balance of December 2015.

The impairment provision reflected at December 31, 2016 and 2015, relates mainly to development costs incurred until 2012 in specific developments, basically related to the design of blades, on which there were doubts about its ability to generate future cash flows.

Research and development expenses not capitalised during 2016 amounted €11 million (€12 million in 2015).

Fully amortised intangible assets in use at December 31, 2016 and 2015 amounted approximately to €271,904 thousands and €247,720 thousands, respectively and approximately.

At December 31, 2016, the GAMESA Group had intangible asset purchase commitments amounting to €1,858 thousands (€2,151 thousands in December 31, 2015).

10 Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2016 and 2015 were as follows:

Thousands of euros	Land and buildings	Technical facilities and machinery	Other property, plant and equipment	Property, plant and equipment under construction	Total
Cost					
Balance at 01.01.2015	**220,942**	**334,120**	**442,642**	**17,596**	**1,015,300**
Change in the consolidation scope (Note 2.G)	-	695	613	(74)	1,234
Additions	813	20,172	43,114	48,239	112,338
Disposals	(1,442)	(21,382)	(25,962)	(1,972)	(50,758)
Exchange differences in foreign currency	8,661	3,301	4,261	(1,554)	14,669
Transfers	8,004	2,631	32,559	(30,346)	12,848
Balance at 12.31.2015	**236,978**	**339,537**	**497,227**	**31,889**	**1,105,631**
Changes in the consolidation method					
scope (Note 2.G)	-	6,336	2,248	-	8,584
Additions	2,746	8,413	59,566	68,379	139,104
Disposals	(4,486)	(1,954)	(5,795)	(1,750)	(13,985)
Exchange differences in foreing currency	2,548	2,327	7,371	24	12,270
Transfers	14,591	12,670	52,102	(78,695)	668
Balance at 12.31.2016	**252,377**	**367,329**	**612,719**	**19,847**	**1,252,272**
Depreciation					
Balance at 01.01.2015	**(66,345)**	**(177,048)**	**(294,596)**	**-**	**(537,989)**
Change in the consolidation scope (Note 2.G)	-	(443)	(436)	-	(879)
Charge for the year (Note 29.E)	(8,486)	(21,290)	(34,040)	-	(63,816)
Disposals	1,440	6,892	11,187	-	19,519
Exchange differences in foreign currency	(2,405)	(1,240)	(4,118)	-	(7,763)
Transfers	2	2,880	(18,217)	-	(15,335)
Balance at 12.31.2015	**(75,794)**	**(190,249)**	**(340,220)**	**-**	**(606,263)**

Thousands of euros	Land and buildings	Technical facilities and machinery	Other property, plant and equipment	Property, plant and equipment under construction	Total
Changes in the consolidation method					
Scope (Note 2.G)	-	(3,300)	(1,312)	-	(4,612)
Charge for the year (Note 29.E)	(8,436)	(16,651)	(58,233)	-	(83,320)
Disposals	758	991	4,222	-	5,971
Exchange differences in foreign currency	(845)	(1,938)	(3,817)	-	(6,600)
Transfers	(2)	(5,328)	6,266	-	936
Balance at 12.31.2016	**(84,319)**	**(216,475)**	**(393,094)**	**-**	**(693,888)**
Impairment losses					
Balance at 01.01.2015	**(21,742)**	**(52,272)**	**(69,760)**	**-**	**(143,774)**
Change in the consolidation scope (Note 2.G)	(30)	-	-	-	(30)
Application recognized in the year	(2,936)	-	659	-	(2,277)
Impairment loss recognised in the year	-	7,227	85	-	7,312
Disposals	(547)	-	(3,219)	-	(3,766)
Exchange differences in foreign currency	6,114	(6,112)	2,336	-	2,338
Balance at 12.31.2015	**(19,141)**	**(51,157)**	**(69,899)**	**-**	**(140,197)**
Application recognized in the year	1,408	5	903	-	2,316
Impairment loss recognised in the year	-	-	(640)	-	(640)
Disposals	-	-	-	-	-
Exchange differences in foreign currency	(40)	1	116	-	77
Transfers	6	(1,864)	2,562	-	704
Balance at 12.31.2016	**(17,767)**	**(53,015)**	**(66,958)**	**-**	**(137,740)**
Total Property, Plant and Equipment at 12.31.2015	**142,043**	**98,131**	**87,108**	**31,889**	**359,171**
Total Property, Plant and Equipment at 12.31.2016	**150,291**	**97,839**	**152,667**	**19,847**	**420,644**

A Investments for the financial year

The main additions in 2016 relate mainly to the investments related to the new blades manufacturing plant in India, as well as the purchase of molds associated to blades G114 among the different production plants. The main additions in 2015 related mainly to three new production lines of blades G114 in India, as well as the purchase of molds associated to blades G114 among the different production plants.

The disposals during the year 2016, mainly relate to the dismantling of the plant of Gamesa Eólica, S.L. located in Tudela. The disposals during the year 2015, basically related to the disposal of various plants, closed production lines or production lines with no activity in Spain and USA which were fully depreciated or provisioned, and with the transmission of a wind facility in Arinaga (offshore prototype) to Adwen Offshore, S.L. (Note 11) in 2015 whose effect led to a decrease of €15,498 thousands.

The provisions at December 31, 2016 and 2015 are basically related to the amount provisioned in previous years referred to impairments derived from:

- Installations, molds and tools affected by the introduction of new processes and application of other technologies, mainly in blade plants
- Closure of industrial plants
- Capacity adjustments
- Low return on assets in use- wind farms in Spain

B Leasing contracts

At December 31, 2016 and 2015, GAMESA has no financial leases.

C Totally depreciated assets

The amounts of operating tangible assets fully depreciated at December 31, 2016 and 2015 amounted €448,960 thousands and €355,601 thousands, respectively. At December 31, 2016 and 2015, most of them correspond to molds and tools for the manufacture of wind turbines.

D Commitments for the acquisition of assets

At December 31, 2016 the GAMESA Group companies had property, plant and equipment purchase commitments amounting €26,262 thousands (€29,263 thousands in 2015) approximately, related mainly to production facilities and new developments of wind facilities and its components.

E Insurance coverage

The GAMESA Group takes out insurance policies to adequately insure its property, plant and equipment. Also, the GAMESA Group has taken out insurance policies to cover the WTGS while they are being assembled.

11 Investments carried under the equity method

The breakdown of the investments in associates of the GAMESA Group at December 31, 2016 and 2015 is as follows:

		Thousands of euros	
Company	**Shareholding %**	**12.31.2016**	**12.31.2015**
Adwen Offshore, S.L. (Note 2.G)	50% (*)	48,963	74,064
Windar Renovables, S.L. (Note 32)	32%	63,728	41,468
9Ren España, S.L.	- (**)	-	6,624
Nuevas Estrategias de Mantenimiento, S.L. (Note 2.G)	50%	4,933	-
Others	-	3,968	4,870
Total		**121,592**	**127,026**

(*) Acquisition of the other 50% at January 5, 2017 (Note 38).

(**) Company participated at 49% at December 31, 2015 and acquired at 100% at December 31, 2016.

The changes occurred in 2016 and 2015 under this heading in the consolidated balance sheet were as follows:

	Thousands of euros	
	2016	**2015**
Beginning Balance	**127,026**	**56,203**
Changes in consolidation scope and/or consolidation method (Note 2.G)	(1,022)	100,000
Profit for the year	(18,996)	(24,988)
Reversion of the provision	15,000	-
Others	(416)	(4,189)
Ending Balance	**121,592**	**127,026**

The heading "Changes in the consolidation scope and/or consolidation method" includes:

Year 2016

On December 17, 2015, the GAMESA group subscribed a purchase/sale agreement for the acquisition of the 50% of the share capital of Nuevas Estrategias de Mantenimiento, S.L., a Spanish company mainly dedicated to the design, manufacture, development and commercialization of technological solutions and of engineering, for an amount of €4,500 thousands. This transaction was subjected to the fulfillment of certain suspension clauses which were finally resolved on May 2016. From that moment on, the result of this company are fully integrated.

On December 30, 2016, the GAMESA Group acquired the 51% participation in 9Ren España, S.L. (hereinafter "9Ren"), reaching the 100% of the company. The compensation of this 51% amounted €8.5 million.

This acquisition supposed the existence of a combination of businesses as a result of the control change, since the payed value essentially matches with the 51% of the Cash and cash equivalents held in the Company at the moment of the purchase (€17 million), being the value of the remaining assets and liabilities of the society of an insignificant amount and matching with its fair value. As a result, no goodwill was generated.

Since the acquisition date was on December 30, 2016, 9Ren has not contributed with relevant amounts of income nor profits for continuing operations before taxes. If the business combination had been done at the beginning of the year, the volume of business would have amount €2,270 thousands and the profit for continuing operations before taxes of the Group would have been €2,257 thousands lower.

The external costs of this transaction are not material.

Year 2015

On March 9, 2015, the GAMESA Group signed with Areva S.A. (hereinafter "Areva") and other companies of its group the necessary agreements for the constitution of a new society participated company by both groups at 50% to which each part provides with its offshore business and through which this business is exclusively developed. The signature of these agreements took place once all the required authorizations and the precedent conditions that were agreed on July 7, 2014 were met. The new company, Adwen Offshore, S.L. (hereinafter "Adwen" or "JV" has its registered office in Zamudio (Spain) and employ, together with its subsidiaries, 700 employees in its headquarters of Spain, France, Germany and United Kingdom.

Regarding the agreements reached for the constitution of the JV, the GAMESA Group provided with its offshore business whose new assets amounted a book value of €161,253 thousands that mainly corresponded to development and prototype expenses related with the Multi-MW platform (Notes 9 and 10).

In compensation, the GAMESA Group registered an investment in its consolidated balance sheet under the equity method for the fair value of the stake of the business for an amount of €100,000 thousands and a debit balance of €95,000 thousands recorded in the section "Other non-current financial assets, associated companies", that accrued an interest of Euribor plus 2% with maturity until 2024 (€98,740 thousands at December 31, 2016) and delivering to a net tax (€8,166 thousands) capital gain of €20,998 thousands. The gross amount of the capital gain once the costs related to the operation are discounted, decreased to €29,164 thousands and was registered in "Profit/loss on disposal of non-current assets and impairment of assets" of accompanying consolidated income statement at December 31, 2015 (Note 7.A).

In 2015, the disposal of New Broadband Network Solutions, S.L. took place (Note 2.G). Since it was fully provisioned, it did not have any impact on the Consolidated Annual Accounts at December 31, 2015.

The breakdown of consolidated assets, liabilities, revenues and expenses of companies recognised using the equity method at December 31, 2016 and 2015 is as follows:

Financial information related to joint ventures

Financial information summarized at December 31, 2016 and 2015 (at 100% and before the intercompany eliminations) related to the most significant joint ventures registered by equity method is as follows:

	Thousands of euros	
	Adwen Offshore, S.L. and subsidiaries	
	12.31.2016	**12.31.2015**
Total non-current assets	876,227	910,238
Total current assets	580,229	390,627
Total Assets	**1,456,456**	**1,300,865**
Total equity	97,925	148,128
Total non-current liabilities	716,343	781,218
Total current liabilities	642,188	371,519
Total Liabilities and Equity	**1,456,456**	**1,300,865**

	Thousands of euros	
	Adwen Offshore, S.L. and subsidiaries	
	12.31.2016	**12.31.2015**
Income from ordinary activities	248,616	29,540
Depreciation and amortization	(19,719)	(11,292)
Interest income	1,719	809
Interest expenses	(11,216)	(5,846)
Expenditure / income on the income tax	286	(333)
Net profit from continuing operations	(52,561)	(49,931)
Other overall result	-	-
Total global result	**(50,426)**	**(52,065)**
Other Information		
Cash and cash equivalents	4,668	90,409
Current financial liabilities (*)	(172,725)	(147,038)
Non-current financial liabilities (*)	(416,177)	(381,125)

(*) Excluding other debts, as well as commercial creditors, other accounts payable and provisions for liabilities and charges, includes the total bank borrowings which amounts €251 million (€61 million at December 31, 2015). Among the current financial liabilities, the bank borrowings amount €172 million at the ending balance of 2016, €1 million at the ending balance of 2015, and among non-current financial liabilities amount to €79 million at the ending balance of 2016, €60 million at the ending balance of 2015. In addition, the loans received from both shareholders at the beginning of the JV, and which amounts, in the case of GAMESA, €99 million (€97 million in 2015) and, in the case of Areva €238 million (€235 million in 2015).

	Thousands of euros
	Nuevas Estrategias de Mantenimiento, S.L.
	12.31.2016
Total non-current assets	965
Total current assets	4,805
Total Assets	**5,770**
Total equity	4,256
Total non-current liabilities	384
Total current liabilities	1,130
Total Liabilities and Equity	**5,770**

	Thousands of euros
	Nuevas Estrategias de Mantenimiento, S.L.
	12.31.2016
Income from ordinary activities	4,765
Depreciation and amortization	(35)
Interest income	13
Interest expenses	(10)
Expenditure / income on the income tax	658
Net profit from continuing operations	678
Other overall result	-
Total global result	**678**
Other Information	
Cash and cash equivalents	2,295
Current financial liabilities	138
Non-current financial liabilities	384

During the years 2016 and 2015 no dividends were received from these companies.

As a result of the impairment test of Adwen no impairment has been required.

This impairment has been done taking into consideration the future cash flows expected for the following years, considering a progressive growth in the activity, with a growth rate of 1.5% and a discount rate based on the weighted average cost of capital-WACC estimated to these effects on 9.25%. The key hypothesis used have been the followings:

- Growth in the units sold (MW) in the following years up to reasonable market fees.
- Improvement of the profit over sales derived from the increase in volume and the evolution of the learning curve.

In addition, from sensitivity analysis perspective, the GAMESA Group has done sensitivity calculations of the results of the impairment test gathering the following reasonable changes in the key hypothesis:

- 5% decrease of the sold MW in the following years.
- 5% decrease of the gross margin over sales.

These sensitivity analysis individually done for each key hypothesis have not revealed the existence of an impairment at December 31, 2016.

In addition, GAMESA has done a sensitivity analysis consistent on increasing the discount rate on 50 basis points, and the decrease of the growth rate on 50 basis points, variation which has not lead to the necessity of any impairment record.

Financial information related to associated companies

Financial information summarized at December 31, 2016 and 2015 (at 100% and before the intercompany eliminations) related to the most significant associated companies registered by the equity method is as follows:

	Thousands of euros
	Windar Renovables, S.L. and subsidiares
	12.31.2016
Total non-current assets	72,527
Total current assets	123,223
Total Assets	**195,750**
Total equity	86,968
Total non-current liabilities	19,509
Total current liabilities	89,273
Total Liabilities and Equity	**195,750**

	Thousands of euros
	Windar Renovables, S.L. and subsidiares
	12.31.2016
Income from ordinary activities	227,379
Not profit from continuing operations	21,503
Profit after tax from non-continuing operations	-
Other global result	-
Total global result	**21,503**

		Thousands of euros
Year 2015	**Windar Renovables, S.L. and subsidiares.**	**9Ren España, S.L.**
Total non-current assets	59,528	5,875
Total current assets	139,600	27,521
Total Assets	**199,128**	**33,396**
Total equity	64,280	22,731
Total non-current liabilities	12,667	1,325
Total current liabilities	122,181	9,340
Total Equity and Liabilities	**199,128**	**33,396**

		Thousands of euros
Year 2015	**Windar Renovables, S.L. and subsidiares.**	**9Ren España, S.L.**
Income from ordinary activities	191,277	11,567
Not profit from continuing operations	10,337	(618)
Profit after tax from non-continuing operations	-	-
Other global result	-	-
Total global result	10,337	(618)

No dividends have been received from these companies during 2016.

On June 23, 2015, the investee company 9Ren España, S.L. agreed on the refund of the share premium for an amount of €12,000 thousands. Of this amount, €5,880 thousands corresponded to GAMESA. Additionally, on February 16, 2015, the investee company Windar Renovables, S.L. agreed on the distribution of a dividend being €3,006 thousands the amount corresponding to GAMESA.

The GAMESA Group have proceed to update the impairment test for its stake in Windar Renovables, S.L. at December 31, 2016 after the improvement in the results and in the business expectations produced in this company during 2016, being the main hypothesis used the followings:

- A discount rate based on the weighted average cost of capital – WACC of 9%.
- The projection period of the cash flows has been of 3 years.
- For the cash flows corresponding to subsequent periods a growth rate of 1% in annual terms has been considered.

As a result of this impairment test, in the year 2016 a reversion of the total impairment recorded during the year 2010 amounting €15,000 thousands has been done with a charge to the heading "Result from entities accounted for using the equity method" of the consolidated income statement for the year 2016.

As a result, the book value of the net investment in Windar Renovables, S.L. at December 31, 2016 amounts €63,728 thousands (€41,468 thousands at December 31, 2015), and it includes the capital gain which emerged at the moment of the acquisition of the investment in the associate (€36 million approximately), for the difference between the total of the compensation given and the part of the entity in theoretical book value of the net assets of the associate in the moment of the acquisition.

12 Financial instruments by category

A Composition and breakdown of financial assets

The breakdown of the GAMESA Group financial assets at December 31, 2016 and 2015, presented by nature and category for measurement purposes:

Thousands of euros

Year 2016 Financial assets Nature / Category	Other financial assets at fair value through changes in P&L	Held-for-sale financial assets (Note 13)	Loans and Receivables	Held-to-maturity investments	Hedge derivatives (Note 22)	Total
Derivatives (Notes 13 and 22)	-	-	-	-	91	91
Other financial assets (Note 13)	-	25,009	107,917	-	-	132,926
Long- term / non-current	**-**	**25,009**	**107,917**	**-**	**91**	**133,017**
Derivatives (Note 22)	-	-	-	-	12,040	12,040
Other financial assets	-	-	30,521	-	-	30,521
Trade and other receivables	-	-	1,530,549	-	-	1,530,549
Short-term / current	**-**	**-**	**1,561,070**	**-**	**12,040**	**1,573,110**
Total	**-**	**25,009**	**1,668,987**	**-**	**12,131**	**1,706,127**

Thousands of euros

Year 2015 Financial assets Nature / Category	Other financial assets at fair value through changes in P&L	Held-for-sale financial assets (Note 13)	Loans and Receivables	Held-to-maturity investments	Hedge derivatives (Note 22)	Total
Derivatives (Note 22)	-	-	-	-	7,584	7,584
Other financial assets (Note 13)	-	36,423	103,267	-	-	139,690
Long- term / non-current	**-**	**36,423**	**103,267**	**-**	**7,584**	**147,274**
Derivatives	-	-	-	-	9,662	9,662
Other financial assets	-	-	24,348	-	-	24,348
Trade and other receivables	-	-	1,112,590	-	-	1,112,590
Short-term / current	**-**	**-**	**1,136,938**	**-**	**9,662**	**1,146,600**
Total	**-**	**36,423**	**1,240,205**	**-**	**17,246**	**1,293,874**

B Composition and breakdown of financial liabilities

The breakdown of the Group's financial liabilities at December 31, 2016 and 2015, presented by nature and category for measurement purposes:

Thousands of euros

Year 2016 Financial liabilities Nature / Category	Other financial liabilities at fair value through P&L	Creditors and payables	Hedge derivatives (Note 22)	Total
Bank borrowings	-	424,523	-	424,523
Derivatives (Note 22)	-	-	7,176	7,176
Other financial liabilities	-	38,187	-	38,187
Long-term / Non-current	**-**	**462,710**	**7,176**	**469,886**
Bank borrowings	-	120,034	-	120,034
Derivatives (Note 22)	-	-	59,903	59,903
Other financial liabilities	-	111,622	-	111,622
Trade and other payables	-	2,812,503	-	2,812,503
Short-term / Current	**-**	**3,044,159**	**59,903**	**3,104,062**
Total	**-**	**3,506,869**	**67,079**	**3,573,948**

Thousands of euros

Year 2015 Financial liabilities Nature / Category	Other financial liabilities at fair value through P&L	Creditors and payables	Hedge derivatives (Note 22)	Total
Bank borrowings	-	444,902	-	444,902
Derivatives (Note 22)	-	-	3,869	3,869
Other financial liabilities	-	43,940	-	43,940
Long-term / Non-current	**-**	**488,842**	**3,869**	**492,711**
Bank borrowings	-	102,899	-	102,899
Derivatives (Note 22)	-	-	4,265	4,265
Other financial liabilities	-	89,326	-	89,326
Trade and other payables	-	1,937,622	-	1,937,622
Short-term / Current	**-**	**2,129,847**	**4,265**	**2,134,112**
Total	**-**	**2,618,689**	**8,134**	**2,626,823**

13 Non-current financial assets

The changes in "Non-current financial assets" in the attached consolidated balance sheet of 2016 and 2015 are as follows:

Thousands of euros

Year 2016	Balance at 12.31.2015	Additions	Exchange differences in foreign currency	Disposals	Transfers	Changes in scope	Balance at 12.31.2016
Derivatives (Notes 12 and 22)	7,584	-	830	(1,453)	(6,870)	-	91
Securities portfolio (Note 12)	36,423	1,272	(683)	(12,003)	-	-	25,009
Other non-current financial assets (Note 12)	3,384	2,173	106	(637)	600	5	5,631
Other non-current financial assets from related companies (Note 11 and 12)	99,883	2,403	-	-	-	-	102,286
Total	**147,274**	**5,848**	**253**	**(14,093)**	**(6,270)**	**5**	**133,017**

Thousands of euros

Year 2015	Balance at 12.31.2014	Additions	Exchange differences in foreign currency	Disposals	Transfers	Changes in scope	Balance at 12.31.2015
Derivatives (Notes 12 and 22)	1,864	7,361	-	(1,641)	-	-	7,584
Securities portfolio (Note 12)	35,683	-	1,166	(246)	(180)	-	36,423
Other non-current financial assets (Note 12)	3,158	597	27	(547)	183	(34)	3,384
Other non-current financial assets from related companies (Note 11 and 12)	-	99,883	-	-	-	-	99,883
Total	**40,705**	**107,841**	**1,193**	**(2,434)**	**3**	**(34)**	**147,274**

A Investment securities

The detail of the cost of acquisition of the most representative long-term investment securities at December 31, 2016 and 2015 is as follows:

	Thousands of euros 12.31.2016	Thousands of euros 12.31.2015	% of Shareholding 12.31.2016	% of Shareholding 12.31.2015
Jianping Shiyingzi Wind Power Co. Ltd.	4,437	4,437	25%	25%
Wendeng Zhangjiachan Wind Power Co. Ltd.	7,651	7,651	39%	39%
Neimenggu Huadian Meiguiying Wind Power Co. Ltd.	-	11,870	-	25%
CGN Changgao Wind Power Co, Ltd	4,318	4,318	25%	25%
Cheng Dingshan	5,564	5,770	25%	25%
Others	3,039	2,377	Several	Several
Total	**25,009**	**36,423**		

In 2016 and prior years the GAMESA Group invested in the share capital of various chinese companies (wind farms), in general holding ownership interests of 25% to 40%. Despite holding ownership interests of more than 20%, GAMESA's directors consider that significant influence does not exist in these companies since there is no power to participate in decisions regarding the financial and operating policies of these companies. In general, GAMESA Group take part in the capital of these companies with the sole objective of favouring the granting of the relevant permits for the development of the plants and the construction and sale of wind turbines for those plants. All agreements regarding the acquisition of shareholdings by the Group include a put option for GAMESA with a price based on an evaluation of the net assets relating to the shareholding to be transferred (theoretical book value), prepared by an expert qualified auditor chosen by mutual agreement among the parties and authorized by the relevant governmental agencies. These investments are stated at their acquisition cost.

With the goal of determining that the recoverable value of these stakes is not lower than book value for which they are recorded, the Group orders the accomplishment of reviews of the results and the property status by an external auditor. These reviews have an annual frequency and no existence of significant impairments have emerged from them in the recoverable value of the aforementioned participations.

During 2016, several dividends were received from these stakes or resulting from their sales for an amount of €1,980 thousands (€3,640 thousands in the year 2015) that have been registered under the heading "Financial Income" of the accompanying income statement of 2016 (Note 29.F).

B Other non-current financial assets

The detail of "Other non-current financial assets" in the consolidated balance sheets at December 31, 2016 and 2015 of the GAMESA Group is as follows:

	Thousands of euros			
	12.31.2016	12.31.2015	Interest Rate	Maturity
Deposits and guarantees provided long term (Note 29.D)	5,008	3,366	Euribor + margin	2018
Other long-term loans	623	18	Euribor + margin	2018
Total	**5,631**	**3,384**		

Under "Long-term deposits and guarantees given" the Group recognises mainly the guarantees provided to secure compliance with the obligations assumed by the Company, principally under leases (Note 29.D).

14 Inventories

The composition of this heading at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	12.31.2016	12.31.2015
Raw and auxiliary materials	515,031	427,260
Work in progress and finished goods	455,005	328,751
Prepayments to suppliers	183,516	142,202
Inventory write-downs	(117,919)	(94,954)
Total	**1,035,633**	**803,259**

The movements in the provision for impairment of inventories for the Group are the following:

	Thousands of euros	
	2016	2015
January 1	94,954	82,299
Changes in the consolidation method	2,844	-
Impairment/(Reversal) during the year (Note 29.E)	22,663	19,476
Provisions used for their intended purpose	(2,542)	(6,821)
At December 31	**117,919**	**94,954**

Movements in the provision for impairment of inventories in 2016 and 2015 correspond mainly to the provision of certain wind promotions and with the provision of certain spare parts.

Provisions currently accounted in this heading at December 31, 2016 and 2015 basically refer to the amount accrued in prior years because of the effect of changes in technologies.

At December 31, 2016 and 2015, there were no inventories provided to secure the payment of debts or in relation to any other obligations to third parties.

15 Trade and other receivables

The detail of "Trade and other receivables" in the consolidated balance sheets at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	12.31.2016	12.31.2015
Trade and other receivables	803,499	564,494
Construction contract receivables (Notes 3.B and 17)	473,250	451,990
Impairment due to uncollectible receivables	(50,353)	(27,646)
Total	**1,226,396**	**988,838**

All the aforementioned balances mature in less than twelve months and are non-interest-earning. Therefore, their realisable value does not differ significantly from their carrying value.

The heading "Impairment due to uncollectible receivables" includes the accounts receivable in relation to which there are doubts as to their recoverability (Note 3.H). At each reporting date, the GAMESA Group analysis the recoverability of uncollected past-due amounts and potential problems relating to the collection of not matured items.

The carrying value of the receivables and other receivables in foreign currency at December 31, 2016 and 2015 in as follows:

	Equivalent value in thousands of euros	
Currency	12.31.2016	12.31.2015
Moroccan Dirham	954	937
US Dollar	150,296	289,265
Egyptian Pound	11,234	18,976
Chinese Yuan	120,627	136,709
Polish Zloty	971	2,463
Indian Rupee	526,104	295,356
Brazilian Real	106,840	151,969
Mexican Peso	3,308	35,200
Other currencies	9,749	3,906
Total	**930,083**	**934,781**

Movements in the provision for the impairment of the value of the trade and other receivables were as follows:

	Thousands of euros	
	2016	**2015**
January 1	27,646	23,193
Reversal of unused amounts (Note 29.E)	16,867	1,924
Accounts receivable removed for uncollectible	-	(948)
Transfers	2,291	3,324
Changes in the consolidation method	3,519	-
Exchange differences	30	153
At December 31	**50,353**	**27,646**

16 Cash and other cash equivalents

The breakdown of "Cash and cash equivalents" in the accompanying consolidated balance sheets at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Cash in euros	177,770	146,198
Cash in foreign currency (Note 3.L)	556,128	355,040
Liquid assets in less than three months	561,370	368,095
Total	**1,295,268**	**869,333**

"Cash and cash equivalents" includes mainly the Group's cash and short-term bank deposits with an initial maturity of three months or less. Cash and cash equivalents accrue market interest rates. There are no restrictions on the use of these balances.

17 Contract revenue recognised by reference to the stage of completion

The amount of revenue (revenue recognition resulting from sale stage of completion) on the firm WTGS and wind farm sales contracts which at December 31, met the requirements indicated in Note 3.B for the application of the percentage of stage of completion method in 2016 and 2015 amounted an increase of €593,834 thousands and a decrease of €188,169 thousands, respectively, and are recognised under the heading "Revenue" in the consolidated income statements of 2016 and 2015. For contracts in progress at December 31, 2016, the accumulated amounts of costs incurred and revenues recognised until that date amounted €2,261,638 thousands (€1,700,415 thousands for the contracts in progress at December 31, 2015).

	Thousands of euros	
	2016	**2015**
Accumulated amount of the costs incurred and revenue recognised for the contracts in progress at January 1	**1,700,415**	**1,775,149**
Variation of the sales by stage of completion	593,834	(188,169)
Exchange differences and others	(32,611)	113,435
Accumulated amount of the costs incurred and revenue recognised for the contracts in progress at December 31	**2,261,638**	**1,700,415**

Accounts receivable from contractual customers for sales recognised by the stage of completion included under "Trade and other receivables", net of the certifications made at December 31, 2016, amounted €473,250 thousands (€451,990 thousands at December 31, 2015) (Note 15). No contractual customers' receivables, net of certifications made, are recorded in discontinued operations (Note 36) due to sales recognised by the stage of completion at December 31, 2015 and 2016.

Accounts receivable from contract customers for sales recognised by reference to the stage of completion included under "Trade receivables from related companies", net of the certification made (Note 32) at December 31, 2016, amounted to €36,416 thousands (€31,670 thousands at December 31, 2015).

At the ending of 2016 and 2015 there are no significant amounts of withholdings in the payments, understanding these as the amounts coming from the certifications made to the customers, which are not recovered until de fulfilment of the specific conditions in the contract for its receipt.

Prepayments received from the customers at December 31, 2016 amounted €669,961 thousands, approximately, (€522,437 thousands, approximately, 2015 yeared), and were recorded under the headings "Trade and other payables" (€509,123 thousands in 2016 and €449,511 thousands in 2015) and "Trade payables to related companies" (€160,838 thousands in 2016 and €72,926 thousands in 2015) of the liabilities side of the consolidated balance sheet. These prepayments mainly correspond to the amounts received from the customers before the beginning of the contracted works – thus they are not related with contracts in progress – like the prepayments collected in the moment of the signature of the contracts.

Finally, the quantity owed to the customers due to certificated amounts for which the work has not yet finalised at December 31, 2016 reaches to €315,882 thousands (€26,323 million at the ending of 2015), and it is recorded in the liabilities side of the consolidated balance sheet under the headings "Trade and other payables" (€185,589 thousands in 2016 and €7,325 thousands in 2015) and "Trade payables to related companies" (€130,293 thousands in 2016 and €18,998 thousands in 2015)

18 Equity of the Parent Company

A Share capital

The Share capital of Gamesa Corporación Tecnológica, S.A. at December 31, 2016 and 2015 amounts to €47,476 thousands being composed of 279,268,787 ordinary shares of €0.17 of nominal value each, represented by means of annotations into account, fully subscribed and disbursed.

According to information of the company, the shareholder structure of GAMESA at December 31, 2016 and 2015 was as follows:

	% Shareholding 12.31.2016	% Shareholding 12.31.2015
Iberdrola, S.A.	19.69%	19.69%
Norges Bank	3.21%	-
Blackrock Inc. (**)	-	3.17%
Fidelity International Limited (***)	1.06%	1.10%
OZ Master Fund Ltd (****)	2.04%	-
Others (*)	74.00%	76.04%
Total	**100%**	**100%**

(*) All with an ownership interest of less than 3%.

(**) According to the records of the National Securities Market Commission the company Blackrock Inc. held at December 31, 2015 part of their stake (0.166%) in the capital of GAMESA Technological Corporation, S.A. in voting rights linked to the settlement of financial instruments.

(***) Significant shareholder under article 32 of the Royal Decree 1362/2007 of October 19, on shareholders required to notify their stake due to his residence in a tax heaven or in a country or land of zero taxation or with no effective exchange of tax information.

(****) Significant shareholder based entirely on voting rights linked to the exercise of financial instruments. Significant shareholder under article 32 of the Royal Decree 1362/2007 of October 19, on shareholders required to notify their stake due to his residence in a tax heaven or in a country or land of zero taxation or with no effective exchange of tax information.

GAMESA's shares have been listed through the Automated Quotation System (Mercado Continuo) since October 31, 2000 and included in the IBEX 35 index. GAMESA's shares are listed on the Bilbao, Madrid, Barcelona and Valencia and Stock Exchanges.

The main objectives of the GAMESA Group's share capital management are to ensure short and long-term financial stability, the positive market performance of the shares of GAMESA, the adequate financing of its investments and maintaining levels of external financing in line with the evolution of business, all of them ensuring that the GAMESA Group maintains its financial strengthens and the soundness of its financial ratios on which the foundations of its business are based and maximise shareholder value.

At December 31, 2016, the GAMESA Group was within the parameters set by management for the purpose of managing this risk, as the ratio of debt (net of cash) to equity attributable to the Parent company was -37,59% (-19.24% in December 31, 2015).

The ratios of debt (net of cash) to equity attributable to the Parent company that are reflected throughout this note are as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Non-current liabilities		
Bank borrowings and other non-current liabilities (Notes 21 and 24)	448,920	475,689
Current liabilities		
Bank borrowings and other current liabilities (Notes 21 and 24)	127,987	108,960
Total bank borrowings	**576,907**	**584,649**
Total derivative financial instruments (Note 22)	**54,948**	**(9,112)**
Cash and other cash equivalents (Note 16)	**(1,295,268)**	**(869,333)**
Bank borrowings net of cash	**(663,413)**	**(293,796)**
Total Equity of the Parent Company	**1,724,682**	**1,526,908**
Proportion of debt (net of cash) and equity attributable to the Parent company	**(37.59%)**	**(19.24%)**

B Share premium

The Spanish Companies Act expressly allows the use of the share premium account to increase share capital and it does not stablish any specific restrictions with respect to the availability of this balance.

C Unrealised asset and liability revaluation reserve

The changes in this reserve in 2016 and 2015 were as follows:

Thousands of euros

	12.31.2015	Change in fair value	Taken to profit and loss	12.31.2015	Change in fair value	Taken to profit and loss (Note 22)	12.31.2016
Cash-flow hedges							
Interest rate swaps (Note 22)	(658)	(2,139)	672	(2,125)	(2,104)	1,385	(2,844)
Securities of electricity prices (Note 22)	-	9	-	9	100	(207)	(98)
Currency forwards (Note 22)	3,300	11,389	(1,188)	13,501	(39,409)	(9,616)	(35,524)
	2,642	**9,259**	**(516)**	**11,385**	**(41,413)**	**(8,438)**	**(38,446)**
Deferred taxes due to the remeasurement of unrealised assets and liabilities (Note 25)	**(880)**	**(3,000)**	**170**	**(3,710)**	**14,321**	**2,156**	**12,767**
Total	**1,762**	**6,259**	**(346)**	**7,675**	**(27,092)**	**(6,282)**	**(25,699)**

D Other reserves

The breakdown of "Other Reserves" in the attached consolidated balance sheet is as follows:

Thousands of euros

	31.12.2016	31.12.2015
Restricted reserves	**56,392**	**55,739**
Legal reserve	9,494	9,494
Reserve for redenomination of capital in euros	1	1
Reserve for treasury shares	46,897	46,244
Voluntary reserves	**408,233**	**380,156**
Reserves attributable to the consolidated companies	**634,333**	**541,026**
Reserves for companies consolidated using the equity method (Note 11)	(75,214)	(56,218)
Reserves of fully consolidated companies	709,547	597,244
Total reserves	**1,098,958**	**976,921**

Legal reserve

Under the Spanish Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that other reserves are not available for this purpose. At the end of 2016 the legal reserve is fully constituted.

E Treasury shares

The detail of the total number of treasury shares as well as the ones of the heading "Equity - Of the parent - treasury shares", as a result of the transactions performed in 2016 and 2015, is as follows:

	Number of Shares	Thousands of euros
Balance at January 1, 2015	**3,154,218**	**(24,873)**
Acquisitions	32,771,429	(421,014)
Disposals	(32,808,945)	399,643
Balance at December 31, 2015	**3,116,702**	**(46,244)**
Acquisitions	21,931,051	(397,188)
Disposals	(21,981,493)	385,404
Disbursements of incentive plan net of tax effect	(700,995)	11,131
Balance at December 31, 2016	**2,365,265**	**(46,897)**

The nominal value of the treasury shares acquired directly or indirectly by GAMESA, together with those already held by GAMESA and its subsidiaries does not exceed 10% of share capital in 2016 or 2015.

On October 30, 2012 Gamesa Corporación Tecnológica, S,A, concluded a liquidity agreement with Santander Investment Bolsa, which was reported to the National Securities Market Comission on a Relevant Event of October 31, 2012. Within the framework of the aforementioned contract, in 2016 GAMESA acquired 21,931,051 treasury shares at an average price of 18.11 euros and sold 21,981,493 treasury shares at an average price of 17.53 euros. The difference between the cost price and the selling price amounting €616 thousands was recorded in "Voluntary reserves".

During the year 2015, Gamesa acquired 32,771,429 shares at an average price of 12.85 euros and sold 32,808,945 shares at an average price of 12.18 euros. The difference between the cost price and the selling price, amounting to €120 thousands, was recorded in "Voluntary Reserves".

2013-2015 Incentive Plan

On April 19, 2013, the Shareholders General Meeting approved a programme to provide share-based payments for the attainment of the objectives of the Company's Business Plan 2013-2015. The Plan consists of an extraordinary, multi-year and mixed incentive payable in cash and in Company shares that may give rise, (i) after the application of certain ratios based on the degree to which strategic targets are met, to the payment of a cash bonus and (ii) based on the initial number of assigned shares ("theoretical shares"), to the effective delivery of shares in GAMESA at the planned payment date, As regards the portion payable in shares, no minimum value of the assigned shares is guaranteed.

The Plan cannot exceed a total of 3,000,000 shares, at maximum, and all of the shares to be delivered through the execution of the Plan will originate from the Company's own portfolio. Regarding the cash bonus, the Plan includes an estimate of the payment of cash bonuses amounting a maximum of €18 million in the event that 100% of the targets are met. This plan is aimed at individuals who, due to their level of responsibility or their position at GAMESA, contribute decisively to the achievement of the Company's objectives. The Plan has 74 beneficiaries (75 beneficiaries in 2015), notwithstanding the possibility that new hires or, due to transfers or changes in professional levels, others will become new beneficiaries during the period taken into consideration, with respect to the maximum authorized share limit.

In accordance with IFRS the company must recognize services when they are received. GAMESA recorded the rendering of services to the beneficiaries relating to the incentive payable in shares as personnel expenses on an accruals basis, apportioning the estimate of the fair value of the equity instruments assigned over the term of the plan (between January 1, 2013 and December 31, 2015), plus a two year residence time for its full payment, which involved a credit amounting €153 thousands under "Personnel expenses" in the accompanying consolidated income statement for the year 2016, charged to "Other reserves" under equity in the consolidated balance sheet at December 31, 2016. (€1,639 thousands in the six-month period ended December 31, 2015).

To value this programme, GAMESA used the futures pricing formula and the Monte Carlo method, which is widely used in financial practice to measure options, in order to include the effect of market conditions on the value of the transferred equity instruments. The main assumptions used in the measurement were as follows:

- The risk-free rate is 3%.
- To determine the volatility of the shares and the dividends distributed per share, the average value was calculated for the last 3 months of 2012.
- The dividends accrued during the period of the plan are not paid.

In addition and with respect to the cash incentive, GAMESA has recognised the rendering of services relating to this incentive as a personnel expense on an accruals basis, crediting €2,270 thousands (€4,850 thousands in 2015) to the heading "Other non-current liabilities" and "Other current liabilities" under non-current liabilities in the accompanying consolidated balance sheet at December 31, 2016.

Once the measurement period is concluded, the Board of Directors agreed that the stage of completion of this Plan was mostly 100%, being the amount to be paid €17,857 thousands and the delivery of 2,333 thousands of shares. Finally, 74 people are the beneficiaries of the plan, being delivered the 50% of such amounts in March 2016.

19 Minority shareholdings

The detail of "Equity - Of non-controlling interests" on the liability side of the accompanying consolidated balance sheet and of the changes therein in 2016 and 2015 is as follows:

	Thousands of euros
Balance at December 31, 2014	**93**
Profit for the year	(342)
Changes in the consolidation scope (Note 2.G)	-
Other movements	545
Balance at December 31, 2015	**296**
Profit for the year	1,118
Changes in the consolidation scope (Note 2.G)	-
Other movements	(1,094)
Balance at December 31, 2016	**320**

The minority shareholdings over the assets, liabilities, income and cash flows of the Consolidated Financial Statements of the GAMESA Group are not relevant at December 31, 2016 and 2015.

20 Differences on exchange

The GAMESA Group decided in previous years to capitalise monetary balances with foreign subsidiaries in order to maintain the financing necessary to grow those business within the framework of the approved business plans, or re-establish their financial position, if necessary. As a result of this decision, the Group classified these balances, up to their capitalization, as permanent net foreign investments and therefore the differences on exchange generated by these balances between the decision date and the formal debt capitalisation date, or December 31, 2016 if formal capitalisation had not been completed, have been recognised by charging or crediting, as appropriate, the heading "Exchange differences" under consolidated equity (Note 3.L), being its amount at December 31, 2016 €1,104 thousands (positive) all of them corresponding to indian rupees of which €10,340 thousands correspond to Brazilian reales and €1,809 thousands to indian rupees (€12,149 thousands at December 31, 2015, negative, of which €10,340 thousands correspond to Brazilian reales and €1,809 thousands to indian rupees

21 Borrowings

Bank borrowings in the accompanying consolidated balance sheet at December 31, 2015 and 2014 as well as the maturity dates, are as follows:

	Carrying Value	Short Term	Debts at December 31, 2016 maturing at					
			Non-current					
	Balance at 12.31.2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 and subsequent**	**Total Non-current**
Accrued interest not paid	702	702	-	-	-	-	-	-
Loans	502,876	85,653	149,165	268,058	-	-	-	417,223
Payables for loan draw downs	9	9	-	-	-	-	-	-
Payables for discounted bills	112	112	-	-	-	-	-	-
Loans in euros	**503,699**	**86,476**	**149,165**	**268,058**	**-**	**-**	**-**	**417,223**
US Dollar	281	281	-	-	-	-	-	-
Indian Rupee	33,481	30,481	2,012	988	-	-	-	3,000
Brazilian Real	2,438	2,438	-	-	-	-	-	-
Others	4,658	358	378	400	423	447	2,652	4,300
Loans and credits facilities denominated in foreign currency (Note 3.L)	**40,858**	**33,558**	**2,390**	**1,388**	**423**	**447**	**2,652**	**7,300**
Total	**544,557**	**120,034**	**151,555**	**269,446**	**423**	**447**	**2,652**	**424,523**

	Carrying Value	Short Term	Debts at December 31, 2015 maturing at					
			Non-current					
	Balance at 12.31.2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and subsequent**	**Total Non-current**
Accrued interest not paid	1,085	1,085	-	-	-	-	-	-
Loans	479,853	41,087	19,113	150,802	268,851	-	-	438,766
Payables for loan draw downs	294	294	-	-	-	-	-	-
Payables for discounted bills	925	925	-	-	-	-	-	-
Loans in euros	**482,157**	**43,391**	**19,113**	**150,802**	**268,851**	**-**	**-**	**438,766**
US Dollar	31,940	31,940	-	-	-	-	-	-
Indian Rupee	6,942	6,942	-	-	-	-	-	-
Chinese Yuan	16,045	16,045	-	-	-	-	-	-
Brazilian Real	5,523	4,230	1,293	-	-	-	-	1,293
Others	5,194	351	362	383	404	428	3,266	4,843
Loans and credits facilities denominated in foreign currency (Note 3.L)	**65,644**	**59,508**	**1,655**	**383**	**404**	**428**	**3,266**	**6,136**
Total	**547,801**	**102,899**	**20,768**	**151,185**	**269,255**	**428**	**3,266**	**444,902**

The book value of the financial liabilities coincides with the fair value because the long-term debt is issued almost entirely at a variable rate and corresponds to the loans obtained in recent years, with very similar conditions to the ones obtained in the market currently.

On December 19, 2008, Gamesa Eólica, S.L. Unipersonal entered into a financing agreement with the European Investment Bank for a maximum of €200 million, divided into two parts, €140 million and €60 million, respectively. The terms of this credit set maturity in 2018 and 2019 and an interest rate indexed to Euribor plus a market spread. These credits were fully disposed at December 31, 2014. On March 31, 2015, Gamesa Eólica, S.L. Unipersonal partially and in advance amortised €40 million of this loan, so being the rest of the loan disposed at December 31, 2016 andd 2015 amounting €160 million.

At November 29, 2012, Gamesa Eólica, S.L. Unipersonal obtained a €260,000 thousands loan from the European Investment Bank to finance innovation, research and development projects relating to the processes of improving existing wind turbines, and the development of new products. The conditions of this loan establish its maturity date in 2019 and it accrues an interest rate referenced to the euribor rate plus a market spread. This loan is fully disposed at December 31, 2016 and 2015.

At June 3, 2014, GAMESA signed a novation of a syndicated credit line contract (“revolving”) amounting €350 million maturing in June 2018. The terms of the credit line establish an interest rate indexed to Euribor plus a market spread. At December 11, 2014, GAMESA signed a novation of this syndicated credit line, increasing the limit to €750 million maturing in December 2019, from which no amount was disposed at December 31, 2014. Additionally, on December 17, 2015, GAMESA signed a new novation of that credit line, maintaining the limit amount on €750 million and extending its maturity to 2022. At December 31, 2016 and 2015 GAMESA did not disposed any amount.

At December 31, 2016, the GAMESA Group companies had been granted loans and undrawn credit facilities that accounted for 67.12% (66.42% at December 31, 2015) of the total financing granted to it, which mature between 2016 and 2026 and which bear weighted average interest at Euribor plus a market spread. The loans outstanding at December 31, 2016 and 2015 bore annual weighted average interest at approximately 2.13% and 2.56%, respectively, at that date.

At December 31, 2016 the companies of the Consolidated Group had disposed loan agreements amounting €425 million (€460 million in 2015), with certain obligations, as the compliance with financial ratios throughout the life of the agreement relating the capacity to generate resources in the operations with the debt level and financial duties. Also, there are established certain limits on the arrangement of additional borrowings and the distribution of dividends, as well as other additional conditions. Not meeting these contractual conditions would enable the banks to demand early repayment of the related amounts. At December 31, 2016, the established financial ratios are met and the Group estimates that will be also met in the future.

At December 31, 2016 and 2015, the GAMESA Group did not have any bank borrowings tied to fixed interest rates, except for the hedges described in Note 22.

The fair value, taking into consideration the counterparty credit risk, of bank borrowings at December 31, 2016 and 2015 is similar to the carrying value since the debt is subject to variable interest rates and accrued market spreads (Note 3.H).

The sensitivity of the market value of bank borrowings based on the position to interest rate changes at December 31, 2016 and 2015 is as follows:

				Thousands of euros
				Interest rate change
		2016		2015
	+0.25%	-0.25%	+0.25%	-0.25%
Change in the value of the debt	992	(992)	1,560	(1,560)

The sensitivity of the market value of foreign currency bank borrowings based on the position to exchange rate and interest rate changes at December 31, 2016 and 2015 is as follows:

								Thousands of euros
	2016				2015			
	Change in the interest rate		Change in Exchange rate (EUR/foreign currency)		Change in the interest rate		Change in Exchange rate (EUR/foreign currency)	
Change in the value of the debt	**+0.25%**	**-0.25%**	**+5%**	**-5%**	**+0.25%**	**-0.25%**	**+5%**	**-5%**
US Dollar	1	(1)	-	-	18	(18)	1,521	(1,681)
Chinese Yuan	-	-	-	-	1	(1)	76 4	(844)
Brazilian Real	13	(13)	116	(128)	28	(28)	263	(291)
Swedish Krona	3	(3)	222	(245)	4	(4)	247	(273)
Indian Rupee	68	(68)	1,594	(1,762)	36	(36)	331	(365)

The GAMESA Group hedges part of the risk associated with the volatility of cash flows relating to the interest payments on borrowings tied to floating interest rates through derivative financial instruments (Notes 4.C and 22).

22 Derivative financial instruments

The GAMESA Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly foreign currency and interest rate risk. The detail of the balances that represent the revaluation of derivatives in the consolidated balance sheets at December 31, 2016 and 2015 is as follows:

				Thousands of euros 12.31.2016
	Current		Non-current	
	Assets (Note 12)	**Liabilities (Note 12)**	**Assets (Notes 12 and 13)**	**Liabilities (Note 12)**
Interest rate hedges				
Cash-flow hedges				
Interest rate swaps	-	-	91	3,114
Electric prices hedges				
Cash-flow hedges	-	47	-	52
Foreign currency hedges				
Cash/flow hedges	56	29,721	-	4,010
Exchange insurance	1,734	13,050	-	-
Other derivatives (*)				
Other derivatives	10,250	17,085	-	-
Total	**12,040**	**59,903**	**91**	**7,176**

(*) Refers to the put and the call options granted and received for the purchase of Adwen described in Note 38.

				Thousands of euros 12.31.2015
	Current		Non-current	
	Assets (Note 12)	**Liabilities (Note 12)**	**Assets (Notes 12 and 13)**	**Liabilities (Note 12)**
Interest rate hedges				
Cash-flow hedges				
Interest rate swaps	-	60	223	2,247
Electric prices hedges				
Cash-flow hedges	-	-	9	-
Foreign currency hedges				
Cash/flow hedges				
Exchange insurance	9,362	1,608	7,352	1,622
Fair value hedge				
Exchange insurance	300	2,597	-	-
Total	**9,662**	**4,265**	**7,584**	**3,869**

In 2016, to offset the effect on the consolidated income statement of hedging transactions, the GAMESA Group recognised an expense of €1,385 thousands (€672 thousands in 2015) under "Finance costs" in the consolidated income statement of 2016 (Note 29.G), and in the heading "Exchange differences" of the consolidated income statement for the 2016 an income of €9,616 thousands (€1,188 thousands in 2015), accounted under the heading "Equity - Of the parent - unrealised asset and liability revaluation reserve" (Note 18.C), under which they had previously been classified.

The GAMESA Group uses derivatives as foreign currency hedges to mitigate the possible volatility effect of exchange rate fluctuations on future cash flows from transactions and loans in currencies other than the functional currency of the company concerned. In addition, GAMESA Group designates hedges for the exchange rate risk deriving from certain intragroup monetary transactions carried out by companies with different functional currencies. These hedging transactions mature mainly in 2017. At December 31, 2016 and 2015 the total nominal value covered by exchange rate hedges is as follows:

		Thousands euros
Currency	**12.31.2016**	**12.31.2015**
US Dollar	216,161	40,636
Chinese Yuan	137,989	95,658
Brazilian Real	36,715	53,124
Indian Rupee	86,538	46,049
Mexican Peso	19,483	8,942
Others	13,574	-

Also, the GAMESA Group arranges interest rate hedges in order to mitigate the effect of interest rate fluctuations on future cash flows from loans tied to variable interest rates. At December 31, 2016 and 2015, the nominal value of the liabilities hedged by interest rate hedges amounted to €218,455 thousands and €220,777 thousands, respectively.

The main features of the interest rate hedges are as follows:

	Estimated period of cash-flows	
Year 2016	**2017**	**2018 and subsequent**
Interest rates	2,234	216,212

	Estimated period of cash-flows	
Year 2015	**2016**	**2017 and subsequent**
Interest rates	2,234	218,543

No significant ineffectiveness has been detected in the hedges designated by GAMESA Group in 2016 and 2015.

A Credit risk

The breakdown of the risk, by geographical area and counterparty, indicating the book value thereof at the relevant dates, is as follows:

		2016		2015
	Thousands euros	**%**	**Thousands euros**	**%**
By Geographical area				
Spain	205	1.69%	2,398	13.90%
Other European Union countries	11,130	91.75%	-	-
Rest of the world	796	6.56%	14,848	86.10%
Total	**12,131**	**100%**	**17,246**	**100%**
By Counterparty				
Credit institutions	1,881	15.51%	17,246	100%
Other institutions (Notes 3.H and 38)	10,250	84.49%	-	-
Total	**12,131**	**100%**	**17,246**	**100%**

The detail of the derivatives based on the credit ratings assigned by external credit rating agencies is as follows:

		2016		2015
	Thousands euros	**%**	**Thousands euros**	**%**
Risks rated A or A-	12,004	98.95%	7,955	46.13%
Risks rated BBB+	72	0.59%	649	3.76%
Risks rated BBB	4	0.04%	1,346	7.80%
Risks rated BBB- or less	51	0.42%	7,296	42.31%
Total	**12,131**	**100%**	**17,246**	**100%**

B Market risk

The sensitivity of the market value of the hedging derivatives arranged by the GAMESA Group to interest rate and exchange rate changes is as follows:

	Percentage change in interest rates			
	2016		2015	
Thousands of euros	+5%	-5%	+5%	+5%
Change in the value of the hedge	(8)	8	(6)	(6)

	Percentage change in exchange rates			
	2016		2015	
Thousands of euros	+5%	-5%	+5%	-5%
Change in the value of the hedge	(2,152)	2,152	(560)	560

23 Provisions for liabilities and charges

The breakdown of "Provisions for contingencies and charges" on the liabilities of the accompanying consolidated balance sheet and of the changes therein in 2016 and 2015 is as follows:

Thousands of euros	Provisions for litigation, termination benefits, taxes and similar	Provisions for guarantees	Provisions for contracts reflecting losses
Balance at January 1, 2015	**19,422**	**215,618**	**235,040**
Period provisions charged to income statement (Notes 29.E)	7,155	104,750	111,905
Provisions used for their intended purpose	(7,457)	(80,778)	(88,235)
Differences on exchange in foreign currency	(50)	(1,748)	(1,798)
Balance at December 31, 2015	**19,070**	**237,842**	**256,912**
Period provisions charged to income statement (Notes 29.E)	1,327	116,190	117,517
Provisions used for their intended purpose	(4,669)	(112,657)	(117,326)
Transfers	-	(2,667)	(2,667)
Differences on exchange in foreign currency	921	3,572	4,493
Balance at December 31, 2016	**16,649**	**242,280**	**258,929**

The information regarding the information for the Group's provisions is divided into 2 large groups:

A Litigation, termination benefits, taxes and similar

The GAMESA Group recognises provisions for third-party liabilities arising from litigation in progress and from termination benefits, obligations, collateral and other similar guarantees for which the Company is legally liable. At the end of each reporting period the GAMESA Group estimates the liabilities arising from litigation and similar events which require the recognition of provisions of a tax and legal nature. Although the Group considers that the cash outflows will take place in the coming years, it cannot predict the settlement date of these liabilities and, therefore, it does not make an estimate of the specific dates of the cash outflows, considering the effect of a potential discount to present value to be immaterial.

B Provisions for guarantees

The provision for guarantees are related basically to the possible repair and start-up expenses which should be covered by the Group during the guarantee period established in each WTGS sale agreement (generally two years) and those specific provisions derived from operative errors.

The provision for guarantees additionally includes the balances of non-recurring provisions recorded that derived from various factors, including customer complaints in the exclusive area of operational activity of the Group, mainly to cover the cost of replacement or repair costs in the terms for completion agreed upon with the client.

In the calculation of this provision, the financial actualization has not been considered nor the increase of the future costs increase, considering that both effects would be compensated and its effect would not be significant.

24 Other non-current liabilities

The breakdown of "Other non-current liabilities" in the accompanying consolidated balance sheets at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Prepayments refundable	24,397	30,787
Other non-current liabilities	13,790	13,153
Total	**38,187**	**43,940**

"Prepayments refundable" includes basically interest-free advances provided to the Group companies Gamesa Innovation and Technology, S.L.U, Gamesa Energy Transmission, S.A.U and Gamesa Electric, S.A.U by the Ministry of Science and Technology and other public agencies to finance R&D projects, which are repayable over 7 or 10 years, following a three-year grace period. The portion of these advances maturing in the short term is recognised under "Other current liabilities" in the consolidated balance sheet. These amounts mature as follows:

		Prepayments refundable at December 31, 2016 maturing at						
		Short Term	Non-current					
	Balance at 12.31.2016	**2017**	2018	2019	2020	2021	2022 and subsequent	**Total Long Term**
Prepayments refundable	**32,350**	**7,953**	3,468	4,492	4,307	4,028	8,102	**24,397**

		Prepayments refundable at December 31, 2015 maturing at						
		Short Term	Non-current					
	Balance at 12.31.2015	**2016**	2017	2018	2019	2020	2021 and subsequent	**Total Long Term**
Prepayments refundable	**36,848**	**6,061**	5,230	4,554	4,654	4,396	11,953	**30,787**

The financial liability corresponding to these prepayments refundable is recognised at its present value, which basically coincides with its fair value, and the difference up to its repayment value calculated at a rate of 3% is recognised as an implicit aid to be recognised as income on a systematic basis, over the periods required to offset it with the related costs (Note 3.H).

25 Deferred taxes

The breakdown of "Deferred tax assets" and "Deferred tax liabilities" in the accompanying consolidated balance sheet and of the changes therein in 2016 and 2015 is as follows:

Thousands of euros	**12.31.2015**	**Allocation and/or credit (charge) to income (Note 27)**	**Credit (charge) to asset and liability revaluation reserve**	**Differences on exchange**	**Disposals/ Excluded from consolidation**	**12.31.2016**
Deferred tax assets:						
Revaluation of derivative financial instruments (Note 22)	2,028	4,733	5,313	736	-	12,810
Tax loss carryforwards	171,694	(1,877)	-	1,729	-	171,546
Unused tax credits recognised	103,562	(22,835)	-	-	-	80,727
Temporary differences	144,504	19,126	-	6,654	-	170,284
Total	**421,788**	**(853)**	**5,313**	**9,119**	**-**	**435,367**
Deferred tax liabilities:						
Deductible Goodwill	(40,101)	(6,402)	-	-	-	(46,503)
Revaluation of derivative financial instruments (Note 22)	(5,738)	(2,577)	9,008	(736)	-	(43)
Temporary differences	(69,809)	5,537	-	(2,069)	-	(66,341)
Total	**(115,648)**	**(3,442)**	**9,008**	**(2,805)**	**-**	**(112,887)**

Thousands of euros	**12.31.2014**	**Allocation and/or credit (charge) to income (Note 27)**	**Credit (charge) to asset and liability revaluation reserve**	**Differences on exchange**	**Disposals/ Excluded from consolidation**	**12.31.2015**
Deferred tax assets:						
Revaluation of derivative financial instruments (Note 22)	220	-	1,842	(34)	-	2,028
Tax loss carryforwards	149,717	20,529	-	1,448	-	171,694
Unused tax credits recognised	141,022	(37,460)	-	-	-	103,562
Temporary differences	114,330	32,671	-	(2,113)	(384)	144,504
Total	**405,289**	**15,740**	**1,842**	**(699)**	**(384)**	**421,788**
Deferred tax liabilities:						
Deductible Goodwill	(39,201)	(900)	-	-	-	(40,101)
Revaluation of derivative financial instruments (Note 22)	(1,100)	-	(5,648)	1,010	-	(5,738)
Temporary differences	(43,104)	(27,083)	-	327	51	(69,809)
Total	**(83,405)**	**(27,983)**	**(5,648)**	**1,337**	**51**	**(115,648)**

The GAMESA Group recognises deferred tax assets, tax loss carryforwards and unused tax credits and tax relief only to the extent that their future realisation or utilisation is sufficiently assured.

The breakdown of temporary asset differences for items at December 31, 2016 and 2015 are the following:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Provisions for liabilities and charges and other provisions	85,605	68,044
Impairment of property, plant and equipment	30,627	28,962
Finance cost	1,088	3,291
Other temporary differences	52,964	44,207
Total	**170,284**	**144,504**

The breakdown of temporary liabilities differences for items at December 31, 2016 and 2015 are the following:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Differences between accounting and fiscal depreciation	(41,641)	(35,241)
Other temporaty differences	(24,700)	(34,568)
Total	**(66,341)**	**(69,809)**

26 Public administrations

The Parent Company has its tax registered office for tax purposes in Bizkaia, and the tax legislation applicable to 2016 and 2015 is that in force in the Historic Territory of Bizkaia.

The detail of "Current assets – Tax receivables" and "Other payables – Tax payables" on the asset and liability sides, respectively, of the consolidated balance sheets at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Tax receivables		
VAT refundables	147,791	121,044
Tax withholdings and interim payments made	86,442	28,065
VAT refunds receivable and other	61,634	58,097
Grants receivable	5,570	5,877
Total	**301,437**	**213,083**

	Thousands of euros	
	12.31.2016	**12.31.2015**
Tax payables		
VAT payables	62,672	52,278
Withholdings payable	20,812	7,718
Corporate income tax payable	82,479	33,024
Other taxes payable	701	2,012
Social security	7,159	5,241
Total	**173,823**	**100,273**

The Parent company is subject to Bizkaia tax legislation and together with its subsidiaries that meet the requirements established in the applicable legislation, based on the special consolidated VAT regime provided for in Chapter IX of Foral regulatory 7/1994 (November 9) of the historical territory of Bizkaia which regulates this tax, at its basic level, being GAMESA the Parent company of this Tax Group and its subsidiaries are as follows:

Gamesa Corporación Tecnológica, S.A. (Sociedad dominante)	Sistemas Energéticos Sierra de Valdefuentes, S.L.U.
Gamesa Europa, S.L.U.	Sistemas Energéticos Fonseca, S.A.U.
Gamesa Energía, S.A.U.	Sistemas Energéticos Serra de Lourenza, S.A.U.
Gamesa Inversiones Energéticas Renovables, S.A.	Sistemas Energéticos Balazote, S.A.U.
International Windfarm Development II, S.L.	Sistemas Energéticos Sierra del Carazo, S.L.U.
Sistemas Energéticos Tablero Tabordo, S.L.	Sistemas Energéticos Monte Genaro, S.L.U.
Sistemas Energéticos Tarifa, S.A.U.	Sistemas Energéticos Argañoso, S.A.U.
International Windfarm Development IX, S.L	Sistemas Energéticos Carril, S.A.U.
Sistemas Energéticos Jaralón, S.A.U.	Sistemas Energéticos Lomas del Reposo, S.A.U.

27 Income tax expense / (income)

Since 2002 GAMESA and the following subsidiaries subject to Basque Country income tax legislation have filed their income tax returns under the Special Consolidated Tax Regime.

Gamesa Corporación Tecnológica, S.A. Unipersonal (Sociedad dominante)	Sistemas Energéticos Sierra de Valdefuentes, S.L.U.
Gamesa Europa, S.L.U.	Sistemas Energéticos Fonseca, S.A.U.
Gamesa Energía, S.A.U.	Sistemas Energéticos Serra de Lourenza, S.A.U.
Gamesa Venture Capital, S.A.	Sistemas Energéticos Balazote, S.A.U.
Gamesa Inversiones Energéticas, S.A.	Sistemas Energéticos Sierra del Carazo, S.L.U.
International Windfarm Development II, S.L.	Sistemas Energéticos Monte Genaro, S.L.U.
Sistemas Energéticos Tablero Tabordo, S.L.	Sistemas Energéticos Argañoso, S.A.U.
Sistemas Energéticos Tarifa, S.A.U.	Sistemas Energéticos Carril, S.A.U.

International Windfarm Development IV, S.L.	Sistemas Energéticos Jaralón, S.A.U.
International Windfarm Development V, S.L.	Sistemas Energéticos Lomas del Reposo, S.A.U.
International Windfarm Development VII, S.L.	International Windfarm Development VI, S.L.
Gamesa Financiación, S.A.	International Windfarm Development IX, S.L.
Parque Eólico Dos Picos, S.L.	

Since 2010 the subsidiaries Gamesa Eólica, S.L.Unipersonal, Gamesa Innovation and Technology, S.L.Unipersonal and Estructuras Metálicas Singulares, S.A.Unipersonal resolved to be taxed under the Navarre consolidated tax regime, being Gamesa Eólica, S.L.Unipersonal the Parent company of this Tax Group. Additionally, Gamesa Latam, S.L. Unipersonal, Gamesa APAC, S.L. Unipersonal y Sistemas Energéticos El Valle, S.L. were incorporated to this special consolidated tax regime during 2016.

Since 2005 Gamesa Technology Corporation, Inc and its subsidiaries have filed Consolidated Federal Income Tax returns in the US, being Gamesa Technology Corporation, Inc. the Parent company of this Tax Group.

The other consolidated companies file individual tax returns.

The difference between the tax charge allocated to each year and the tax payable for that year, recognised in "Deferred tax assets" and "Deferred tax liabilities" on the asset and liability sides, respectively, of the consolidated balance sheets at December 31, 2016 and 2015, arose as a result of the following noteworthy circumstances:

- The different accounting and tax methods for recognising certain provisions.
- Temporary differences deriving from the limit of deducting financial expenses for tax purposes.

The breakdown of income tax between current tax and deferred taxes is as follows:

	Thousands of euros	
	2016	**2015**
Current taxes	120,120	64,310
Deferred taxes (Note 25)	4,295	12,243
Income tax expense/(income)	**124,415**	**76,553**

The income tax expense (income) for 2016 and 2015 was determined as follows:

	Thousands of euros	
	2016	**2015**
Consolidated result before income tax	**435,551**	253,599
Permanent differences		
• Exemption of gains from the sale of wind farms	(11,849)	(669)
• Assignment of intangible assets	(99,733)	(72,460)
• Profits obtained by companies consolidated using the equity method (Note 11)	18,996	24,988
• Impairment reversal on the Windar shareholding (Note 11)	(15,000)	-
• Dividends and other permanent differences	6,390	39,613
Adjusted book result	**334,355**	**245,071**
Gross tax at current rate in each country (*)	104,351	76,625
Deductions due to tax incentives and others generated during the year	(10,655)	(6,529)
Temporary differences relating to unrecoverable assets and other adjustments	30,719	6,457
Expense / (revenue) accrued on corporate income tax	**124,415**	**76,553**

(*) The fully consolidated foreign subsidiaries calculate the corporate income tax expense and the tax charges for the various taxes applicable to them according to the legislation, and at the tax rates in force in their respective countries. When calculating the gross tax the effect of tax-loss carryforwards for the year from those subsidiaries have not been taken into account since there are doubts that they may be realised.

The tax credits recognised in the year were generated by the Group as a result of the expenditure incurred and investments made in research and development and technological innovation activities, investments in non-current assets and job creation.

Under current legislation, tax losses could be offset for tax purposes against the taxable profits that will foreseeably arise in future periods according to the applicable legislation of each period. In this sense, the companies of the GAMESA Group have €171,546 thousands in tax-loss carryforwards available to offset in future years (€171,694 thousands in December 31, 2015). Additionally there are still registered unused tax credits amounting €80,727 thousands (€103,562 thousands in December 31, 2015) (Note 25).

Specifically, the recovery of the tax-loss carryforwards and deductions, with respect to the main tax groups has been analysed as follows:

- Navarre tax group for €192,325 thousands (€210,477 thousands in 2015). The recovery of the tax-loss carryforwards and deductions by the Navarre Tax Group are reasonably ensured over a period of 10 years. Tax-loss carryforwards and deductions generated by the Navarre Tax Group expire for tax purposes in 15 years from the date of its generation. The tax-loss carryforwards that were recognised for an amount of €114,169 thousands (€114,169 thousands in December, 31 2015) and the deductions recognised for an amount of €78,156 thousands (€96,308 thousands in December 31, 2015) expire for tax purposes from 2024 froward.

- In addition, at the end of 2016 there were tax-loss carry forwards and deductions generated in other companies of the Group amounting to €57,377 thousands (€57,395 thousands in 2015) that have yet to be applied and his recovery is assured over a maximum of 5 years. The most significant amount is related to tax-loss carryforwards recognised in the United States for an amount of €54,841 thousands (€52,046 thousands in December 31, 2015) that expire or tax purposes from 2032 onward.

  At December 31, 2016 and 2015, the GAMESA Group companies had unrecognised deferred tax assets. Also, the Group has unrecognised accredited tax loss carryforwards amounting to approximately €205,174 thousands (€217,569 thousands at December 31, 2015) and tax deductions amounting to approximately €157,277 thousands (€142,231 thousands at December 31, 2015). These deferred tax assets were not recognised because the GAMESA Group considers that the conditions for considering them to be recoverable in future years were not met. Tax-loss carryforwards and unrecognised deductions will expire for tax purposes from 2021 onward.

In accordance with current legislation, taxes may not be regarded as definitively settled until the relevant returns have been examined by the tax authorities or the relevant time limit has ended. At December 31, 2016, in Spain the Group has all years since 2012 open for review for income tax and all years since 2013 for the other taxes applicable to it. The Parent company's Directors consider that the aforementioned taxes have been appropriately settled and, consequently, even if there are discrepancies with respect to the interpretation of current legislation for the tax treatment given to the transactions, any potential resulting liabilities would not have a material effect on the accompanying Consolidated Financial Statements.

28 Commitments, guarantees to third parties and contingent liabilities

At December 31, 2016, the GAMESA Group had received guarantees from banks and insurance companies that were provided to third parties amounting €1,716,936 thousands (€1, 573,793 thousands in 2015). The breakdown by type, of the guarantees received by the GAMESA Group is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Financing Guarantees	32,862	58,481
Business contract guarantees	1,666,282	1,488,647
Guarantees provided to the government	17,792	26,665
Total	**1,716,936**	**1,573,793**

According to the agreement of joint partners for the management of the offshore business (Note 11), both GAMESA and Areva have commitments for the transmission of shares and for the obtaining of external financing. Likewise, the GAMESA Group has given guarantees that were required for the activity of Adwen approximately amounting €478.5 million at December 31, 2016 (€304 million at Decemcer 31, 2015), as well as guarantees for the consecution of the financing for an amount of €124.1 million (€68.4 million at December 31, 2015). The GAMESA Group does not maintain with Adwen other commitments or contingencies different to the aforementioned.

The GAMESA Group considers that the liabilities, if any, which might arise from the obligations and guarantees shown in the table above additional to those for which provisions had been recognised at December 31, 2016 and 2015 would not be significant.

29 Revenue and expense

A Revenue and other operating income

The detail of these headings in the 2016 and 2015 consolidated income statements is as follows:

	Thousands of euros	
	2016	**2015**
Sale of goods (Notes 3.A and 3.B)	4,190,115	2,914,026
Rendering of services	421,868	589,776
Net revenues	**4,611,983**	**3,503,802**
Operating grants (Note 3.M)	959	664
Own work capitalised (Notes 3.D and 3.E)	69,063	52,082
Other revenues	6,638	10,702
Other operating income	**76,660**	**63,448**

B Procurements

The detail of "Procurements" in the consolidated income statements for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Acquisitions of raw materials and other supplies	3,326,762	2,575,159
Changes in inventories of goods held for resale and raw materials (Note 14)	(87,771)	(97,020)
Total	**3,238,991**	**2,478,139**

C Staff costs

The breakdown of this balance in the 2016 and 2015 consolidated income statements is as follows:

	Thousands of euros	
	2016	**2015**
Wages and salaries	313,676	256,369
Incentive Plan (Note 18.E)	2,923	6,489
Compensations	4,010	5,800
Company Social Security contributions	66,356	55,826
Other benefit expenses	20,960	16,566
Total	**407,925**	**341,050**

In the framework of the Group policy to use incentive programs linked to the achievement of strategic medium-and long-term objectives, the Management Board has approved a 2016-17 incentive which are beneficiaries, the President and CEO, managers and key personnel in number of approximately 100 people, linked to achieving an operating result (EBIT) of the period from January 1, 2016, up to the date of effectiveness of the merger to end of the first quarter or beginning of the second quarter of 2017 (Note 37) and that includes a period of permanence for their full payment of two years. Based on this agreement, the Company has provided in the year 2016 a total of 5.2 million euros (none in the year 2015) with a credit to the heading "Other non-current liabilities".

The average number of employees and Directors in 2016 and 2015, by professional category, was as follows:

Categories	**2016**	**2015**
Board Members	12	11
Senior management	6	6
Directors	132	98
Management personnel	4,386	4,077
Employees	3,916	2,588
Total	**8,452**	**6,780**

In 2016, the company has created a new single catalogue of job positions, allocating the same roll and professional level to the equivalent positions in the regions and functions. The single catalogue and the organisational structure required by the regionalization were resulted in the reclassification of several positions.

The distribution of employees by gender in the year-end 2016 and 2015 is as follows:

			12.31.2016
	Male	**Female**	**Total**
Board Members	10	2	12
Senior management	6	-	6
Directors	119	14	133
Management personnel	3,757	1,106	4,863
Employees	3,798	567	4,365
Total	**7,690**	**1,689**	**9,379**

			12.31.2015
	Male	**Female**	**Total**
Board Members	9	3	12
Senior management	6	-	6
Directors	87	12	99
Management personnel	3,321	991	4,312
Employees	2,311	543	2,854
Total	**5,734**	**1,549**	**7,283**

The average number of employees of the Group in 2016 and 2015, with a disability equal to or greater than 33%, by category, was as follows:

Categories	**2016**	**2015**
Management personnel	8	9
Employees	21	20
Total	**29**	**29**

D Other operating expenses

The breakdown of this balance in the 2016 and 2015 consolidated income statements is as follows:

	Thousands of euros	
	2016	**2015**
Rent and royalties	47,188	40,960
Repairs, upkeep and maintenance expenses	18,928	14,023
Independent professional services	57,966	41,219
Vehicles	27,603	17,143

Insurance	23,281	19,089
Bank and similar services	15,079	12,372
Advertising, publicity and public relations	5,028	3,639
Utilites	15,845	15,460
Travel Expenses	40,649	35,795
Telecommunications	5,637	4,872
Security	5,560	4,622
Cleaning	2,018	1,848
Subcontracting	36,786	31,463
Other services	54,186	35,418
Taxes and other	48,843	29,567
Total	**404,597**	**307,490**

At December 31, 2016, the future minimum lease payments under non-cancellable operating leases arranged by the GAMESA Group amounted approximately to €43,841 thousands (€30,658 thousands in December 31, 2015). The due dates for the operating lease instalments that cannot be cancelled are as follows:

			Thousands of euros
Year 2016	**2017**	**2018-2021**	**2022 onwards**
Operating lease instalments that cannot be cancelled	11,792	24,397	7,652

			Thousands of euros
Year 2015	**2016**	**2017-2020**	**2021 onwards**
Operating lease instalments that cannot be cancelled	7,064	19,026	4,568

The most significant leasing agreements are related with different offices, both in Spain and in the differences places where the company develop its activity, as well as industrial units for the production of components such as nacelles or rotors and for several warehousing.

At December 31, 2016, the Company had recognised €5,008 thousands under the "Non-current deposits and guarantees" heading(Note 13.B) mainly related to existing leases (€3,366 thousands at December 31, 2015).

E Depreciation and amortisation charge and provisions

The breakdown of this balance in the 2016 and 2015 consolidated income statements is as follows:

		Thousands of euros
	2016	**2015**
Property, plant and equipment depreciation charge (Note 10)	83,320	63,816
Intangible asset amortisation charge (Note 9)	41,280	32,237
Depreciation	**124,600**	**96,053**
Change in operating provisions for guarantees and others (Note 23)	117,517	111,905
Change in write-downs of inventories (Note 14)	22,663	19,476
Change in other trade provisions (Note 15)	16,867	1,924
Provisions	**157,047**	**133,305**
Depreciation and provisions	**281,647**	**229,358**

F Finance income

The breakdown of this balance in the 2016 and 2015 consolidated income statements is as follows:

		Thousands of euros
	2016	**2015**
Profits from available-for-sale assets (Note 13.A)	1,980	3,640
Other finance and similar income	24,463	9,959
Total	**26,443**	**13,599**

G Finance costs

The breakdown of this balance in the 2016 and 2015 consolidated income statements is as follows:

		Thousands of euros
	2016	**2015**
Financial expenses and others treated as such	47,920	46,453
Transfer of gains/losses on hedges of cash flows (Notes 18.C and 22)	1,385	672
Total	**49,305**	**47,125**

Capitalised interest on the construction of wind farms in 2016 and 2015 amounted to €1,277 thousands and €2,344 thousands, respectively. The average capitalisation rates used in 2016 and 2015 were 7.55% and 5.74%, respectively.

30 Directors' remuneration

In 2016 the Directors of GAMESA earned fixed and variable salaries, per diets, and other items amounting approximately €5,623 thousands (€4,892 thousands in 2015). The detail of the aforementioned amount is as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Members of the Board of Directors		
Type of remuneration		
Fixed compensation	2,288	2,073
Annual variable compensation	654	522
Long-term variable compensation	1,500	1,260
Attendance allowances	725	527
	5,167	**4,382**
Other benefits	456	510
Total	**5,623**	**4,892**

Within the remuneration to the Board of directors it has been included, as variable long-term remuneration, and under the long-term incentive plan approved by the General Meeting in 2013 whose measurement period ended in December 31, 2015, the amount corresponding to the recognition to the President and CEO of 94,880 shares of the company amounting €1,500 thousands (€15.81 per share, according to the stock value at the date of the agreement; none in 2015) that correspond to 50% of the recognised shares by that plan for a total of 189,759 shares (the final number of shares given was 61,672, after taxes); the delivery of the remaining 50% (that equally will have to be adjusted once the withholding tax is applied, according to the stock value at the date of the agreement) is due in 2017 once it is agreed by the Board of Directors. The amount related to the shares that will be given in 2017 will be included in the notes to the financial statements and in the corresponding management report with the same calculation method.

The concept of Other benefits at December 31, 2016 corresponds to (i) the amount of the premiums paid for the coverage of death and disability insurances amounting to €53 thousands (€51 thousands in 2015) and life and savings of the current directors amounting to €350 thousands (€400 thousands in 2015); and (ii) the allocation of the group insurance for executives, directors and other employees by €53 thousands (€59 thousands in 2015).

Within them fees to the Management Board the provision registered by incentive 2016-17 of which beneficiary is the President and Managing Director amounting to €366 thousands (none in 2015), whose remuneration will be effective once the period of time measurement has finished and whose liquidation will be produced a function of the extent of effective compliance of the objectives that they are subject to have not been included (Note 29.C).

No advances or loans were granted to current or former Board members and there are no pension obligations to them.

The breakdown of the total remuneration, by type of director, is as follows:

	Thousands of euros	
	2016	**2015**
Type of director		
Executives	3,428	2,915
External proprietary directors	516	531
External independent directors	1,679	1,446
Other external	-	-
Total	**5,623**	**4,892**

At the 2016 year-end the members of the Board of Directors of Gamesa Corporación Tecnológica, S.A. and certain persons related to them as defined in the Spanish Companies Act held ownership interests in the following companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the Company's purpose. Also, following is a breakdown of the positions held and functions discharged at those companies:

Owner	Investee company	Line of Business	Number of Shares	Functions
Arregui Ciarsolo, Juan Luis	Iberdrola, S.A.	Power & utilities	30,284,584	None
Codes Calatrava, Gerardo	Iberdrola, S.A.	Power & utilities	7,684	Director of the Global Legal Services of Regulation and Corporate Affairs of the Iberdrola Group
Villalba Sánchez, Francisco Javier (*)	Iberdrola, S.A.	Power & utilities	-	CEO of the Network Business of the Iberdrola Group
Villalba Sánchez, Francisco Javier (*)	Elektro Electricidade e Serviços, S.A.	Power & utilities	-	President
Villalba Sánchez, Francisco Javier (*)	Iberdrola USA Networks, Inc.	Power & utilities	-	President
Villalba Sánchez, Francisco Javier (*)	Iberdrola Distribución Eléctrica, S.A.	Power & utilities	-	President
Villalba Sánchez, Francisco Javier (*)	Scottish Power Energy Networks Holdings Ltd.	Power & utilities	-	President
Rubio Reinoso, Sonsoles	Iberdrola, S.A.	Power & utilities	39,935	Director of compliance at Iberdrola, S.A
Góngora Bachiller, Gema (**)	Iberdrola, S.A.	Power & utilities	4,284	Director of Development and Executive Management at Iberdrola, S.A.

(*) On February 1, 2016, Mr. Francisco Javier Sánchez Villalba left his position as CEO of the Network Business of the Iberdrola Group and he also left his position in the Board of Directors of the rest of the companies mentioned above.
(**) On September 14, 2016, Ms. Gema Góngora Bachiller left his position as member of the Board of Directors.

The members of the Board of Directors were affected by the following conflicts of interest in 2016:

- Villalba Sánchez, Francisco Javier. In accordance with the procedure established in Article 31 of the Gamesa Corporación Tecnológica, S.A. Board of Directors Regulations, when the Board has deliberated and adopted any resolutions relating to operations with Iberdrola, S.A. and/or group companies, he has not participated in the deliberation, voting, decision and execution of the resulting resolution. This occurred in the Board meetings held on July 6, November 10, and December 20, 2016.
- Góngora Bachiller, Gema. In accordance with the procedure established in Article 31 of the Gamesa Corporación Tecnológica, S.A. Board of Directors Regulations, when the Board has deliberated and adopted any resolutions relating to operations with Iberdrola, S.A. and/or group companies, she has not participated in the deliberation, voting, decision and execution of the resulting resolution. This occurred in the Board meetings held on July 6, 2016.
- Codes Calatrava, Gerardo. In accordance with the procedure established in Article 31 of the Gamesa Corporación Tecnológica, S.A. Board of Directors Regulations, when the Board has deliberated and adopted any resolutions relating to operations with Iberdrola, S.A. and/or group companies, he has not participated in the deliberation, voting, decision and execution of the resulting resolution. This occurred in the Board meetings held on November 10 and December 16, as well as, the meetings of the Audit and Compliance Committee held on November 10 and December 20, 2016.
- Rubio Reinoso, Sonsoles. In accordance with the procedure established in Article 31 of the Gamesa Corporación Tecnológica, S.A. Board of Directors Regulations, when the Board has deliberated and adopted any resolutions relating to operations with Iberdrola, S.A. and/or group companies, she has not participated in the deliberation, voting, decision and execution of the resulting resolution. This occurred in the Board meetings held on July 6, November 10, December 20, as well as, the meetings of the Audit and Compliance Committee held on July 5, November 4, November 10 and December 15, 2016.
- Hernández García, Gloria. In accordance with the procedure established in Article 31 of the Gamesa Corporación Tecnológica, S.A. Board of Directors Regulations, when the Board has deliberated and adopted any resolutions relating to operations with Bankinter and/or group companies, she has not participated in the deliberation, voting, decision and execution of the resulting resolution. This occurred in the Board meeting held on November 10, 2016 when it was deliberated and adopted an agreement related with the syndicated loan of the GAMESA Group.

Finally, the Chairman and CEO and some of the members of the executive team at GAMESA have contractual agreements to receive financial compensation in the event of termination for reasons attributable to the Company and, in some cases, due to the occurrence of objective circumstances, such as a change in control. The financial compensation agreed for such termination consists, in general, of the payment of compensation up to a maximum of two years' salary, depending on personal and professional circumstances and the time at which the agreement was concluded.

31 Remuneration of senior management

Excluding those who are simultaneously members of the Board of Directors (whose remuneration is detailed in the Note 30), the compensation paid or payable to members of senior management for past employment services is set out in the following table:

	Thousands of euros	
	2016	**2015**
Salaries and other short-term compensation	3,628	4,694
Share-based payments	3,538	2,972
Total	**7,166**	**7,666**

Within the remuneration of senior management there is included as a variable compensation in the long term the accrued amount in cash of the long term incentive approved by the General Meeting of 2013, whose measurement period ended December 31, 2015, the value corresponding to senior management of 223,790 shares for a total amount of €3,538 thousands (15.81 euros per share, according to the list value at the settlement date; none euros in 2015; the number of shares effectively delivered to each beneficiary is determined once the corresponding withholding tax is applied) representative of 50 percent of the total recognized shares amounting to 447,580 shares. 50 percent of this amount will be settled within the first 90 days of 2017, once it is approved by the Management Board, (which will need to be adjusted once the corresponding withholding tax is applied, regarding the list value at the date of the corresponding agreement). The amount corresponding to the shares delivered in these periods are included in the annual corporate governance reports corresponding to them, calculated by the same calculation method.

Within them fees to the Senior Management the provision recorded by 2016-17 incentive of which are beneficiaries the members of the Senior Management amounting to €914 thousands (none euros in 2015), whose remuneration will be effective once the period of time measurement has finished and whose liquidation will be produced a function of the extent of effective compliance of the objectives that they are subject to, have not been included (Note 29.C).

In 2016 and 2015 there were no transactions with executives other than those carried out in the ordinary course of the business.

32 Related party balances and transactions

All the significant balances at year-end between the consolidated companies and the effect of the transactions between them during the year were eliminated in consolidation. The breakdown of the transactions with related companies and associates and companies that are related parties which were not eliminated in consolidation in 2016 and 2015 is as follows:

	Thousands of euros			
Year 2016	Receivables	Balances Payables	Sales and services rendered	Services received
Iberdrola, S.A. and subsidiaries	258,036	345,269	596,662	2,476
(Note 18)	23,555	61,409	2,326	79,551
Windar Renovables, S.L. and subsidiaries (Note 11)	101,906	-	4,461	-
Adwen Offshore, S.L. and subsidiaries (Note 11)	13,781	680	1,609	9,757
Other				
Total	**397,278**	**407,358**	**605,058**	**91,784**

	Thousands of euros			
Year 2015	Receivables	Balances Payables	Sales and services rendered	Services received
Iberdrola, S.A. and subsidiaries (Note 18)	47,393	100,275	207,860	6,352
Windar Renovables, S.L. and subsidiaries (Note 11)	28,226	46,263	1,027	102,778
Adwen Offshore, S.L. and subsidiaries (Note 11)	101,987	1,250	5,745	-
Other	11,417	933	1,425	20,229
Total	**189,023**	**148,721**	**216,057**	**129,359**

All transactions with associated parties were carried out under market conditions.

In addition, the GAMESA Group granted endorsements and/or guarantees amounting to €219 million at December 31, 2016 (€156 million at December 31, 2015).

A Agreements relating to the wind turbine and operations and maintenance segments

Through its subsidiary Gamesa Eólica, S.L. Unipersonal, on December 21, 2011 Gamesa and Iberdrola, S.A. concluded a framework agreement relating to the supply and maintenance of wind turbines. Under that framework agreement, the GAMESA Group and Iberdrola, S.A. have assumed the following commitments:

- Iberdrola, S.A shall acquire from GAMESA Group a quota of megawatts equivalent to 50% of the total on-shore wind turbine fleet that Iberdrola, S.A. acquires for its Renewables Business Unit during the term of the Framework Agreement.

This commitment will be in force between January 1, 2013 and December 31, 2022 or the date on which the number of megawatts acquired by the Iberdrola Group from the GAMESA Group under the framework agreement totals 3,800, whichever occurs first.

The framework agreement replaces the previous contract. Nevertheless, the rights and obligations resulting from the framework agreement remain in force with respect to supplies prior to the framework agreement, which includes the planning of 502 MW.

- GAMESA and Iberdrola, S.A will closely collaborate with new opportunities relating to the offshore wind business.
- GAMESA and Iberdrola, S.A will collaborate within the area of maintenance services so that Gamesa Eólica will become a company of reference with respect to wind farm maintenance throughout Iberdrola's business. In particular, the following agreements have been reached:
  - Establish new areas of study and analysis for the rendering of maintenance services by Gamesa to Iberdrola, particularly the rendering of those services in the United States, the sale and installation of wind turbine reliability improvements or the extension of their useful lives and the conversion and update of wind turbine models.
  - The extension of current maintenance services.

During the years 2015 and 2014, the financial and commercial equipment of GAMESA and Iberdrola laid the foundations for the objective novation of certain terms of the Framework Agreements signed between the two companies and with validity until December 31, 2015 by which GAMESA came to provide maintenance services in various wind farms owned by Iberdrola. This objective novation affects certain technical aspects, scope of the services to be provided and economic aspect in order to suit the prevailing market conditions. It also forecasts the modification of the duration of the services to be provided to GAMESA, extending them until December 31, 2017, with the possibility of being extended for two other annual additional periods.

In the field of these negotiations, the parties formalized in March 2015 a new framework agreement that resolved the previous one dated on January 1, 2013 for the G8x and on January 1, 2012 for the G4X and G5x, incorporate, on the clauses of these, the amendments referred to above and with effect from January 1, 2014 for a total of 4,383 MW.

In addition, on October 2015, GAMESA and Iberdrola have reached an agreement to implement the product "Energy Thrust", aimed to increase the efficiency of the turbines and therefore their production ratios, for a total of 1,602 MW.

At December 2016, a later addendum to the previous contract has been signed extending it by additional 612MW for the 2MW platform. Moreover, for different companies in the Iberdrola Group an additional 795MW have been negotiated.

B Agreements between Gamesa Group and Windar Renovables, S.L.

On June 25, 2007 the GAMESA Group (through its subsidiary Gamesa Eólica, S.L. Unipersonal) concluded a power supply agreement with Windar Renovables, S.L. The conditions for transactions with associates are equivalent to those carried out with independent parties.

33 Other information

A Information regarding the deferral of payments made to suppliers

In accordance with the single additional provision of the Resolution of January 29, 2016 of the Accounting and Audit Institute, about the information to include in the notes to the financial accounts related with the deferral of payments made to suppliers in commercial operations.

The average payment period to suppliers in the year 2016 and 2015 was the following:

	2016 Days	2015 Days
Average payment period	48.38	56.81
Settled operations ratio	47.96	57.47
Pending operations ratio	59.24	41.35
	Amount (Thousands of euros)	
	2016	**2015**
Total settled payments	1,357,891	1,100,007
Total pending payments	30,001	47,151

This average payment period is referred to the suppliers of the Spanish companies of the consolidated scope that for its nature are trade payables for goods and services supply, so it includes the figures related to "Trade and other payables" and "Trade and other payables to related companies" in the liabilities of the consolidated balance sheet attached.

34 Fees paid to auditors

In 2016 and 2015 the fees for the financial audit and other services provided by the auditor of the Group's Consolidated Financial Statements and the fees billed by the auditors of the separate Statutory Financial Statements of the Consolidated companies, and by companies related to these auditors as a result of a relationship of control, common ownership or common management, were as follows:

		Thousands of euros
Year 2016	**Services rendered by EY**	**Services provided by other audit firms**
Audit services	1,506	14
Other attest services	119	-
Total audit and related services	**1,625**	**14**
Tax advisory services	101	-
Other services	44	-
Total services other companies in the network	**145**	**-**
Total professional services	**1,770**	**14**

		Thousands of euros
Year 2015	**Services rendered by EY**	**Services provided by other audit firms**
Audit services	1,177	20
Other attest services	143	-
Total audit and related services	**1,320**	**20**
Tax advisory services	147	-
Other services	66	-
Total services other companies in the network	**213**	**-**
Total professional services	**1,533**	**20**

35 Earnings per share

At December 31, 2016 the average number of ordinary shares used in the calculation of earnings per share is 276,723,351 shares (Note 18.A) (276,132,529 shares at December 31, 2015), given that in 2016 GAMESA has held an average of 2,545,436 treasury shares (3,135,460 in 2015) (Note 18.E).

The basic earnings per share from continuing and discontinued operations attributable to the Parent company in 2016 and 2015 were as follows:

	2016	2015
Net profit from continuing operations attributable to the Parent (thousands of euros)	310,018	177,388
Net profit from discontinued operations attributable to the Parent (thousands of euros)	(8,740)	(7,172)
Average number of outstanding shares	276,723,351	276,132,529
Basic earnings per share from continuing operations (euros)	1.1203	0.6424
Basic earnings per share from discontinued operations (euros)	(0.0316)	(0.0260)
Total basic earnings per share	**1.0887**	**0.6164**

At December 31, 2016 and 2015, Gamesa Corporación Tecnológica, S.A., the Parent of the GAMESA Group, had not issued financial instruments or other contracts that entitle the holder thereof to receive ordinary shares of the Company. Consequently, diluted earnings per share coincide with basic earnings per share.

36 Disposal groups of assets classified as held-for-sale and discontinued activities

The Assets and Liabilities of the wind farm promotion in the United States, are presented as "Disposal groups of assets classified as held-for-sale" after the decision by Management to suspend the development and sale of wind farms in the United States.

Although it has passed more than one year since the classification of those assets as non-current assets held-for-sale, GAMESA keeps the prior classification because of the delay in facts or circumstances out of the Group's control and the commitment and plan to sell the assets is maintained.

The breakdown of the assets and liabilities that make up opponent classified as "Disposal groups of assets classified as held-for-sale" at December 31, 2016 and 2015, as in both years the conditions for such a classification were met in accordance with the matters indicated in Notes 3.I, are as follows:

	Thousands of euros	
	12.31.2016	**12.31.2015**
Inventories	20,537	27,940
Receivables	813	806
Cash and other cash equivalents	-	-
Total current assets	**21,350**	**28,746**
Total disposal groups of items classified as held-for-sale	**21,350**	**28,746**
Other non-current liabilities	600	570
Total non-current liabilities	**600**	**570**
Other current liabilities	923	273
Total current liabilities	**923**	**273**
Total liabilities associated with disposal groups of items classified as held-for-sale	**1,523**	**843**
Net asset in disposal group	**19,827**	**27,903**

The main headings of the income statement relating to the component classified as a discontinued operation in 2016 and 2015 are as follows:

	Thousands of euros	
	2016	**2015**
Net revenues	4,006	4,262
Other expenses	(12,746)	(11,434)
Profit/(loss) before taxes	**(8,740)**	**(7,172)**
Corporate income tax attributable	-	-
Profit /(loss) for the year from discontinued activities	**(8,740)**	**(7,172)**

The development and sale of wind farms in the United States at December 31, 2016 and 2015 relates mainly to an operating wind farm in use owned by GAMESA and recognised under the heading "Inventories" in the table above. This heading was subjected to €31.9 million impairment recognised because the book value was higher than the recoverable value estimated by cash flow forecasts and references to transactions and other market parameters at December 31, 2012 with an additional impairment of €3 million at December 31, 2015.

At the date of authorisation for issue of the 2016 Group's Consolidated Financial, GAMESA maintains sales negotiations of this wind farm, having received a purchase offer amounting approximately €19 million. In this context, GAMESA has reflected an additional impairment that amounts €7 million, to consider the offer received as the best reflection of the expected realizable value. The management is developing the necessary actions interposed in the negotiation process, expecting a favourable resolution regarding the transfer of the non-current assets in the short-term.

At December 31, 2016 the amount recognised as "Profit for the year from discontinued operations" fundamentally includes the losses generated by this wind farm.

The breakdown of cash flows deriving from the component classified as discontinued operations in 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Cash flows from operating activities	(2)	1
Cash flows from investing activities	-	-
Cash flows from financing activities	2	-
Total cash flows from discontinued activities	**-**	**1**

37 Merger agreement with Siemens

On June 17, 2016, Gamesa Corporación Tecnológica, S.A. ("GAMESA or the "Company") and Siemens Aktiengesellschaft ("Siemens") have signed a merger agreement by which the Company´s business and Siemens´ wind business will be integrated by a merger through the absorption of a Siemens´ Spanish subsidiary (as the acquired company) by GAMESA (as the acquiring company). Siemens will receive, according to the exchange equation, GAMESA´s shares representing 59% of the capital once the merger is effective, while GAMESA´s actual shareholders will own shares representing the remaining 41%. The common merger project was approved by GAMESA´s Management Board and the sole administrator of Siemens Wind HoldCo on June 27, 2016.

In addition, as part of the merger, Siemens will make a cash contribution so that GAMESA can distribute €3.75 per share to its shareholders (that are not Siemens) once the merger is concluded (amount that will be reduced by the value of the ordinary dividends GAMESA had distributed between the merger signing date and the effective merger date). GAMESA paid a dividend of €0.15 per share in July 2016 that will be deducted from the extraordinary dividend.

As a consequence of the merger, GAMESA (as a combined Company) will have its registered office and general operations centre in Spain; and will continue trading in Spain. The operation centre of the onshore business will be stablished in Spain, while the offshore business centre will be in Hamburg (Germany) and Vejle (Denmark). The custody of the merging process until the completion of the merger (which will be effective once the deed of merger is registered in the Mercantile Registry) has been entrusted by GAMESA to one Independent Commission created for this purpose, which is exclusively formed by independent directors.

In this respect, Siemens and Iberdrola, S.A. and Iberdrola Participaciones, S.A. (Single/member company) (jointly, "Iberdrola") have signed an agreement whereby (i) Iberdrola is committed to support and vote in favor of the merger, and (ii) the rights and obligations of Siemens and Iberdrola from the date the contract is signed onwards are regulated.

The merger was subject to the approval of GAMESA's shareholders and other typical suspensive conditions, as the authorization of the competition agencies and the obtaining of the CNMW's exemption stablished in the article 8 g) of the Royal Decree 1066/2007, from the 27 of July, not to formulate a takeover bid after the completion of the merger.

At the preparation date, most of the suspensive conditions have been resolved, including:

- The granting to Siemens by the CNMV, on the 7 of December of 2016, of the exemption of the obligation of formulate a mandatory public offer of acquisition on all the actions in circulation of Gamesa after the completion of the merger.
- The approval of the merger and the extraordinary dividend in the same General Meeting of Shareholders of Gamesa that took place on the 25 of October 2016.

Also, the prior authorizations have been obtained, express or tacit, that are required by the competition authorities, leaving the approval of the European Union' competition authorities outstanding. The operation completion is expected by the end of the first trimester of 2017 or the beginning of the second trimester of 2017.

38 Post-balance sheet events

On January 5, 2017 Areva Energies Renouvelables SAS, has transmitted to the GAMESA Group (Gamesa Energía, S.A. Unipersonal) 50% of Adwen Offshore, S.L.'s capital to the GAMESA Group, reaching 100% of the capital of this Company. This transaction is derived from the year on September 14, 2016 of the sale option granted on June 17, 2016.

The mentioned agreement of June 2016 between the GAMESA Group and Areva eliminated, from the signature date, the existing contractual restrictions regarding the constitution of the Joint Venture (Adwen) and which was fundamentally based on the exclusivity for the development of the Offshore Wind Business, enabling the merger between GAMESA and the Siemens Wind Business.

Regarding the stablished terms in the aforementioned sale option executed by Areva, GAMESA has paid the 50% of the company´s shares amounting to €60 million and has assumed in this context, an estimated amount of approximately €137 million of liabilities, corresponding mainly to the assumption of one part (1/3 on a general basis) of the eventual losses associated to technical guarantees of the offshore operating wind turbines initially covered almost totally by Areva. The amount of these guarantees has been estimated based on the best technical and economic information available. However, events that could occur in the future or the access to the knowledge of new information not available at the moment, could oblige to modify (upwards or downwards) these estimations in the future.

At year end, the sale option's valuation executed by Areva has been determined fundamentally with reference to the market value of 50% of Adwen, including a premium due to the elimination of the exclusivity right, in the context of the merger operation between GAMESA and Siemens. In this sense, the compensation derived from the execution of the option does not exceed the value attributed to Adwen in the context of the merger operation. In addition, the future modifications of the estimations of the assumed guarantees that reasonably could occur, would be covered by Adwen in the context of the merger operation.

The terms of this transaction have been endorsed by Siemens and taken into account in the regulatory agreement of the potential wind business merger, where the prohibition of carrying out certain actions on some relevant assets by GAMESA without Siemens´ express approval, such as corporate operations (for example, capital increases or decreases derived from structural modifications, statutory modifications, indebtedness increase, grant of guaranteed to third parties, commercial offers higher than the determined threshold or with special risks,…). In the particular case of Adwen, the obligation of raising its agreement is reinforced in the sale option and compensation agreements with Siemens referred below, where, in addition to the previous requirements, GAMESA must request its approval in relation to the modifications in the contracts with some specific clients that, essentially, are important business aspects. Therefore, material decisions about Adwen's relevant activities cannot be taken unilaterally by GAMESA. Thus, GAMESA does not execute the power it has received in its capacity as sole shareholder, not existing a 'control' over Adwen in accounting terms, even though GAMESA will maintain its position of 'significant influence'. Taking into account these considerations, and in order to adequately reflect the economical background of the transaction, Adwen's participation will continue being consolidated by the equity method, with the imputation of the total earnings generated.

As a consequence of these agreements, the exchange equation communicated, will not be modified and no cash/debt impacts are expected to be derived from the effectiveness of the merger in relation to the working capital/net debt adjustment mechanisms at December 31, 2016.

Finally, the agreements signed between GAMESA and Siemens regulate the scenarios where, if the merger is not completed, certain rights and obligations assumed by GAMESA as a consequence of the sale will also be assigned to Siemens, through cross/linked options. Considering the characteristics of the mentioned operations that are being developed derived from the agreements signed between both parties and, in any of the most probable scenarios that could be derived from their execution, the negative impact has been estimated to be approximately €7 million, registered under the "Financial expenses" heading in the consolidated income statement of the year 2016.

In this sense, the GAMESA Group has made its best estimate of the probabilities associated with these scenarios in order to determine the designated impact on the income statement.

Additionally, there were no other significant post balance sheet events.

39 Explanation added for translation to English

These Consolidated Financial Statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

APPENDIX

FULLY CONSOLIDATED COMPANIES

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
A Gamesa Energía Group				
Gamesa Energía, S.A. Unipersonal	Development of wind farms	EY	Vizcaya	100%
A.1 Wind Farms				
Development of wind farms				
Gamesa Inversiones Energéticas Renovables, S.A.	Development of wind farms	EY	Vizcaya	100%
Gamesa Energía Italia, S.P.A.	Development of wind farms	EY	Italy	100%
Gamesa Energiaki Hellas, A.E.	Development of wind farms	EY	Greece	100%
Gamesa Energie France, E.U.R.L.	Development of wind farms	EY	France	100%
Parques Eólicos del Caribe, S.A.	Development of wind farms	PWC	Dominican Republic	57%
Navitas Energy, Inc.	Development of wind farms	-	United States	97%
Gamesa Energy Romania, Srl	Development of wind farms	-	Romania	99%
Gamesa Energy UK, Ltd.	Development of wind farms	EY	United Kingdom	100%
Wind Portfolio MemberCo, LLC	Development of wind farms	-	United States	100%
Gamesa Energie Deutschland, GmbH	Development of wind farms	EY	Germany	100%
Kurnool Wind Farms Privated Ltd	Manufacturing and holding company	-	India	100%
Kadapa Wind Farms Privated Ltd	Manufacturing and holding company	-	India	100%
Anantapur Wind Farms Privated Ltd	Manufacturing and holding company	-	India	100%
GERR, Grupo Energético XXI, S.A Unipersonal	Development of wind farms	-	Barcelona	100%
International Wind Farm Developments II, S.L.	Development of wind farms	-	Vizcaya	100%
Sistemas Energéticos Tablero Tabordo, S.L.	Development of wind farms	-	Vizcaya	100%
International Wind Farm Developments IX, S.L.	Development of wind farms	-	Vizcaya	100%
International Wind Farm Development IV, S.L.	Development of wind farms	-	Vizcaya	100%
International Wind Farm Development V, S.L.	Development of wind farms	-	Vizcaya	100%
International Wind Farm Development VI, S.L.	Development of wind farms	-	Vizcaya	100%
International Wind Farm Development VII, S.L.	Development of wind farms	-	Vizcaya	100%
Eólica Da Cadeira, S.A.	Development of wind farms	-	A Coruña	65%
Gesa Energía S.R.L.de C.V.	Development of wind farms	-	Mexico	100%
Gesan México 1, S.A.P.I. DE C.V.	Development of wind farms	EY	Mexico	100%
EBV Holding Verwaltung, GmbH	Development of wind farms	-	Germany	100%
Gamesa Europa, S.L.	Development of wind farms	-	Galicia	100%
Gamesa Wind Romania, S.R.L.	Development of wind farms	EY	Romania	100%
Operation of wind farms				
Baileyville Wind Farm, LLC	Operation of wind farms	-	United States	97%
Windfarm 33, GmbH	Operation of wind farms	-	Germany	100%
Windfarm 35, GmbH	Operation of wind farms	-	Germany	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Windfarm Ganderkesee-Lemwerder GmbH	Operation of wind farms	-	Germany	100%
Windfarm 40, GmbH	Operation of wind farms	-	Germany	100%
Windfarm 41, GmbH	Operation of wind farms	-	Germany	100%
Sistemas Energéticos Balazote, S.A. Unipersonal	Operation of wind farms	-	Toledo	100%
Sistemas Energéticos Cabezo Negro, S.A. Unipersonal	Operation of wind farms	-	Zaragoza	100%
Sistemas Energéticos Jaralón, S.A. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos La Plana, S.A.	Operation of wind farms	Attest	Zaragoza	90%
Sistemas Energéticos Barandón, S.A.	Operation of wind farms	-	Valladolid	100%
Eoliki Peloponisou Lakka Energiaki A.E.	Operation of wind farms	EY	Greece	86%
Eoliki Attikis Kounus Energiaki A.E.	Operation of wind farms	EY	Greece	86%
Sistemas Energéticos Ladera Negra, S.A. Unipersonal	Operation of wind farms	-	Sevilla	100%
Sistemas Energéticos de Tarifa, S.L. Unipersonal.	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos Argañoso, S.L. Unipersonal.	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos del Sur, S.A.	Operation of wind farms	-	Sevilla	70%
Sistemas Energéticos Tomillo, S.A. Unipersonal.	Operation of wind farms	-	Sevilla	100%
Sistemas Energéticos Sierra de Lourenza, S.A. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos Loma del Reposo, S.L. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos Edreira, S.A. Unipersonal	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos Campoliva, S.A. Unipersonal	Operation of wind farms	-	Zaragoza	100%
Sistemas Energéticos Carril, S.L.Unipersonal	Operation of wind farms	-	Vizcaya	100%
Gesacisa Desarrolladora, S.A. de C.V.	Operation of wind farms	EY	Mexico	100%
Sistemas Energéticos Alcohujate, S.A. Unipersonal	Operation of wind farms	-	Toledo	100%
SAS SEPE St. Loup de Saintonge	Operation of wind farms	-	France	100%
SAS SEPE Source de Sèves	Operation of wind farms	-	France	100%
SAS SEPE Dampierre Prudemanche	Operation of wind farms	EY	France	100%
SAS SEPE Germainville	Operation of wind farms	EY	France	100%
SAS SEPE Cote du Cerisat	Operation of wind farms	EY	France	100%
Sistemas Energéticos el Valle, S.L.	Operation of wind farms	-	Navarra	100%
Sistemas Energéticos Fonseca, S.A. Unipersonal	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos del Umia, S.A. Unipersonal	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos Cuntis, S.A.	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos La Cámara, S.L.	Operation of wind farms	-	Sevilla	100%
Sistemas Energéticos Fuerteventura, S.A. Unipersonal	Operation of wind farms	-	Canarias	100%
Sistemas Energéticos Alto de Croa, S.A. Unipersonal	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos Cabanelas, S.A. Unipersonal	Operation of wind farms	-	A Coruña	100%
Sistemas Energéticos Boyal, S.L.	Operation of wind farms	-	Zaragoza	60%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Energiaki Arvanikos, EPE	Operation of wind farms	-	Greece	100%
Sistema Eléctrico de Conexión Montes Orientales, S.L.	Operation of wind farms	-	Granada	83%
Sistemas Energéticos Loma del Viento, S.A. Unipersonal	Operation of wind farms	-	Sevilla	100%
Sistemas Energéticos Sierra de las Estancias, S.A. Unipersonal	Operation of wind farms	-	Sevilla	100%
Sistemas Energéticos Cuerda Gitana, S.A. Unipersonal	Operation of wind farms	-	Sevilla	100%
Parco Eolico Tuturano, S.R.L.	Operation of wind farms	-	Italia	100%
Parco Eolico Banzi, S.R.L.	Operation of wind farms	-	Italia	100%
Osiek Sp. Z o.o	Operation of wind farms	-	Poland	100%
Sistemas Energéticos Monte Genaro, S.L. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos Sierra de Valdefuentes, S.L. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sistemas Energéticos Sierra del Carazo, S.L. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Sellafirth Renewable Energy Park Ltd.	Operation of wind farms	-	United Kingdom	100%
Watford Gap Renewable Energy Park Ltd.	Operation of wind farms	-	United Kingdom	100%
Bargrennan Renewable Energy Park Limited	Operation of wind farms	-	United Kingdom	100%
Windfarm Ringstedt II, GmbH	Operation of wind farms	-	Germany	100%
Windfarm Gross Hasslow, GmbH	Operation of wind farms	-	Germany	100%
Sistemas Energéticos Islas Canarias, S.L.	Operation of wind farms	-	Canarias	100%
Ger Baraganu, S.R.L	Electric energy production	-	Romania	100%
Ger Independenta, S.R.L.	Electric energy production	-	Romania	100%
Ger Baneasa, S.R.L.	Electric energy production	-	Romania	100%
Lingbo SPW AB	Electric energy production	EY	Sweden	100%
Sistemas Energéticos Mansilla, S.L.	Electric energy production	-	Burgos	78%
Central Eolica de México I, S.A. de C.V.	Operation of wind farms	-	Mexico	100%
Energía Eólica de México	Operation of wind farms	-	Mexico	50%
Energía Renovable del Istmo	Operation of wind farms	-	Mexico	50%
Elliniki Eoliki Energiaki Kseropousi, S.A.	Operation of wind farms	-	Greece	86%
Elliniki Eoliki Energiaki Pirgos, S.A.	Operation of wind farms	-	Greece	86%
Elliniki Eoliki Energiaki Kopriseza, S.A.	Operation of wind farms	-	Greece	86%
Elliniki Eoliki Energiaki LIKOURDI, S.A.	Operation of wind farms	-	Greece	86%
LICHNOWY Windfarm Sp. z o.o.	Operation of wind farms	-	Poland	100%
UJAZD Sp. z o.o.	Operation of wind farms	-	Poland	100%
Sistemas Energéticos Finca de San Juan, S.L.	Operation of wind farms	-	Zaragoza	100%
Whitehall Wind, LLC	Operation of wind farms	-	United States	97%
Fanbyn2 Vindenergi AB	Operation of wind farms	-	Sweden	100%
SEPE de la Brie des Etangs	Operation of wind farms	-	France	100%
SEPE de la Tête des Boucs	Operation of wind farms	-	France	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
SEPE de Chepniers	Operation of wind farms	-	France	100%
SEPE de Orge et Ornain	Operation of wind farms	-	France	100%
SEPE de Bonboillon	Operation of wind farms	-	France	100%
SEPE de Souvans	Operation of wind farms	-	France	100%
SEPE de Sambourg	Operation of wind farms	-	France	100%
SEPE de Pringy	Operation of wind farms	-	France	100%
SEPE de Soudé	Operation of wind farms	-	France	100%
SEPE de Chaintrix Bierges	Operation of wind farms	-	France	100%
SEPE de Plancy l'Abbaye	Operation of wind farms	-	France	100%
SEPE de Coupetz	Operation of wind farms	-	France	100%
SEPE de Trépot	Operation of wind farms	-	France	100%
SEPE de Bouclans	Operation of wind farms	-	France	100%
SEPE de Savoisy	Operation of wind farms	-	France	100%
SEPE de La Loye	Operation of wind farms	-	France	100%
SEPE de Longueville sur Aube	Operation of wind farms	-	France	100%
SEPE de Sceaux	Operation of wind farms	-	France	100%
SEPE de Guerfand	Operation of wind farms	-	France	100%
SEPE d'Orchamps	Operation of wind farms	-	France	100%
SEPE de Vaudrey	Operation of wind farms	-	France	100%
SEPE de Pouilly-sur-Vingeanne	Operation of wind farms	-	France	100%
SEPE de Mantoche	Operation of wind farms	-	France	100%
SEPE de Vernierfontaine	Operation of wind farms	-	France	100%
SEPE de Broyes	Operation of wind farms	-	France	100%
SEPE de Saint-Lumier en Champagne	Operation of wind farms	-	France	100%
SEPE de Songy	Operation of wind farms	-	France	100%
SEPE de Margny	Operation of wind farms	-	France	100%
SEPE de Saint Bon	Operation of wind farms	-	France	100%
SEPE de Cernon	Operation of wind farms	-	France	100%
SEPE de Champsevraine	Operation of wind farms	-	France	100%
SEPE de Romigny	Operation of wind farms	-	France	100%
SEPE de Sommesous	Operation of wind farms	-	France	100%
SEPE de Clamanges	Operation of wind farms	-	France	100%
SEPE de Saint Amand	Operation of wind farms	-	France	100%
SEPE de Landresse	Operation of wind farms	-	France	100%
SEPE de Mailly-le-Camp	Operation of wind farms	-	France	100%
Lindomberget Vindenergi AB	Operation of wind farms	-	France	100%
Smardzewo Windfarm Sp. z o.o	Operation of wind farms	-	France	100%
A.2 Manufacturing of wind turbines				
Gamesa Eólica, S.L. Unipersonal	Wind-powered facilities	EY	Navarra	100%
Gamesa Innovation & Technology, S.L. Unipersonal	Manufacture of moulds, blades and provision of central services (engineering)	EY	Navarra	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Estructuras Metálicas Singulares, S.A.	Manufacture of wind generator towers	EY	Navarra	100%
Gamesa Wind, GmbH	Wind-powered facilities	EY	Germany	100%
Gamesa Eólica Italia, S.R.L.	Wind-powered facilities	EY	Italy	100%
Gamesa Wind UK Limited	Manufacturing and holding company	EY	United Kingdom	100%
Gamesa Lanka Private Limited	Manufacturing and holding company	EY	Sri Lanka	100%
Gamesa Singapore Private Limited	Manufacturing and holding company	EY	Singapur	100%
Gesa Eólica Honduras, S.A.	Manufacturing and holding company	-	Honduras	100%
Gamesa Eólica VE, C.A.	Manufacturing and holding company	-	Venezuela	100%
Gamesa Finland OY	Manufacturing and holding company	-	Finland	100%
Servicios Eólicos Globales, S.R.L. de C.V.	Manufacturing and holding company	-	Mexico	100%
Gamesa Mauritania SARL	Manufacturing and holding company	-	Mauritius	100%
Gamesa Ukraine LLC	Manufacturing and holding company	-	Ukraine	100%
Gamesa Uruguay S.R.L	Wind-powered facilities	-	Uruguay	100%
Gamesa Eólica Nicaragua, S.A.	Wind-powered facilities	-	Nicaragua	100%
Gamesa Kenya Limited, S.L.	Wind-powered facilities	-	Kenya	100%
Gamesa Puerto Rico, C.R.L.	Wind-powered facilities	-	Puerto Rico	100%
Gamesa Belgium,S.R.L	Wind-powered facilities	EY	Belgium	100%
Gamesa Israel Ltd.	Wind-powered facilities	EY	Israel	100%
Gamesa Mauritius Ltd.	Wind-powered facilities	EY	Mauritius	100%
B9 Energy O&M Limited	Wind-powered facilities	EY	United Kingdom	100%
RSR Power Private Limited	Manufacturing and holding company	-	India	100%
Rajgarh Windpark Private Limited	Manufacturing and holding company	-	India	51%
Gamesa Energia Portugal	Wind-powered facilities	-	Portugal	100%
Gamesa Renewable Private Ltd	Wind-powered facilities	EY	India	100%
Gamesa Blade Tianjin Co. Ltd.	Design, manufacture and assembly of blades	EY	China	100%
Gamesa (Beijing) Wind Energy System Development Co. Ltd.	Manufacture of wind components and maintenance of wind farms	EY	China	100%
Gamesa Wind Tianjin Co. Ltd.	Manufacture of wind components	EY	China	100%
Gamesa Trading Co. Ltd.	Raw material trader	EY	China	100%
Gamesa Cyprus Limited	Manufacturing and holding company	-	Cyprus	100%
Gamesa New Zeland Limited	Manufacturing and holding company	-	Nueva Zealand	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Gamesa Wind Bulgaria, EOOD	Fabricación, construcción y explotación de parques eólicos	EY	Bulgaria	100%
Gamesa Eolica France, S.A.R.L.	Instalaciones eólicas	EY	France	100%
Gamesa Electric, S.A. Unipersonal	Manufacture and sale of electronic equipment	EY	Vizcaya	100%
Gamesa Wind South Africa PTY Ltd.	Manufacturing and holding company	-	South Africa	100%
Gamesa Australia PTY, Ltd.	Manufacturing and holding company	-	Australia	100%
Gamesa Chile SpA	Manufacturing and holding company	-	Chile	100%
Gamesa Dominicana, S.A.S.	Manufacturing and holding company	EY	Dominican Republic	100%
Gamesa Energy Transmission, S.A. Unipersonal	Manufacture of wind components	EY	Vizcaya	100%
Gesa Eólica Mexico, SA de CV	Wind-powered facilities	EY	Mexico	100%
Gamesa Energía Polska Sp zoo	Wind-powered facilities	-	Poland	100%
Parque Eólico Dos Picos, S.L. Unipersonal	Operation of wind farms	-	Vizcaya	100%
Gamesa Morocco, SARL	Wind-powered facilities	-	Morocco	100%
Gamesa Wind Energy Services, Ltd	Manufacturing and holding company	-	Turkey	100%
Gamesa Eólica Costa Rica, S.R.L.	Manufacturing and holding company	-	Costa Rica	100%
Gamesa Wind Sweden, AB	Manufacturing and holding company	EY	Sweden	100%
Gamesa Japan Kabushiki Kaisha	Manufacturing and holding company	-	Japan	100%
Gamesa Wind Hungary KTF	Manufacturing and holding company	EY	Hungary	100%
Gamesa Eólica Greece E.P.E	Manufacturing and holding company	-	Greece	100%
Jilin Gamesa Wind Co., Ltd.	Manufacturing and holding company	EY	China	100%
Inner Mongolia Gamesa Wind Co.,Ltda.	Manufacturing and holding company	EY	Mongolia	100%
Gamesa Ireland Limited	Manufacturing and holding company	EY	Ireland	100%
GM Navarra Wind Energy Private Limited	Manufacturing and holding company	-	India	100%
Gamesa Canada, ULC	Manufacturing and holding company	-	Canada	100%
Gamesa Azerbaijan, LLC	Manufacturing and holding company	-	Azerbaijan	100%
Gamesa Eólica Brasil, Ltd.	Management of electricity facilities	-	Brazil	100%
Gamesa Latam, S.L.U.	Manufacturing and holding company	EY	Spain	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Gamesa Apac, S.L.U.	Manufacturing and holding company	EY	Spain	100%
Shuangpai Majiang Wuxingling Wind Power Co., Ltd	Manufacturing and holding company	EY	China	100%
Gamesa Thailand Co., Ltd	Manufacturing and holding company	EY	Thailand	100%
B Gamesa Technology Corporation Group				
Gamesa Technology Corporation, Inc	Administrative management services	EY	United States	100%
Gamesa Wind US, LLC	Maintenance services of wind farms	EY	United States	100%
Gamesa Wind, PA, LLC	Manufacture and assembly of wind generators	EY	United States	100%
Cedar Cap Wind, LLC	Operation of wind farms	-	United States	100%
Crescent Ridge II, LLC	Operation of wind farms	-	United States	100%
Diversified Energy Transmission, LLC	Operation of wind farms	-	United States	100%
Mahantango Wind, LLC	Operation of wind farms	-	United States	100%
Pocahontas Wind, LLC	Operation of wind farms	-	United States	100%
Muskegon Wind, LLC	Operation of wind farms	-	United States	100%
Pocahontas Prairie Wind Holding , LLC	Operation of wind farms	-	United States	100%
C Others				
International Wind Farm Services, S.A.U	Promotion of companies	-	Spain	100%
Gamesa Financiación, S.A. Unipersonal	Promotion of companies	-	Spain	100%
9Ren España, S.L.	Solar energy	-	Spain	100%
Convertidor Solar G.F. Uno, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar G.F. Dos, S.L.U.	Solar energy	-	Spain	100%
Aljaraque Solar, S.L.	Solar energy	-	Spain	100%
Convertidor Solar G.F. Tres, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Uno, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Ciento Veintisiete, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Doscientos Noventa y Siete, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Doscientos Noventa y Nueve, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Diecisiete, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Dieciocho, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Diecinueve, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Veinte, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Sesenta y Siete, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Sesenta y Ocho, S.L.U.	Solar energy	-	Spain	100%

Companies	Business line	Auditor	Location	% Of direct and indirect Ownership
Convertidor Solar Trescientos Sesenta y Nueve, S.L.U.	Solar energy	-	Spain	100%
Convertidor Solar Trescientos Setenta, S.L.U.	Solar energy	-	Spain	100%
9REN Services Italia, s.r.l.	Solar energy	-	Italy	100%
9REN Israel Ltd.	Solar energy	-	Israel	100%
D Companies accounted by equity method				
Windar Renovables, S.L.	Holding Company of the tower manufacturing companies	PWC	Asturias	32%
Windar Logistic, S.L.	Manufacturing and holding company	PWC	Jaén	32%
Tadarsa Eólica	Manufacturing and holding company	PWC	Avilés	32%
Windar Wind Services, SL.Unipersonal	Manufacturing and holding company	PWC	España	32%
Windar Renewable Energy Private Ltd	Manufacturing and holding company	PWC	India	32%
Windar Offshore, S.L	Manufacturing and holding company	PWC	Avilés	32%
Apoyos Metálicos, S.A.	Manufacturing and holding company	PWC	Navarrra	32%
Torres Eólicas do Brasil Ltda	Manufacturing and holding company	PWC	Brazil	32%
AEMSA Santana	Manufacturing and holding company	PWC	Jaén	32%
Energías Renovables San Adrián de Juarros, S.A.	Development and Operation of wind farms	-	Burgos	45%
Nuevas Estrategias de Mantenimiento, S.L.	Design, manufacturing, development and commercialization of technological solutions and engineering	Deloitte	Spain	50%
Windkraft Trinnwillershagen Entwicklungsgesellschaft, GmbH	Development of wind farms	-	Germany	50%
Sistems Electrics Espluga, S.A.	Operation of wind farms	-	Barcelona	50%
Kintech Santalpur Windpark Private Limited	Manufacturing and holding company	-	India	49%
Baja Wind Llc	Manufacturing and holding company	-	United States	50%
ADWEN Offshore SL	Offshore business	EY	Spain	50%
SSEE Arinaga, SA	Offshore business	-	Spain	50%
ADWEN GmbH	Offshore business	EY	Germany	50%
ADWEN BLADES GmbH	Offshore business	EY	Germany	50%
ADWEN UK Ltd.	Offshore business	EY	United Kingdom	50%
ADWEN France	Offshore business	EY	France	50%
ADWEN Verwaltungs GmbH	Offshore business	-	Germany	50%
AD 8MW GmbH Co.& KG	Offshore business	-	Germany	50%

CARLOS RODRIGUEZ-QUIROGA MENÉNDEZ, WITH NATIONAL IDENTITY CARD NUMBER 276302 A, SECRETARY OF THE BOARD OF DIRECTORS "GAMESA CORPORACIÓN TECNOLÓGICA, S.A." WITH REGISTERED OFFICE IN ZAMUDIO (VIZCAYA), AT PARQUE TECNOLÓGICO DE BIZKAIA, BUILDING 222 WITH EMPLOYER IDENTIFICATION NUMBER A-01011253.

HEREBY CERTIFY:

That the text of the consolidated annual accounts for 2016 of GAMESA CORPORACIÓN TECNOLÓGICA, S.A., authorised for issue by the Board of Directors at its meeting held on February 22, 2017, is the content of the preceding 100 sheets of unstamped paper, on the obverse only, and for authentication purposes, bear my signature and that of the Chairman of the Board of Directors.

The directors listed below hereby so ratify by signing below, in conformity with Article 253 of the Spanish Limited Liability Companies Law.

Ignacio Martín San Vicente
Chairman and CEO

Juan Luis Arregui Ciarsolo
Deputy Chairman

Carlos Rodriguez-Quiroga Menéndez
Secretary of the Board of Directors

José María Vázquez Eguskiza
Member of the Board of Directors

Luis Lada Díaz
Member of the Board of Directors

José María Aracama Yoldi
Member of the Board of Directors

Sonsoles Rubio Reinoso
Member of the Board of Directors

José María Aldecoa Sagastasoloa
Member of the Board of Directors

Francisco Javier Villalba Sánchez
Member of the Board of Directors

Gloria Hernández García
Member of the Board of Directors

Andoni Cendoya Aranzamendi
Member of the Board of Directors

Gerardo Codes Calatrava
Member of the Board of Directors

Approval of the Chairman

Zamudio, February 22, 2017. In witness whereof

Ignacio Martín San Vicente
Chairman and CEO

Carlos Rodríguez-Quiroga Menéndez
Secretary of the Board of Directors

Activity Report

1 Company's evolution during the year

An extraordinary year in which Gamesa beats its guidance and consolidates the foundations of its long-term strategy.

Gamesa Corporación Tecnológica[1] ended 2016 with record orders, sales, profitability and cash flow generation, having beaten its guidance for the year – even after upgrading it twice.

Strong commercial activity, the result of a growth-oriented competitive position, resulted in 1,386 MW[2] of new orders in Q4, 33% more than in the same period of 2015, which raised order intake in the last twelve months to 4,687 MW (+21% y/y). The order backlog stood at 3,552 MW (+11% y/y) at the end of the year. This strong commercial performance provides a high degree of visibility to this year's guidance (c. 5,000 MWe). Gamesa begins 2017 with orders covering 63% of its projected sales[3], similar to the position at the beginning of 2016.

Revenues increased by 32% in 2016, to €4.612 billion. EBIT amounted to €477 million (+48% y/y), and the EBIT margin was 10.4%, 1.1 percentage points higher than in 2015. Finally, net profit rose by 77% y/y, to €301 million. Recognition of Adwen reduced 2016 net profit by €25 million.

Higher profitability together with focused investment in working capital, which declined by €237 million to -4.9%[4] of revenues, and in capex, which amounted to €211 million, enabled Gamesa to achieve 30% ROCE and €423 million net free cash flow while maintaining its commitment to a sound balance sheet and ending the year with a net cash position of €682 million.

Gamesa is also advancing with its long-term value-creation strategy, having signed an agreement, approved by its shareholders on 25 October, to merge with Siemens Wind Power.

Main consolidated figures for 2016

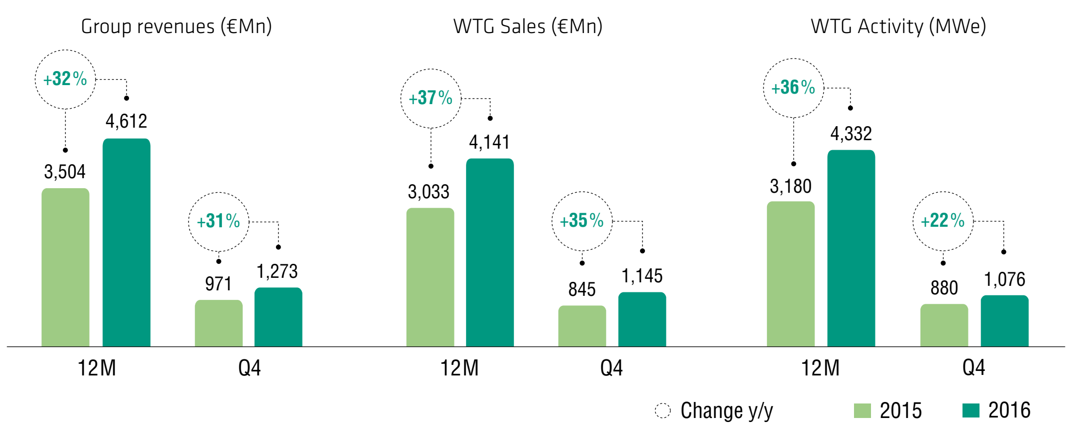
- Revenues: €4,612 million (+31.6% y/y)
- EBIT: €477 million (+47.9% y/y)
- Net profit: €301 million (+77.0% y/y)
- NFD (cash)[5] : -€682 million
- MWe sold: 4,332 MWe (+36.2% y/y)
- Firm order intake: 4,687 MW[6] (+20.7% vs. 2015)

Gamesa Corporación Tecnológica ended 2016 with €4,612 million in revenues, 32% more than in 2015, as a result of strong growth in wind turbine manufacturing and sales. At constant exchange rates, revenues increased by 38% y/y to €4,818 million.

1 Gamesa Corporación Tecnológica engages in wind turbine manufacture, which includes the development, construction and sale of wind farms, as well as O&M services.
2 Includes 731 MW signed in Q4 16 and announced in Q1 17.
3 Coverage calculated as the ratio between firm orders at 2016 year-end and projected 2017 sales (5,000 MWe). Coverage of 63% in 2016 is calculated in terms of orders at 2015 year-end with respect to 2016 sales (4,332 MWe).
4 Ratio of working capital to revenues in the last twelve months.
5 Net financial debt means interest-bearing debt, including subsidised loans, derivatives and other current financial liabilities, less other current financial assets and cash.
6 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years. Includes firm orders signed in Q4 2016 (731 MW) that were announced individually in Q1 2017.

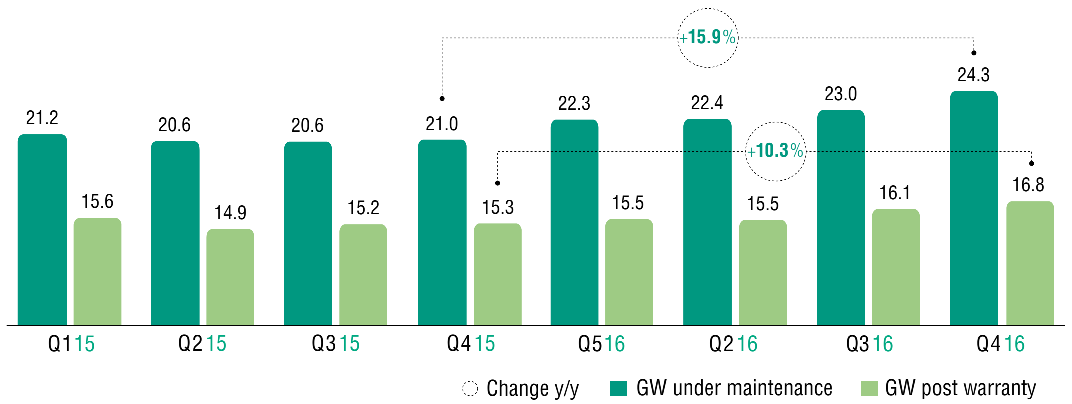
Revenues in the Wind Turbine Generator (WTG) division increased by 37% y/y, to €4,141 million, due to growth in volume to 4,332 MWe, 36% more than in 2015. That growth was distributed over practically all regions: Europe/RoW, Latin America, the US and India. APAC (inc. China) was the only exception, due mainly to contraction of the Chinese market, where the pace of installations fell from 30.5 GW in 2015 to 23.3 GW in 2016, according to the latest figures from the Global Wind Energy Council (GWEC)[7].

Sales trend year-on-year



O&M services revenues amounted to €471 million, i.e. stable in year-on-year terms and in line with expectations for 2016. The rising trend in the total fleet under maintenance and the post-warranty fleet was confirmed in 2016: +16% (to 24,331 MW) and +10% y/y to 16,827 MW), respectively. This growth was driven by expansion of the fleet in emerging markets, as envisaged in the business plan 15-17E, and by an improvement in the post-warranty renewal rate.

Fleet (GW)

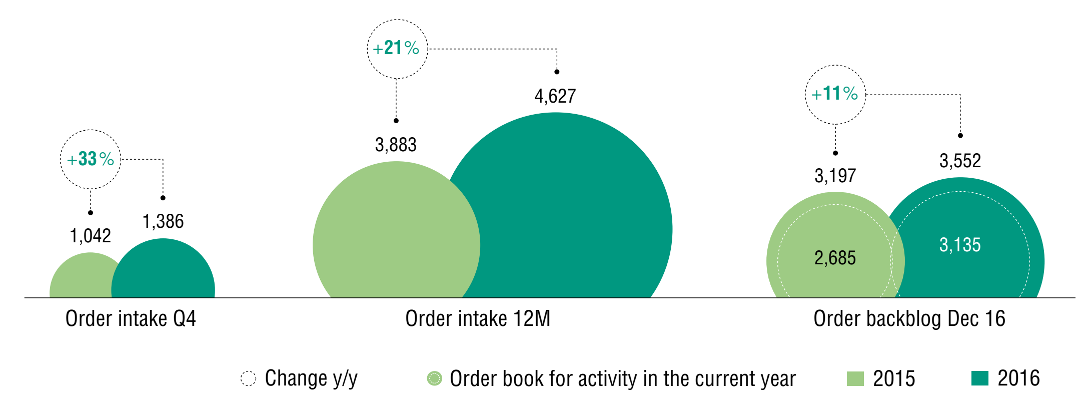


7 Data published by the Global Wind Energy Council (GWEC) on 10 February 2016 and 2017, respectively.

Growth in sales volume in 2016 was the result of the company's strong competitive positioning and its presence in markets with above-average growth rates. Gamesa's strong competitive position is supported not only by a diversified geographic footprint (55 countries) but also by an extensive customer base, a portfolio of products and services focused on maximising the return on wind assets, and a presence throughout the wind value chain. In a year in which the pace of installations ex-China came down from 32.5 GW in 2015 to 31.3 GW in 2016, according to the Global Wind Energy Council (GWEC)[8], Gamesa's strong performance enabled it to increase installations in the year by 27% to 4,262 MW, bringing its total accumulated figure to 38,875 MW by 2016 year-end, and positioning itself in the fourth position of the worldwide[9] wind ranking according to Bloomberg New Energy Finance.

Also as a result of that positioning, the company signed 1,386 MW[10] of orders in the fourth quarter, 33% more than in the same period of 2015 and equivalent to a book-to-bill ratio[11] of 1.3, exceeding the 1.2 ratio achieved in the same period of 2015. Total order intake amounted to 4,687 MW in 2016, equivalent to a book-to-bill ratio of 1.1[12], and the order backlog at 2016 year-end stood at 3,552 MW, 11% more than at the end of 2015. Strong commercial performance in 2016 enabled Gamesa to commence 2017 with a high degree of visibility with regard to its volume guidance, having attained 63% coverage[13] of the volume guided for 2017 (c. 5,000 MWe).

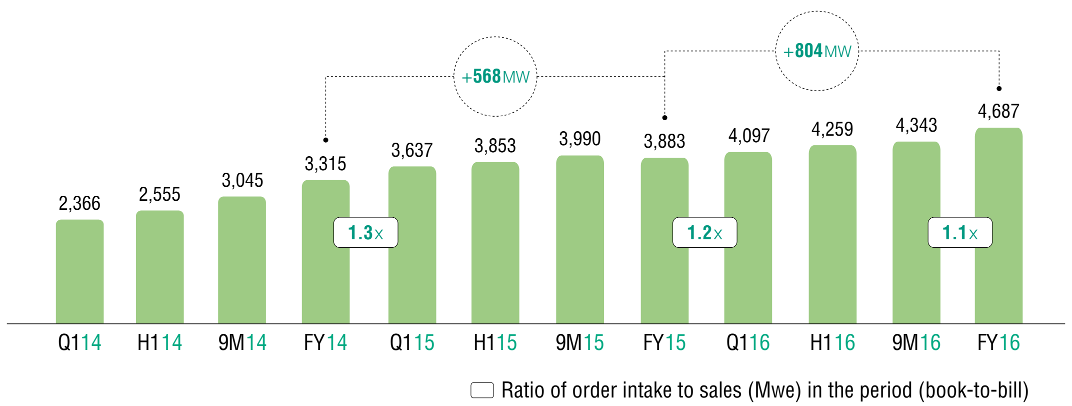
Strong commercial performance (MW)[1]



1 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17).

8 According to GWEC preliminary figures published on 10 February, 54,600 MW were installed in 2016, of which 23,328 MW in China and 31,272 MW in the rest of the world. According to GWEC figures published on 10 February 2016, a total of 63,013 MW were installed worldwide in 2015, of which 30,500 MW in China and 32,513 MW in the rest of the world.
9 Bloomberg New Energy Finance global ranking, including onshore and offshore, published on February 22, 2017.
10 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years.Includes firm orders signed in Q4 2016 (731 MW) that were published individually in Q1 2017.
11 Book-to-bill ratio in the quarter.
12 Book-to-bill ratio in the last twelve months.
13 Coverage calculated as orders received for activity in 2017 with respect to the activity guidance for 2017 (c. 5,000 MWe).

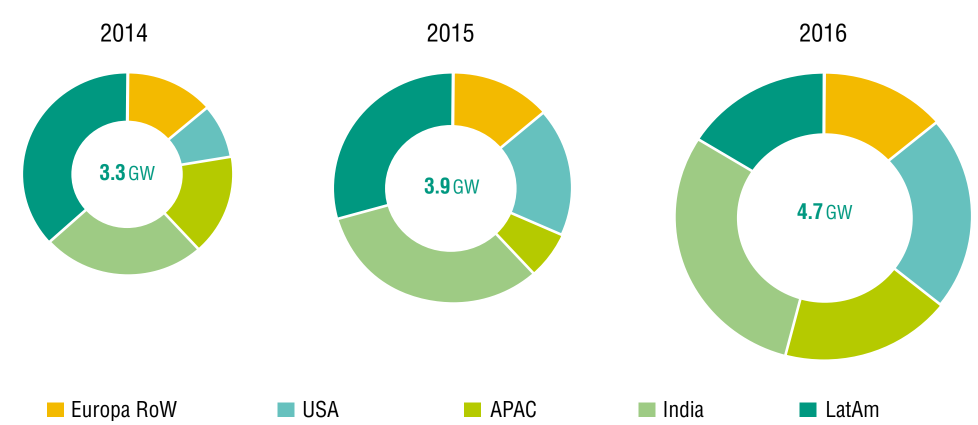
Order intake in the last twelve months (MW)[1]



1 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17).

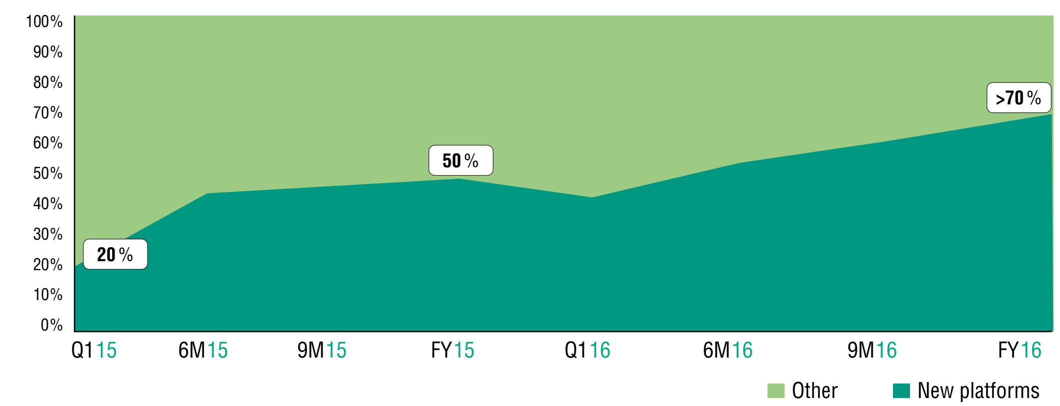
Order intake was very diversified in geographical terms, with a strong contribution from the new generations of products. In geographical terms, Gamesa retains its leading position in developing markets while strengthening its presence in mature markets. While India represents the highest volume orders in 2016, US and APAC, followed by Europe and Mexico lead the growth in new orders. As regards new product penetration, the G114 2.0-2.5 MW and G126 2.5MW platform's contribution rose from 50% of order intake in 2015 to 67% in 2016, and the first order for the G132-3.465 MW machine was signed in the fourth quarter of 2016, with the result that products with rotors larger than 100 metres accounted for over 70% of order intake in the year.

Geographical breakdown of order intake in 2014-16 (%)[1]



1 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17).

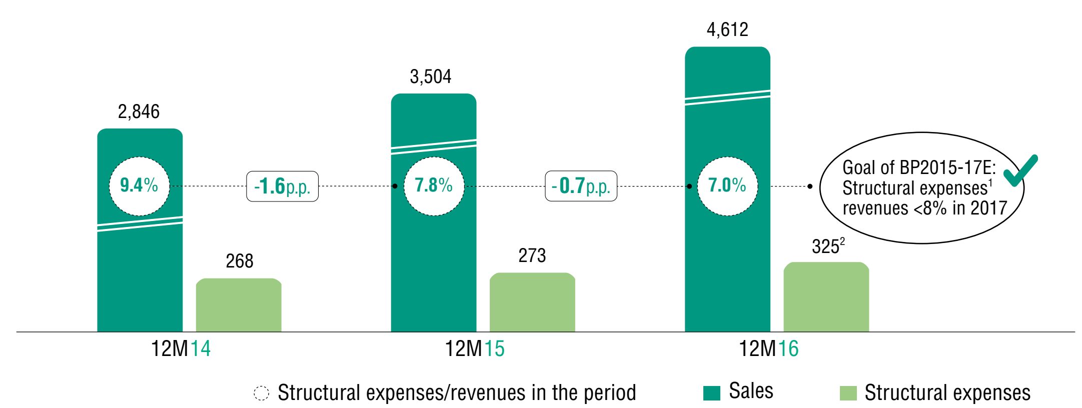
Product breakdown of order intake (%)[1]



1 Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17).

In this context of growing activity, Gamesa remains focused on controlling structural costs so as to maintain a low break-even point. As a result, structural expenses[14] amounted to 7% of revenues in 2016, i.e. below the target set in the business plan for 2015-17E, and 0.7 percentage points lower than in 2015. It should be noted that structural expenses increased in 2016 to support the growth planned for 2017.

Revenues and structual expenses[1] (€Mn)



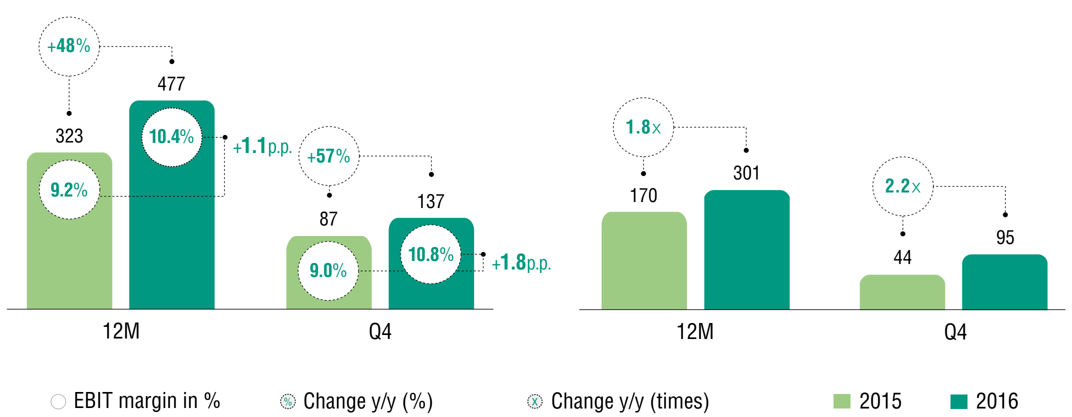
1 Structural expenses with a cash impact (excluding D&A).
2 Structural expenses excluding €5.3 Mn in expenses relating solely to the merger.

Control of fixed costs, together with ongoing optimisation of variable costs and quality excellence programmes, enabled Gamesa to offset a lower relative contribution to group revenues from O&M (with returns in excess of the manufacturing business) and steadily increase total operating

14 Fixed expenses with a cash impact, excluding depreciation and amortisation.

profitability. Meanwhile, performance by the currencies in which Gamesa operates had a negative but limited impact of 0.1 percentage points, in line with the 2016 guidance (± 0.5 p.p.). As a result, Gamesa ended 2016 with an EBIT margin of 10.4%, 1.1 percentage points higher than in 2015, while EBIT amounted to €477 million 48% more than in 2015.

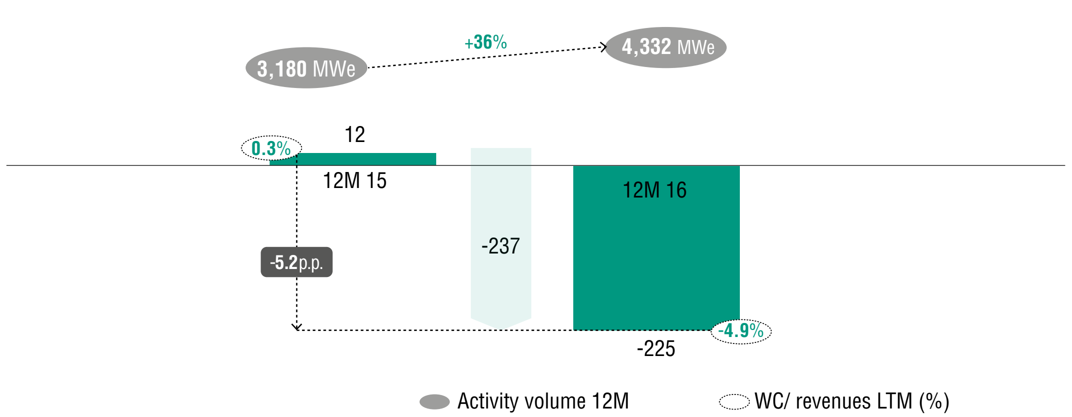
EBIT (€Mn) | Net profit (€Mn)



Growth in volume and revenues and rising profitability enabled Gamesa to increase net profit by 77% in 2016, to €301 million. Adwen (50% integrated in 2016 by the equity method) has had a negative impact in the amount of €25 million in 2016 and €4 million in 2015[15].

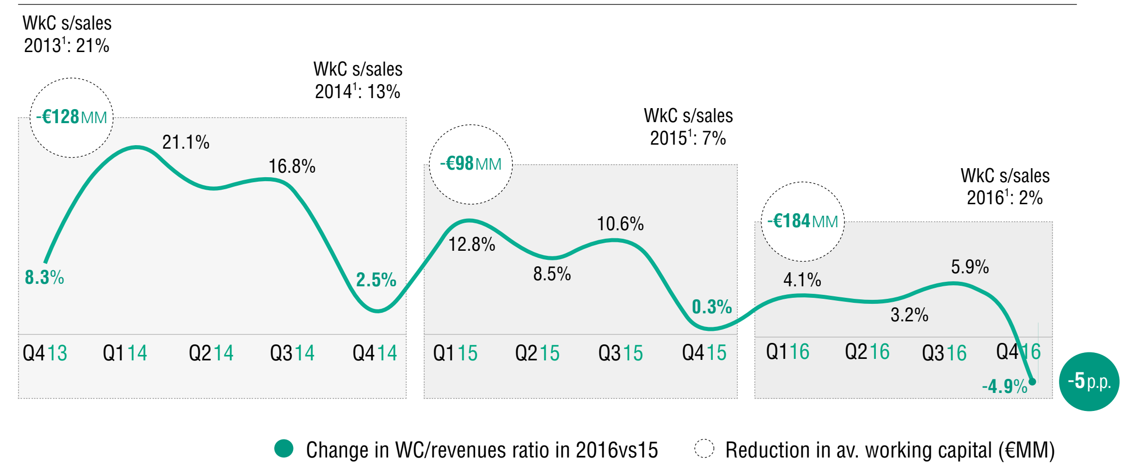
In this context of strong growth in activity and profitability, Gamesa continues to exert strict control over working capital, which stood at -€225 million at 2016 year-end, equivalent to -4.9% of revenues, i.e. 5 percentage points lower than in 2015. Average working capital has been reduced by €184 million in the last twelve months, to 1.7% of revenues, vs. 7.5% in 2015.

Reduction in working capital (€Mn)



15 The impact of Adwen on the net profit of 2015 is made up of two impacts: capital gains from the creation of the joint venture which amounted to €29 million, €21 million net of taxes, and operating losses wich amounted to €26 million.

Working capital/revenues 2013-16

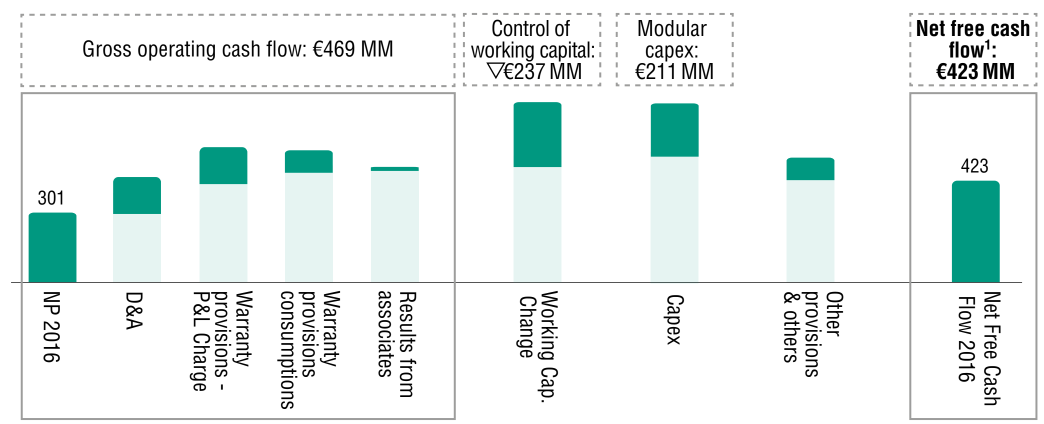


1 Average in WC/revenues ratio (year)

Applying a modular capex policy tailored to growth needs, Gamesa invested €211 million in 2016, i.e. 4.6%[16] of revenues LTM, in line with the guidance for the year (4%-5% of revenues). Investments in the year were focused on new products (blade moulds and construction elements, plus appropriate logistics) in the regions in which Gamesa operates.

This control of capex an d working capital in a context of profitable growth enabled Gamesa to end 2016 with record net free cash flow – €423 million, i.e. 2.3 times the 2015 figure – and a net cash position of €682 million on the balance sheet, in line with the company's goal of achieving a sound financial position.

Net free cash flow (€Mn)

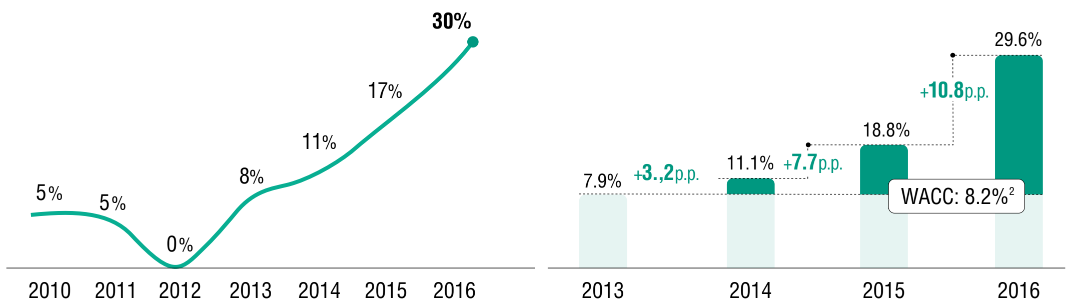


1 Net cash pre-dividend.

16 Capex LTM/sales LTM.

The combination of profitable growth and control of capex and working capital enables Gamesa to continue fulfilling its commitment to creating shareholder value, with a ROCE of 30%, 11 points more than in 2015.

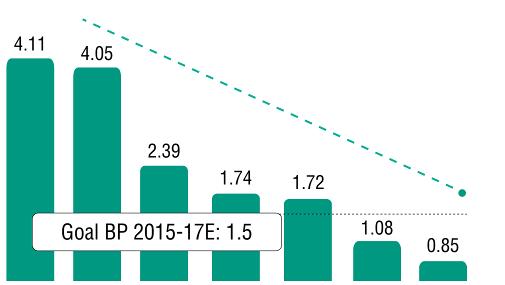
ROCE[1]



1 ROCE: LTM EBIT *(1-t)/average capital employed. Average capital employed is calculated as the arithmetic mean of capital employed between the beginning of the current year and the end of the period. "t" is the estimated income tax rate for the current year (28% in 2016). Detailed performance measures' definitions can be found in the appendix of the earnings release.
2 Analysts' average WACC: 8.2%.

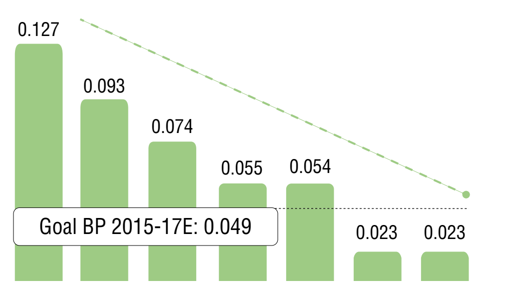
In the context of fulfilling its guidance and steadily improving performance, Gamesa also met its goals in the area of workplace health and safety, continuing to improve accident frequency and severity indices ahead of the goals set for the end of the business plan.

Accident frequency index[1]



[1]Frecuency Index: N°. of accidents with days lost *10^6/N° of hours worked.

Accident severity index[2]



[2]Severiry Index: N° of days lots *10^3/N° of hours worked.

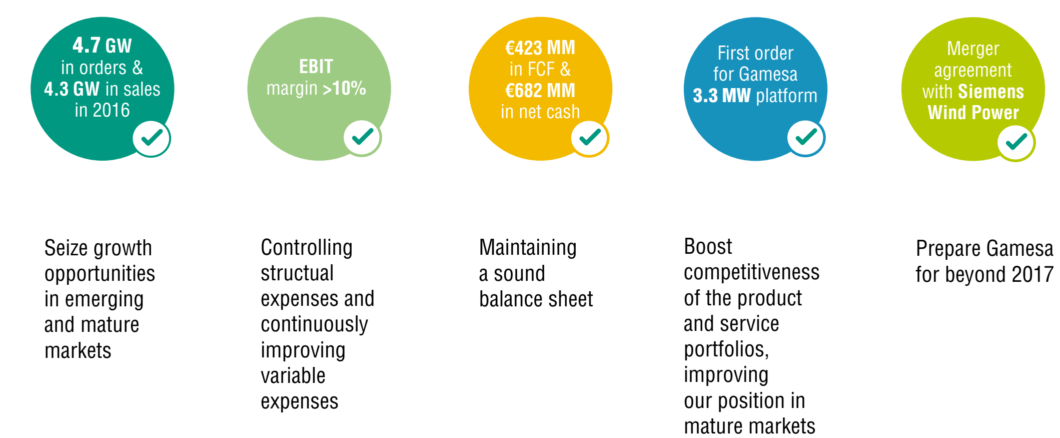
Accordingly, financial performance in 2016 exceeded the guidance, even after the latter had been upgraded twice during the year.

	Guidance 2016		Upgrade July 2016		Upgrade Nov. 2016	12 M 2016	
Volume (MWe)	>3,800	↑	≥4,000	↑	≥4,300	4,332	✓✓
EBIT	>400	↑	≥430	↑	450-470	477	✓✓
EBIT Margin	≥9.0%	↑	≥95%	↑	c. 10.0%	10.4%	✓✓
Working cap. o/Sales	≤2.5%		=		=	-4.9%	✓✓
Capex o/sales	4%-5%		=		=	4.6%	✓
ROCE	**Growing y/y**		=		=	**30%**	✓✓

In addition to surpassing its financial goals for the year, during 2016 Gamesa made clear progress with implementing its long-term (2017+) strategy by reaching an agreement to merge with Siemens Wind Power. This merger is underpinned by a sound, strategic rationale and will combine two leading companies that are highly complementary in terms of markets, businesses, customers, product portfolios and operational and management capabilities. The merged company will be in a position to offer optimal CoE to its customers and to maintain a value creation proposition for its other stakeholders (shareholders, employees, suppliers and the communities where it operates) that is sustainable over the medium and long term. The deal was presented to the financial markets in the second quarter of 2016 and it was approved by Gamesa's shareholders at an extraordinary General Meeting on 25 October, with 99.75% of the capital in attendance voting in favour. At the date of this report, the merger had been cleared by Spain's National Securities Market Commission and all the relevant competition authorities except that of the European Union.

Therefore, it can be concluded that, in 2016, for the second time, Gamesa fulfilled the objectives of its business plan 2015-17 ahead of schedule, since it exceeded the 2017 financial and strategic targets in 2016.

Gamesa PRIORITIES for 2015-2017



Main factors

Activity

In 2016, Gamesa sold 4,332 MWe, 36% more than in 2015. This trend was driven mainly by India, Latin America, Europe & RoW, and the US; the principal customer categories were electric utilities (54% of the total) and IPPs (35%).

	2015	2016	Chg.
WTG sold (MWe)	3,180	4,332	36.2%

Geographical breakdown of wind turbine sales (MWe) (%)

	2015	2016
USA	11%	12%
APAC	15%	9%
India	29%	38%
Latin America	28%	24%
Europe and RoW	16%	17%
Total	**100%**	**100%**

Activity in 2016 was concentrated in the Gamesa 2.0 MW segment, which accounted for 98% of total MW sold. The Gamesa G114 2.0 MW - 2.5 MW platform accounted for 55% of activity in the period, compared with 24% in 2015, evidencing the new platforms' growing importance. Gamesa 5.0 MW platform accounted for 1% of MWe sold in 2016.

In the services division, Gamesa had 24,311 MW under operation and maintenance, 16% more than at the end of 2015. Growth in the fleet under maintenance came mainly from emerging markets India and Brazil, which offset a decline in mature markets. The year end post-warranty fleet under maintenance increased by 10% year-on-year to 17 GW.

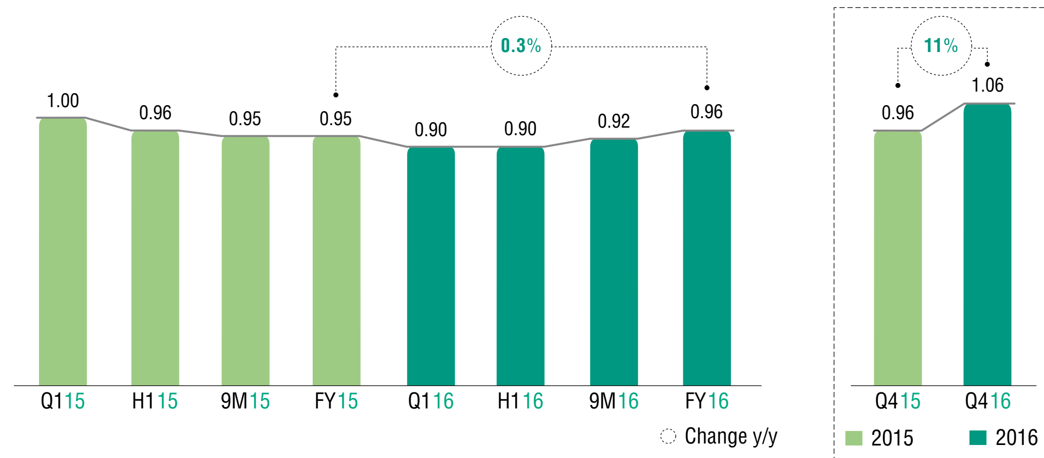
	2015	2016	Chg.
MW under operation and maintenance at end of period	20,973	24,311	15.9%

Profit & Loss

Revenues amounted to €4,612 million in 2016, 32% more than in 2015.

This growth was due primarily to sales in the WTG division, which grew by 37% y/y thanks to a 36% increase in activity volume with respect to 2015. As projected at the beginning of the year, average revenues per MWe manufactured were stable in year-on-year terms. Sales of newer products, with larger rotors and taller towers, offset the negative exchange rate effect, which reached 5% by year-end, mainly as a result of depreciation of most of the emerging market currencies in which Gamesa operates. The assembly business had a varying impact on average revenues: it was negative in the first half of the year, when there was very little assembly work, and positive in the second half, when assembly work recovered. Specifically, in the first half only 0.54 MW were assembled per MWe sold, whereas the figures matched in the same period of 2015; in contrast, during the second half of the year, assembly work amounted to 1.4 MW per MWe sold, contrasting with 1.1 MW in the same period of of 2015. Overall, 4,262 MW were assembled in 2016, a 27% increase year-on-year. In the WTG division, revenues per MWe sold are affected by many factors, including project scope, rotor size, tower height, geography, activity scope, gearbox, etc.; accordingly, this variable is not indicative of the level or trend of profitability.

WTG revenues/MWe (ASP[1] €MM)



1 ASP (€ MM): WTG revenues (€) in the period/MWe sold in the period.

Service revenues were stable in year-on-year terms, amounting to €471 million, in line with projections for the year. That stability is a reflection of pressure on prices and a reduction in contract scope; these trends are normal in the services business in mature markets. To offset the negative impact of these trends, Gamesa has implemented an operational strategy to ensure absolute profitable growth in the services division, even in a situation of flat sales, as was the case in 2016. The plan is based on three main vectors: cost-cutting programmes, commercialisation of value-added services in mature markets, and signing longer contracts in emerging markets. Growth in the fleet under maintenance and the post-warranty fleet, an improvement of nearly 30 points in the renewal rate, from 40% in 2015 to 67% in 2016, and expansion of the order book assure a return to growth in sales in 2017, fulfilling the objectives for the division in the BP2015-17E: accumulated growth of ≥20% in revenues in 2014-17, and an EBIT margin of ≥13%. The fleet under maintenance increased by 16% y/y in the last twelve months, to 24,311 MW, while the post-warranty fleet expanded by 10% in the same period, to 16,827 MW. Fleet growth is concentrated mainly in emerging markets. In line with growth in the fleet under maintenance, the services backlog has also expanded, reaching €2,412 million at 2016 year-end, 11.5% more than a year earlier.

At constant exchange rates, Group revenues would have amounted to €4,818 million, i.e. 38% more than in 2015.

In addition to attaining record revenues and commercial activity in the year, Gamesa also posted record EBIT: €477 million. The EBIT margin was 10.4%, 1,1 points more than in 2015. EBIT performance is attributable to:

- capital gains from the creation of the joint venture Adwen amounting to a positive €29mn (-0,8 p.p)
- the volume effect (+2.4 p.p.)
- contribution margin performance (+0.7 p.p.)
- fixed cost performance (-1.1 p.p.),
- currency performance (0.0 p.p.)

The improvement in the contribution margin in 2016 is linked to variable cost optimisation programmes and the favourable project scope, offsetting the adverse impact of the increase in fixed expenses needed to support growth (this increase includes an increase in depreciation and amortization charges in line with the increase in capex), and the lower contribution by O&M to total revenues (10% in 2016, vs. 13% in 2015).

Net financial expenses in the period amounted to €23 million (€10 million less than in 2015), while exchange losses amounted to €15 million, compared with exchange losses of €11 million in 2015, due to currency volatility in both periods. Financial expenses in 2016 included a negative €7 million impact from the estimates of scenarios that remain open after Areva exercised its put option to sell its Adwen stake to Gamesa in the context of the merger with Siemens Wind Power.

The tax expense amounted to €124.4 million, equivalent to a marginal rate of 28%, in line with 2015 and within the guidance range for the year (25%±3%).

As a result, consolidated net profit totalled €301 million (€170 million in 2015).

The impact of the integration of Adwen at 50% in the consolidated net profit (without any impact in free cash flow) amounted to -€25 million (-€4 million in 2015[17]).

Balance sheet

As reflected by the main balance sheet indicators, Gamesa maintained its commitment to a sound financial position in a context of rising activity, while reducing working capital by €237 million y/y to -€225 million at year-end, and achieving a net cash position of €682 million.

	2015	2016
Working capital/Revenues	0.3%	-4.9%
ROCE	18.8%	29.6%

17 The impact of Adwen on the net profit of 2015 is made up of two impacts: capital gains from the creation of the joint venture which amounted to €29 million, €21 million net of taxes, and operating losses wich amounted to €26 million.

Consolidated Income Statement and Balance Sheet, Key Figures

(€ million)	2015	2016	Chg.
Revenues	3,504	4,612	+31.6%
EBIT	323	477	+47.9%
EBIT/Revenues (%)	9.2%	10.4%	+1.1pp
Profit (Loss)	170	301	+77.0%
NFD (Cash)	-301	-682	-381
Working capital	12	-225	-237
Capex	168	211	+43

In 2016, in line with the modular capex strategy presented in the business plan 2015-17, Gamesa invested €211 million in property, plant and equipment and intangible assets to cater for expected demand growth, new product launches and operation and maintenance services. In addition to R&D expenditure, Gamesa invested in logistics, tooling, and blade capacity – both new capacity and product replacement due to the introduction and strong penetration by the G114 (2 MW and 2.5 MW) and G126 (2.5 MW) generators – in all regions where it operates.

2 Forecasted evolution

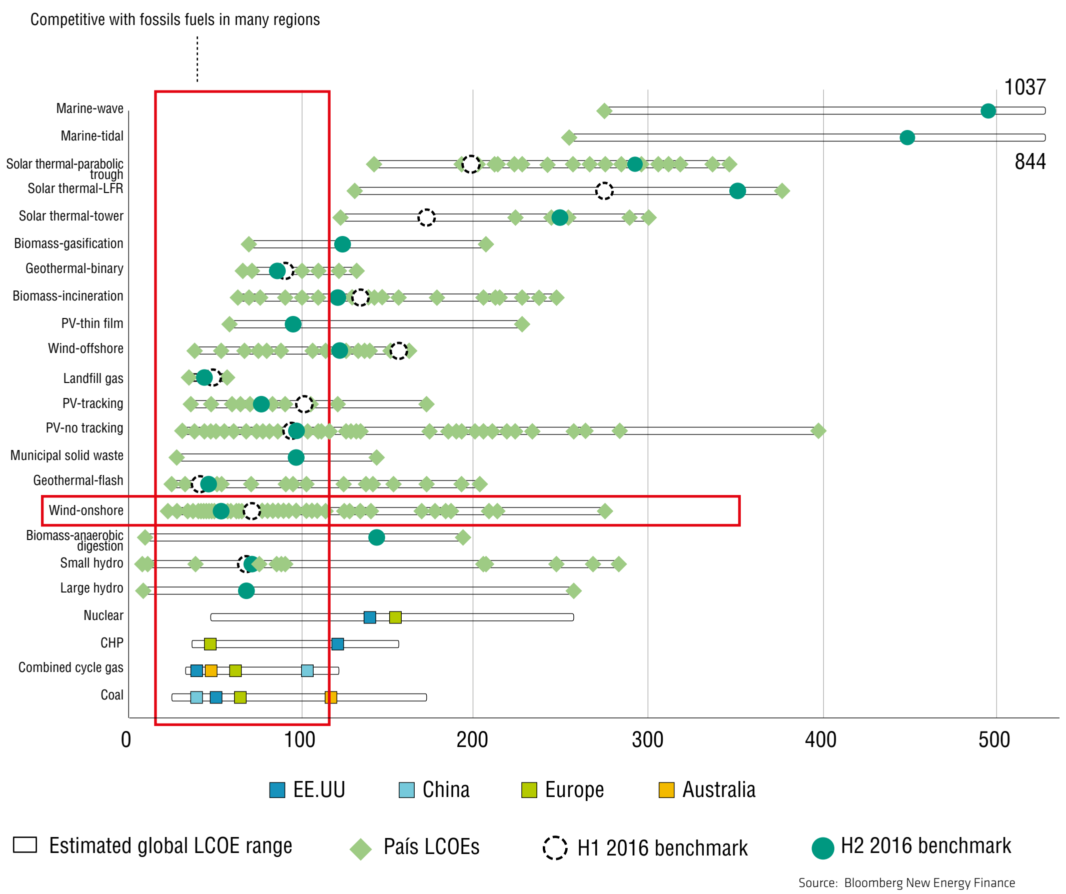
Positive demand prospects in the short and medium term[18]

The growing number of countries that are committed to renewable energies as a means of combating climate change, and the increasing competitiveness of renewable energy sources, including wind, lay the foundations for strong demand prospects in the short, medium and long term.

The growing support for renewable energy sources was clearly reflected in the speed with which the Paris Agreement, signed by 195 countries on 12 December 2015, came into force (4 November 2016), while wind power's increasing competitiveness was evident during 2016 in the outcome of many electricity auctions in both emerging and mature countries. Those auctions show that wind energy is competitive with conventional sources in many regions (see chart below).

18 Source: GWEC 2015, MAKE and BNEF (Q4 2016 - Global Wind Power Market Outlook Update)

LCOE prospects H2 16 (Source: Bloomberg New Energy Finance/BNEF. USD/MWh)



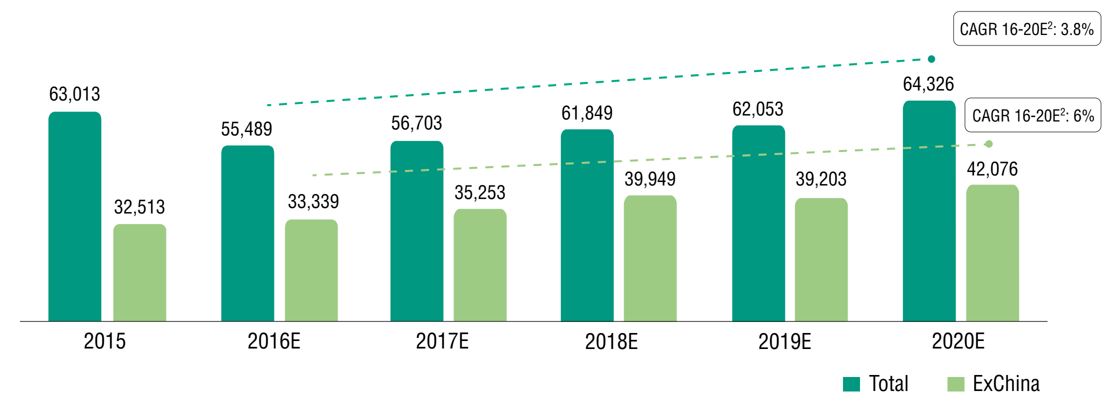
In terms of competitiveness[19], by 2027 it is estimated that new wind installations, which are already fully competitive in many countries, will be cheaper than coal- or gas-fired facilities in practically all geographies, particularly if CO2 emission pricing is introduced, while by 2040 the cost of energy for onshore wind will have declined by 41%. That reduction will be due to a number of factors: falling equipment and development costs, low funding costs and, primarily, an increase in wind turbines' capacity factor.

In this context of growing governmental support and wind's greater competitiveness, long-term estimates[20] are that, by 2040, "clean" (i.e. zero GHG) energy sources will account for 60% of total installed capacity, up from 31% at the end of 2015, most of the new installed capacity being concentrated in developing (non-OECD) countries, with China and India accounting for the bulk of new installed capacity. In those countries, economic growth and electrification are the main drivers of growth in energy demand and investment in new generating capacity. In the period 2016E-2040E, it is estimated that 1,825 GW of wind capacity will be installed, i.e. investment totalling 3 trillion.

19 Bloomberg New Energy Finance: "H2 2016 Global LCOE Outlook", October 2016; "New Energy Outlook 2016", June 2016
20 Bloomberg New Energy Finance: "H2 2016 Global LCOE Outlook", October 2016; "New Energy Outlook 2016", June 2016

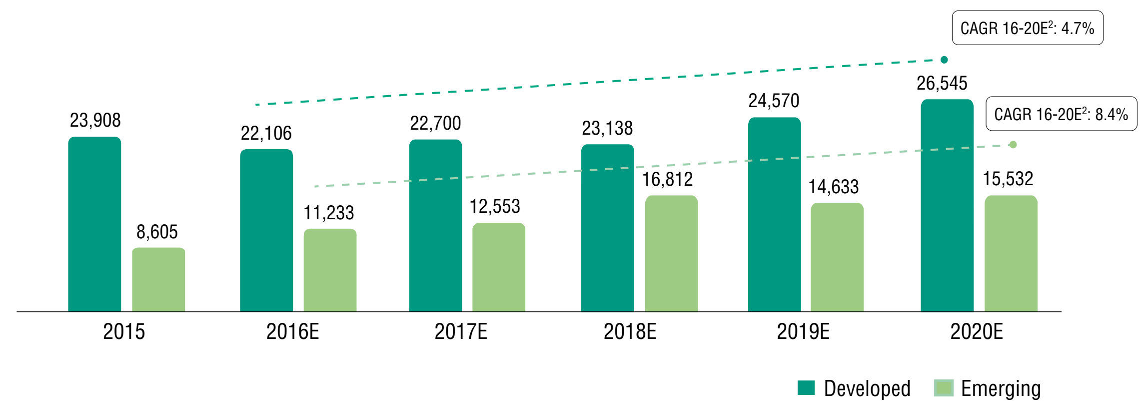
In the shorter term, and following the slight contraction in the pace of new wind installations worldwide (ex-China) in 2016, the short- and medium-term prospects are stable with respect to the projections released during the year, with emerging economies and offshore as the main growth engines. Emerging markets are expected to achieve an estimated 8.4% annual growth between 2016E and 2020E, while offshore will be the absolute leader in terms of expected annual growth: over 38% between 2016E and 2020E, with northern European countries (mainly Germany and the UK) and China to the fore.

Wind installations[1] 2015-2020E (MW)



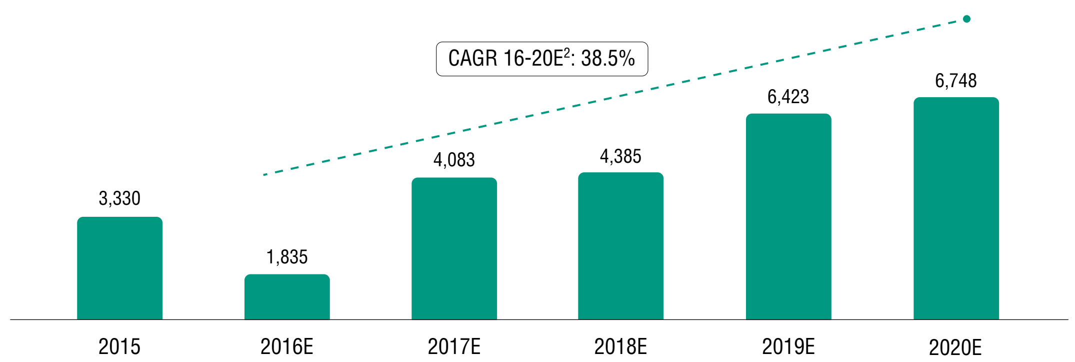
Source: BNEF and MAKE Q4 2016: GWEC 2015 figures.

Wind installations[1] ex China 2015-2020E (MW)



Source: BNEF and MAKE Q4 2016: GWEC 2015 figures.

Offshore wind installations 2015-2020E (MW)



Source: BNEF and MAKE Q4 2016: GWEC 2015 figures.

1 Includes onshore and offshore installations.
2 Compound annual growth rate calculated on the basis of BNEF and MAKE estimates of installations at the date of publication of their reports, not on installations reported by GWEC on February 10. Based on GWEC reported numbers, installations in 2016 totalled 54.6 GW (31.3 GW ex-China). Outside China, 22.8 GW were installed in mature markets and 8.4 GW in emerging markets. Growth in mature includes growth coming from the offshore segment, wich is concentrated mainly in Europe and China.

2017 Guidance[21]: commitment to profitable growth

In this favourable demand context, Gamesa maintains its commitment to profitable growth in 2017, the goal being to sell around 5,000 MW of wind turbines and achieve €550 million in group EBIT (a 15% increase over the 2016 figures in both cases).

The sales volume commitment is supported by the order book at 31 December 2016, which already covered 63%[22] of the committed volume. Though growth is expected in most regions, it will be led by the US and APAC, while India will continue to be the market with the largest single contribution to the company's top line in 2017.

As well as growth by the Wind Turbine division, Gamesa maintains its commitment to the business plan for the Services unit, which is expected to resume revenue growth in 2017. This is already visible in the order backlog, which rose by 11% y/y, and in the recovery in the fleet under maintenance in 2016.

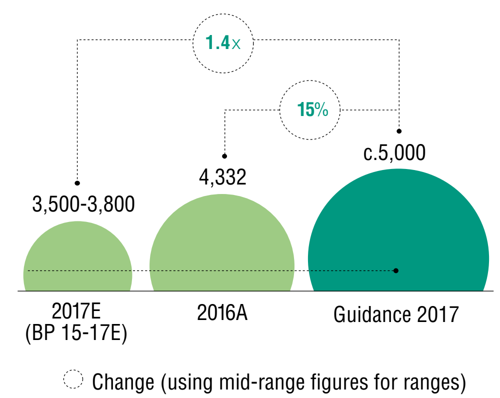
The commitment to increase operating profit to c. €550 million is supported by rising sales volumes, ongoing programmes to optimise variable costs, and strict control of structural costs, to offset pressure from a more competitive environment.

To achieve its projected growth, Gamesa maintains its modular capex strategy, the goal being for capex to be stable with respect to 2016 in relative terms: 4%-5% of revenues. The company also maintains its commitment to a sound balance sheet through strict control of working capital and

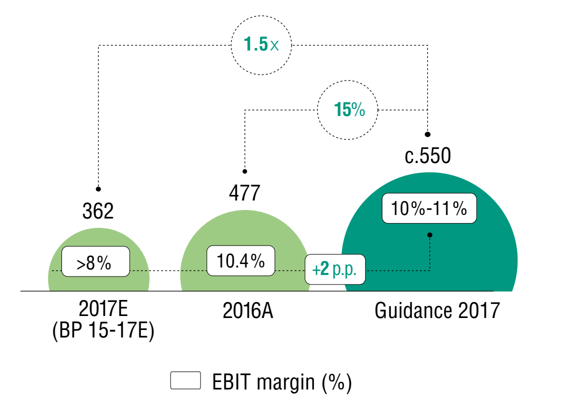
21 Guidance for 2017 fiscal year for Gamesa "standalone"/pre-merger, excluding expenses strictly derived from the merger, at average exchange rate of Janueary-February 2017 and with the same consolidation perimeter (i.e. recognizing Adwen at equity method).
22 Coverage of sales volume calculated as firm orders received for current year at 2016 year-end with respect to the volume guidance for 2017 (c. 5,000 MWe).

upgrading previous years' targets so that working capital is about 0% of revenues. These objectives represent a 40-50% increase in the targets for sales and absolute EBIT with respect to the initial projections for this year in the BP2015-17.

Gamesa standalone: Sales volume and guidance[1] (MWe)



Gamesa standalone: EBIT and EBIT margin performance and guidance[1] (€Mn/%)



1 At January-February 2017, average foreign currency exchange rates and using the same consolidation scope. (i. e. with Adwen as equity-accounted)

Gamesa standalone: Guidance 2017

Sales (MWe)	c. 5,000
EBIT (MM€)	c. 550
Margin EBIT	10%-11%
Capex o/sales	4%-5%
Working Cap. o/sales	c. 0%

Progress with the long-term value-creation strategy: Gamesa - Siemens Wind Power merger

Having secured its most immediate value-creation goals through its performance in 2016 and its commitments for 2017, Gamesa continues to advance with its strategy to create value beyond the current year and the business plan 2015-2017E, through the agreement to merge with Siemens Wind Power. The merger has already been approved by Gamesa's shareholders, Spain's National Securities Market Commission and several other competition authorities; at the date of this report, the only approval still pending was that of the European Union competition authorities, which is expected in the first quarter of 2017.

As a pre-requisite for completing the merger, Gamesa purchased Areva's 50% stake in Adwen, a subsidiary operating in the offshore segment. The acquisition was completed in January 2017, and Adwen will be fully consolidated by the merged company. Adwen has 630 MW in offshore wind farms under maintenance and is currently building a 350 MW wind farm in Germany (Wikinger). The company also has two product lines in the 5 MW and 8 MW categories (the latter under development), and a backlog of 1.5 GW in projects under the French auctions. Adwen obtained €248 million in revenues in 2016 and reported an operating loss of -€41 million, attributable to its current stage of development. At 31 December 2016, Adwen had €251 million in net debt and owed €238 million in loans to Areva.

Tentative Calendar

Siemens Wind Power carve out commences	Inmediately after signing	✓
Gamesa Shareholders' Meeting[1]	Oct. 2016	✓
Authorisation by CNMV	Q4 2016	✓
Competition authorities' authorisation[2]	Q1 2017	
Merger effective date	Q2 2017	
Payment of the cash component	12 business days after the merger[3]	

1 At the special Shareholders' Meeting, 99.75% of capital in attendance voted in favour.
2 At the date of this presentation, pending only EU approval.
3 The dividend will be paid within 12 business days after the effective date of the merger (EDM) to natural and legal persons who: (i) were shareholders of record of Gamesa with Iberclear at the end of the fifth stock market session following the EDM, and (ii) hold shares that were outstanding on the day before the EDM.

The merger agreement will create value for all stakeholders, not just by reaping synergies but also due to the enhanced competitive position in a changing market in which the cost of energy is increasingly important. The merged group will be larger, with a greater scope and more diverse, a stronger balance sheet and a more comprehensive product portfolio.

Conclusions

In a situation of stable demand, Gamesa reported strong earnings in 2016, with record order intake, revenues and profitability, exceeding its guidance for 2016 even after upgrading it on two occasions during the year.

The company's sound competitive position enabled it to end the year with 21% year-on-year growth in order intake, to 4,687 MW, exceeding its guidance of 4 GW for the year, after signing 1,386 MW in orders in the fourth quarter, 33% more than in the same period of 2015. This growth was accompanied by a sizeable increase in geographical diversification. The order backlog at the end of December 2016 stood at 3,552 MW, 11% more than a year earlier, which provides a high level of visibility on the growth targets for 2017.

Revenues amounted to €4,612 million, 32% more than in 2015, or 38% more at constant exchange rates[23]. This increase was driven by higher sales volume in the Wind Turbine division (+36%) due to its strong competitive position and presence in geographies where the wind market is expanding faster than the global average. As a result, Gamesa installed 4,262 MW, 27% more than in 2015, in a context of a slight decline in worldwide installations excluding China, reaching number 4 position in the global wind ranking published by Bloomberg New Energy Finance.

In addition to increasing sales, Gamesa also enhanced profitability in 2016. EBIT amounted to €477 million, 48% more than in 2015, and the EBIT margin was 10.4%, 1.1 percentage points more than in 2015. Net profit increased 1.8-fold to €301 million.

23 At constant 2015 average exchange rates.

In this context of strong growth of activity and revenues, Gamesa continues to prioritise a sound balance sheet by controlling both working capital and capex. Gamesa reduced working capital by €237 million year-on-year and improved the working capital/revenues ratio by over 5 percentage points, to -4.9%. This reduction in working capital, together with greater operating cash flow and capex planning tied to actual growth, enabled Gamesa to end 2016 with €423 million in net free cash flow, 2.3 times the 2015 figure, and a net cash position of €682 million.

The company is also making significant progress with its long-term strategy, which includes the merger with Siemens Wind Power, expected to be completed in the first quarter or beginning of the second quarter of 2017. At the date of this report, the merger had been approved by Gamesa's shareholders and cleared by Spain's National Securities Market Commission and it was only pending approval by the European Union competition authorities. With this agreement, Gamesa enhances the visibility and sustainability of its value creation proposal to all its stakeholders for the medium and long term.

Gamesa also maintains its commitment to profitable growth in 2017 with a plan to achieve double-digit growth – around 15% – with respect to 2016[24] in both sales volume (MWe) and operating profit (EBIT).

3 Main business risks

Gamesa Group is exposed to certain financial risks that it manages by grouping together risk identification, measurement, concentration limitation and oversight systems. Gamesa's Corporate Division and the business units coordinate the management and limitation of financial risks through the policies approved at the highest executive level, in accordance with the established rules, policies and procedures. The identification, assessment and hedging of financial risks are responsibility of each business unit, together with the Corporate Division.

The risk associated with changes in exchange rates assumed for GAMESA's transactions involve the purchase and sale of products and services relating to its activity that are denominated in various currencies.

In order to mitigate this risk, GAMESA has obtained financial hedging instruments from financial institutions.

4 Use of financial instruments

Gamesa Group uses financial hedges which allow the Group to mitigate risks involving exchange rates, interest rates, and equity volatility that could affect the Group estimated results based on estimates of expected transactions in its various areas of activity.

24 Guidance for 2017 fiscal year for Gamesa "standalone"/pre-merger, excluding expenses strictly derived from the merger, at average exchange rate of Janueary-February 2017 and with the same consolidation perimeter (i.e. recognizing Adwen at equity method).

5 Subsequent events

See Note 38 of the Consolidated Financial Statements and Note 22 of the Individual Financial Statements.

6 Research and development activities

Technological development is established within a multi-year framework that is rolled out in the Annual Technological Development Plan, where activities and deliverables are established for each year, and to which a budget is finally assigned.

In 2016, the main increase in the the section "Research development costs" of the Intangible Assets was due to the development of Gamesa Innovation and Technology, S.L. of new wind turbine models and to the optimisation of the performance of their components amounting, in total for the entire Group, approximately €54,669 thousands (approximately €44,234 thousands in 2015).

7 Treasury share operations

At December 31, 2016 Gamesa holds a total of 2,365,265 treasury shares representing 0.847% of share capital.

The total cost for these treasury shares amounts €46,897 thousands, each with a par value of €19,828.A more detailed explanation of transactions involving treasury shares is set out in Note 18.E of the Notes to the Consolidated Financial Statements at December 31, 2016.

8 Capital structure

CAPITAL STRUCTURE, INCLUDING SECURITIES TRADED ON A COMMUNITY REGULATED MARKET, INDICATING, WHERE APPROPRIATE, THE DIFFERENT NATURE OF SHARES AND FOR EACH TYPE OF SHARES, THE RIGHTS AND OBLIGATIONS GRANTED AND PERCENTAGE OF CAPITAL REPRESENTED:

In accordance with Article 7 of the By-laws of Gamesa Corporación Tecnológica, S.A., in the wording approved on May 8, 2015 *"The share capital is FOURTY SEVEN MILLION FOUR HUNDRED SEVENTY FIVE THOUSAND SIX HUNDRED NINETY THREE EUROS AND SEVENTY-NINE CENTS (€47,475,693.79), represented by 279,268,787 ordinary shares of seventeen cents nominal value each, numbered consecutively from 1 to 279,268,787, comprising a single class and series, which are fully subscribed and paid."*

SIGNIFICANT DIRECT AND INDIRECT SHAREHOLDINGS

According to public information in the possession of GAMESA CORPORACION TECNOLOGICA, S.A. the capital structure at December 31, 2016 is as follows:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% total voting rights
IBERDROLA, S.A.	-	54,977,288	19.686%
NORGES BANK	8,958,027	-	3.208%
OZ MASTER FUND LTD	-	-	2.041%
FIDELITY INTERNATIONAL LIMITED	-	2,967,105	1.062%

(*) Through:

Name of direct holder of the stake	Number of direct voting rights	% total voting rights
IBERDROLA PARTICIPACIONES, S.A.UNIPERSONAL	54,977,288	19.686%

9 Restrictions on the transfer of shares

There are no restrictions on the transfer of shares.

10 Significant direct and indirect shareholding

See point 8.

11 Restrictions on voting rights

There are no restrictions of any kind on voting rights.

12 Shareholder agreements

In fulfilment of article 531 of the restated text of the Capital Companies Law, approved by the Royal

Legislative Decree 1/2010, of July 2, IBERDROLA, S.A. informed Gamesa Corporación Tecnológica, S.A. on June 17, 2016 of the signature of a shareholders' agreement between IBERDROLA, S.A. and Iberdrola Participaciones, S.A. (Sociedad Unipersonal), as shareholders (non-direct and direct, respectively) of Gamesa Corporación Tecnológica, S.A., on one hand, and Siemens AG, on the other hand. The content of the signed contract refers (i) to Gamesa in the context of a merging process of the wind energy businesses of Gamesa and Siemens AG (the "Merger"); and (ii) to the relationships as future shareholders of Gamesa after the Merger (the "Shareholders' agreement").

The Shareholders' agreement includes agreements which qualify it as a shareholder agreement in accordance with the terms of the Article 530 of the Corporate Entrepises Act, even though the effectiveness of some of those agreements are subjected to the achievement of the Merger.

13 Regulations applicable to the appointment and replacement of the members of the board of directors and amendment of the corporate by laws

Pursuant to the provisions of article 30 of the Gamesa CORPORACIÓN TECNOLÓGICA, S.A. Corporate By-laws, members of the Board of Directors are *"appointed by the General Meeting"* and *"should a vacancy arise during the term of office of a Director, the Board may appoint a shareholder to fill the vacancy until the first General Meeting is held"*, always in compliance with the provisions of the Spanish Capital Companies Act and the Corporate By-laws.

In accordance with the Article 13.2 of the Board of Directors Regulations candidatures for the office of Director submitted by the Board of Directors for deliberation by the Shareholders General Meeting and the appointment decisions made by the said body pursuant to the interim powers conferred by law on the said body shall be preceded by the corresponding proposal by a) the Appointments and Remuneration Committee in the case of independent Directors, or b) by a report by the said Committee in the case of all other categories of Directors. Article 13.3 of the Board of Directors Regulations provides that "where the Board of Directors should reject the proposal or the report of the Appointments and Remuneration Committee, it must state its reasons for this and record the said reasons in the minutes."

Regulations provides that "where the Board of Directors should reject the proposal or the report of the Appointments and Remuneration Committee, it must state its reasons for this and record the said reasons in the minutes."

Article 14 of the said Regulations provides that *"the Board of Directors and the Appointments and Remuneration Committee, within the scope of their powers, shall seek to ensure that the proposal and election of candidates corresponds to persons of renowned respectability, solvency, competence, and experience.*

In the case of Directors which are legal persons, the natural person who is to represent them in the exercise of the powers associated with the office of Director shall be subject to the same requirements of the prior pharagraph."

Finally, article 7.4 of the Appointments and Remuneration Committee Regulations makes it the responsibility of that *"to ensure that when filling vacancies on the Board of Directors, the selection procedures used are not subject to any implicit bias resulting in any discrimination of any kind."*

With regard to the re-election of Directors, article 15 of the Board of Directors Regulations provides that *"any proposals for the re-election of Directors that the Board of Directors may decide to submit to the Shareholders General Meeting must be subject to a formal evaluation process under the terms provided by law. The agreement of the Board of Directors of summiting the re-election of directors to the Shareholder General Meeting shall necessarily include a proposal or report issued by the Appointments and Remuneration Committee, while the one of the remain directors should have a prior favourable report by such Committee.*

The Directors that form part of the Appointments and Remunerations Committee must abstain from being involved with any deliberations and votes that involve themselves.

The re-election of a Director that takes part in a Committee or that practices and internal position in the Board of Directors or in any of its committees will determine its continuation in such position without the necessity of an express re-election and that does not affect the revocation power that corresponds to the Board of Directors."

The dismissal of Directors is governed by article 16 of the Board of Directors Regulations, which provides that *"Directors shall cease to hold office upon the expiry of the term for which they were appointed without prejudice to the possibility of being re-elected, and upon a decision in this regard taken by the Shareholders General Meeting on the mention of the Board of Directors or of the shareholders in accordance with the terms provided by law."*

The procedures and circumstances with regard to the dismissal shall be those laid down in the Spanish Capital Companies Act and in the Commercial Registry Regulations.

Pursuant to the provisions of Article 16.2 of the Board of Directors Regulations, *"Directors shall tender their resignation to the Board of Directors, and where the Board should consider it appropriate, shall step down-following a report by the Appointments and Remuneration Committee-in the following circumstances:*

a) In the case of Proprietary Directors where said Directors or the shareholders they represent should cease to hold a significant and stable shareholding in the Company, or where they said shareholders should revoke the representation conferred on the Director.

b) In the case of executive Directors, when they cease the executive positions to which its appointment as Director is associated, and in any case, where the Board of Directors should consider this appropriate.

c) In the case of non-executive Directors, where they should join the executive line of the Company or any of the Group companies.

d) Where, for supervene in reason, they incur in any of the circumstances of disqualification or prohibition envisaged in the current regulations, in the Corporate By-laws, or in these Regulations.

e) Where they are charged with an alleged criminal offense, or are served with notice that they are to be tried for any of the offenses listed in the provisions relating to disqualification from holding the office of director envisaged in the Spanish Capital Companies Act, or are the subject of disciplinary proceedings for a serious or very serious offense commenced by the regulatory authorities

f) Where they should receive a serious reprimand from the Board of Directors, or should be punished for a serious or very serious offense by a public authority, for having infringed their duties as Directors.

g) When their remaining on the Board may jeopardise the Company's interests or when the reasons for which they were appointed no longer exist.

h) Where, for reasons attributable to the Directors in their capacity as such, serious harm has been caused to the Company's standing, or they should lose the commercial and special respectability necessary in order to be a Director of the Company."

In accordance with points 3,4 and 5 of the quoted article *"in any of the indicated events in the prior section, the Board of Directors will require the Director to cease from its position and where appropriate, will propose its resignations to the General Meeting. As an exception, it will not be applicable the aforementioned in the resignations cases determined in the letters a), d), f) y g) when the Board of Directors estimates that are causes that justify the permanency of the Director, without prejudice to the effect that the new supervening circumstances may have on its mark.*

The Board of Directors will only be able to propose the resignation of an independent Director before the course of his mandate when it ends until fair cause, considered by the Board of Directors, on the motion of the Appointments and Remunerations Committee. Particularly, for having break the inherent duties of its positions or for having incurred in any circumstance provided in the law as incompatible for the entrance to that category.

The Directors that may resign from their position before the termination of their duty should send a letter to all the members of the Board of Directors explaining the reasons of the resignations".

Rules applicable to the amendment of the Corporate By-laws

The amendment of the Gamesa Corporación Tecnológica, S.A. Corporate By-laws is governed by the provisions of Articles 285 to 290 of the Spanish Capital Companies Act, approved by Royal Legislative Decree 1/2010 of July 2 (the "Capital Companies Act").

Additionally, the modification of the By-laws is governed by the provisions considered in the By-Laws and in the Shareholder General Meeting Regulations of the Company.

In this regard, about its modification, Articles 14. h) of the By-Laws and 6.1 h) of the Shareholder General Meeting Regulations claim that that corresponds to the Shareholder General Meeting of Gamesa.

Likewise, articles 18 of the By-Laws and 26 of the Shareholder General Meeting Regulations include quorum requirements for the adoption of agreements by the Shareholder General Meeting. On the other hand, Articles 26 of By-Laws and 32 of the Shareholder General Meeting Regulations consider the necessary majorities for these effects.

Furthermore, article 31.4 of Shareholder Regulations indicates that the Board of Directors according to what is provided by law will prepare proposals for different resolutions for those matters that are substantially independent, so that shareholders may separately exercise their voting preferences. This rule is particularly applicable in the case of amendments to the By-laws, with votes taken on all articles or groups of articles that are materially independent.

Finally, in accordance with Article 518 of the Spanish Companies Act upon the calling of the General Meeting, at which the amendment of the By-laws will be proposed, the Company's website will include the complete text of the proposed resolution and the reports from the competent bodies.

14 Powers of attorney of the members of the board of directors and, in particular, those relating to the possibility of issuing or repurchasing shares

Power-of-attorney granted to Members of the Board of Directors

The Board of Directors of GAMESA CORPORACIÓN TECNOLÓGICA, S.A., at the meeting held on May 23, 2012, unanimously agreed, following a favourable report by the Appointments and Remuneration Committee to appoint Mr. Ignacio Martín San Vicente as Executive Chairman of the Board of Directors and Managing Director, delegating all powers corresponding to the Board of Directors pursuant to law and to the Corporate By-laws to him, with the exception of those that may not be delegated pursuant to law or to the Corporate By-laws. Mr. Martín San Vicente accepted his appointment at the same act.

Powers relating to the possibility of issuing or repurchasing shares

At the date of the approval of this Report, the authorization granted by the Annual General Meeting held on May 28, 2015 remains in force, pursuant to which the Board of Directors has powers to acquire treasury shares. There follows below a verbatim transcription of the resolution approved by the Meeting under item 9 of the Agenda.

"To expressly authorize the Board of Directors, with express powers of substitution, pursuant to the provisions of article 146 of the Spanish Companies Act, to proceed to the derivative acquisition of shares in Gamesa Corporación Tecnológica, Sociedad Anónima, subject to the following conditions:

a) Acquisitions may be made directly by Gamesa, or indirectly through its controlled companies.

b) Acquisitions of shares shall be made through sale and purchase transactions, exchanges, or any other method allowed by law.

c) Acquisitions may be made, at any time, up to the maximum figure allowed by law.

d) The minimum price for the shares will be their par value and the maximum price may not exceed 110% of their listed price on the date of acquisition.

e) The shares acquired may be subsequently disposed of under such conditions as may be freely agreed.

f) This authorization is granted for a maximum term of 5 years, and expressly renders of no effect the authorization granted by the Company's Annual General Meeting on May 28, 2010, in that part left to run.

g) As a consequence of shares acquisition, including those that the Company or the person that acts on its self but on behalf of the Company may have acquired priory or have had treasury shares, the resulted equity will not be lower than the amount of the sum of the share capital plus the legal and unavailable statutory reserves, all under what is provided in letter b) of the Article 146.1 of the Spanish Companies Act.

Finally and in relation with the provision of the last paragraph of article 146.1.a) of the Spanish Companies Act, it is stated that the shares acquired pursuant to this authorization may be used by the Directors of the Company, either directly or as a result of the exercise of option rights or any other rights envisaged in the Incentive Plans of which they are the holders and/or beneficiaries pursuant to the provisions laid down by law, the by-laws, or the regulations."

15 Significant agreements entered into by the company and which come into force, are amended, or come to an end in the event of a change of control at the company as a result of a takeover bid, and the effects thereof, except where the disclosure thereof should be seriously prejudicial to the company. This exception shall not apply where the company should be under a statutory duty to make this information public

Pursuant to the framework agreement dated December 21, 2011 (Relevant Event 155308) between IBERDROLA, S.A. and the subsidiary of GAMESA CORPORACIÓN TECNOLÓGICA, S.A., GAMESA EÓLICA, S.L. Unipersonal, in the event of any change in control of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. would allow IBERDROLA, S.A. to terminate the framework agreement without the parties having any claim against such termination.

Also in accordance with the Joint Venture agreement signed as of July 7, 2014 (Relevant Event number 208151) and of March 9, 2015 (Relevant Event number 219885) between AREVA, SA and GAMESA CORPORACIÓN TECNOLÓGICA, SA, among other companies within their respective groups, the eventual change in control of GAMESA CORPORACIÓN TECNOLÓGICA, SA in favor of a competitor would authorize the parties to the AREVA group to terminate the agreement, a situation that could lead to the sale of AREVA's participation held by GAMESA in the Joint Venture or, ultimately, to the dissolution and liquidation of that company Joint Venture.

Finally, on December 17, 2015, Gamesa Energía, S.A.U. (as buyer) and GESTION ELABORACION DE MANUALES INDUSTRIALES INGENIERIA Y SERVICIOS COMPLEMENTARIOS, S.L., INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.U., CAF POWER & AUTOMATION, S.L.U. y FUNDACION TECNALIA RESEARCH & INNOVATION (as sellers) signed a Purchase-sale Agreement of social Shares which is subject to a condition precedent that regulates the acquisition of 50% of NUEVAS ESTRATEGIAS DE MANTENIMIENTO, S.L. (NEM). The Condition Precedent consists of the authorization of the NATIONAL SECURITIES MARKET COMMISSION AND OF THE COMPETITION BOARD determined in the Article 7.1.c) of 15/2007 Law, of July 3, of The Commission of Protection of Competition. On the same date, and with aim of regulating the relations between Gamesa Energía and INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.U. (ICF), as potential partners of NEM (in his case) the parties signed a Partner Agreement. According to the regulations gathered in the Partner Agreement, in the event of a change of control in GAMESA CORPORACIÓN TECNOLÓGICA, S.A., Gamesa Energía, S.A.U. should offer to the rest of partners the direct acquisition of their shares in NEM.

16 Any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid

The Chairman and CEO and some of the members of the executive team at the Company have contractual agreements to receive financial compensation in the event of termination for reasons attributable to the Company and, in some cases, due to the occurrence of objective circumstances, such as a change in control. The financial compensation agreed for such termination consists, in general, of the payment of compensation up to a maximum of two years' salary, depending on personal and professional circumstances and the time at which the agreement was concluded.

In general with regard to non-managerial employees, in the event of the termination of their employment relationship, their contracts do not clearly consider financial compensation other than as required by current legislation.

Annex

Alternative Performance Metrics

Gamesa's financial information contains magnitudes and measurements prepared in accordance with the applicable accounting standards and others referred to as Alternative Performance Metrics (APM). The APM are considered to be "adjusted" magnitudes with respect to those presented in accordance with EU-IFRS and, consequently, the reader should view them as supplementary to, but not replacements for, the latter.

The APM are important for users of the financial information since they are the metrics used by Gamesa Management to assess financial performance, cash flows and the financial position for the purposes of the Group's financial, operational and strategic decisions.

The APM contained in Gamesa's financial disclosures that cannot be directly reconciled with them are as follows:

1 Return on capital employed - ROCE

This APM is used by Gamesa management to assess the ability of operational assets to generate profits; it is a measure of the profitability and efficiency of invested capital (equity plus debt).

ROCE is calculated as:

$$\textbf{ROCE} = \frac{EBIT \times (1\text{-}t)}{CE}$$

Where *t* is the rate of corporate income tax and *(CE)* is the average capital employed in the period. Capital employed measures the capital invested in the group (equity plus debt) and is calculated as Total Equity + Net Financial Debt [NFD, defined below]. Average capital employed is calculated as the arithmetic mean of capital employed at the beginning of the current year and capital employed at the end of the period. ROCE is calculated for 12-month periods: for interim periods that do not coincide with a full accounting year, EBIT in the last twelve months is used.

The tax rate used is 28.3% in 2016 (28% in 2015), in accordance with the latest estimates of the average tax rate in the year.

		Million euro
	2016	**2015**
EBIT in the last 12 months (LTM)	477	323
(1-t)	0.717	0.720
I. EBIT LTM after taxes	**342**	**232**
Beginning total equity	1,527	1,385
Beginning NFD	(301)	(143)
II. Beginning capital employed	**1,226**	**1,242**
Ending total net equity	1,765	1,527
Final net financial debt	(682)	(301)
III: Ending capital employed	**1,083**	**1,226**
IV.= ((II+III)/2), Average capital employed	**1,155**	**1,234**
I / VI. ROCE	**29.62%**	**18.80%**

2 Net financial debt (NFD)

Net financial debt (NFD) is calculated as the sum of the company's bank borrowings, including subsidised loans (repayable advances), derivative instruments and other current and non-current financial liabilities, less cash and cash equivalents and the value of short-term financial investments.

Net Financial Debt is the main APM used by Gamesa management to measure the Group's indebtedness and leverage (when compared with Capital Employed).

Million euro(*)

	31.12.2016			31.12.2015		
Financial statements line-item:	**Financial Statements**	**Adjustments**	**NFD**	**Financial Statements**	**Adjustments**	**NFD**
Derivative financial instruments (non-current assets)	0	-	0	8	-	8
Derivative financial instruments (current assets)	12	-	12	10	-	10
Other current financial assets	21	-	21	17	-	17
Other current financial assets, related companies	10	-	10	8	-	8
Cash and cash equivalents	1,295	-	1,295	869	-	869
Financial debt (non-current liabilities)	(425)	-	(425)	(445)	-	(445)
Derivative financial instruments (non-current liabilities)	(7)	-	(7)	(4)	-	(4)
Other liabilities (non-current)	(38)	8(1)	(30)	(44)	13(1)	(31)
Financial debt (current liabilities)	(120)	-	(120)	(103)	-	(103)
Derivative financial instruments (current liabilities)	(60)	-	(60)	(4)	-	(4)
Other current liabilities	(121)	107(2)	(14)	(102)	80(2)	(23)
Net Financial Debt (positive: net cash / negative: net debt)			**682**			**301**

(1) The adjustment correspond to the elimination of liabilities with personnel amounting to €5.2 million at 31 December 2016 and other long term liabilities amounting to €2.8 million. At 31 December 2015, the adjustments were for elimination of liabilities to personnel amounting to €7 million, plus other liabilities related to associated companies amounting to €6 million.

(2) The adjustments relate to the elimination of items classified as working capital amounting to €107 million at 31 December 2016 (€80 million at 31 December 2015) (see Working Capital).

(*) Amounts, including totals, rounded to the nearest million, based on information presented in thousand euro. Consequently, the totals in millions may not be the exact sum of their components due to the rounding effect.

3 Working capital (WC)

Working Capital (WC) is calculated as the difference between current assets and current liabilities. Current assets and liabilities exclude all items classified as Net Financial Debt, such as Cash and cash equivalents.

Working Capital reflects the part of Capital Employed that is invested in net operating assets. Gamesa management uses this metric in managing and making decisions with respect to the business's cash conversion cycle, particularly in managing inventory, trade accounts receivable and trade accounts payable. Effective management of working capital involves achieving an optimal amount of working capital without jeopardising the company's ability to honour its obligations in the short term.

Million euro(*)

	31.12.2016			31.12.2015		
Financial statements line-item:	**Financial Statements**	**Adjustments**	**Working capital**	**Financial Statements**	**Adjustments**	**Working capital**
Inventories	1,036	-	1,036	803	-	803
Trade and other accounts receivable	1,226	-	1,226	989	-	989
Trade accounts receivable, related companies	285	-	285	82	-	82
Receivable from public authorities	301	-	301	213	-	213
Other receivables	19	-	19	42	-	42
Trade and other accounts payable	(2,405)	-	(2,405)	(1,789)	-	(1,789)
Trade accounts payable, related companies	(407)	0	(407)	(149)	0	(148)
Due to public authorities	(174)	-	(174)	(100)	-	(100)
Other current liabilities	(121)	14(1)	(107)	(102)	23(2)	(80)
Working capital			**(225)**			**12**

(1) The adjustments relate to the elimination of the short-term part of the balance of repayable advances (€8 million), and other accounts payable that qualify as net financial debt (€6 million).

(2) The adjustments relate to the elimination of the short-term part of the balance of repayable advances, (€6 million), and other accounts payable that qualify as net financial debt (€17 million).

(*) Amounts, including totals, rounded to the nearest million, based on information presented in thousand euro. Consequently, the totals in millions may not be the exact sum of their components due to the rounding effect.

The ratio of working capital to revenue is calculated as working capital at any given date divided by the revenue in the twelve months prior to that date.

4 Capital Expenditure (Capex)

Capital Expenditure (capex) refers to investments made in the period in fixed assets (productive assets, whether tangible or intangible) in order to generate future profits (and maintain the current capacity to generate profits, in the case of maintenance capex).

The amount of Capex is obtained directly from the financial statements:

Financial statements line-item: Cash flow statement	**2016**	Million euro **2015**
Acquisition of intangible assets	72	56
Acquisition of property, plant and equipment	139	112
Capex	**211**	**168**

5 Definitions of cash flow

Gross operating cash flow: amount of cash generated by the company's ordinary operations, excluding working capital and capital expenditure (capex). Gamesa includes the flow of net financial expenses under gross operating cash flow. Gross operating cash flow is obtained by adding, to reported income for the year, the ordinary non-cash items (depreciation and amortisation, and over-provisions) and income from equity-accounted affiliates.

Net operating cash flow: the result of deducting working capital (defined in item 6) from gross operating cash flow. Gamesa includes the cash impact of other provisions and other non-operating items under operating cash flow.

Free cash flow: obtained by deducting capital expenditure (capex) from operating cash flow. It indicates the funds available for use to distribute dividends, buy back shares, pay down debt or other corporate activities not related to ordinary business.

Free cash flow is calculated as the variation in Net Financial Debt (NFD) between December 2016 and 2015 (defined in item 2 above) plus dividends paid in the period.

	2015	**2016**	Million euro **Change**
NFD (+ cash / - debt)	**301**	**682**	**381**
Dividend payments			42
Free cash flow			**423**

6 Average working capital

Calculated as the average of Working Capital (defined in point 3) at the end of the last four quarters.

	Q1	**Q2**	**Q3**	**Q4**	Million euro **Average**
Working capital 2015	395	275	365	12	**262**
Working capital 2016	153	129	253	-225	**77**
Change					**(184)**

7 Average Selling Price (APS)

Average monetary revenue collected by the Wind Turbine division per unit sold (measured in MWe). ASP is affected by a number of factors (project scope, geographical distribution, product, exchange rate, prices, etc.) and does not represent the level or trend of profitability.

	2015	Million euro **2016**
Revenue	**3,504**	**4,612**
Wind Turbine Generators (1)	3,033	4,141
Operation and maintenance	471	471
MWe sold (2)	**3,180**	**4,332**
ASP (1/2)	**0.95**	**0.96**

8 Contribution Margin, Structural Expenses and EBIT

The Contribution Margin (CM) is the difference between revenue and variable costs. Deducting fixed (structural) costs, period depreciation and amortisation and impairments from the Contribution Margin gives EBIT. The Contribution Margin is normally presented as a percentage of revenue, the latter being revenue (total or by segments, as appropriate) in the financial statements.

Structural expenses are calculated by deducting period depreciation and amortisation, impairments and the Contribution Margin from EBIT. Structural expenses are presented as a percentage of revenues, the latter being revenue in the financial statements.

EBIT (Earnings Before Interest and Taxes): operating profit per the consolidated income statement. Operating profit before income from equity-accounted affiliates, net financial results including exchange gains/losses, taxes and income from discontinued operations/available-for-sale assets and non-controlling interests.

EBIT margin: ratio of reported EBIT to Revenue in the period (i.e. revenue in the consolidated profit and loss account).

9 Net profit and Net profit per share (EPS

Net profit: consolidated profit for the year attributable to the parent company.

Net profit per share (EPS): the result of dividing net profit by the average number of shares outstanding in the period (excluding treasury shares).

Thousands	2015	2016
Net profit	170,216	301,278
Number of shares	276,133	276,723
BNA	**0.62**	**1.09**

10 Other indicators

Coverage of WTG sales volume: the sales coverage ratio expresses the likelihood of achieving the WTG sales volume targets set by the company for a given year. It is calculated as orders received in the period (in MW) for activity/sale in a given year, divided by the activity/sales guidance for that year. Where the commitment is expressed as a range, the mid-point of the range is used. Where the commitment is expressed as a minimum volume, the ratio is calculated using that minimum volume.

MW	2016
Order Backlog year N (1)	3,135
Sales guidance year (2)	5,000
Coverage of WTG sales volume (1/2)	**63%**

Book-to-bill: ratio of order intake (in MW) to activity/sales (MWe) in the same period. The Book-to-Bill ratio gives an indication of the future trend in sales volume.

MW	2016
Order Intake	4,687
MWe	4,332
Book to bill	**1.1**

MWe: an indicator of activity (a physical unit of sale) used to measure wind turbine generator manufacture in terms of work in progress. The MWe indicator does not reflect post-manufacturing processes (civil engineering, installation, commissioning, etc.), which also generate monetary revenue.

Cost of energy (LCOE/COE): the cost of converting a source of energy, e.g. wind, into electricity, measured in monetary units per MWh. It is calculated taking account of all costs incurred during the asset's life cycle (including construction, finance, fuel, operation and maintenance, taxes and incentives), divided by the total output expected from the asset during its useful life.

Auditor’s report on information relating to the internal control over financial reporting (ICFR) for 2016

(Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Auditor's report on information relating to the internal control over financial reporting (ICFR) of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. for 2016

To the Directors,

At the request of the Board of GAMESA CORPORACIÓN TECNOLÓGICA, S.A. (hereinafter the Company), and in accordance with our proposal dated December 2, 2016, we applied certain procedures to the accompanying "ICFR-related information" included in the Corporate Governance Report, hereinafter CGR, (English version pages 70 to 87) for GAMESA CORPORACIÓN TECNOLÓGICA, S.A. and subsidiaries for 2016, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the Company's internal control system as a far as annual financial reporting is concerned, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Company's internal control system was to establish the scope, nature, and timing of the audit procedures performed on its financial statements. Therefore, our internal control assessment performed for the audit of the aforementioned financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit carried out in accordance with generally accepted accounting principles, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's 2015 financial data described in the accompanying ICFR information. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with Royal Decree 1/2011, dated July 1, enacting the revised Audit Law, we do not express an audit opinion in the terms provided for therein.

The following procedures were applied:

1. Read and understand the information prepared by the Company in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in section F, relating to the description of the ICFR, as per the IAGC model established by CNMV Circular nº 7/2015 dated December 2, 2015.

2. Make inquiries of personnel in charge of preparing the information described in point 1 above in order to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions (iii) gather information regarding whether the described control procedures are implemented and functioning within the Company.

3. Review the explanatory documentation supporting the information described in section 1 above, which should basically include everything directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the the Audit Committee.

4. Compare the information contained in section 1 above with the Company's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.

5. Read the minutes of the Board Meetings, Audit Committees, and other Company committees in order to evaluate the consistency between issues related to the ICFR and information discussed in section 1.

6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the information discussed in section 1.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Corporate Enterprises Act, by Circular number 7/2015 of the Spanish National Security Market, related to the description of the ICFR in the Corporate Governance Report.

ERNST & YOUNG, S. L.

(Signed on the original)

Alberto Peña Martínez

February 23, 2017

CARLOS RODRIGUEZ-QUIROGA MENÉNDEZ, WITH NATIONAL IDENTITY CARD NUMBER 276302 A, SECRETARY OF THE BOARD OF DIRECTORS "GAMESA CORPORACIÓN TECNOLÓGICA, S.A." WITH REGISTERED OFFICE IN ZAMUDIO (VIZCAYA), AT PARQUE TECNOLÓGICO DE BIZKAIA, BUILDING 222 WITH EMPLOYER IDENTIFICATION NUMBER A-01011253.

HEREBY CERTIFY:

That the text of the consolidated management report for 2016 of GAMESA CORPORACIÓN TECNOLÓGICA, S.A., authorised for issue by the Board of Directors at its meeting held on February 22, 2017, is the content of the preceding 148 sheets of unstamped paper, on the obverse only, and for authentication purposes, bear my signature and that of the Chairman of the Board of Directors.

The directors listed below hereby so ratify by signing below, in conformity with Article 253 of the Spanish Limited Liability Companies Law.

Ignacio Martín San Vicente
Chairman and CEO

Juan Luis Arregui Ciarsolo
Deputy Chairman

Carlos Rodriguez-Quiroga Menéndez
Secretary of the Board of Directors

José María Vázquez Eguskiza
Member of the Board of Directors

Luis Lada Díaz
Member of the Board of Directors

José María Aracama Yoldi
Member of the Board of Directors

Sonsoles Rubio Reinoso
Member of the Board of Directors

Jose Maria Aldecoa Sagastasoloa
Member of the Board of Directors

Francisco Javier Villalba Sanchez
Member of the Board of Directors

Gloria Hernández García
Member of the Board of Directors

Andoni Cendoya Aranzamendi
Member of the Board of Directors

Gerardo Codes Calatrava
Member of the Board of Directors

Zamudio, February 22, 2017. In witness whereof

Approval of the Chairman

Ignacio Martín San Vicente
Chairman and CEO

Carlos Rodriguez-Quiroga Menéndez
Secretary of the Board of Directors

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