

Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

Naturgy Energy Group S.A. and Subsidiaries
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of Naturgy Energy Group, S.A.:

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Naturgy Energy Group, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and consolidated financial position of the Group at December 31, 2019, and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Commitments for the purchase of natural gas

Description	<p>As indicated in Notes 3.4.8.3 and 37 to the accompanying consolidated financial statements, the Group has taken long-term contractual commitments for the purchase of natural gas. In accordance with usual practices in the gas industry, said contracts can be signed for a maximum period of 20 to 25 years, and establish a minimum amount of gas to be purchased (take or pay clauses whereby the buyer assumes the obligation to pay the amount of natural gas contracted regardless of whether they receive it or not) and price review mechanisms linked to international prices of natural gas and prices of natural gas in the countries of destination.</p> <p>These agreements are executed and kept to meet the needs for receiving or delivering the natural gas expected by the Group in accordance with periodical purchase and sale estimates. Consequently, the Group classifies these contracts as for 'own use', and they are thus excluded from the scope of IFRS 9 'Financial instruments'. The natural gas purchase commitments under these contracts amount to 59,045 million euros at December 31, 2019 (Note 37).</p> <p>The assessment of the long-term natural gas procurement contracts requires Group Management to exercise critical judgment regarding the short-, mid- and long-term demand and supply estimates and compliance with the clauses included in the contracts, in order to determine their classification as own-use contracts. Consequently, we consider this area a key audit matter.</p>
-------------	--

Our response

Our audit procedures for this area consisted, among others, in:

- ▶ Understanding the accounting procedures and criteria applied by the Group regarding future procurement contracts.
- ▶ Reading and analyzing a significant sample of the natural gas procurement contracts signed by the Group.
- ▶ Analyzing, by involving our financial instruments experts, whether the analyzed gas purchase and sale agreements meet the own-use definition by verifying the requirements established for such classification in the applicable framework for financial reporting.
- ▶ Evaluating the amounts acquired during the year and checking that the minimum contractual amounts are met.
- ▶ Analyzing provisions and contingencies linked to price review arbitration proceedings, through meetings to understand and validate the ongoing arbitration proceedings, reading the corresponding contracts and obtaining the litigation confirmation letter from the Group's legal services.
- ▶ Reviewing the information related to the gas purchase agreements disclosed in the consolidated financial statements for the year.

Revenue recognition: Sale of unbilled energy

Description	<p>As detailed in Note 11, at 2019 year end, the Group has recorded in the 'Trade and other receivables' heading of the consolidated balance sheet 1,618 million euros corresponding to sales of energy that has been supplied but not yet billed because the usual meter reading period does not coincide with the closing of the consolidated financial statements for the year. The measurement of these unbilled sales is based on complex estimates that require Group Management to apply certain criteria, judgments and assumptions.</p>
-------------	--

The main estimates on which Group Management apply criteria, judgments and assumptions to determine these unbilled sales are the daily consumption derived from seasonally adjusted historical customer profiles and other measurable factors affecting consumption. The information regarding the Group's revenue recognition criterion is detailed in Note 3.4.24.g) to the accompanying consolidated financial statements. Due to the foregoing, we consider this area a key audit matter.

Our
response

Our audit procedures for this area consisted, among others, in:

- ▶ Understanding the criteria and procedures applied by the Group for estimating unbilled sales, also verifying the effectiveness of the relevant controls associated with the revenue recognition process for unbilled energy supplied.
- ▶ Analyzing the Group's energy balances in physical units, by checking the correlation between the consumption in the year and sales in the same period (which include estimated unbilled energy). Additionally, verifying the reasonableness of the assumptions applied (consumption and prices) in the estimate of unbilled sales made by the Group.
- ▶ Performing substantive analytical procedures on the historical evolution of billing pending issue and the reasonableness of the sales volumes and margins of the year.

Assessment of the recovery of the book value of certain Group assets

Description As detailed in Notes 6 and 7 to the accompanying consolidated financial statements, the Group shows intangible assets and property, plant and equipment amounting to 7,713 million euros and 19,647 million euros, respectively.

Additionally, as indicated in Note 9 to the accompanying consolidated financial statements, the Group has an investment in Unión Fenosa Gas, S.A. accounted for using the equity method, the net carrying amount of which at year end is 309 million euros.

These assets are allocated to the cash generating units (CGUs) as indicated in Note 3.4.6 to the accompanying consolidated financial statements.

Additionally, as detailed in Note 10 to the accompanying consolidated financial statements, the Group holds 85.4% of the share capital of Electrificadora del Caribe, S.A. ESP (Electricaribe), which carries out the electricity distribution business in Colombia, whose net carrying amount at year end is the best estimate of its fair value and amounts to 28 million euros.

The recoverability of the book value of the indicated assets has been determined based on the present value of the future cash flows generated by the CGUs or, where appropriate, the best estimate of their recoverable amount. The cash flows are calculated based on the business plans approved by Management. The key assumptions about these cash flows are included in Note 3.4.6 to the accompanying consolidated financial statements. Additionally, Management have made a sensitivity analysis of the key assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, impairment losses and write-downs on net assets have been recorded in the 2019 consolidated income statement for an amount of 61 million euros and 225 million euros under the 'Other accumulated comprehensive income' heading, as indicated in Notes 5 and 10 to the accompanying consolidated financial statements.

We have considered this area a key audit matter due to the significance of the amounts involved and the existence of significant estimates of the key assumptions used in the calculations made by Management for assessing the recoverability of the assets' value.

Our
response

Our audit procedures for this area consisted, among others, in:

- ▶ Understanding the processes established by Group Management in the determination of the impairment of the assets, including the assessment of the design and implementation of relevant controls.
- ▶ Analyzing the reasonableness of the allocation of the assets to the several cash generating units (CGUs).
- ▶ Reviewing the model used by Group Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Group Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Group Management.
- ▶ Reviewing the estimates made by Management and the financial information projected in the strategic plan for each CGU by analyzing the historical financial and budget information, the current market conditions, and the expectations on their potential evolution.
- ▶ Reviewing the information disclosed in the notes to the consolidated financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: Consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the Parent Company's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information included in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which solely requires us to verify that said information has been included in the management report and, if not, that the reference corresponding to the separate report on non-financial information as provided for by the regulations has been included therein, and if not, disclose this fact.

- b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on the knowledge of the Group we obtained while auditing the consolidated financial statements, not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibility of the Parent Company's Directors and the audit committee 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, financial position and results of the Group, in accordance with IFRS-EU, 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.

In preparing the consolidated financial statements, the directors of the Parent Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee of the Parent Company is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's directors.
- ▶ Conclude on the appropriateness of the Parent Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express and opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Parent Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and communicate to them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee of the Parent Company

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Parent Company on February 6, 2020.

Term of engagement

The ordinary general shareholders' meeting held on April 20, 2017 appointed us as Group auditors for 3 years, commencing on December 31, 2018.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alfredo Eguiagaray

February 6, 2020



Naturgy

2019 Annual Report

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Balance Sheet
Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Statement of Changes in Consolidated Equity
Consolidated Cash Flow Statement
Notes to the Consolidated Annual Accounts



This 2019 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

All the documentation included in the 2019 Annual Report has been translated into English except for the Annual Report on Corporate Governance which is included in Spanish.

Naturgy
Consolidated Balance Sheet

(million euro)

	31.12.19	31.12.18
ASSETS		
Intangible assets (Note 6)	7,713	7,845
Goodwill	3,202	3,215
Other intangible assets	4,511	4,630
Property, plant and equipment (Note 7)	19,647	20,707
Right-of-use assets (Note 8)	1,416	-
Investments recorded using the equity method (Note 9)	731	816
Non-current financial assets (Note 10)	738	910
Other non-current assets (Note 11)	581	334
Deferred tax assets (Note 22)	1,525	1,689
NON-CURRENT ASSETS	32,351	32,301
Non-current assets held for sale (Note 12)	73	202
Inventories (Note 13)	796	850
Trade and other receivables (Note 11)	4,900	5,134
Trade receivables for sales and services	3,911	4,415
Other receivables	708	534
Current tax assets	281	185
Other current financial assets (Note 10)	333	428
Cash and cash equivalents (Note 14)	2,685	1,716
CURRENT ASSETS	8,787	8,330
TOTAL ASSETS	41,138	40,631
EQUITY AND LIABILITIES		
Capital	984	1,001
Share premium	3,808	3,808
Treasury shares	(321)	(325)
Reserves	6,687	11,290
Profit for the period attributed to the parent company	1,401	(2,822)
Interim dividend	(754)	(730)
Other equity items	(1,254)	(1,274)
Equity attributed to the parent company	10,551	10,948
Non-controlling interests	3,425	3,647
EQUITY (Note 15)	13,976	14,595
Deferred income (Note 16)	898	863
Non-current provisions (Note 17)	1,169	1,125
Non-current financial liabilities (Note 18)	15,701	13,352
Borrowings	14,252	13,352
Lease liabilities	1,446	-
Other financial liabilities	3	-
Deferred tax liabilities (Note 22)	2,249	2,149
Other non-current liabilities (Note 20)	492	1,540
NON-CURRENT LIABILITIES	20,509	19,029
Liabilities related to non-current assets held for sale (Note 12)	46	93
Current provisions (Note 17)	291	297
Current financial liabilities (Note 18)	2,286	2,079
Borrowings	2,081	2,068
Lease liabilities	198	-
Other financial liabilities	7	11
Trade and other payables (Note 21)	3,744	4,067
Trade payables	3,118	3,267
Other payables	593	767
Current tax liabilities	33	33
Other current liabilities (Note 20)	286	471
CURRENT LIABILITIES	6,653	7,007
TOTAL EQUITY AND LIABILITIES	41,138	40,631

The accompanying Notes 1 to 40 and Appendices are an integral part of the consolidated balance sheet at 31 December 2019 and 2018.

Naturgy
Consolidated Income Statement

(million euro)

	2019	2018
Revenue (Note 23)	23,035	24,339
Raw materials and consumables (Note 24)	(16,311)	(17,723)
Other operating income (Note 25)	164	166
Personnel expenses (Note 26)	(924)	(1,010)
Other operating expenses (Note 27)	(1,476)	(1,816)
Gain/(loss) on disposals of fixed assets (Note 28)	28	21
Release of fixed asset grants to income and other (Note 16)	46	42
GROSS OPERATING RESULTS	4,562	4,019
Depreciation/amortisation and impairment losses (Notes 5, 6, 7, 8, 13 and 29)	(1,658)	(6,007)
Impairment due to credit losses (Note 11)	(134)	(179)
Other results (Note 30)	93	-
OPERATING PROFIT/(LOSS)	2,863	(2,167)
Financial income	80	122
Financial expenses	(837)	(802)
Variations in fair value of financial instruments	89	(5)
Net exchange differences	2	-
NET FINANCIAL INCOME (Note 31)	(666)	(685)
Profit/(loss) of entities recorded by equity method (Note 8)	75	(513)
PROFIT/(LOSS) BEFORE TAXES	2,272	(3,365)
Corporate income tax (Note 22)	(476)	779
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	1,796	(2,586)
Profit for the year from discontinued operations, net of taxes (Note 12)	-	(10)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	1,796	(2,596)
Attributable to:		
The parent company	1,401	(2,822)
From continuing operations	1,401	(2,853)
From discontinued operations	-	31
Non-controlling interests (Note 15)	395	226
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company (Note 15)	1.43	(2.86)
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company (Note 15)	-	0.03
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company (Note 15)	1.43	(2.83)

The accompanying Notes 1 to 40 and Appendices are an integral part of the consolidated income statement for the years ended 31 December 2019 and 2018.

Naturgy
Consolidated Statement of Comprehensive Income (million euro)

	2019	2018
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	1,796	(2,596)
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY	(143)	(422)
Items that will not be transferred to profit/(loss):		
Financial assets at fair value through other comprehensive income (<i>Note 10</i>)	(225)	(188)
Actuarial gains and losses and other adjustments (<i>Note 17</i>)	(112)	15
Tax effect of actuarial gains and losses and other adjustments (<i>Note 22</i>)	24	(3)
Items that will subsequently be transferred to profit/(loss):		
Cash flow hedges	348	3
Tax effect cash flow hedges (<i>Note 22</i>)	(35)	(6)
Currency translation differences	(158)	(240)
Equity-consolidated companies (<i>Note 9</i>)	15	(3)
<i>Currency translation differences</i>	15	(3)
RELEASES TO INCOME STATEMENT	8	139
Cash flow hedges	(27)	107
Tax effect cash flow hedges (<i>Note 22</i>)	-	(18)
Currency translation differences	35	50
OTHER COMPREHENSIVE INCOME FOR THE YEAR	(135)	(283)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,661	(2,879)
Attributable to:		
The parent company	1,309	(3,089)
From continuing operations	1,314	(3,136)
From discontinued operations	(5)	47
Non-controlling interests	352	210

The accompanying Notes 1 to 40 and Appendices are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2019 and 2018.

Naturgy
Statement of Changes in Consolidated Equity

(million euro)

	Equity attributed to the parent company										Non-controlling interests (Note 15)	Equity
	Share capital (Note 15)	Share premium (Note 15)	Treasury shares (Note 15)	Reserves and retained earnings	Profit/(loss) for the year	Currency translation differences	Cash flow hedges	Financial assets at fair value	Other equity items (Note 15)	Subtotal		
Balance at 31.12.17	1,001	3,808	(9)	9,574	1,360	(899)	(54)	(47)	(1,000)	14,734	3,571	18,305
Impact of first application of new standards (Note 3.2)	-	-	-	10	-	-	-	(14)	(14)	(4)	(13)	(17)
Balance at 01.01.18	1,001	3,808	(9)	9,584	1,360	(899)	(54)	(61)	(1,014)	14,730	3,558	18,288
Total comprehensive income for the year	-	-	-	15	(2,822)	(162)	63	(183)	(282)	(3,089)	210	(2,879)
Operations with shareholders or owners	-	-	(316)	959	(1,360)	-	-	22	22	(695)	(61)	(756)
Dividend distribution (Note 15)	-	-	-	(40)	(1,360)	-	-	-	-	(1,400)	(505)	(1,905)
Transfer of subsidiary	-	-	-	(22)	-	-	-	22	22	-	(9)	(9)
Trading in treasury shares (Note 15)	-	-	(316)	-	-	-	-	-	-	(316)	(5)	(321)
Share-based payments (Note 15)	-	-	-	5	-	-	-	-	-	5	-	5
Other transactions with shareholders or owners	-	-	-	1,016	-	-	-	-	-	1,016	458	1,474
Other changes in equity	-	-	-	2	-	-	-	-	-	2	(60)	(58)
Other changes	-	-	-	2	-	-	-	-	-	2	(60)	(58)
Balance at 31.12.18	1,001	3,808	(325)	10,560	(2,822)	(1,061)	9	(222)	(1,274)	10,948	3,647	14,595
Total comprehensive income for the year	-	-	-	(85)	1,401	(77)	295	(225)	(7)	1,309	352	1,661
Operations with shareholders or owners	(17)	-	4	(4,546)	2,822	27	-	-	27	(1,710)	(511)	(2,221)
Dividend distribution (Note 15)	-	-	-	(4,141)	2,822	-	-	-	-	(1,319)	(576)	(1,895)
Capital reduction (Note 15)	(17)	-	400	(383)	-	-	-	-	-	-	-	-
Trading in treasury shares (Note 15)	-	-	(396)	-	-	-	-	-	-	(396)	(4)	(400)
Share-based payments (Note 15)	-	-	-	5	-	-	-	-	-	5	-	5
Other transactions with shareholders or owners	-	-	-	(27)	-	27	-	-	27	-	69	69
Other changes in equity	-	-	-	4	-	-	-	-	-	4	(63)	(59)
Other changes	-	-	-	4	-	-	-	-	-	4	(63)	(59)
Balance at 31.12.19	984	3,808	(321)	5,933	1,401	(1,111)	304	(447)	(1,254)	10,551	3,425	13,976

The accompanying Notes 1 to 40 and Appendices are an integral part of the statement of changes in equity for the years ended 31 December 2019 and 2018.

Naturgy
Consolidated cash flow statement

(million euro)

	2019	2018
Profit/(loss) before tax	2,272	(3,365)
Adjustments to income (Note 32):	2,040	7,131
Depreciation/amortisation and impairment losses (Notes 6, 7, 8, 13 and 29)	1,658	6,007
Other adjustments to net profit (Note 32)	382	1,124
Changes in working capital (Note 32)	545	(208)
Other cash flow generated from operations (Note 32):	(836)	(677)
Interest paid	(646)	(621)
Interest collected	33	23
Dividends collected	170	184
Income tax paid	(393)	(263)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES ⁽¹⁾	4,021	2,881
Cash flows into investing activities:	(1,888)	(1,904)
Group companies, associates and business units (Note 32)	(10)	(27)
Property, plant and equipment and intangible assets	(1,849)	(1,808)
Other financial assets	(29)	(69)
Proceeds from divestitures:	354	1,230
Group companies, associates and business units (Note 32)	234	1,109
Property, plant and equipment and intangible assets	95	40
Other financial assets	25	81
Other cash flows from investing activities:	78	57
Other proceeds from investing activities (Note 16)	78	57
CASH FLOWS FROM INVESTING ACTIVITIES ⁽¹⁾	(1,456)	(617)
Receipts/(payments) on equity instruments:	(405)	1,189
Issue/disposal (Note 32)	-	1,500
Acquisition (Note 32)	(405)	(311)
Receipts and payments on financial liability instruments:	728	(2,813)
Issue (Note 32)	8,251	8,343
Repayment and amortisation (Note 32)	(7,523)	(11,156)
Dividends paid (and remuneration on other equity instruments) (Note 15)	(1,901)	(1,976)
Other cash flows from financing activities	(21)	(159)
CASH FLOW GENERATED FROM FINANCING ACTIVITIES ⁽¹⁾	(1,599)	(3,759)
Other changes in cash and cash equivalents (Note 32)	13	(21)
Effect of fluctuations in exchange rates	(10)	7
VARIATION IN CASH AND CASH EQUIVALENTS	969	(1,509)
Cash and cash equivalents at beginning of the year (Note 14)	1,716	3,225
Cash and cash equivalents at year end (Note 14)	2,685	1,716

⁽¹⁾ Includes cash flows from continuing and discontinued operations (Note 11).

The accompanying Notes 1 to 40 and Appendices are an integral part of the consolidated cash flow statement for the years ended 31 December 2019 and 2018.

Naturgy Energy Group, S.A. and subsidiaries

Contents of the notes to the consolidated annual accounts for 2019

(1)	General information	7
(2)	Regulatory framework	7
(3)	Basis of presentation and accounting policies	28
	3.1. Basis of presentation	28
	3.2. New IFRS-EU and IFRIC interpretations	28
	3.3. Comparability	35
	3.4. Accounting policies	35
	3.4.1. Consolidation	35
	3.4.2. Transactions in foreign currency	38
	3.4.3. Intangible assets	39
	3.4.4. Property, plant and equipment	40
	3.4.5. Right-of-use assets	42
	3.4.6. Non-financial asset impairment losses	42
	3.4.7. Financial assets and liabilities	43
	3.4.8. Derivatives and other financial instruments	45
	3.4.9. Non-current assets held for sale and discontinued operations	47
	3.4.10. Inventories	47
	3.4.11. Share capital	48
	3.4.12. Share-based payments	48
	3.4.13. Earnings per share	48
	3.4.14. Borrowings and equity instruments	48
	3.4.15. Preference shares and subordinated perpetual debentures	49
	3.4.16. Deferred income	49
	3.4.17. Provisions for employee obligations	49
	3.4.18. Provisions	50
	3.4.19. Leases	51
	3.4.20. Lease liabilities	51
	3.4.21. Income tax	52
	3.4.22. Recognition of income and expenses	52
	3.4.23. Cash-flow statement	55
	3.4.24. Significant accounting estimates and judgments	55
(4)	Segment financial information	57
(5)	Asset impairment losses	61
(6)	Intangible assets	68
(7)	Property, plant and equipment	70
(8)	Right-of-use assets	71
(9)	Investments in companies	71
(10)	Financial assets	74
(11)	Other non-current assets and trade and other receivables	77
(12)	Non-current assets and disposal groups of assets held for sale and discontinued operations	79
(13)	Inventories	83
(14)	Cash and cash equivalents	84
(15)	Equity	84
(16)	Deferred income	94
(17)	Provisions	95
(18)	Financial liabilities	101
(19)	Risk management and derivative financial instruments	107
(20)	Other current and non-current liabilities	115
(21)	Trade and other payables	116
(22)	Tax situation	117
(23)	Revenue	120
(24)	Raw materials and consumables	121
(25)	Other operating income	121
(26)	Personnel expenses	122
(27)	Other operating expenses	123
(28)	Profit/(loss) on disposals of fixed assets	123
(29)	Depreciation and non-financial asset impairment losses	123
(30)	Other results	123
(31)	Net financial income	124
(32)	Cash generated from operating activities and other cash-flow details	124
(33)	Business combinations	126
(34)	Service concession agreements	128
(35)	Related party disclosures	128
(36)	Information on Board members and senior management personnel	130
(37)	Litigation, arbitration, guarantees and commitments	132
(38)	Auditors' fees	135
(39)	Environment	136
(40)	Events after the reporting date	137
	Appendix I. Naturgy companies	138
	Appendix II. Variations in the consolidation scope	147
	Appendix III. Naturgy tax group companies	150

Notes to the consolidated annual accounts of Naturgy for 2019

Note 1. General information

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida de San Luis 77, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

Naturgy Energy Group, S.A. and subsidiaries ("Naturgy") form a group that is mainly engaged in the business of gas (supply, liquefaction, regasification, transport, storage, distribution and sale), electricity (generation, transport, distribution and sale) and any other existing source of energy. It may also act as a holding company and in this respect may incorporate or hold shares in other entities, no matter what their corporate objects or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same.

Naturgy operates mainly in Spain and also outside Spain, particularly in Latin America and the rest of Europe.

Note 4 includes financial information by operating segment.

Appendix I lists the investee companies of Naturgy at the reporting date.

The shares of Naturgy Energy Group, S.A. are listed on the four official Spanish stock exchanges, are traded on the continuous market and form part of the Ibex35.

Note 2. Regulatory framework

European Regulatory Environment

Since 2018 a large part of European energy legislation has been revised and agreements have been concluded that will define EU energy regulation within the 2030 and 2050 timeframes, with increasing concern for environmental protection.

The legalisation covers, among other aspects, the reform of the emission allowance market, the distribution of national efforts to reduce emissions in diffuse sectors, the development of renewable energies and energy efficiency measures, the adoption of Integrated National Energy and Climate Plans, internal electricity market regulations and CO₂ emission standards for vehicle manufacturers:

- On 8 April 2018, the reform of Directive (EU) 2018/410 which amended Directive 2003/87/EC to enhance cost-effective emission reductions came into force, and will be applicable for the period 2021-2030. In the case of sectors subject to the emission allowance market, an emissions reduction of 43% against 2005 emissions is assumed for 2030 and additional measures are established to reduce the excess of emission allowances in the market, for the purpose of providing a CO₂ price signal.
- On 14 May 2018, Directive 2018/844 was approved, amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency, which aims, among other objectives, to decarbonise the European building stock by 2050 with a view to achieving a zero emission level.
- On 30 May 2018, Directive (EU) 2018/850 of the European Parliament and of the Council amending Directive 1999/31/EC on the landfill of waste and Directive (EU) 2018/851 which amended Directive 2008/98/EC on waste. This legislation, which came into force in July 2018, sets out clear objectives for waste reduction and establishes a long-term path for waste management and recycling. Some highlights of the proposal are the setting of a European objective to recycle 65% of municipal waste by 2035, a 10% maximum limit on municipal waste in landfills by 2035 and the extension of separate waste collection to bio-waste.

The following were published on 21 December 2018:

- Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources which sets a European target for renewable energy of 32% with respect to final energy by 2030 and a target of a 14% share for renewable energy in domestic transport demand, both revisable in 2023.
- Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action, directly applicable to the Member States. The Regulation defines the content of the Integrated National Energy and Climate Plans (NECPs), as well as the process for adopting them at European level.

In February 2019, Spain submitted its draft National Energy and Climate Plan 2021-2030 with domestic targets for the 5 dimensions of the Energy Union (security, market, efficiency, decarbonisation and R&D+i), with the corresponding policies and measures. On 18 June 2019 the European Commission published its assessment of the NECPs submitted by the Member States to achieve the Energy Union targets. The final versions of the NECPs were due to be submitted by 31 December 2019, although as of 13 January 2020 the Spanish plan has yet to be submitted.

- Directive (EU) 2018/2002 of the European Parliament and of the Council amending Directive 2012/27/EU on energy efficiency. The European Commission considers energy efficiency as an energy source in itself and highlights its contribution to reducing the consumption of fossil fuels and dependence on external suppliers, in addition to reducing consumer bills, improving air quality and protecting the environment. According to the Directive, Member States must comply with a binding objective for savings equivalent to 0.8% of annual final energy consumption during the period 2021-2030. Energy distributors and retailers and transport fuel distributors and retailers are subject to this Directive.

On 3 May, Directive (EU) 2019/692 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas was published in the Official Journal of the European Union. The amendments brought in by this Directive will ensure that the rules applicable to gas transmission pipelines linking two or more Member States (such as third party access, tariff regulation, ownership unbundling and transparency) will also apply within the Union (land and sea) to pipelines to and from third countries.

On 14 June 2019, the following were published in the Official Journal of the European Union:

- Directive 2019/944 concerning common rules for the internal market in electricity and amending Directive 2012/27/EU, which must be transposed into Spanish law within a maximum period of 18 months. Key elements included in the Directive are the regulation of changes in supplier, the right to smart meters, tools made available to consumers to compare prices and services, the possibility of signing electricity contracts at dynamic prices and price regulation to help vulnerable households. It also provides that regulated prices should be reviewed by the Commission in 2025.
- Regulation 2019/943 concerning the internal market in electricity. Among other matters, the Regulation lays down limits on capacity mechanisms, new rules on trading and balancing responsibilities to ensure that variable electricity generation from renewable sources can be accommodated without creating discriminatory provisions or market distortions, and provisions on priority dispatching of electricity generated from renewable sources under certain conditions.
- Regulation 2019/941 on risk preparedness in the electricity sector and repealing Directive 2005/89/EC. This Regulation establishes a common framework of rules for cooperation among Member States to prevent, prepare for and manage electricity crisis situations by making the preparation phase and action during an electricity crisis more transparent and ensuring that measures are taken in a coordinated and effective manner.
- Regulation 2019/942 establishing the recast version of the European Union Agency for the Cooperation of Energy Regulators (ACER) which strengthens ACER's role in the regulatory supervision of European entities, including the European Network of Transmission System Operators (ENTSO-E), the EU entity for distribution system operators (EU DSO) and the newly established

Regional Coordination Centres. This includes action to settle disagreements between national regulatory authorities.

On 11 December 2019 the European Commission published a Communication on the European Green Deal which sets out how to make Europe the first climate-neutral continent by 2050, boosting the economy, improving citizens' health and well-being, protecting nature and leaving no-one behind. The Communication sets out the European Commission's new growth strategy for the coming years, based on sustainability and the fight against climate change. In line with this Strategy, the Commission will propose in 2020 a plan to increase its emissions reduction target (currently 2030, it will be increased to at least 50%, with the aim of achieving a 55% reduction in 2030).

Regulation of the electricity industry in Spain

Main regulatory developments

In Spain, concern over the environment and energy prices is reflected in the announcement of a future Climate Change Law that will be accompanied by two other packages of measures: the Integrated National Energy and Climate Plan the final version of which was expected to be presented to the European Union by 31 December 2019, and the Low Emissions Strategy 2050. These regulations will contain the specific measures which the Government feels will allow the climate targets contained in the Law to be achieved. Among other matters, they will define the energy mix for the coming years.

Among the measures taken, it is worth noting the approval during 2018 of two Royal Decree-Laws on urgent measures that introduced major changes in the industry legislation:

- Royal Decree-Law 15/2018 on urgent measures for the energy transition and consumer protection extends the coverage of the electricity social bond and creates a new thermal social bond as direct assistance for certain vulnerable consumers to pay their heating, hot water or cooking expenses irrespective of the fuel they use. It also temporarily suspends the generation tax and the exemption of gas-based electricity generation from the excise duty on hydrocarbons, in order to urgently moderate electricity prices and adopt other consumer protection measures. Finally, in order to boost self-consumption, it eliminates the charges on self-consumed energy, allows shared self-consumption and simplifies technical and administrative procedures.
- Royal Decree-Law 20/2018 of 7 December on urgent measures to foment economic competitiveness in the industry and commerce sectors, has created the Electro-intensive Consumer Statute and the closed electrical energy distribution network, as the main support measures for electro-intensive companies

In addition, Royal Decree-Law 1/2019, published on 14 January 2019, has revised the allocation of regulatory powers to the National Commission for Markets and Competition (CNMC) and the Ministry for Ecological Transition (MITECO) to comply with European regulations. When carrying out its new functions, the CNMC must take into consideration the strategic priorities established by the Government and set out in its energy policy guidelines.

The relevant Departments of the Regional Governments have competence in both the development and enforcement of legislation.

On 26 January 2019, Royal Decree 18/2019 of 25 January was published which regulates matters concerning the application of the greenhouse gas emission allowance trading scheme for the period 2021-2030. The purpose of this Royal Decree is to prepare for the entry into force in Spain of the new phase of the European Union Emission Trading Scheme (EU ETS), which will be applicable between 2021 and 2030. The EU ETS is one of the European Union's main instruments for achieving its greenhouse gas (GHG) emission reduction target, set at least 40% by 2030 compared to 1990 levels, in line with the commitments made by the European Council in 2014 and as part of the EU's contribution to the Paris Agreement of 2015.

On 20 February 2019, the CNMC published the schedule of regulatory circulars that may affect energy policy issues to be processed in 2019.

On 9 April 2019, Order TEC/406/2019 of 5 April was published, establishing energy policy guidelines for the CNMC in which the recommendations of the Ministry for Ecological Transition in relation to the circulars planned for 2019 are set out.

On 30 April 2019, Royal Decree 317/2019 of 26 April was published, defining the mitigation measure equivalent to participation in the emissions trading scheme in the period 2021-2025 and regulating certain matters related to the exclusion of low-emission facilities from the greenhouse gas emission trading scheme.

On 5 April 2019, the MITECO approved the National Strategy against Energy Poverty 2019-2024 in compliance with the mandate set out in Article 1 of Royal Decree-Law 15/2018 of 5 October on urgent measures for the energy transition and consumer protection, which entrusted the Government with the preparation of this Strategy.

On 4 November 2019 CNMC Communication 1/2019 of 23 October on the definition of ratios for assessing the level of indebtedness and the economic and financial capacity of companies carrying out regulated activities, and the recommended ranges of values for them, was published.

On 20 November 2019, CNMC Circular 2/2019 of 12 November 2019 was published which lays down the methodology for calculating the financial yield for electricity transmission and distribution activities, and regasification, transmission and distribution of natural gas. The main novelty of the Circular is the implementation of an explicit methodology for calculating the financial yield, based on the WACC (Weighted Average Cost of Capital) method.

2.1. Regulation of the natural gas industry in Spain

Main characteristics of the natural gas sector in Spain

The Spanish gas sector is regulated by Law 34/1998 of 7 October on the hydrocarbons sector, as amended by Law 12/2007, Royal Decree-Law 13/2012, Law 18/2014 and Law 18/2015, Royal Decree-Law 1/2019 and by their enabling regulations, the most relevant being Royal Decree 1434/2002 of 27 December, Royal Decree 949/2001 of 3 August and Royal Decree 984/2015 of 30 October.

In general, the Spanish gas sector is characterised by the following factors:

- It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The non-regulated activities comprise generation, supply and retailing of natural gas.
- The natural gas sector is almost entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.
- Under EU legislation (Directives 2003/55/EC of 26 June and 2009/73/EU), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers have been free to choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent right of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

Regulation of natural gas activities in Spain

2.1.1. Regulated activities

Regulated activities are characterised by:

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior administrative authorisation, which is regulated. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity.

- *Remuneration established by legislation:* The general directives that set the remuneration for these activities were governed by Law 18/2014 and Royal Decree 949/2001, while the specific remuneration to be received was updated annually by ministerial order.

The economic framework of these activities therefore seeks to incentivise grid development and allow the companies that undertake them to ensure the recovery of the investments made and the operating costs incurred.

Royal Decree-Law 1/2019, which provides new functions for the CNMC, has modified this scheme such that for the forthcoming regulatory period 2021-2026 it will be the CNMC that establishes the methodology and remuneration for natural gas distribution, transmission and regasification activities.

The regulatory framework for the natural gas industry in Spain has a settlement procedure for the redistribution among regulated companies in the sector of toll billings net of other costs, so that each company receives the appropriate remuneration for its regulated activities.

- *Subjection to specific obligations of third party access to the network and unbundling:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in marketing. The two main obligations in this respect consist of permitting access by third parties to the transmission (including regasification and storage) and distribution networks and the obligation to keep the regulated and non-regulated activities separate.

Royal Decree 948/2015 regulated third-party access to the network, which is managed through a single telematic platform, as well as the rights and obligations of each party involved in the system, changing the capacity procurement regime established in 2001 under Royal Decree 949/2001. The owners of transmission and distribution networks have the right to receive tolls and levies in consideration for this access, which are revised annually by ministerial order.

On 23 December 2019 CNMC Circular 8/2019 of 12 December was published in the Official State Gazette, in which the CNMC, exercising the functions assigned to it under Royal Decree-Law 1/2019, established a new methodology and access and capacity allocation conditions in the natural gas system. The purpose of this Circular is to determine the functioning of the gas system with regard to regulated access to installations by third parties, including the definition of the services and capacity products to be offered on the market, procedures for allocating capacity, general criteria for the technical functioning of the system, the basis for defining guarantees relating to capacity procurement and the mechanisms for congestion management.

The legislation establishes the duty of functional separation, which means the requirement of independent operation of regulated subsidiaries in relation to the other companies in the group to which they belong, as well as the separation of the brand and brand image.

2.1.1.1. Transmission

The transmission activity includes regasification, storage and transmission of gas in the strict sense through the basic high pressure gas pipeline network:

- *Regasification:* Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, referred to as liquefied natural gas). Regasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at regasification plants, into a gaseous state and its introduction into the national gas pipeline network.
- *Transmission:* once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas pipeline network. The transmission network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers, and to local distributors.

The transport network is owned mainly by Enagás, S.A., although other companies, including various Naturgy investees, own a small proportion of it.

- *Storage:* facilities consist basically of underground tanks, which are necessary to ensure a constant

supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation established by Royal Decree 1766/2007 of 28 December to maintain minimum security reserves. Prevailing legislation allows unregulated underground storage facilities with third-party access, negotiated and previously authorised by the Spanish Government, although there are currently no such facilities.

2.1.1.2. Distribution

Natural gas is transported from the high pressure transport pipeline network to the final consumer through the medium and lower pressure transmission pipeline network.

The distribution business is based on a system of administrative authorisations that carry no exclusive use rights. A zone distributor has preference to obtain authorisations for adjoining zones.

A distributor's activity is restricted to the expansion and management of distribution networks; it cannot market power because specifically authorised supply companies are entrusted with supplies, as mentioned in point 2.1.2.2.

2.1.1.3. Economic regime applicable to regulated activities

Law 18/2014 of 17 October established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

- The principle of the gas system's economic and financial sustainability is established, whereby any regulation relating to the sector that entails an increase in costs for the gas system or a reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.
- As regards the gas system's accumulated deficit at 31 December 2014, it is being recognised. This deficit will be financed by facility owners over a 15-year period; annual payments will be included as a system cost and an interest rate will be recognised on similar terms to market rates.
- Annual mismatches between system costs and revenue are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding yearly payments may not exceed 15%. If this sum is exceeded, tolls will be automatically revised to cover the portion that exceeds said limits. The portion of the mismatch which, without exceeding the limits, is not offset by the rise in tolls and charges, will be financed by the parties subject to the settlement system, in proportion to the remuneration applicable to them; they will be entitled to collect mismatch contributions over the following five years and an interest rate will be applied on market terms.
- The remuneration methodologies regulated in the natural gas sector will take into consideration the costs necessary for the activity to be performed by an efficient, well-managed company under the principle whereby the activity must be performed at the lowest possible cost to the system.
- The remuneration system for transmission, regasification and storage facilities was based on consistent principles: use of the asset's net value as a basis for calculating investment remuneration, inclusion of variable remuneration based on gas transported, regasified or stored by asset type, and elimination of all automatic review procedures for values and parameters based on price indices.
- With respect to the new secondary transmission facilities, remuneration was to be included in the remuneration methodology for distribution facilities, linking remuneration to growth in customers and to new demand generated.
- Concerning distribution facilities, remuneration is maintained for each distribution company and all its facilities based on the number of customers connected and the volume of gas supplied. Automatic reviews are eliminated, and the parametric remuneration formula is established to distinguish, in the remuneration category for supplies at pressures equal to or below 4 bars, between consumers with an annual consumption of less than 50 MWh and consumers with a higher consumption, so as to guarantee the adequacy of system revenue at all consumption levels, taking into account toll revenue in each case.

- In order to incentivise network expansion to non-gasified zones and bring remuneration into line with actual costs incurred by companies, different unit values are used depending on whether or not customers are in recently-gasified municipalities.

Order TEC/1367/2018 of 24 December 2018 established the remuneration for regulated gas sector activities for 2019.

However, following the approval of Royal Decree-Law 1/2019 on the adaptation of the CNMC's powers to the requirements derived from European Community law, the CNMC's competence to approve remuneration methodologies in the natural gas sector has been recognised, which will be applicable from the end of the period ending 31 December 2020.

Based on these new powers, during the year the CNMC has approved:

- Circular 2/2019 of 12 November 2019 which lays down the methodology for calculating the financial yield on natural gas regasification, transmission and distribution activities. It applies to the second regulatory period, which runs from 1 January 2021 to 31 December 2026. According to the CNMC methodology, a financial yield of 5.44% is obtained for natural gas transmission and regasification, and 5.83% for gas distribution.
- Circular 8/2019 of 12 December 2019 which lays down the access and allocation methods and conditions in the natural gas system which proposes a new joint management system for regasification and storage capacity at LNG plants, with the aim of simplifying logistics and favouring the movement of LNG among market players irrespective of the plant where the gas has been stored. This will encourage competition and liquidity in the market and the appearance of an LNG hub in Spain, in addition to seeking greater use of the plants while resolving current operational problems.
- Circular 9/2019 of 12 December 2019 which lays down the methodology for determining the remuneration of natural gas transmission facilities and liquefied natural gas plants. It lays down the methodology for setting the annual remuneration for the owners of natural gas transmission facilities and liquefied natural gas plants, taking into account the investment and operating costs of such facilities, financed using the revenues from the tolls and fees established for their use. The methodology will be applied to the regulatory period 2021-2026. The remuneration model ensures the recovery of investments made in facilities, while ensuring a reasonable return for a low-risk activity and providing incentives for efficient management and improved productivity with respect to the facilities' operating costs. It also defines the facilities to be remunerated, the costs and revenues to be taken into consideration, the eligibility criteria for necessary costs and the supervision of transmission companies' investment plans.

On 3 December 2019, the CNMC published a proposal to circulate that establishes the methodology for determining the remuneration of gas. If finally approved, the current model would be maintained with a reduction in income. The circular is expected to be approved in the first quarter of 2020.

On 30 December 2019, a CNMC Resolution was published which lays down the remuneration for 2020 of companies engaging in regulated activities related to liquefied natural gas plants, transmission and distribution.

2.1.1.4. LPG supply

As well as natural gas distribution, Naturgy carries out the supply of piped liquefied petroleum gas (LPG), regulated by Law 34/1998 on the oil and gas industry. The MITECO establishes the selling rates for piped LPG for end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published under monthly resolutions.

2.1.2. Unregulated activities

2.1.2.1. Supply

Taking into account the low volume of natural gas production in Spain, this section will centre on the international supply of natural gas.

Natural gas is supplied in Spain mainly by gas operators such as Naturgy under long-term contracts with gas producers. Although such supplies are not regulated, they are subject to two types of limit, basically to assure supply diversification and competition in the market: 1) no country can supply more than 60% of the gas imported into Spain; and 2) no business person or group can contribute as a whole natural gas for consumption in Spain that is greater than 70% of national consumption, excluding self-consumption.

2.1.2.2. Sale

Pursuant to Law 12/2007 and its enabling regulations, natural gas is supplied exclusively by supply companies, the former tariff supply operations previously performed by distribution companies having been eliminated. The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a maximum price referred to as the social tariff or last-resort tariff (TUR).

Order TEC/1368/2018 of 20 December was published on 22 December 2018, amending Order ITC/1660/2009 of 22 June, and lays down the method for calculating the TUR, updating the calculation formula, which additionally incorporates raw materials costs, access tolls, supply costs and costs derived from supply security. Specifically, the parameters of the base gas formula used to determine the cost of the raw material are updated. The application of this new formula results in a reduction in the average annual cost of gas, which will be applicable from 1 January 2019.

During 2019, the TUR has evolved as follows:

- On 28 December 2018, the DGPEM Ruling of 26 December 2018 was published which envisaged an average 4.3% decrease in the TUR of 4.3% due mainly to a decrease in the recognised gas acquisition cost derived from the application of Order TEC/1368/2018 referred to above and applicable as from 1 January 2019.
- On 30 March 2019, the DGPEM Ruling of 22 March 2019 was published which entails a decrease in the average TUR of 5.9% with respect to the first quarter of 2019, applicable as of 1 April 2019. This tariff has been maintained in the third and fourth quarters of 2019 as there has been no change in the commodity cost, since upward or downward fluctuations have remained under 2%.
- On 30 December 2019, the DGPEM Ruling of 23 December 2019 was published, entailing an average 4% reduction in the TUR applicable as from 1 January 2020.

Organised gas market

The organised gas market was set up under Law 8/2015 and was subsequently developed by Royal Decree 984/2015 and other enabling regulations. The organised gas market managed by MIBGAS began operating in December 2015 with an Iberian outlook, although until now only products with delivery on the Spanish side have been negotiated.

In April 2018, MIBGAS Derivatives initiated futures trading in natural gas products with physical delivery on a monthly (with due dates longer than the following month), quarterly, semi-annual and annual basis. OMIClear acts as the clearing and settlement house for the transactions.

On 26 May 2018 Royal Decree 335/2018 was published, amending various Royal Decrees that regulated the gas sector. The most salient aspects with regard to the supply activity are the following:

- Royal Decree 949/2001 is amended to include the definition of the structure of the tolls applied to various services included in Royal Decree 984/2015, such as entrance at the virtual balancing point (VBP) from the distribution network, exit from the VBP to the regasification plant or storage in the

VBP, which currently did not have a defined toll structure. In addition, the toll structure for the regasification plants has been adapted, including those applicable to ship unloading, LNG storage, regasification, entry in the VBP from the transport network and ship reloading, including in the latter case the supply to ships using LNG as fuel. This new structure will not be applicable until the relevant figures are published.

- Royal Decree 1434/2002 is amended to regulate the procedure for disqualifying any supply company that fails to fulfil its obligations and transferring its customers to the supply company of last resort.
- Royal Decree 984/2015 is amended in order to make contracts on exit from the VBP to the final consumer indefinite, seeking to facilitate the processes for changing supply company.

Order TEC/1367/2018 of 20 December was published on 22 December 2018 and established the tolls and fees associated with third party access to gas facilities and the remuneration of regulated activities for 2019. The tolls for loading LNG onto ships have been changed, the structure of which was published in Royal Decree 335/2018, reducing them considerably and making Spanish plants more competitive. Ship unloading tolls have been equalised for all regasification plants, a VBP access toll from the distribution network has been established which will be applicable to biogas at a zero rate and the other current tolls are maintained. These figures will be applicable until the CNMC publishes the new ones; the other tolls whose structure was modified by Royal Decree 335/2018 have yet to be published.

On 28 December 2019, Order TEC/1259/2019 of 20 December was published, laying down the remuneration for the basic underground storage activity and the tolls and fees associated with third-party access to LNG plant facilities and natural gas transmission and distribution facilities for 2020 until the CNMC exercises its functions in this respect, once the methodology for calculating the tolls and fees for access to the networks has been approved. This order also publishes reviews of the regulated remuneration for 2018 and 2019 for distribution, transmission and LNG plant operation activities.

Concerning supply security, Regulation (EU) 2017/1938 on measures to guarantee the security of the gas supply came into force on 1 November 2017. It lays down reporting requirements for Spanish and European natural gas companies with respect to relevant gas contracts, for supply security reasons. This Regulation also strengthens regional cooperation and lays down a solidarity mechanism which is applicable in the event of a supply crisis in a Member State.

Vulnerability

Royal Decree-Law 15/2018 published on 6 October 2018 brought in the “Thermal Social Bond”, consisting of a single annual payment as direct assistance in paying for heating, hot water and cooking, to consumers that had availed themselves of the electricity social bond at 31 December the previous year, irrespective of the fuel they use, or support for savings actions or improvements in energy efficiency. The amount to be received will depend on the degree of vulnerability and the climate zone.

2.2. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

The regulation of the electricity industry in Spain underwent a major reform process in 2013 through the publication of Law 24/2013 of 26 December on the Electricity Sector, which adapted the previous law (Law 54/1997 of 27 November) to the circumstances of both the economy and the electricity and energy sector in Spain.

The main characteristics of the electricity sector are as follows:

- It is a sector in which regulated and non-regulated activities coexist. The regulated activities consist of electricity transmission and distribution (as well as the operation of the system). The non-regulated activities comprise generation and sale of electricity.
- The principle of the electricity system's economic and financial sustainability is established, which must be in line with the measures taken by the Administration and other relevant parties, whereby any regulation relating to the sector that entails an increase in costs for the electricity system or a

reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.

- Mismatches due to a shortfall in revenues are limited to the extent that they may not exceed 2% of revenues estimated for the period in question and cumulative liabilities due to mismatches may not exceed 5% of those revenues.
- Revenues in the electricity sector derive from access tolls and other regulated prices, specific tax measures and, exceptionally, from certain items in the National Budget.

In 2013, Law 15/2012, of December 27 on fiscal measures for energy sustainability was published, the principal aspects of which were as follows:

- A new tax on energy production by all generation facilities at a rate of 7% was introduced.
- Two new taxes were regulated: the tax on production of spent nuclear fuel and radioactive residues that are the result of the nuclear generation of electricity and the tax on the storage of spent nuclear fuel and radioactive residue in central facilities, with the aim of compensating society for the charges that it must bear as a result of this generation.
- A positive rate was established for the use of natural gas in electricity generation and electricity and heat cogeneration, previously regulated at a zero rate, and the tax rate on coal was increased. At the same time, specific tax rates were created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.
- A new royalty was applied to public domain assets for the use or exploitation of continental waters for hydroelectric power generation, amounting to 22% of the economic value of hydro-electricity generated. Royal Decree-Law 10/2017 published on 10 June 2017 increased the tax rate from 22% to 25.5%.

Revenues from these taxes cover the regulated costs in the electricity system.

- The principles to be taken into consideration in the remuneration methods for regulated activities are established: transport, distribution, renewables, cogeneration and waste.
- The remuneration calculation parameters will have a six-year term and will be reviewed prior to the start of the regulatory period taking into account the economic cycle, demand for electricity and an adequate return from these activities.
- A distinction is made between transport and distribution network access tolls, for which the CNMC is responsible following Royal Decree-Law 1/2019, and the charges that are necessary to cover other costs of the relevant system activities, which will be determined using a method to be established by the Government; in general, tolls and charges will be reviewed annually or in the event of circumstances that have a material impact on regulated costs or on the calculation parameters employed.
- Small consumer voluntary prices (PVPC) are regulated and will be the same throughout Spain. In line with the last-resort tariffs (TUR), these prices are defined as the maximum prices that the reference supply companies may collect from consumers that avail themselves thereof. The last-resort tariff has become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the voluntary price for small consumers but are temporarily without a supply company in the free market.

The regulation of electricity sector activities in Spain

2.2.1. Regulated activities

Regulated electricity transmission and distribution activities are characterised by the fact that access is subject to administrative authorisation, remuneration is stipulated in regulations and operations are subject to a number of specific obligations:

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior administrative authorisation, which is regulated. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly for a given territory, which does not imply an exclusive right of use because of the third-party network access obligation.
- *Remuneration established by legislation:* Royal Decree 1047/2013 December 27 and Royal Decree 1048/2013 December 27 brought in remuneration methods applicable to the transmission and distribution activities, so as to ensure adequate remuneration for these activities and network development. The remuneration receivable for these activities is updated annually by means of a Ministerial Order. The financial yield on assets during the first regulatory period, to 31 December 2019, is linked to the yield on government bonds plus a spread of 200 basis points.

Royal Decree-Law of 1/2019 which updates the CNMC's powers has changed the current configuration. The CNMC is now responsible for establishing the methods for calculating remuneration for electricity transmission and distribution activities, which were approved under Circulars 5/2019 and 6/2019 of December 2019 and which will be applicable as from the 2020-2025 regulatory period. In addition, CNMC Circular 2/2019 of 12 November lays down the method for calculating the financial yield on electricity transmission and distribution activities, based on the WACC method and in line with most European regulators. The CNMC is also the competent body for setting the annual remuneration for the above activities as from 2020.

The regulatory framework for Spain's electricity sector includes a settlement procedure to redistribute among the sector companies the billings obtained, so that each company receives the remuneration recognised for its regulated activities.

- *Subjection to specific obligations of third party access to the network and unbundling:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in marketing. The two main obligations consist of allowing third-party access to transmission and distribution grids and keeping regulated activities separate from unregulated activities.

Royal Decree 1955/2000 regulates access by third parties to the grid, determining which persons will have access rights, how the application is made, the deadlines for the same, the grounds for rejection of access, as well as the rights and obligations of each party involved in the system.

The legislation establishes the duty of functional separation, which means not only accounting separation, in order to avoid cross-subsidisation and increase the transparency of the calculation of rates and tolls, and legal separation, through separate companies, but also the requirement of independent operation of regulated subsidiaries in relation to the other companies in the group to which they belong, as well as the separation of the brand and brand image, as in the case of the natural gas sector.

2.2.1.1. Transmission

Electricity transmission links the plants with the distribution networks and specific final customers. The transmission grid is owned mainly by REE, although other companies, including Naturgy's subsidiary UFD Distribución de Electricidad, S.A., own a small proportion of the secondary transmission network.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and, until the transfer of competences to the CNMC under Royal Decree-Law 1/2019, by Royal Decree 1047/2013 of 27 December, which established the methodology for calculating electricity transmission remuneration, and Order IET/2659/2015 of 11 December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset, which will be used when calculating the remuneration to be paid to the owners of electricity transmission facilities.

Transmission remuneration was laid down annually by the Ministry, recognising compensation for investment, operation and maintenance, calculated on the basis of the regulatory unitary values of investment, operation and maintenance plus an availability incentive. As already mentioned, Royal Decree-Law 1/2019 transferred competence in this area to the CNMC.

Therefore, the following were published on 19 December 2019:

- CNMC Circular 5/2019, providing the methodology for calculating electricity transmission remuneration:
 - It establishes the methodology for determining the amount to be paid to the owners of electricity transmission facilities for their construction, operation and maintenance and will be applicable as from the 2020-2025 regulatory period.
 - The new methodology, which is consistent with that provided for in Royal Decree 1047/2013 for the previous regulatory period, contains a number of improvements that clarify the rules and encourage efficiency in transmission companies with respect to the construction, operation and maintenance of infrastructures.
- CNMC Circular 7/2019 of 5 December, approving the standard installations and the unitary reference values for operation and maintenance by fixed asset to be used in calculating the remuneration of companies that own electricity transmission installations. That is, the remuneration of each asset that makes up the transmission grid derived from its operation and maintenance. This regulation complements Circular 5/2019 on the transmission remuneration methodology. In general, the new values are lower than the current figures provided for in Order IET/2659/2015. The inclusion of new types of facilities that may be considered by transport companies is envisaged, which will allow the appropriate inclusion of renewable energies and the digitalisation of grids.

2.2.1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and, until the transfer of competences to the CNMC under Royal Decree-Law 1/2019, by Royal Decree 1048/2013 (27 December), providing the methodology for calculating electricity transmission remuneration, and Order IET/2660/2015 of 11 December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset and the unitary remuneration figures for other regulated tasks which will be used when calculating the remuneration to be paid to electricity distribution companies, establishing the definitions for natural growth and relevant power increase and compensation for the use and reservation of facilities.

The remuneration was calculated annually by the Ministry and recognises compensation for investment and operation and maintenance of the distribution facilities, as well as other regulated services calculated on the basis of the unitary values approved by regulation, including incentives to reduce network losses, detect fraud and improve service quality. From 2020 onwards, the CNMC will be responsible for this task under Royal Decree-Law 1/2019.

On 19 December 2019, CNMC Circular 6/2019 was published, establishing the methodology for calculating the remuneration of the electricity distribution activity, which is a continuation of the methodology provided for the last regulatory period by Royal Decree 1048/2013 and which will be applicable from 2020-2025:

- Among the changes introduced, the calculation of the remunerative investment relating to facilities entering service from the first year of application of the Circular has been modified. In addition, a new term - COMGES (*componente gestionable*, “manageable component”) - has been regulated which encompasses remuneration for operation and maintenance and remuneration relating to other assets necessary for the distribution activity for assets collected at the physical units.
- It also introduces efficiency incentives and in particular it encourages the extension of the useful life of the facilities by obtaining the maximum benefit from the investments and expenditure that are required to this end.
- Furthermore, it includes remuneration for other regulated tasks (ROTD) and changes to incentives for quality improvement and loss reduction, including here the incentive to reduce fraud.

- It envisages that distribution companies will make the new investments necessary for the inclusion of renewable energies and grid digitisation.

Tolls

On 22 December 2018 Order TEC/1366/2018 of 20 December 2018 was published, laying down the electricity access tolls for 2019. Under said Order, the access tolls remain unchanged.

On 28 December 2019, Order TEC/1258/2019 of 20 December 2019 was published, which lays down various regulated costs for the electricity system for 2020 and extends electricity access tolls from 1 January 2020.

As part of its new powers, the CNMC will approve, by means of a Circular Letter, the new methodology for calculating electricity transmission and distribution tolls, and the values of the tolls by means of a Ruling.

2.2.2. Unregulated activities

2.2.2.1. *Electricity generation*

Law 24/2013 of 26 December on the Electricity Sector provides that the production of electrical energy is to be subject to the rules of free competition, although the commissioning, modification, temporary closure, transfer and final closure of facilities is subject to prior administrative authorisation. The remuneration for this activity derives from its participation in the electricity production market, made up of the forward, daily and intraday markets, unorganised markets and other services related to the security of the electricity system, such as adjustment and balancing services.

The Law also provides for the possibility of establishing capacity mechanisms. These have been governed by the provisions that provided for an investment incentive, an environmental investment incentive and the availability service. Specifically, this latter service was provisionally regulated by Order ITC/3127/2011 of 17 November and was extended annually until 2017. Order ETU/1133/2017 reduced the extension period of this service to six months (June 2018), in view of the imminent reform of the capacity mechanisms. In addition, it temporarily excluded hydroelectric plants from this service due to the scarcity of resources, given the dry hydrological conditions. Subsequently, Order TEC/1366/2018 of 20 December, laying down the electricity access tolls for 2019, revoked the availability service on a definitive basis.

As noted above, the capacity mechanisms to be implemented should be in line with the provisions of Internal Market Regulation 2019/943. Among other requirements, they will require, prior to implementation, the existence of system unsuitability in accordance with a European coverage analysis that may be supplemented by a national analysis.

Renewable, high efficiency cogeneration and waste facilities

On an exception basis, the Electricity Sector Law provides for the implementation of a specific remuneratory system by means of a competitive tender procedure to encourage production based on renewable energy sources, high-efficiency cogeneration and waste, when there exists an obligation to fulfil energy objectives derived from Directives or other European Union legislation, or when the introduction thereof entails a reduction in energy costs and dependence on external energy sources. Within this framework, during 2016 and 2017 the Ministry of Energy, Tourism and the Digital Agenda arranged various auctions to grant the specific remuneration regime to new renewable generation facilities.

For facilities existing prior to the publication of Royal Decree-Law 9/2013, the Law lays down a remuneration system which is additional to the remuneration for the sale of electricity generated in the production market, its objective being to cover the costs that cannot be recovered by the market plus a reasonable yield, which allows these technologies to compete on an equal basis with other technologies. Royal Decree 413/2014 of 6 June 2014 develops this system, stipulating the review of the remuneration parameters in regulatory periods of two regulatory semi-periods of three years or semi-annually for the

parameters associated with the return on operations involving certain technologies. On 10 November 2017, the European Commission authorised this Spanish support scheme, concluding that it complies with the EU rules on state aid.

The remuneration parameters applicable to 2018 are included in Order ETU/130/2017 of 17 February 2017 which updates the remuneration parameters for standard facilities for the purposes of their application to the regulatory semi-period 2017-2019; in Order ETU/360/2018 of 6 April 2018 which lays down the rates for remuneration on operations corresponding to the first half-year of 2018; and in Order TEC/1174/2018 of 8 November 2018 which establishes the remuneration parameters for standard facilities applicable to animal waste treatment and reduction facilities.

In addition, Royal Decree-Law 20/2018 of 7 December 2018, on urgent measures to foment economic competitiveness in the industry and commerce sectors in Spain, extended for an additional two years the term of remuneration for operating high efficiency cogeneration facilities that use renewable fuels or natural gas and that have surpassed their regulatory useful life after 1 January 2018.

Order TEC/1380/2018 of 20 December 2018 established the regulatory bases for the granting of investment aid in electricity production facilities using wind and photovoltaic technologies located in the non-mainland territories, co-financed with FEDER Community Funds.

On 23 November 2019, Royal Decree-Law 17/2019 of 22 November 2019 was published, adopting urgent measures for the necessary adaptation of remuneration parameters affecting the electricity system and responding to the process for the discontinuance of activities in thermal power plants. The main aspects of this Royal Decree-Law are described below:

- It establishes the reasonable return for renewables, cogeneration and waste and the financial yield for production in non-mainland territories for the period 2020-2025. The relevant rate is updated to 7.09%, compared with 7.398% or 7.503% depending on the type of facility.
- It provides that the Government will approve, by 29 February 2020, the remaining remuneration parameters that will be applicable between 2020 and 2025, which previously required the definition of reasonable return provided for in the law.
- It incorporates a mechanism that will be available to facilities that were eligible for prioritised remuneration when Royal Decree-Law 9/2013 came into force: it gives operators the option of maintaining a reasonable return on their facilities of 7.398% until 2031. This measure will not apply where there is a right to receive compensation as a result of a final judgment or arbitration award, or when ongoing arbitral or judicial proceedings are still in progress, unless the waiver of the right to receive such compensation or of the continuation or resumption of such proceedings can be duly attested to. In addition, facilities that so wish may waive the remuneration framework regulated by this Royal Decree-Law and avail themselves of the ordinary framework, subject to review every six years.

Generation in non-mainland territories

Electricity generation in the energy systems of the non-mainland territories may receive remuneration which is additional to market revenues, which takes into account the particularities of these territories.

Contaminating emissions

The operation of fossil fuel plants is subject to the limits on contaminating emissions established by Directive 2010/75/EU on industrial emissions and national regulations. These limits mainly affect the operation of coal-fired plants that must restrict their operation to comply with the provisions of the transitional national plan applicable during the period from 1 January 2016 to 30 June 2020. The operation of these facilities after that date will require prior investment in desulphurisation and denitrification facilities or, failing that, the closure of the facility.

European integration of markets

Regarding markets, the progress made in the integration of the Iberian market with the markets of other European countries should be noted. Since 2014, the daily market has been integrated with the main

European markets, and in April 2018 the Iberian continuous intraday market was integrated with the rest of Europe, coexisting for the present with auctions in the Iberian area (Spain and Portugal). In addition, work is being carried out to develop the regulations that will enable the integration of the balancing markets, with milestones scheduled as from 2019.

On 2 December 2019 CNCM Circular 3/2019 of 20 November 2019 was published, laying down the methodologies that regulate the operation of the wholesale electricity market and the management of the system's operation.

2.2.2.2. Electricity supply

Supply is based on the principles of deregulated contracting and the customer's choice of provider. As a deregulated activity, supply is remunerated at a price freely agreed by the parties.

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market retailer, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (last-resort tariff). As from the new Law 24/2013, this regulated tariff was referred to as the Small Consumer Voluntary Price (PVPC), the last-resort tariff (TUR) being the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market.

The criteria for setting the last-resort tariff, now PVPC, have been regulated through successive legal provisions. Under the relevant legislation it must incorporate all supply costs, including energy production costs, access tolls and supply costs.

On 29 March 2014, Royal Decree 216/2014 of 28 March 2014 was published, providing the methodology for calculating small consumer voluntary prices (PVPC) and the related legal regime for contracting. It determines the structure of small consumer voluntary prices, which will apply to low-voltage consumers with a contracted capacity of up to 10 kW. The Royal Decree also stipulates the procedure for calculating the cost of power generation, which will include the small consumer voluntary price.

The cost of power generation is calculated based on the daily market hourly price during the billing period. Billing is performed by the reference supply company based on actual readings and taking into consideration consumption profiles, except for supplies using metering equipment capable of telemetering and telemanagement, effectively integrated into the relevant systems, in which billing will be effected using hourly consumption values.

Alternatively, a consumer may contract a fixed power price for one year with the reference supply company.

Royal Decree 469/2016 of 18 November 2016 amended Royal Decree 216/2014 of 28 March 2014 and introduced the method for calculating the supply cost to be included in the PVPC and a unitary remuneration for the exercising of the activity, establishing a fixed term (€/kW) and variable term (€/kWh) structure. The supply margin will be reviewed every three years, the first review pertaining to the three-year period 2019-2021.

Vulnerability

Royal Decree-Law 7/2016 amended the wording of Article 45.4 of Law 24/2013 and implemented a new social bond funding scheme under which this public services obligation is only to be funded by parties engaging in electricity marketing, specifically the parent companies of corporate groups engaging in the sale of electrical energy or the companies carrying out this activity that do not form part of any group. The percentage distribution is calculated in proportion to the customers' quotas and will be calculated annually by the CNMC.

Accordingly, on 3 October 2017 and 27 December 2017 Order ETU/929/2017 and Order ETU/1288/2017 were published which ordered the reimbursement, by charge to the electricity system surplus, of the amounts paid by Naturgy Energy Group, S.A., S.A. as social bond financing in 2014, 2015 and 2016, plus legal interest calculated as from date on which payment was made until the date of its reimbursement.

On 7 October 2017 Royal Decree 897/2017 was published which regulates vulnerable consumers, the social bond and other protection measures for domestic electricity consumers, in compliance with the provisions of Royal Decree-Law 7/2016. Order ETU/943/2017 under which said Royal Decree was developed was published on 9 October. The most relevant aspects are:

- Three types of vulnerable consumer are defined according to the kind of income or other circumstances unrelated to income levels: vulnerable consumer, severe vulnerable consumer and severe vulnerable consumer at risk of social exclusion.
- The social bond provides a discount of 25% on the PVPC for vulnerable consumers and 40% for severe vulnerable consumers, up to a consumption limit.
- Supplies to severe vulnerable consumers will not be interrupted in the event that the social services of a public authority finance at least 50% of their bill. The remaining 10% must be co-financed by the supply companies.
- The criteria and procedures for qualifying for the social bond are revised in terms of income, number of minors in the home and other conditions. The supply company concerned is responsible for processing the application and verifying the requirements.
- The social bond is granted for a period of two years, except for large families in which it lasts until such status expires.
- The procedure for suspending supply in habitual residences is reviewed.

Royal Decree-Law 15/2018 of 5 October 2018 on urgent measures for the energy transition and consumer protected amended Royal Decree-Law 7/2017. The most relevant aspects are:

- It mandates the Government to approve a "National Strategy against Energy Poverty" within six months.
- The social bond coverage and the consumption limit are extended.
- It adds three new categories of essential supplies (to date, only consumers at risk of social exclusion).
- The social bond and the assumption of the cost of co-financing severely vulnerable customers' expenses are considered a public service obligation, to which the non-payment of bills in the three new essential categories is added.
- It reinforces the penalty regime for supply companies that unjustifiably hamper access to the electricity social bond.
- As mentioned above, the thermal social bond is created which consists of direct assistance in paying for heating, hot water and cooking, irrespective of the fuel used, which will be financed out of the Central Government budget and whose beneficiaries will be consumers that already qualify for the electricity social bond at 31 December.

Under Order TEC/1080/2019 of 23 October 2019, the final distribution percentages of the amounts to finance the social bonus and the cost of co-financing severely vulnerable consumers and the non-payment of bills under the essential vulnerable categories for 2019 is set at 15.82% for the Naturgy Group.

Additionally, Royal Decree-Law 15/2018 introduced major changes that affect the supply activity, such as the prohibition of "door-to-door" sales (also applicable to the gas sector), the introduction of the obligation to include additional information in bills and the strengthening of the disqualification procedure for fraudulent supply companies.

Additionally, this Royal Decree-Law repealed practically all existing regulations on electricity self-consumption, enabling shared self-consumption, repealing the charges and tolls for self-consumed energy and simplifying registration formalities. The relevant enabling regulations have yet to be implemented.

On 6 April 2019, Royal Decree 244/2019 of 5 April 2019 was published, regulating administrative, technical and economic conditions for electricity self-consumption. The Royal Decree classifies and defines the different types of self-consumption. To date the only option has been individual self-

consumption connected to an internal network while the new legislation provides for collective self-consumption, where various consumers can associate themselves to a single generation plant.

On 22 December 2018 Order TEC/1366/2018 of 20 December 2018 was published, laying down the electricity access tolls for 2019. The supply cost to be included in the calculation of the PVPC set for the period 2016-2018 has been maintained until the Order determining the cost for 2019-2021 is approved.

On 28 December 2019, Order TEC/1258/2019 of 20 December was published, which lays down various regulated costs for the electricity system for 2020 and extends electricity access tolls from 1 January 2020.

Energy efficiency

As regards energy efficiency in Spain, Royal Decree-Law 18/2014 stipulates the following:

- A national energy efficiency obligations system whereby gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers will be allocated an annual energy-saving quota (saving obligations). Aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.
- The National Energy Efficiency Fund concerns economic and financial support mechanisms, technical assistance, training and information, or other measures to enhance energy efficiency in different sectors, which are necessary to achieve the Energy Efficiency Directive's objectives.
- The financial equivalence of the saving obligations will be determined annually based on the average cost of the support mechanisms, incentives and measures required to mobilise the investments necessary to fulfil the annual saving target, through actions by the National Fund, based on the findings of the technical analysis by the Institute for Energy Diversification and Saving.
- The Government is also authorised to establish and develop a final energy savings accreditation system, by issuing Energy Saving Certificates (ESC). Once launched, this will allow companies to progressively fulfil their saving obligations by directly promoting energy efficiency enhancement actions that fulfil the necessary guarantees.

A ministerial order stipulates on an annual basis each liable party's obligations to make contributions to the National Energy Efficiency Fund. Order ETU/257/2018 of 16 March laid down the obligations for 2018, amounting to Euros 26 million for Naturgy.

On 26 March 2019, Order TEC/332/2019 of 20 March 2019 was published, laying down obligations to contribute to the National Energy Efficiency Fund in 2019, the total amount to be contributed in 2019 being Euros 203 million.

2.3. Regulation of the natural gas industry in Latin America

In Brazil, Mexico, Argentina and Peru the rates and remuneration of natural gas distribution companies are determined by the regulatory authorities. There are stable regulatory and tariff frameworks that lay down the procedures and formalities necessary for the regular review of rates and distribution margins. This tariff review is carried out every five years (except in Peru, where it is every four years) through the filing of the respective reports with the regulators. In Chile, gas network distribution concessionaire companies operate under a free tariff regime subject to a maximum rate of return for each concession area. In the event that the average profitability for the preceding three years in a given concession area exceeds said maximum rate, the regulatory authority will initiate a rate-setting process. The regulatory framework that defines the supervision procedures are stable and annual.

In Mexico, all the geographical distribution areas developed by Naturgy (Monterrey, Nuevo Laredo, Toluca, Saltillo, DF and Bajío) have tariffs approved for the 2016-2020 five-year period. In addition, tariffs have been granted until 2020-21-22 for the Noroeste, Sinaloa and Valle de México zones, respectively. For the new distribution permits for Tabasco, Campeche and Mérida, the period ends in 2023. The permit for Península is currently being processed. The regulatory framework in Mexico is being adapted to the energy reform launched at the end of 2013, which has entailed the liberalisation of natural gas supply and

marketing activities. For gas distribution, the remuneration methodology is expected to be simplified and made more flexible.

On 25 January 2019, Mexican Regulation NOM-009-ASEA-2017 on the Administration of the Safety of Pipelines for the Collection, Transportation and Distribution of Hydrocarbons, Petroleum Products and Petrochemicals was published. The purpose of this regulation is to establish the requirements that must be complied with for the administration of pipeline safety in order to maintain Industrial Safety, Operational Safety and environmental protection.

On 11 April 2019, Resolution No. A/011/2019 of the Energy Regulatory Commission was published, amending the Internal Regulations of the Energy Regulatory Commission in order to alter its structure, as well as competences in the different areas.

On 23 October 2019 the Energy Regulatory Commission approved a resolution authorising the National Natural Gas Control Centre to implement an exceptional regularisation programme for the collection of amounts resulting from mismatches, consisting of offering users an additional option, for the period 1 April to 31 August 2019.

In Brazil, on 30 December 2013, the regulator for Río de Janeiro state approved the new rates applicable from 1 January 2014 to the end of 2017. The tariff review process for the next five-year period (2018-2022) commenced during the last quarter of 2017. The tariff review process was not concluded in 2019 and is expected to be completed in the first half of 2020. In Brazil, the Sao Paulo state regulator is expected to approve new rates at the end of May 2020 for the period 2020-2025.

In Argentina, in 2015 and 2016 a tariff review process took place resulting in a resolution establishing new natural gas and propane distribution prices which was published on 30 March 2017, urging the regulator, ENARGAS, to publish the tariff lists resulting from the comprehensive tariff review. In addition, on 30 March 2017 ENARGAS resolution No. I/4354-17 was published, which approved the distribution tariff lists arising from the comprehensive tariff review of Gas Natural BAN, S.A. effective from 1 April 2017, and a rise in the average tariff of 123% compared with the tariff in effect prior to that date. This increase will be applied in stages over the first year of the five-year period (30% in April 2017, 40% in December 2017 and the remaining 30% in April 2018) together with a financial factor that complements it for the purposes of maintaining equivalence between this staged increase and the direct increase in the tariff.

The publication and enforcement of these tariffs gave rise to a traditional regulatory framework in which the tariff base is measured at restated accounting values that reasonably reflect fluctuations in prices relative to the economy and the restatement in local currency of investment that had deteriorated during the lapse in the licence. The determination of the required income has been reasonable. This includes the cost of capital, using a WACC which has been reasonably quantified for the regulator by an external consultant.

On 30 November 2017 ENARGAS approved Resolution No. 122, which lays down the tariff lists that will be applicable as from 1 December 2017. Under this resolution the rates applied since April 2017 have been updated for inflation for the period and the second agreed level, which entails an increase of approximately 61% with respect to the tariff applied since April 2017.

On 27 March 2018, ENARGAS approved Resolution 301, which approved, with effect from 1 April 2018, the tariff schedules that will be applicable as of said date. The approved tariff entails an increase of approximately 42.5% with respect to the tariff applied since December 2017, which recognises the third step of 30% of the tariff increase approved from 1 April 2017; inflation measured using the Domestic Wholesale Price Index; and the financial compensation granted to distributors to correct the effect of the staged increases during the first year of the five-year period. The new Tariff Table for the period April - September 2018, considering an exchange rate of 20.345 ARS/USD to reflect gas acquisition costs in tariffs.

Since April 2018 the Argentinian economy has undergone a number of changes in macroeconomic conditions that caused a sharp alteration in parity between the Argentinian peso and the US dollar, changing the economic circumstances taken into account in the Bases and Conditions and reflected in contracts with gas producers. This increase in the exchange rate (not recognised in the current Tariff

Table) meant that producers had to be paid a gas price that far exceeded the price that could be passed on via tariffs.

In the context of the tariff adjustment as from October 2018 the Government Energy Secretariat issued Resolution 20 of 4 October 2018 which provided, on a transitory and extraordinary basis, that the differences between the gas price laid down in contracts and the gas price recognised in tariffs as from 1 April until 30 September 2018 should be recovered under a scheme of 24 quotas as from 1 January 2019, which must be arranged by ENARGAS. This measure was repealed Resolution 41 of the same Government Energy Secretariat.

On 5 October 2018, Resolution ENRG 280/18 laid down the new tariff tables with effect from 8 October that reflect the adjustment for inflation pertaining the preceding six-month period. The adjustment to the distribution margin was 20%.

Finally, under Decree 1053/2018 of November 2018 the National Government assumed the payment, on an exceptional basis, of the daily differences accumulated monthly between the value of gas bought by the network natural gas distribution service provides and the value of natural gas included in the tariff tables in effect between 1 April 2018 and 31 March 2019, generated solely by fluctuations in the exchange rate and relating to volumes of natural gas delivered during that period, thereby clearing up the doubts caused by the Government Energy Secretariat Resolution 41/2018.

On 1 April 2019, ENARGAS approved resolution 196/2019 which determines the tariff tables to be applied in the April-October periods; taking into account the tariff scaling defined by RES 148, three tariff tables were published, relating to April 2019, May 2019 and the period June-October 2019. The cumulative increase amounts to 96% compared to April 2017.

Through Resolution 521/2019 of 3 September 2019, gas distributors were informed of the deferral of the increase in transmission and distribution margins from 1 October 2019 to 1 January 2020, the date on which an adjustment for the latest available domestic wholesale price index would be applied. The gas price adjustment was also deferred to January 2020. In addition, the gas distribution companies were urged to present an investment adjustment to compensate for the revenues not received due to the deferral of the planned tariff increase.

Resolution 701 was issued on 31 October 2019, approving a new tariff table to be applied from 1 November 2019.

On 22 November 2019 Resolution 751/2019 was issued which amended Resolution 521, deferring the agreed tariff increase from 1 January 2020 to 1 February 2020. The increase to be applied on this latter date relates to the domestic wholesale price index accumulated between February 2019 and August 2019.

On 17 December 2019, under the law on social solidarity and productive reactivation in the framework of the public emergency, a 180-day tariff freeze was defined.

On 5 November ENARGAS issued Resolution 713 approving new tariff tables for Gasnor S.A. and on 13 November issued Resolution 735 approving, for Gasnor S.A., the amounts to be recognised for "accumulated daily differences" (DDA) with respect to exchange rates for the period April 2018 to March 2019, within the framework of Decree 1053/18.

In Chile there is a free tariff regime subject to control over profitability. Tariffs are therefore set by the distributor, which is also the supply company. Annual profitability must be lower than a certain yield established in the recent Industry Law. The yield consists of the discount rate that equals the present value of the flows associated with the business margin (sales revenue less operating costs) with the value of the assets. In the event that the yield exceeds the established rate, the Law would oblige the Regulator to set mandatory rates for low consumption customers. In October 2019, the National Energy Commission (CNE) published the preliminary results of the 2018 profitability check, determining the profitability of the companies Metrogas, S.A. and Gas Sur, S.A., calculated in accordance with the new Gas Law for each concession area. The results were below the permitted profitability threshold (the average three-yearly limit established in the Law is 9%), and therefore the companies will continue operating within the supervised free tariff system.

In Peru, activity commenced during the last quarter of 2017. The applicable rates are defined in the concession contract and will be valid for eight years from the start of the activity, with subsequent four-yearly reviews.

2.4. Regulation of the international electricity sector

2.4.1. Generation

Naturgy, through its subsidiary Global Power Generation (GPG), is present as a generator in Mexico, Panama, Costa Rica, the Dominican Republic, Puerto Rico and recently in Chile, Brazil and Australia.

In Costa Rica and Puerto Rico, the Group's generation operations are subject to the regime for Power Purchase Agreement (PPA) with the sector's domestic companies, Costa Rica Electricity Institute (ICE) and Puerto Rico Electric Power Authority (PREPA), respectively, these being public corporations that are vertically integrated and exclusively responsible for transport, distribution and marketing.

Generation under the PPA regime also exists in Mexico, with energy being sold to the Federal Commission for Electricity (CFE). Surplus energy is sold partly to end-customers under bilateral contracts and partly on the market created under the energy reform carried out in 2015 and 2016. Additionally, the Bii Hioxo wind farm became operational during 2014, selling the power generated under bilateral contracts to final customers.

In Mexico, the energy sector is undergoing a process of redefinition following the publication of a new energy policy promoted by the President of Mexico with the aim of strengthening the State productive industries as provided in the National Development Plan 2019-2024.

Within this context, important measures have been announced in 2019 in the area of electricity generation, such as the creation of a test programme for the emissions trading system for 2020-2022, the cancellation of long and medium-term electricity auctions or the reintegration of its productive subsidiaries into CFE.

In Panama, electricity generated is sold under bilateral contracts with the distributors and on the market, and in the Dominican Republic it is sold on the market.

In Chile, GPG won a tender in August 2016 for generation under a long-term contract scheme (PPA) with distributors (20 years). To meet this commitment, GPG expects to carry out two projects (wind and solar) which will enter service in 2021 with a total installed capacity of approximately 330 MW.

In Australia, GPG has constructed and operated, since November 2018, a wind generation project through a 20-year contract, with regulated tariffs for energy injected into the system with an installed capacity of 91 MW. In 2018 GPG was awarded 180 MW of generation capacity in a wind project expected to enter operation in the second half of 2020. In this case the contract consists of a 15-year bilateral Power Purchase Agreement at a regulated tariff.

Finally, GPG is also present in Brazil through four photovoltaic generation plants with a total capacity of 152 MW involving 20-year contracts for the sale of reserve energy to the Chamber for Commercialising Electrical Energy (CCEE) which entered service in 2017 and 2018. On 6 March 2019, Regulation No. 151 of 1 March 2019 was published, establishing the auction schedule for electricity generation for the period 2020-2021.

In all these countries, electricity sector regulations are well-established and stable; legislation is developed and administered by independent regulators.

2.4.2. Distribution

In the countries in which Naturgy is present as a distributor, Argentina, Chile, Moldova and Panama, the distribution activity is regulated. The distributors have the function of transporting electricity from the transport network to the customer hook up points and also the function of supplying electricity at regulated rates, to regulated customers, who, based on their consumption volumes, cannot choose to be

supplied by another supplier. As for the unregulated customers that choose to purchase electricity from another supplier, they must pay the regulated distribution toll for the use of the networks. In Moldova the supply function at regulated tariffs is carried out through a company which is unrelated to the distributor, in compliance with European Union requirements, as a member of the Energy Community.

The tariffs are revised periodically to reflect the variations in energy purchase prices and the transport tariffs, as well as the variation in economic indicators.

There are regulatory and tariff frameworks in these countries that lay down the procedures and paperwork necessary for the periodical revision of tariffs and distribution margins. The tariff review is carried out every four or five years.

In Panama, the Resolution of the National Public Services Authority (AN) number 13040 was published on 28 December 2018, approving the tariff conditions for Empresa de Distribución Eléctrica de Chiriquí, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A. Previously, through resolutions AN No. 12959 of 27 November 2018 and AN No. 13004 of 12 December 2018, the Maximum Permitted Revenue (IMP) for the period January 2019 - June 2022 was established.

Regarding electricity distribution in Chile, the power and capacity prices agreed in the contracts with the generators as a result of bidding processes are passed on to regulated clients in the tariffs that are set as average node prices.

In this context, Ministry of Energy decrees 7T-2018 (28 September 2018), 20T-2018 (6 May 2019) and 7T-2019 (5 October 2019) established average node prices applicable from 1 July 2018, 1 January 2019 and 1 July 2019, respectively.

Law 21.185 was published on 2 November, creating a transitional mechanism for stabilising electricity prices for regulated customers. This law essentially lays down a limit on the generation prices that distributors pass on to their customers and, consequently, the application of an adjustment factor to prices in supply contracts with generation companies, in order to ensure consistency with the expected billings to end-customers.

The National Energy Commission will calculate the differences in billing for each supply contact. This balance in dollars will be incorporated in the semi-annual tariff decrees. From July 2023 or until a balance of USD 1,350 million is accumulated, uncollected balances may not be increased. Uncollected balances will not accrue interest, except as from 1 January 2026 (6-month Libor plus a spread for country risk at the date of application).

This arrangement will only apply to contracts under which supplies are initiated before 2021.

Additionally, Law 21.194, published on 21 December 2019, revised the returns for distribution companies and defined the tariff process for electricity distribution, modifying the regulatory framework that governs the electricity distribution segment. That law provides for a transitional arrangement under which price levels associated with the Distribution Added Value that were in force on the date of its publication will remain constant until their pre-set expiration date, and any differences must be factored into the tariffs resulting from subsequent tariff-setting processes for supplies to regulated customers.

Nevertheless, the differences arising from those decrees on average node prices and from the regulations setting transmission tolls, whether due to publication after the prices came into force or due to the stabilisation mechanisms described earlier, must be passed on to regulated customers, which makes it necessary to reflect the impact this will have on end customers' accounts in the balance sheet and income statement.

The transmission activity in Chile is regulated in accordance with a known and stable framework. The existing transmission facilities are remunerated through a regulated tariff, which is determined every four years through a tariff study.

In Argentina, each provincial jurisdiction has its own regulation to establish the Distribution Added Value (VAD). That is, each province is the grantor of the Public Electricity Distribution Service in its area.

However, the values relating to the acquisition cost of energy, capacity and transmission are *pass through* values and are subject to national regulation.

The tariff scheme in the province of San Juan where Naturgy operates consists of five-yearly tariff reviews known as Ordinary Tariff Reviews. Additionally, semi-annual tariff reviews known as Extraordinary Tariff Reviews are carried out to align economic variables with the costs of the service. In these cases, only the variables contained in the distribution company's Distribution Value Added are restated.

The Tariff Study for the next five-year period 2021-2025 is currently in progress and will set the tariffs. Public hearings to define this process are expected to be held towards the end of 2020.

Note 3. Basis of presentation and accounting policies

3.1. Basis of presentation

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2018 were approved by the shareholders at a general meeting held on 5 March 2019.

The consolidated annual accounts for 2019, which were drawn up and signed by the Board of Directors of Naturgy Energy Group, S.A. on 4 February 2020, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without any change.

The consolidated annual accounts of Naturgy for 2019 have been prepared on the basis of the accounting records of Naturgy Energy Group, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter "IFRS-EU"), as per (EC) Regulation 1606/2002 of the European Parliament and of the Council.

In the preparation of these consolidated annual accounts the historical cost method has been used, although modified by the criteria for the recognition at fair value of financial assets measured at fair value through profit or loss and through other comprehensive income, derivative financial instruments, business combinations, the application of inflation to historical asset costs in economies considered hyperinflationary and defined benefit pension plans.

These consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Naturgy at 31 December 2019, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, changes in consolidated equity and the consolidated cash flows of Naturgy for the year then ended.

The figures set out in these consolidated annual accounts are stated in million euro, unless indicated otherwise.

3.2 New IFRS-EU and IFRIC interpretations

Standards that came into force on 1 January 2019

As a result of their approval, publication and entry into force on 1 January 2019 the following standards, interpretations and amendments adopted by the European Union have been applied:

Standards adopted by the European Union		Entry into force for years commencing
IFRS 16, "Leases"	New standard that replaces IAS 17.	1 January 2019
IFRS 9 (Amendment), "Prepayment features with negative compensation"	Enables entities to measure at amortised cost some prepayable financial assets.	1 January 2019
IFRIC 23, "Uncertainty in the treatment of income taxes"	Clarifies the recognition and valuation of IAS 12 in cases of uncertainty as to whether the tax authorities accept a certain tax treatment used by the entity.	1 January 2019
IAS 19 (Amendment) "Plan amendment, curtailment or settlement"	These changes require the use of updated actuarial assumptions to determine the service costs for the current year and net interest for the remainder of the year.	1 January 2019
IAS 28 (Amendment), "Long-term interests in associates and joint ventures"	Clarifies the application of IFRS 9 to long-term interests in associates or joint ventures when the equity method is not used.	1 January 2019
Annual improvements to IFRS, Cycle 2015-2017	Minor changes to various standards.	1 January 2019

With respect to the application of these standards, interpretations and amendments, the only one that has had significantly impacts the consolidated annual accounts is IFRS 16.

IFRS 16 - "Leases"

IFRS 16 "Leases" replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 and lays down the principles for the accounting recognition of leases under a single balance sheet model for all leases. IFRS 16 entered force on 1 January 2019 and has not been adopted early.

Naturgy has opted to apply the modified retrospective approach, based on which it has not restated any comparative figures from previous years and has recognised the impacts at 1 January 2019.

IFRS 16 provides that lessees must recognise a financial liability in the consolidated balance sheet for the present value of the payments to be made over the remaining life of the lease and an asset for the right to use the underlying asset, which is valued based on the amount of the associated liability to which the initial direct costs incurred are added. In addition, there is a change in the policy for recognising the lease expense, which is recorded as a depreciation expense for the relevant asset and a financial expense due to the revaluation of the lease liability. With respect to the lessor's accounting treatment, the standard does not vary substantially and the lease must continue to be classified as an operating or finance lease depending on the degree of material transfer of the risks and rewards of ownership.

Naturgy has applied the following policies, estimates and criteria:

- The exemption from the recognition of leases in which the underlying asset is of low value (less than US\$ 5,000) and is short term (maturity less than or equal to 12 months) has been applied.
- The practical solution indicated in paragraph C3, Appendix C of IFRS 16 has been applied, which stipulates that it is not necessary to reassess whether a contract is, or contains, a lease at the date of initial application.
- It has been decided not to separately record the components that are not leases from those that are for those asset classes in which the relative importance of these components is not significant with respect to the total value of the lease.
- For transition purposes, it has been decided to apply the modified retrospective approach, on the basis of which no comparative figures from previous years will be restated.
- It was decided to measure the initial right-of-use asset for an amount equivalent to the lease liability as of 1 January 2019 for all lease contracts.
- An incremental effective interest rate has been applied with respect to funding by portfolio of similar assets, in relation to the lease, country and duration of the agreement. The weighted average of the incremental interest rate at the date of initial application was 2.6% in Spain and 8.7% in Latin America.

- To determine the term of the leases as the non-cancellable period, the initial term of each contract has been considered unless Naturgy has a unilateral extension or termination option and there is reasonable certainty that this option will be exercised, in which case the corresponding extension term or early termination will be taken into account.

Impact of the application of IFRS 16

- **Impact of the application of IFRS 16 at 1 January 2019:**

- Recognition of new assets under the heading "Right-of-use assets" (non-current assets) in the amount of Euros 324 million and new financial liabilities under "Financial liabilities for non-current and current leases" of Euros 257 million and Euros 67 million, respectively. These basically relate to leases on offices, gas tankers, vehicles and land for energy use where generation plants are located, mainly wind and photovoltaic facilities.
- With respect to financial leases prior to the date of first application and which involve the chartering of gas tankers, their accounting treatment remains unchanged in comparison with IAS 17. However, the carrying amount has been reclassified in the amount of Euros 1,134 million with respect to finance leases recorded under Property, plant and equipment to the new heading "Right-of-use assets" and financial lease liabilities, previously included under "Other non-current and current liabilities", will be reclassified to the corresponding headings of "Financial liabilities for non-current and current leases" for Euros 1,186 million and Euros 132 million, respectively.

In summary, the impact of the adoption of IFRS 16 on the consolidated balance sheet at 1 January 2019 is as follows:

	Amount (million euro)	Adjustments
Right-of-use assets	1,458	a) b)
Property, plant and equipment	(1,134)	b)
NON-CURRENT ASSETS	324	
Equity attributed to the parent company	-	
Non-controlling interests	-	
EQUITY	-	
Financial liabilities for non-current leases	1,443	a) b)
Other non-current liabilities	(1,186)	b)
NON-CURRENT LIABILITIES	257	
Financial liabilities for current leases	199	a) b)
Other current liabilities	(132)	b)
CURRENT LIABILITIES	67	

The effects on the consolidated balance sheet at 1 January 2019 derived from the adoption of IFRS 16, explained above, are as follows:

Consolidated balance sheet (million euro)

	1.1.2019	IFRS 16	1.1.2019 IFRS 16
ASSETS			
NON-CURRENT ASSETS	32,301	324	32,625
CURRENT ASSETS	8,330	-	8,330
TOTAL ASSETS	40,631	324	40,955
EQUITY AND LIABILITIES			
Equity attributed to the parent company	10,948	-	10,948
Non-controlling interests	3,647	-	3,647
EQUITY	14,595	-	14,595
NON-CURRENT LIABILITIES	19,029	257	19,286
CURRENT LIABILITIES	7,007	67	7,074
TOTAL EQUITY AND LIABILITIES	40,631	324	40,955

The reconciliation between the operating lease commitments disclosed in "Contractual Commitments" under Note 36 of the consolidated annual accounts at 31 December 2018 and the liabilities recognised at 1 January 2019 in the initial application of IFRS 16 is as follows:

	Amount (in million euro)
Operating lease commitments at 31 December 2018 (Note 36 2018 consolidated accounts)	476
Discount using the corresponding interest rate	(79)
Short-term low-value leases	(37)
Different treatment of extension and termination options and variable lease payments	(36)
Lease liabilities recognised at 1 January 2019	324

- **Impact of IFRS 16 on the consolidated income statement at 31 December 2019**

The effects on the consolidated income statement for 2019 derived from the adoption of IFRS 16, explained above, are as follows:

	2019	IFRS 16	2019	IFRS 16
Revenue	23,035	-	23,035	-
Raw materials and consumables	(16,366)	55	(16,311)	-
Other operating income	164	-	164	-
Personnel expenses	(924)	-	(924)	-
Other operating expenses	(1,523)	47	(1,476)	-
Profit/(loss) on disposals of fixed assets	28	-	28	-
Release of fixed asset grants to income and other	46	-	46	-
GROSS OPERATING RESULTS	4,460	102	4,562	-
Depreciation, amortisation and fixed-asset impairment losses	(1,566)	(92)	(1,658)	-
Impairment due to credit losses	(134)	-	(134)	-
Other results	93	-	93	-
OPERATING PROFIT/(LOSS)	2,853	10	2,863	-
NET FINANCIAL INCOME/(EXPENSE)	(654)	(12)	(666)	-
Profit/(loss) of companies measured under the equity method	75	-	75	-
PROFIT/(LOSS) BEFORE TAXES	2,274	(2)	2,272	-
Corporate income tax	(477)	1	(476)	-
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	1,797	(2)	1,796	-
Profit for the year from discontinued operations, net of taxes	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	1,797	(1)	1,796	-
Attributable to:				
The parent company	1,403	(1)	1,401	-
Non-controlling interests	395	-	395	-

The application of IFRS 16 has entailed, with respect to the consolidated income statement at 31 December 2019, an increase in the operating margin of approximately Euros 55 million and a decrease in operating expenses of approximately Euros 47 million, and consequently a higher gross operating profit of Euros 102 million, due to the operating lease payments that were recorded under these headings prior to application, offset by a higher depreciation charge for the new right-of-use assets of Euros 92 million and an increase in financial expenses for the new lease liabilities of Euros 12 million, with the result that consolidated profit for the year has not been significantly affected. The impact on basic and diluted earnings per share is not significant.

- **Impact of the application of IFRS 16 on the consolidated cash-flow statement at 31 December 2019**

The application of IFRS 16 has led to an increase in cash flows from operating activities of Euros 102 million in the consolidated cash-flow statement at 31 December 2019, as a result of the increase in gross operating profit, offset by the increase in interest payments on the new financial liabilities of Euros 12 million and a decrease in cash flows from financing activities of Euros 90 million relating to principal repayments in the new lease liabilities, with the result that cash generation is not affected.

Amounts recognised in the balance sheet and income statement

Naturgy has concluded contracts containing a lease in which it is the lessee for the following category of underlying assets:

- Long and medium term gas tanker charters.
- Buildings (offices, commercial premises, warehouses, parking spaces, etc.).
- Land for energy use for combined cycle plants, wind farms, photovoltaic farms, transformer station facilities, propane gas (LPG) and liquefied natural gas (LNG) facilities.
- Vehicles.

Specific ship charter contracts are not recognised as right-of-use assets as they are short-term or variable-payment contracts. Leases of land for energy use in which payments vary depending on production are not recognised as assets either.

Naturgy's activity as a lessor in contracts that qualify as finance leases is of little relevance, the main item being commercial collection rights for the assignment of the right to use gas and electricity facilities.

A breakdown of right-of-use assets and finance lease liabilities, as well as movements for 2019, is as follows:

	Right-of-use assets (Note 8)				Total	Lease financial liabilities (Note 18)
	Land and buildings	Gas tankers	Vehicles	Other Property, plant and equipment		
First application IFRS 16 at 01/01/2019	261	1,176	19	2	1,458	1,642
Additions	72	36	2	19	129	129
Divestments	(4)	-	-	-	(4)	(4)
Depreciation and amortisation charge	(32)	(123)	(10)	-	(165)	-
Interest accrued	-	-	-	-	-	100
Currency translation differences	(1)	-	(1)	-	(2)	21
Payments	-	-	-	-	-	(244)
Carrying amount at 31/12/2019	296	1,089	10	21	1,416	1,644

A breakdown of the amounts recognised in the consolidated income statement at 31 December 2019 is as follows:

	2019
Cost of supplies - vessel charter contracts variable payments or short term	23
Lease expense - short term or low amount lease	14
Lease expense - variable payment leases	1
Depreciation charge for right-of-use assets	165
Financial expense due to interest on lease financial liabilities	100
Financial income due to interest on financial assets for leases	2

IFRIC 23 - "Uncertainty in the treatment of income taxes"

IFRIC 23 "Uncertainty in the treatment of income taxes" clarifies how to apply the recognition and measurement requirements of IAS 12 "Income taxes" when there is uncertainty as to the treatment of income taxes. In this situation, an entity reflects the effect of uncertainty when determining taxable earnings, tax bases, unused tax losses, unused tax credits and tax rates.

Naturgy has analysed the possible uncertain tax treatments and the application of this interpretation has not had a significant effect on the consolidated annual accounts except for classification purposes (Notes 17 and 22).

Standards that will enter force on or after 1 January 2020

The standards, amendments and interpretations that will come into force for years commencing after 1 January 2020 and later years are described below.

Standards adopted by the European Union		Entry into force for years commencing
IAS 1 and IAS 8 (Amendment) Definition of "materiality"	New definition of materiality, ensuring its consistency with all Standards.	1 January 2020
References to the IFRS Conceptual Framework (Amendment)	Ensure that the standards are consistent, include a new chapter on valuations, improve definitions and guidelines, and clarify areas such as prudence and the assessment of uncertainty.	1 January 2020
Standards issued by the IASB and yet to be adopted by the European Union		Entry into force for years commencing
IFRS 3 "Business combinations" (Amendment)	New definition of 'business'.	1 January 2020
IFRS 9, IAS 39 and IFRS 7 (Amendment) Interest Rate Benchmark Reform	They change certain specific hedge accounting requirements to mitigate the possible effects of the uncertainty caused by the IBOR reform.	1 January 2020
IFRS 17 "Insurance contracts"	New standard that replaces IFRS 4.	1 January 2021

None of these standards or amendments has been applied early.

In 2018, the entry into force of IFRS 9 and IFRS 15 generated the following impacts:

IFRS 9 - "Financial instruments"

IFRS 9 establishes the criteria for the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and provides a new model for the impairment of financial assets.

Naturgy chose not to adopt the new standard in advance, opting not to restate the comparative analysis for 2017, and reflecting the adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2018.

The impacts derived from the initial application of IFRS 9 were as follows:

- a) Classification of financial assets: With respect to investments in equity instruments currently classified under IAS 39 as available-for-sale financial assets, whose changes in fair value were recognised in equity and taken to income when they were transferred or when their impairment was recognised, upon initial application of IFRS 9 Naturgy applied for these investments, except in the case of Medgaz which was maintained for trading, the option permitted by the Standard concerning the irrevocable classification in the new category of investments in equity instruments at fair value through other comprehensive income. Increases and decreases in the fair value of these assets are recorded under Other accumulated comprehensive income, impairment losses are not recognised in results and gains or losses are not reclassified to the consolidated income statement at the time of sale. In addition, in relation to financial assets that are debt instruments and are not derivatives, Naturgy holds such assets mainly in order to obtain contractual cash flows and therefore they continue to be measured at amortised cost as from 1 January 2018.
- b) Exchange of debt instruments: Naturgy carried out refinancing operations in which, in accordance with IAS 39, there had been no substantial variations in the debt instrument and therefore the carrying amount of the liability had been adjusted based on the relevant costs and commissions, which were amortised over the remaining useful life of the adjusted liability. Under IFRS 9, in operations involving changes to financial liabilities it is necessary to determine the value of the cash flows of the new financial liability calculated using the effective internal rate of return of the old financial liability, recording the difference between the new and original carrying amounts in the consolidated income statement. The impact estimated at 1 January 2018 was a decrease of Euros 48 million in financial liabilities with the corresponding increase in deferred tax liabilities of approximately Euros 12 million.
- c) Impairment of financial assets: Naturgy applies the general expected loss model for financial assets with the exception of Trade and other receivables, for which the estimated simplified expected loss model is used. In this context, Naturgy has taken into account available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g.

macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors. On the basis of the evaluations carried out at the effective date of the new standards, the impact at 1 January 2018 was an increase in the impairment provision for financial assets of Euros 102 million with a corresponding increase in deferred tax assets of approximately Euros 26 million.

- d) Hedge accounting: Naturgy chose to apply hedge accounting under IFRS 9. However, it has not made any substantial changes in its hedging model, confirming that its current hedging relationships will qualify as hedges that continue with the adoption of IFRS 9. The Group will record, in a separate equity item, the temporary value of the option contracts, the forward element of forward contracts and the base exchange rate differential in financial instruments in the event of their being excluded from the hedging relationship.
- e) Other adjustments: These include adjustments due to the adoption of IFRS 9 for companies carried by the equity method, mainly due to the application of the new financial asset impairment model based on expected credit losses.

IFRS 15 - "Revenue from contracts with customers"

IFRS 15 has brought in a new model for the recognition of revenue derived from contracts with customers whereby revenue is recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services.

Additionally, it is provided that an asset will be recognised for the incremental costs of obtaining a contract with a customer if they are expected to be recovered.

Naturgy chose the retroactive method as the transition method for the first application of IFRS 15, with the accumulated effect of said application at 1 January 2018 being reflected in reserves, and chose not to restate the comparative figures for 2017.

In addition, the entity has decided to apply the practical solutions consisting of not regarding the financing component as material when the payment period is less than one year, not applying the standard retrospectively to contracts terminating before 1 January 2018 and recognising the costs of obtaining the contracts as an expense when the expected amortisation period is one year or less.

The impacts derived from the initial application of IFRS 15 were as follows:

- a) The internal revenue recognition policies for the different types of contracts with customers were analysed, identifying the performance obligations, the determination of a schedule for meeting these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them, or performance obligations that could lead to the recognition of liabilities due to contracts with customers, were detected.
- b) IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. They are amortised systematically in the consolidated income statement as the income related to the asset concerned is recognised, i.e. the average expected duration of contracts with customers, which varies from two to eight years. On the basis of the evaluations carried out at the effective date of the new standard, fees paid in prior years to obtain energy supply contracts with customers that were still in force at 1 January 2018, amounting to Euros 61 million, were recognised under intangible assets, with the corresponding increase in deferred tax assets of approximately Euros 15 million.

Impact of IFRS 9 and IFRS 15 on the consolidated balance sheet at 1 January 2018

The effects of the adoption of IFRS 9 and IFRS 15 on the consolidated balance sheet at 1 January 2018 are set out below:

Consolidated balance sheet (million euro)

	1.1.2018	IFRS 9	IFRS 15	Total adjustments	1.1.2018 IFRS9 and IFRS15
ASSETS					
Intangible assets	9,921	-	61	61	9,982
Property, plant and equipment	22,654	-	-	-	22,654
Investments recorded using the equity method	1,500	(23)	-	(23)	1,477
Non-current financial assets	1,219	(1)	-	(1)	1,218
Other non-current assets	96	-	-	-	96
Deferred tax assets	849	26	-	26	875
NON-CURRENT ASSETS	36,239	2	61	63	36,302
CURRENT ASSETS	11,083	(101)	-	(101)	10,982
TOTAL ASSETS	47,322	(99)	61	(38)	47,284
EQUITY AND LIABILITIES					
Equity attributed to the parent company	14,734	(50)	46	(4)	14,730
Non-controlling interests	3,571	(13)	-	(13)	3,558
EQUITY	18,305	(63)	46	(17)	18,288
Deferred income	842	-	-	-	842
Non-current provisions	1,129	-	-	-	1,129
Non-current financial liabilities	15,916	(48)	-	(48)	15,868
Deferred tax liabilities	2,312	12	15	27	2,339
Other non-current liabilities	1,210	-	-	-	1,210
NON-CURRENT LIABILITIES	21,409	(36)	15	(21)	21,388
CURRENT LIABILITIES	7,608	-	-	-	7,608
TOTAL EQUITY AND LIABILITIES	47,322	(99)	61	(38)	47,284

3.3 Comparability

For the purposes of comparing the income statement for year 2019 with year 2018, the effects of the application of IFRS 16 described above must be taken into account.

As detailed in accounting policies, Argentina is considered hyperinflationary economy since 1 January 2018, so the information for 2019 and 2018 is comparative.

The impact on equity as of 1 January 2018 derived from the application of IAS 29 “Financial Information in Hyperinflationary Economies” included in translation differences was Euros 55 million.

3.4. Accounting policies

The main accounting policies used in the preparation of these consolidated annual accounts have been as follows:

3.4.1 Consolidation

a) Subsidiaries

Subsidiaries are companies controlled by Naturgy. Naturgy controls an entity when, as a result of its involvement, it is exposed or entitled to variable returns and has the capacity to influence those returns through the power exercised in the entity.

Subsidiaries are fully consolidated as from the date on which control is transferred to Naturgy and are excluded from consolidation on the date on which this control ceases.

In order to account for the acquisition of subsidiaries the acquisition method is used. The cost of acquisition is the fair value of the assets delivered of the equity instruments issued and the liabilities incurred and borne on the date of the exchange, the fair value of any additional consideration that depends on future events (provided that they are likely to occur and can be reliably measured).

The intangible assets acquired through a business combination must be recognised separately from goodwill if they met the criteria for asset recognition, whether they are separable or they arise from legal or contractual rights and when their fair value can be reliably measured.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transactions are initially stated at their fair value at the date of acquisition, irrespective of the percentage of the non-controlling interest.

For each business combination, Naturgy may opt to recognise any non-controlling interest in the acquiree at fair value or at the proportional part of the non-controlling interest of the recognised values of the net identifiable assets of the acquiree.

Acquisition costs are expensed in the year when they are incurred.

The surplus cost of the acquisition in relation to the fair value of Naturgy's shareholding in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

The measurement period for business combinations begins on the acquisition date and ends when Naturgy concludes that it cannot obtain further information on the events and circumstances that existed at the acquisition date. This period may not in any case exceed one year as from the acquisition date. During the measurement period, the business combination is deemed to be provisional and adjustments to the provisional amount will be recognised, if applicable, as if the business combination had been fully recognised on the acquisition date.

In a business combination achieved in stages, Naturgy values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between Naturgy companies are eliminated in the consolidation process. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in the equity and profit or loss of the subsidiary companies is broken down under "Non-controlling interests" in the consolidated balance sheet and "Profit attributable to non-controlling interests" in the consolidated income statement.

In relation to the acquisitions or sale of shareholdings without loss of control, the difference between the price paid or received and their net carrying value, or as the case may be, the result of their sale, is recorded as equity transactions and does not generate either goodwill or profits.

When an investment ceases to be consolidated due to a loss of control any interest retained in the entity is recalculated at fair value with the change in the carrying amount being recognised in the consolidated income statement. This fair value then becomes the initial carrying amount for the purposes of the subsequent recognition of the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amount previously recognised in other comprehensive income in relation to the entity concerned is recorded as if the Group had disposed of the related assets or liabilities directly.

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies are stated at the current value of the reimbursement, i.e., their exercise price and are carried under "Other liabilities".

b) Joint Arrangements

Joint arrangements are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the partners.

A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Interests in joint operations are accounted for by the proportionate consolidation method and interests in joint ventures are recorded under the equity method.

Under the equity method, interests in joint ventures are initially recognised at cost and are adjusted thereafter to reflect Naturgy's interest in gains and losses subsequent to the acquisition and movements in other comprehensive income.

At each reporting date, Naturgy determines whether there is objective evidence of the impairment of its investment in a joint venture. If impairment is identified, Naturgy calculates the amount of the impairment loss as the difference between the joint venture's recoverable amount and carrying amount, recognising it in the item "Profit/(loss) from equity-consolidated companies" in the consolidated income statement.

The assets and liabilities assigned to joint operations are recorded in the consolidated balance sheet in accordance with their nature and based on Naturgy's percentage interest. The income and expenses from joint operations are reflected in the consolidated income statement in accordance with their nature and proportionally to Naturgy's percentage interest.

c) Associates

Associates are all entities over which Naturgy has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for under the equity method.

d) Consolidation scope

Appendix I includes the investee companies directly and indirectly owned by Naturgy that have been included in the consolidation scope.

Appendix II lists the main consolidation scope changes in 2019 and 2018, the most relevant being as follows.

2019

In April 2019 Naturgy sold its 45% holding in the associate Torre Marenostrom, S.L. to Inmobiliaria Colonial (Note 9).

In May 2019, once the term of the share buyback commitment granted in 2003 to Sinca Inbursa, S.A. de C.V. (Inbursa) relating to 14.125% of Naturgy México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. expired without Inbursa having exercised said right (see Note 15), the reversal of the commitment and the resulting increase in non-controlling interests were recognised.

In July 2019, the swap was completed of the holdings of the Chilean Group company Compañía General de Electricidad, S.A. (CGE) in the Argentinean electricity distribution companies (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for the holdings of Cartellone Energía y Concesiones, S.A. (CECSA) in the Argentinian gas distribution companies (Gasnor, S.A. and Gasmarket, S.A.). Through this transaction the percentage shareholding in the gas distribution companies increased from 50% to 100% and the holdings in the electricity distribution companies were disposed of (Note 12).

In October 2019, Naturgy sold its 100% interest in Empresa de Transmisión Eléctrica Transemel, S.A., which carried out electricity transmission activities (Note 12).

2018

In February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy was completed.

In March 2018, through its subsidiary Global Power Generation, Naturgy agreed to the acquisition of two solar photovoltaic projects in Brazil that began operating in December 2018 (Note 33).

In March 2018, following approval by the competition authorities, the sale of a 20% minority interest in the company Holding de Negocios de Gas, S.A., which owns the gas network assets in Spain, was completed.

In May 2018 the deadline expired for the acceptance of the public offering on Gas Natural S.A. ESP, thereby completing the sale of the remaining 41.9% of the gas distribution business in Colombia.

Kangra Coal Proprietary Limited, recognised as held for sale since May 2018 (Note 12), was sold in December 2018.

3.4.2 Transactions in foreign currency

Items included in the financial statements of each of Naturgy's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated annual accounts are presented in Euros, which is Naturgy's presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The results and financial position of all Naturgy entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All the currency translation differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the heading Cumulative translation adjustments in equity.

Before being converted to euros the financial statements of Group companies with the functional currency of a hyperinflationary economy are adjusted for inflation following the procedure described below. Once restated, all items in the financial statements are converted to euro applying the year-end exchange rate. The figures for previous periods, which are given for comparative purposes, are not altered.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment, as well fluctuations in inflation rates in the last three years. The financial statements of companies whose functional currency is that of an economy considered to be highly inflationary are adjusted to reflect changes in the purchasing power of the local currency, such that all items on the balance sheet that are not expressed in current terms (non-monetary items), are restated taking as reference a representative price index at the year end and all income and expenses, gains and losses, are restated on a monthly basis applying appropriate corrective factors. The difference between the initial amounts and the adjusted figures is taken to profit and loss.

The adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as assets and liabilities of that company and are translated at the closing exchange rate.

With effect from 1 July 2018, applying the criteria established by IAS 29 "Reporting in Hyperinflationary Economies", the Argentinian economy has been treated as hyperinflationary with effects backdated to 1 January 2018. The financial information disclosed in previous years was not restated.

The inflation rates used were the domestic wholesale price index (IPIM) until 31 December 2016 and the consumer price index (CPI) as from 1 January 2017.

With effects back-dated to 1 January 2018, an increase in equity was recognised as a result of applying the rise in inflation to the historic cost of non-monetary assets from the date of their acquisition or inclusion in the consolidated balance sheet and recording the relevant deferred tax liability. This effect was reflected in currency translation differences at the beginning of 2018.

As from 1 January 2018:

- An adjustment to the income and expense items was made to apply the rise in inflation from the date they were included in the income statement, as well as to reflect the losses derived from the net monetary position.
- The translation into euro of the figures thus adjusted in the consolidated financial statements is performed applying the year end peso/euro exchange rate.

The exchange rates against the euro (EUR) of the main currencies of Naturgy companies at 31 December 2019 and 2018 have been as follows:

	31 December 2019		31 December 2018	
	Closing Rate	Average Accumulated Rate ⁽¹⁾	Closing Rate	Average Accumulated Rate ⁽¹⁾
US Dollar (USD)	1,12	1,12	1,15	1,18
Argentinean Peso (ARS)	67,27	67,27	43,11	43,11
Brazilian Real (BRL)	4,52	4,41	4,44	4,31
Chilean Peso (CLP)	845,31	786,7	794,63	757,3
Mexican Peso (MXN)	21,22	21,56	22,49	22,71
Australian Dollar (AUD)	1,60	1,61	1,62	1,58

(1) The closing exchange rate in Argentina is used as a consequence of considering Argentina as a hyperinflationary economy.

3.4.3 Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Naturgy's share of the net identifiable assets of the acquired subsidiary, joint arrangements or associates acquired, at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint arrangements is included in Intangible assets while goodwill related to acquisitions of associates is recorded under Investments using the equity method.

Goodwill is not amortised and it is tested annually to analyse possible impairment losses. It is recognised in the consolidated balance sheet at cost value less cumulative impairment losses.

The impairment of goodwill cannot be reversed.

b) Concessions under IFRIC 12 and other similar concessions

This heading records the cost of acquisition of concessions if they are acquired directly from a public entity or similar, the fair value attributed to the concession in the event of being acquired as part of a business combination or the cost of construction and improvements of infrastructures assigned to concessions, in accordance with IFRIC 12 "Service concession agreements".

The assets affected by IFRIC 12, which are those in which the licensor controls the services that Naturgy (operator) must provide and the significant residual interest in the infrastructure at the end of the agreement, are recorded as financial assets if the operator holds an unconditional right to receive cash from the licensee and as intangible assets if the operator does not hold said right, but holds the right to charge users for the service. The income and expenses on construction services or infrastructure improvements are recognised at their gross amount. Given that concession agreements do not specify the remuneration pertaining to these items, the value of the is estimated based on the expenses incurred, without any margin.

The assets included under this heading are amortised on a straight-line basis over the duration of each

concession, except in the case of the Maghreb-Europe pipeline, which, in order to properly reflect the expected consumption pattern for the future economic profits, is based on the value of gas transported during the life of the right of use, which entails an accumulated amortisation that is not lower than that which would be obtained by using a straight-line method.

Furthermore, the concessions for electricity distribution and transmission in Spain and Chile, and the concessions for gas distribution in Chile all acquired basically as part of a business combination, are not subject to any legal or other limit. Accordingly, as these are intangible assets with an undefined life, they are not amortised, although they are tested for possible impairment annually, as explained in Note 3.4.6.

c) Computer software

Costs associated directly with the production of computer software programs that are likely to generate economic profits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs of the employees involved in developing the programs.

Computer software development costs recognised as assets are amortised on a straight-line basis over a period of five years as from the time the assets are ready to be brought into use.

d) Research costs

Research activities are expensed in the consolidated income statement as incurred.

e) Customer acquisition costs

The incremental costs incurred directly to obtain customer contracts that reflect the commissions paid to obtain energy supply contracts with such customers and which are expected to be recovered over the expected duration of the contract are recorded as intangible assets.

Customer acquisition costs recognised as assets are amortised systematically in the consolidated income state over the average expected useful life of the contracts with customers, varying between two and eight years.

f) Other intangible assets

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive regasification rights at the regasification plant in Peñuelas (Puerto Rico), which are amortised on a straight-line basis until the end of their term (2025).
- The licence costs for renewable generation farms, mainly acquired as part of a business combination, which will be amortised on a straight-line basis over their useful lives.
- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valued at fair value and amortised over the contract term that does not differ significantly from the expected consumption pattern.

There are no intangible assets with an undefined useful life apart from goodwill and the aforementioned concessions for electricity distribution and transmission and the concessions for gas distribution.

3.4.4 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

a) Cost

All property, plant and equipment are presented at acquisition or production cost, or the value attributed to the asset in the event that it was acquired as part of a business combination.

The financial cost for the technical installation projects until the asset is ready to be brought into use, form

part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

Major maintenance expenditures are capitalised and amortised over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

The non-extractable gas necessary as a cushion for the exploitation of the underground storage units of natural gas is recorded as Property, plant and equipment ("cushion gas"), and depreciated over the useful life of the underground storage deposit.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

The future costs which Naturgy must meet in relation to the closure of certain facilities are included in the value of the assets at the restated value, including the respective provision (Note 3.4.18).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

b) *Depreciation*

Assets are depreciated using the straight-line method over their estimated useful lives or, if shorter, over the duration of the concession agreement. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33-50
Gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-65
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	35
Technical installations (nuclear energy plants)	44-47
Technical installations (wind farms)	25
Technical installations (photovoltaic farms)	25
Technical installations (electricity transmission lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer hardware	4
Vehicles	6
Other	3-20

The hydro-electric plants are subject to the temporary administrative concession regime. Upon termination of the terms established for the administrative concessions, the plants revert to the Government in proper condition, which is achieved by stringent maintenance programs. The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets of which they are composed, distinguishing between investments in civil works (which are depreciated on the basis of the concession period), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any event, the use of the plant and the maximum term of the concessions (expiring between 2022 and 2063).

Naturgy depreciates its nuclear power plants over a useful life of between 44 and 47 years, which corresponds to the life determined in the protocol signed in 2019 with Enresa and the other owners of the facilities. Operating licences for these plants usually have 10-year terms and renewal may not be requested until shortly before the expiration of each licence. Nonetheless, in view of the optimal performance of these facilities and related maintenance programmes, the permits are expected to be

renewed at least until the useful life is completed. Until 2018 the nuclear power plants were amortized in 40 years, the change of useful life on the 2019 results has been of a lower amortization for 13 million euros.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (Note 3.4.6).

c) Exploration and production operations

Operating costs, excluding drilling costs, are recognised in the income statement as they arise, using the successful-efforts method. If, as a result of test drilling, proven reserves are found that justify commercial development, costs are transferred to investments in zones with reserves; otherwise, they are charged to the income statement.

Costs of investments in zones with reserves are capitalised and depreciated over the estimated commercial life of the gas field, based on the relationship between annual production and proven reserves at the start of the depreciation period. At the year end, or at any time when there is an indication that there may be asset impairment, the recoverable value is compared to their carrying value.

3.4.5 Right-of-use assets

Naturgy recognises a right-of-use asset on the inception date of the lease. The cost of the right-of-use asset includes the initial amount of the lease liability, any initial direct costs, lease payments made before or on the inception date, and any decommissioning costs relating to the asset. Subsequently, the right-of-use asset is recognised at cost less accumulated depreciation and any associated impairment provision and is adjusted to reflect any subsequent evaluation or alteration of the lease.

Naturgy applies the exemption for short-term leases (defined as leases with a term of 12 months or less) and leases of low value assets. For such leases, Naturgy recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless there is another systematic basis which better represents the timeframe in which the economic benefits of the leased asset are consumed.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the asset for the right of use reflects that Naturgy expects to exercise a purchase option, the asset related to the right of use is depreciated over the life of the underlying asset. Depreciation commences on the inception date of the lease.

3.4.6 Non-financial asset impairment losses

Non-financial assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, goodwill and intangible assets not in use or with indefinite useful lives are tested at least annually for impairment.

When the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised in the consolidated income statement for the difference between both. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discount cash flow method. Naturgy considers value in use as the recoverable amount, calculated as described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets, including assets with an undefined useful life, and goodwill are assigned to these cash-generating units (CGUs).

For those CGUs requiring impairment testing, cash flows have been based on the Strategic Plan approved by Naturgy updated in line with the most recent budgets, extrapolated to a total maximum of

five years, on the basis of regulations and expectations regarding the development of the market based on available industry forecasts and historical experience of the performance of prices and output.

The cash flows after the five-year projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from estimated inflation for the period 2021 to 2045 according to the Economist Intelligence Unit (EIU).

The parameters taken into account for the composition of the discount rates before taxes are as follows:

- Risk-free rate: Taking into account the 10-year bond in the CGU reference market and studies by the European Central Bank and the Bank of Spain, among others.
- Market risk premium: Premium based on studies by the European Central Bank and the Bank of Spain, among others.
- Deleveraged Beta: According to average of each sector in each case, obtained from Bloomberg.
- Local current interest rate swaps: 10-year swap, obtained from Bloomberg.
- Equity-debt ratio: Sector average.

The impairment loss of an asset, individually considered, is recognised in the consolidated income statement, reducing the carrying value of the asset to its recoverable amount. The depreciation charges for the asset are adjusted in future periods in order to apportion the revised carrying amount of the asset, less its residual value, in a systematic manner over its remaining useful life.

An impairment loss is recognised for a CGU if its recoverable amount is less than the carrying amount. This loss is allocated firstly, to the goodwill, and then to the other CGU assets in proportion to their respective carrying values. These reductions are treated as impairment losses on individual assets. The carrying amount of an asset is not reduced below the higher of its recoverable amount and zero, and this undistributed loss is allocated on a pro-rata basis among the other assets of the CGU.

Impairment adjustments to the value of an assets recognised in previous periods, other than goodwill, may be reversed if and only if there is a change in the estimates used to determine the recoverable amount since the latest impairment loss was recognised.

3.4.7 Financial assets and liabilities

Financial assets

Naturgy classifies its financial assets based on their valuation category which is determined on the basis of the business model and the characteristics of the contractual cash flows, and only reclassifies financial assets when and only when it changes its business model for managing said assets.

Purchases and sales of investments are recognised on the trade date, which is the date on which Naturgy undertakes to purchase or sell the asset, classifying the acquisition under the following categories:

a) Financial assets at amortised cost

These are debt instruments which are held to collect contractual cash flows when those cash flows consist only of principal and interest payments. They include current assets, except for those maturing after twelve months as from the balance sheet date that are classified as non-current assets.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method. Interest income from these financial assets is included in financial income. Any gain or loss that arises when they are derecognised is recognised directly in consolidated results and any impairment losses are recorded as a separate item in the consolidated income statement for the year.

b) Financial assets at fair value through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the Income Statement for the year.

Equity instruments classified in this category are recognised at fair value and any gain or loss arising from changes in fair value, or the proceeds of their sale, are included in the consolidated income statement.

The fair values of listed investments are based on listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows (Levels 2 and 3). If recent available information is insufficient to determine fair value, or if there are a range of possible fair value measurements and the cost value is the best estimate within that range, the investments are recorded at their acquisition cost reduced by any impairment losses.

c) Equity instruments at fair value through other comprehensive income

These are equity instruments with respect to which Naturgy has made an irrevocable decision at the time of initial recognition to record them in this category. They are recognised at fair value and any increases or reductions arising from fair value fluctuations are recorded under other comprehensive income, except for dividends derived from these investments which are recognised under income for the year. Therefore no impairment losses are recognised in the income statement, and at the time of their sale, no gains or losses are reclassified to the consolidated income statement.

Fair value measurements recognised in these consolidated annual accounts are classified using a fair value hierarchy that reflects the relevance of the variables employed to perform the measurement. This ranking has three levels:

- Level 1: Valuations based on the quotation price of identical instruments in an official market. The fair value is based on quoted market prices at the balance sheet date.
- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets included in this category is determined using valuation techniques. These measurement techniques maximise the use of available observable market data inputs and rely as little as possible on entity-specific estimates made by Naturgy. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.
- Level 3: Valuations based on variables that are not based on observable market information.

Financial assets are written off when the contractual rights to the asset's cash flows have expired or they have been transferred; in the latter case, the risks and rewards of ownership must have been substantially transferred. Financial assets are not written off, and a liability is recognised in the same amount as the payment received, in asset assignments where the risks and rewards of ownership are retained.

Receivables assignment agreements are treated as factoring without recourse provided that the risks and rewards inherent in ownership of the financial assets assigned are transferred.

The impairment of financial assets is based on an expected loss model. Naturgy accounts for the expected loss and the changes therein at each reporting date to reflect the changes in credit risk from the date of initial recognition, without waiting for an impairment event to occur.

Naturgy applies the general expected loss model for financial assets with the exception of Trade and other receivable without a significant financial component, for which the simplified expected loss model is used.

The general model requires the recognition of the expected loss resulting from a default event in the coming 12 months or over the duration of the contract, depending on the evolution of credit risk on the financial asset since initial recognition in the balance sheet. In the simplified model, credit losses expected over the duration of the contract are recorded from the outset, taking into account available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors.

Financial liabilities

a) Financial assets at amortised cost

Borrowings are initially recognised at their fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method, classifying financial liabilities as measured subsequently at amortised cost.

In the event of contractual modifications of a liability at amortised cost that does not result in derecognition, the contractual flows of the refinanced debt must be calculated maintaining the original effective interest rate, and the resulting difference will be recorded in the income statement on the date of said modification.

The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss for the period.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by Naturgy.

In addition, trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than twelve months are considered non-current payables.

b) Financial liabilities at fair value through profit or loss

These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated both at inception and afterwards at their fair value, and the changes in this value are taken to the consolidated income statement for the year.

3.4.8 Derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

Naturgy aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description of the risk management objective pursued is carried out.

In order for each hedging operation to be considered effective, Naturgy documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives.

The market value of the various financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end quotation (Level 1).
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of the forward price curves of such items (Level 2 and 3).

The fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable credit risk in negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through consolidated profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accountings

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

When options contracts are used to hedge forecast transactions, the Group only designates the intrinsic value of the options contract as the hedging instrument.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect the consolidated income statement. However, if this amount is a loss, and for an amount that is not expected to be recovered, it will be immediately reclassified in the consolidated income statement as a reclassification adjustment.

Amounts accumulated in equity are transferred to the consolidated income statement in the period in which the hedged item affects the gain or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps is recognised in the financial expense at the same time as the interest expense in the hedged loans.
- When a hedging instrument covers a forecast transaction, the accumulated amounts remain in equity until the forecast transaction takes place. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.

c) Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried on the consolidated balance sheet under "Cumulative translation differences". The gain or loss from the non-effective part is recognised immediately under "Exchange differences" on the consolidated income statement. The accumulated amount of the valuation recorded under "Cumulative translation differences" is released to the consolidated income statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

3. Energy purchase and sale agreements

During the normal course of its business Naturgy enters into energy purchase and sale agreements which in most cases include "take or pay" clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs of receipt or physical delivery of energy projected by Naturgy in accordance with periodic energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for "own use" and therefore fall outside the scope of IFRS 9.

3.4.9 Non-current assets held for sale and discontinued operations

Naturgy classifies as assets held for sale all the assets and related liabilities for which active measures have been taken in order to sell them and if it is estimated that the sale will take place within the following twelve months.

Additionally, it considers discontinued activities the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations which are significant and which can be considered separately from the rest, and which have been sold or disposed of by other means or which meet the conditions to be classified as held-for-sale. Entities acquired solely for resale are also classed as discontinued operations.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation from the date on which they are classified as non-current assets held for sale.

In the event of delays caused by events or circumstances beyond Naturgy's control and if there is sufficient evidence that the commitment to the plan to sell those classified as held for sale is maintained, the classification is maintained even though the period to complete the sale is extended beyond one year.

Non-current assets held for sale are disclosed as follows on the consolidated balance sheet: the assets are carried under a single account "Non-current assets held for sale" and the liabilities are also carried under a single account called "Liabilities linked to non-current assets held for sale". The profit or loss from discontinued activities is stated on a single line on the consolidated income statement called "Profit for the year from discontinued operations net of tax".

3.4.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to the acquisition and/or production, including the costs of transporting inventories to the current location.

Nuclear fuel is measured on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the income statement on the basis of the energy capacity consumed.

Emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the allowances are delivered, they are derecognised against the provision recorded when the CO₂ emissions take place (Note 3.4.18).

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, the Group assesses whether or not the net realisable value of finished goods is greater than their production cost.

3.4.11 Share capital

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves.

Dividends on ordinary shares are recognised as a deduction from equity in the period they are approved.

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The Gains and losses on disposal of treasury shares are recognised under "Reserves" in the consolidated balance sheet.

3.4.12 Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date.

The resulting cost is recognised under Personnel expenses in the consolidated income statement as the services are rendered by the employees during the relevant vesting period, with a balancing entry in "Reserves" in the consolidated balance sheet.

The amounts recognised in consolidated equity are not subject to a subsequent reassessment due to trends in external market conditions.

3.4.13 Earnings per share

Basic earnings per share are calculated as a quotient between consolidated profit for the year attributable to equity holders of the company and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

Diluted earnings per share are calculated as a quotient between consolidated profit for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the parent company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself.

3.4.14 Borrowings and equity instruments

Borrowings and equity instruments issued by Naturgy are classified based on the nature of the issue.

Naturgy treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.4.15 Preference shares and subordinated perpetual debentures

The issues of preference shares and subordinated perpetual debentures are considered equity instruments if and only if:

- They do not include the contractual obligation for the issuer to repurchase them, under conditions involving certain amounts and at certain dates or determinable amounts and at determinable dates, or the right of the holder to demand their redemption.
- The payment of interest is at the discretion of the issuer.

In the case of issues of preference shares made by a subsidiary of the Group, which comply with the above conditions, the amount received is classified in the consolidated balance sheet under "Non-controlling interests".

3.4.16 Deferred income

This heading mainly includes:

- Capital grants received, relating basically to agreements with Regional Governments for the gasification or electrification of municipalities and other investments in gas or electricity infrastructure, for which Naturgy has met all the conditions established and which are stated at the amount granted. The amounts allocated are recognised in income systematically over the basis of the useful life of the asset concerned, thus offsetting the amortisation expense.
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities. As the nature of the performance obligation resulting from contracts with customers includes both the connection service and the continuous network access service, the amounts allocated are recognised in the income statement systematically over the duration of the contracts, which coincides with the useful lives of the facilities.

3.4.17 Provisions for employee obligations

a) Post-employment pension obligations and similar

- Defined contribution plans

Naturgy Energy Group, S.A., together with other group companies, is the promoter of a joint occupational pension plan, which is a defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are insured.

Additionally, there is a defined contribution plan for a group of executives, for which Naturgy undertakes to make certain contributions to an insurance policy, guaranteeing this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The contributions made have been recorded under Personnel expenses on the consolidated income statement.

- Defined benefit plans

For certain groups there are defined benefit commitments relating to the payment of retirement pension, death and disability supplements, in accordance with the benefits agreed by the entity and which have been externalised in Spain through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which adopted the Regulations on the arrangement of company pension commitments.

The liability recognised for the defined benefit pensions plans is the current value of the liability at the

balance sheet date less the fair value of the plan-related assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised directly in the equity item "Other comprehensive income", for the entire amount, in the period in which they arise.

Past-service costs are recognised immediately in the consolidated income statement under "Personnel expenses".

b) Other post-employment benefit obligations

Some of Naturgy's companies provide post-employment benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited, directly in equity, to Other comprehensive income.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Naturgy recognises these benefits when it has demonstrably undertaken to terminate the employment of current employees in accordance with a detailed formal plan without any possibility of withdrawal, or to provide them with termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which Naturgy has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.4.18 Provisions

Provisions are recognised when Naturgy has a legal or implicit present obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the best estimate of the present value of the amount required to settle the obligation at the balance sheet date.

When it is expected that part of the disbursement needed to settle the provision will be paid by a third party, the payment is recognised as a separate asset, provided that its receipt is practically assured.

Naturgy has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To this end, Property, plant and equipment records the present value of the cost that these tasks would entail which, in the case of nuclear plants, cover the time until the public corporation ENRESA takes charge of the dismantling and waste management, with a balancing entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded against "Financial expenses".

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference.

In order to cover the obligation concerning the delivery of CO₂ emission allowances for emissions made during the year, the heading Current provisions record the CO₂ allowances to be delivered valued at acquisition cost for allowances purchased recorded under Inventories and, if not all necessary emission

allowances are held, at fair value for allowances pending purchase.

3.4.19 Leases

At the commencement date of a contract, Naturgy assesses whether the contract is or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

The lease term is the non-cancellable period considering the initial term of each contract unless Naturgy has a unilateral extension or termination option and there is reasonable certainty that this option will be exercised, in which case the corresponding extension term or early termination will be taken into account.

Naturgy re-evaluates whether a contract is, or contains, a lease only if the terms and conditions of the contract change.

Lessee

Naturgy recognises, for each lease in which it is the lessee, a right-of-use asset and a lease financial liability (Notes 3.4.5 and 3.4.20).

Lessor

Naturgy will classify each lease contract in which it is the lessor as either an operating lease or a finance lease.

A lease will be classified as a finance lease when Naturgy transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the customer. A lease will be classified as an operating lease if substantially all the risks and rewards incidental to the ownership of an underlying asset are not transferred.

- *Operating leases:* Operating lease payments will be recognised as income in the lessor's income statement on a straight-line basis over the lease term unless another allocation basis reflects, more representatively, the distribution pattern of the benefit gained from the use of the underlying asset.
- *Finance leases:* Naturgy will recognise in the consolidated balance sheet the assets held under a finance lease as a receivable for an amount equal to the net investment in the lease, using the interest rate implicit in the lease contract for measurement purposes.

The lessor will subsequently recognise the financial income over the term of the lease in such a manner as to obtain a constant interest rate in each period on the net investment outstanding under the lease (the leased asset). It will apply the lease payments against the gross investment to reduce both the principal and the accrued financial income.

When a contract includes both lease and non-lease components, Naturgy applies IFRS 15 criteria to allocate the consideration under the contract to each component.

3.4.20 Lease financial liabilities

At the inception date of the lease, Naturgy recognises the lease liability at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if this cannot be readily determined, the incremental lending rate.

The incremental interest rate for financing used by Naturgy is differentiated based on the portfolio of similar leases, country and contract term. The average weighted incremental interest rate on the date of 2019 is 2.5% in Spain and 8.1% in Latin America.

The lease payments to be made will include fixed payments less any incentives, variables that depend on an index or a rate, and residual value guarantees expected to be incurred, the exercise price of a purchase option if that option is expected to be exercised, and penalty payments for terminating the lease if the lease term reflects that the lessee will exercise an option to terminate the lease.

Any other variable payments are excluded from the measurement of the lease liability and right-of-use asset.

Subsequently, the lease financial liability will be increased by the interest on the lease liability and reduced by the payments made. The liability will be remeasured if there are changes in the amounts payable and the terms of the lease.

3.4.21 Income tax

Income tax expense includes the deferred tax expense and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Naturgy includes the effect of uncertainty in tax treatment when determining taxable earnings, tax bases, unused tax losses, unused tax credits and tax rates.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the consolidated annual accounts using the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

Deferred tax arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred income tax assets and tax credits are recorded only when there are no doubts as to their future recoverability through the future taxable profits that can be used to offset temporary differences and implement the tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to the consolidated income statement or to the item "Other comprehensive income for the year" in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

When there is uncertainty regarding income tax treatments, Naturgy assesses whether a tax authority is likely to accept an uncertain tax treatment. If it concludes that the tax authority is unlikely to accept an uncertain tax treatment, the effect of the uncertainty on taxable income, tax bases and unused tax losses and credits is recognised. The effect of the uncertainty is recognised using the method that, in each case, best reflects the outcome of the uncertainty: the most likely outcome or the expected value. For each case Naturgy evaluates whether to consider each uncertain tax treatment separately, or in conjunction with another or several other uncertain tax treatments, based on the approach that best prefixes the resolution of uncertainty.

3.4.22 Recognition of income and expenses

a) General

Revenue derived from contracts with customers is recognised based on compliance with performance obligations with customers.

Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which Naturgy expects to be entitled in exchange for such goods or services.

Five steps are established for the recognition of revenue:

1. Identify the customer's contract(s).
2. Identify the performance obligations.
3. Determine the price of the transaction.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue according to the fulfilment of each obligation.

Based on this recognition model, sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue for the year includes the estimate of the energy supplied that has not yet been invoiced.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts and transactions between Naturgy companies are eliminated.

b) Gas distribution network access revenue

The remuneration of the regulated gas distribution activity is fixed for each distribution company for all its facilities based on the customers connected to them and the volume of gas supplied.

The remuneration of regulated gas transmission is set in respect of availability and continuity of supply of the companies owning transmission assets.

The provision of distribution facilities to locate gas at supply points is considered to be a single performance obligation and therefore the remuneration for the regulated gas transmission and distribution activity is recognised as income on a straight-line basis since the service provided is similar over time.

The regulatory framework of the natural gas sector in Spain (2.1.) regulates a payment procedure for the redistribution among companies in the sector of the net revenues obtained, so that each company receives the remuneration recognised for its regulated activities.

At the date of preparation of these consolidated annual accounts, no final settlements from prior years are outstanding.

Order ETU/1977/2016 of 23 December recognised both the accumulated gas system deficit for 2014 and the mismatch between revenues and costs for 2015, which coincide with the amount approved in the respective final settlements for each year. Companies subject to the settlement system, which include Naturgy, are entitled to recover these amounts, as from 25 November 2016, in fifteen and five annual payments, respectively.

Order ETU/1283/2017 of 22 December recognises the mismatch between revenues and costs for 2016, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, are entitled to recover and have recovered these amounts as from 1 December 2017, in five annual payments.

In December 2017 the irrevocable assignment without recourse of the 2014 shortfall and the mismatches for 2015 and 2016 took place (Note 10).

Order ETU/1367/2018 of 20 December recognises the mismatch between revenues and costs for 2017, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, will be entitled to recover these amounts as from 29 November 2018, in five annual payments.

The above order also recognises, as parties subject to the settlement system, irrespective of the activity they engage in, the holders of collection rights relating to the shortfall accumulated at 31 December 2014, and lays down the final interest rates applicable to the calculation of the annual amounts of the accumulated shortfall at the end of 2014 and the annual amounts pertaining to the mismatches for years 2015, 2016 and 2017.

Order TEC/1259/2019 of 20 December, provides for the application of the surplus between revenues and costs for 2018 resulting from the definitive settlement for said year to the total amortisation of the temporary mismatches between costs and revenues for 2015 and 2017, as well as to the partial amortisation of the mismatch for 2016.

The Resolution of 18 December 2019 of the National Commission for Markets and Competition, published in the Official State Gazette of 30 December 2019, establishes the remuneration of the regulated gas transmission and distribution activities that will be applicable during 2020, at the end of which the current regulatory period that has been in force between 1 January 2015 and 31 December 2020 will terminate; the remuneration parameters that will make up the compensation for the following regulatory period must be definitively established.

c) Income from gas sales

Revenue includes the amount of both last-resort gas sales and free market sales, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made.

The exchanges of gas that do not have a different value and do not include costs that give rise to differences in value are not classified as transactions that generate revenues and are not included, therefore, in the income figure.

The amount of gas sales is recorded as income at the time of delivery to customers, based on the quantities supplied and including the estimate of energy supplied not yet calculated in customers' meters.

d) Electricity distribution network access revenue

The remuneration for the electricity distribution and transmission activity is established annually by the Ministry, recognising remuneration for investment and operation and maintenance.

The provision of distribution facilities to locate power at supply points is considered to be a single performance obligation and therefore the remuneration for the regulated electricity transmission and distribution activity is recognised as income on a straight-line basis since the service provided is similar over time.

The regulatory framework of the electricity sector in Spain (2.2.) regulates a payment procedure for the redistribution among companies in the sector of the net revenues obtained, so that each company receives the remuneration recognised for its regulated activities.

The remuneration for electricity distribution is settled provisionally applying the 2016 figures until the respective Ministerial Orders that definitively determine the remuneration for 2017, 2018 and 2019 and the remuneration that would apply to date in 2020 are published.

At the date of preparation of these consolidated annual accounts the final settlements for the period 2014 to 2019 have not been published, although it is not expected that the final settlements will generate significant differences in relation to the estimates made.

From 2006 to 2013, the income received by the companies in the Spanish electricity sector was not sufficient to remunerate the regulated activities and system costs. The generation companies, including Naturgy, were forced to finance this income shortfall until it had been funded in full. Following successive auctions and assignments of the outstanding debt claims, on 15 December 2014 the electricity system deficit securitisation process was completed.

Following the enactment of Electricity Sector Law 24/2013 of 26 December (Note 2.2), temporary mismatches between electricity system revenues and costs are funded by the companies subject to the settlement system, including Naturgy, generating the right to recover the relevant amount over the following five years, including interest at a market rate. Consequently, the financing of the electricity system revenue shortfall is recognised as a financial asset since, on the basis of this regulation, Naturgy is entitled to a reimbursement and there are no future contingent factors. In the period 2014 to 2019, following the reforms that were undertaken, there has been no income shortfall in the sector, according to the data on provisional settlements for those years.

e) *Income from sales of electricity*

Revenue includes the amount of electricity sales in both the PVPC market and the free market, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made. Consequently, power purchases and sales are recognised for the total amount. Nonetheless, power purchases and sales from the pool made by the Group's generation and supply companies in the same time band are eliminated during the consolidation process.

The amount of electricity sales is recorded as income at the time of delivery to customers, based on the quantities supplied and including an estimate of energy supplied not yet calculated in customers' meters.

f) *Other income*

Naturgy has power generation capacity assignment contracts with the Federal Electricity Commission for its combined-cycle plants in Mexico (CFE), for a 25-year term as from the commencement of commercial operations. These contracts stipulate a pre-established collection schedule for the assignment of power supply capacity. As Naturgy has the capacity to operate and manage the plants, it sells the power at market prices and retains the risks and rewards of the operation, taking relevant decisions that will affect future cash flows, these contracts represent provisions of services and are therefore recognised on a percentage-of-completion basis over time.

Revenue from new subscriptions, which consist of the operation of coupling the gas reception facility to the network, as well as revenue from facility verifications, are recognised at the time these actions are carried out since it is at that time that the customer obtains the benefits of the service provided and there is no associated future obligation.

Revenue from the rental of meters and facilities is recorded as income over the period of the rental service that constitutes the performance obligation.

Revenues from contracts for the provision of service are recognised on a percentage-of-completion basis, i.e. when revenues may be reliably estimated, they are recorded over time based on the progress of contract execution at the year end, calculated in proportion to costs incurred to date in relation to estimated costs necessary to execute the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

3.4.23 Cash-flow statement

The consolidated cash flow statement has been prepared using the indirect method and contains the following terms, with their respective meanings:

- a) Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.
- b) Investing activities: acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of equity, and liabilities that do not form part of operating activities.

3.4.24 Significant accounting estimates and judgements

The preparation of the consolidated annual accounts requires the use of estimates and assumptions. The valuation standards that require a large number of estimates are set out below:

a) *Intangible assets and property, plant and equipment (Notes 3.4.3 and 3.4.4)*

The useful lives of intangible assets and property, plant and equipment are determined using estimates of the level of use of the assets and of expected technological advancement. Assumptions regarding level of use, technological framework and future development imply a significant degree of judgement, since the timing and nature of future events are difficult to foresee.

b) *Impairment of non-financial assets (Note 3.4.6)*

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the projections approved by Naturgy, which have historically been substantially met.

Note 5 details the main assumptions used to determine the recoverable value of non-financial assets.

c) *Derivatives and other financial instruments (Note 3.4.8)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Naturgy uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the consolidated balance sheet date. The fair value of commodity derivatives is calculated by using forward quoted price curves at the consolidated balance sheet date.

The carrying value less the expected loss provision of receivables are assumed to approximate their fair values. The fair value of financial liabilities for reporting purposes is calculated by discounting the future contractual cash flows at the current market interest rate to which Naturgy has access for similar financial instruments.

d) *Provisions for employee benefits (Note 3.4.17)*

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. Naturgy estimates at each year end the provision necessary to meet its pension liabilities and the like, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e) *Provisions (Note 3.4.18)*

Naturgy makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, outstanding litigation, future costs for dismantling and closure of certain facilities and restoration of land or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) *Income tax (Note 3.4.21)*

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Naturgy operates. The decision as to whether the tax authority will accept a given uncertain tax treatment and the expected outcome of outstanding litigation requires material estimates and judgements to be made. Naturgy evaluates the recoverability of deferred tax assets based on estimates of future

taxable income and the capacity to generate sufficient profits during the periods in which said deferred taxes are deductible. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g) *Revenue recognition (Note 3.4.22)*

Revenues from energy sales are recognised when the goods are delivered to the customer based on regular meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the end of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts recorded as unbilled income and none are expected in the future.

Certain aggregates for the electricity and gas system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialise in the respective final payments, could affect the calculation of the shortfall in the settlements of electricity and gas regulated activities in Spain.

Note 4. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, whose operating results are reviewed regularly by Naturgy's Board of Directors when taking its operating decisions in order to decide on the resources that must be allocated to the segment and to evaluate its performance, in respect of which separate financial information is available.

The Strategic Plan 2018-2022, approved by the Board of Directors on 27 June 2018, determined a new segment model with full management responsibility and independence. As a result, the operating segments were redefined based on the following criteria:

- Gas and Electricity:
 - Supply of gas, electricity and services: the objective is to manage a new integrated business model for gas, electricity and services, maximising the value of the portfolio by focusing on customers, with high growth potential in services and solutions.
 - International LNG supply: includes both the sale of liquefied natural gas and the sea transport business.
 - Electricity generation in Europe: includes both conventional generation (hydro, coal, nuclear and combined cycle plants) and renewable generation (wind, mini-hydro, solar and cogeneration), all of which are currently in Spain.
 - International electricity generation: includes the electricity generation facilities of Global Power Generation (GPG) in Latin America (Brazil, Chile, Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter consolidated using the equity method through EcoEléctrica LP) and Australia.
- EMEA Infrastructures:
 - Gas distribution Spain: encompasses the regulated gas distribution business in Spain.
 - Electricity distribution Spain: encompasses the regulated electricity distribution business in Spain.
 - Maghreb Infrastructures: Manages the Maghreb - Europe gas pipeline.
- Latin America South Infrastructures:
 - Gas and electricity distribution in Argentina.
 - Gas distribution in Brazil.

- Gas distribution and sale and electricity distribution in Chile.
- Gas distribution in Peru.
- Latin America North Infrastructures:
 - Gas distribution in Mexico.
 - Electricity distribution in Panama.
- Rest. Basically includes the activity of Unión Fenosa Gas (consolidated by the equity method) and the gas storage business.

Segment results and investments for the periods of reference are as follows:

Segmental financial information – Assets, liabilities and investments

2019	Gas and Electricity					EMEA Infrastructures				Latin America South Infrastructures					Latin America North Infrastructures			Rest	Eliminations	TOTAL
	Supply business	LNG	Gener. Europe	Gener. International	Total	Gas Networks Spain	Electricity Networks Spain	Infr. Maghreb	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total			
Operating assets (a)	2,780	1,495	5,978	2,088	12,341	3,802	5,125	1841	9,068	539	1,041	5,925	13	7,518	883	1,212	2,095	549	(632)	30,939
Investments under equity method	-	-	95	294	389	-	6	-	6	-	-	19	-	19	3	-	3	314	-	731
Operating liabilities (a)	(1,674)	(152)	(94)	(218)	(2,992)	(660)	(989)	(16)	(1,665)	(259)	(254)	(531)	(3)	(1,047)	(94)	(262)	(356)	(829)	633	(6,256)
Investment in intangible assets (b)	40	1	7	-	48	10	24	4	38	42	49	10	2	103	6	11	17	16	-	222
Invest. in property, plant & equipment (c)	15	2	505	209	731	156	237	-	393	2	-	176	-	178	52	98	150	11	-	1,463
Business combinations (Note 33)	-	-	-	-	-	-	-	-	-	72	-	-	-	72	-	-	-	-	-	72

2018	Gas and Electricity					EMEA Infrastructures				Latin America South Infrastructures					Latin America North Infrastructures			Rest	Eliminations	TOTAL
	Supply business	LNG	Gener. Europe	Gener. International	Total	Gas Networks Spain	Electricity Networks Spain	Infr. Maghreb	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total			
Operating assets (a)	3,219	1,670	5,705	2,051	12,645	3,921	5,127	164	9,212	379	1,046	6,116	9	7,550	845	1,067	1,912	580	(749)	31,150
Investments under equity method	-	-	126	271	397	-	7	-	7	14	-	38	-	52	2	-	2	358	-	816
Operating liabilities (a)	(1,673)	(357)	(973)	(207)	(3,210)	(684)	(938)	(13)	(1,635)	(188)	(242)	(394)	(2)	(826)	(113)	(267)	(380)	(993)	742	(6,302)
Investment in intangible assets (b)	36	-	12	1	49	9	23	5	37	46	54	17	13	130	7	4	11	54	-	281
Invest. in property, plant & equipment (c)	25	380	450	231	1,086	231	205	-	436	2	6	321	-	329	74	99	173	16	-	2,040
Business combinations (Note 33)	-	-	-	35	35	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35

(a) There follows a breakdown of the reconciliation of "Operating assets" and "Operating liabilities" with consolidated "Total assets" and "Total liabilities":

	2019	2018		2019	2018
Operating assets	30,939	31,150	Operating liabilities	(6,256)	(6,302)
Goodwill	3,202	3,215	Equity	(13,976)	(14,595)
Investments carried under the equity method	731	816	Non-current financial liabilities	(15,701)	(13,352)
Non-current financial assets	738	910	Finance lease liabilities (Note 20)	-	(1,318)
Deferred tax assets	1,525	1,689	Deferred tax liabilities	(2,249)	(2,149)
Non-current assets held for sale (Note 12)	73	202	Liabilities related to non-current assets held for sale (Note 12)	(46)	(93)
Derivative financial instruments (see Note 11)	552	207	Current financial liabilities	(2,286)	(2,079)
Public administrations (Note 11)	79	113	Derivative financial instruments (Notes 20 and 21)	(85)	(132)
Current tax assets	281	185	Dividend payable (Note 20)	(81)	(37)
Other current financial assets	333	428	Public administrations (Note 21)	(425)	(541)
Cash and cash equivalents	2,685	1,716	Current tax liabilities (Note 21)	(33)	(33)
Total assets	41,138	40,631	Total Net Equity and liabilities	(41,138)	(40,631)

(b) Includes the investment in "Intangible assets" (Note 6), broken down by operating segment

(c) Includes the investment in "Property, plant and equipment" (Note 7), broken down by operating segment.

Reporting by geographic area

Naturgy's assets, which include the operating assets described above, and the investments recorded using the equity method, are as follows based on their location:

	At 31.12.19	At 31.12.18
Spain	18,597	18,965
Rest of Europe	601	613
Latin American	11,764	11,674
Other	708	714
Total	31,670	31,966

The investments in property, plant and equipment and other intangible assets of Naturgy, as described above, assigned according to the location of the assets are as follows:

	At 31.12.19	At 31.12.18
Spain	1,022	1,437
Rest of Europe	2	1
Latin American	565	783
Other	96	100
Total	1,685	2,321

Note 5. Non-financial asset impairment losses

Definition of Cash Generating Unit

Following the approval on 27 June 2018 of the Strategic Plan 2018-2022 which introduced a new industrial and business unit model, Cash Generating Units (CGU) are defined as follows:

- Gas and Electricity:
 - Supply of gas, electricity and services: The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers with high potential for growth in services and solutions, for which there is a single CGU.
 - International LNG sales: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
 - Electricity Generation Europe: It is considered that there is a CGU for conventional electricity generation (hydro, coal, nuclear, combined cycle and other plants) and another CGU for renewable electricity generation (wind, mini-hydro, solar and cogeneration) taking into account the new strategic vision of the Spanish electricity market, with a greater presence in renewables and greater volatility in hourly prices, which requires specialisation in the management of conventional and renewable generation focused, respectively, on cost adjustment and an increase in the installed capacity, in line with the reorganisation carried out.
 - International Electricity Generation: A CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama, Dominican Republic, Puerto Rico, Australia and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
- EMEA Infrastructures:
 - Gas distribution in Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
 - Electricity Distribution Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.

- Maghreb Infrastructures: Is a single CGU which manages the Maghreb - Europe gas pipeline.
- Latin America South Infrastructures: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the regulated electricity distribution business in Argentina and Chile.
- Latin America North Infrastructures: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.
- Remainder: Basically includes the Unión Fenosa Gas CGU and the gas storage business.

Information on recognised impairments

- Conventional electricity generation:

The assumptions taken into consideration are the following:

	2018	2019	2020	2021	2022
Evolution of Spanish GNP	2.7%	2.2%	1.8%	1.9%	1.8%
Pool price €/MWh	58.5	52.7	55.8	52.8	49.7
Brent (USD/bbl)	75.3	62.9	56.5	55.5	60.6
Gas Henry Hub (USD/MMBtu)	2.9	2.7	2.4	2.4	2.7
Coal (API2 CIF ARA) (USD/t)	89.6	59.8	68.0	71.0	79.5
CO ₂ €/t	14.0	24.4	25.0	25.4	25.7

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.4.6 are the following:

- Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market, assuming an average year for hydro generation purposes. The main variation with respect to past projections is a decrease in conventional production in line with the expected future evolution of the conventional generation mix.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts. As a result of this analysis, price paths have been obtained which, as a result of the considerable uncertainty over energy policy in Spain, have been adjusted downwards in line with futures curves and analysts' forecasts.
- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience. The main variation with respect to past projections corresponds to an increase in the cost of emission allowances based on the evolution of futures curves.
- Operation and maintenance costs. Estimated from historical costs of managed park.
- Taxes laid down in Law 15/2012 (Note 2.2).
- In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 6.6% have been used for the conventional electricity generation CGU. The discount rate has been determined based on the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2018 the long-term growth rate for the Electricity Spain CGU was 1.9%, while the pre-tax discount rate applied for said CGU was 7.0%.

Test result in 2019

Following the update of the test, in 2019 there has been no variation of the impairment recorded in the 2018 for Conventional Generation.

The recoverable amount calculated as the value in use of the conventional electricity generation CGU, taking into account the impairment in 2018, which is equivalent to its carrying value, is Euros 3,466 million. A sensitivity analysis was carried out independently for each of the following variations in the key assumptions:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 332 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 283 million.
- a decrease in electricity output of 5% would increase impairment by Euros 210 million.
- an increase in fuel costs of 5% would increase impairment by Euros 404 million.
- a decrease in electricity prices of 5% would increase impairment by Euros 519 million.

Test result in 2018

Following the approval of the new Strategic Plan 2018-2022, as a result of the reassessment of the future cash flow estimates based on said Plan, impairment of conventional electricity generation plants in Spain was recognised in the amount of Euros 3,929 million under "Depreciation/amortisation and impairment losses". This amount includes Euros 1,538 million for all goodwill (Note 6), Euros 118 million for intangible assets (Note 6), Euros 2,258 million relating to tangible fixed assets (Note 7) and Euros 15 million for Inventories (Note 13).

Due to the existence of impairment evidence, following the approval of the new Strategic Plan and taking into account external reports by analysts that regularly follow Naturgy and which indicated a value for the electricity business in Spain which is lower than the relevant carrying value, an impairment analysis was carried out on the three CGUs that made up the Electricity CGU in Spain in previous years: conventional electricity generation, renewable electricity generation and electricity supply. Impairment was detected only with respect to the conventional electricity generation CGU in Spain.

The assumptions and projections that affect these CGUs were based on the Strategic Plan 2018-2022, approved by the Board of Directors following the last General Shareholders' Meeting which updated those that had been used until then, and were determined: i) in the light of the new sector variables for the next five-year period, ii) taking into account the uncertainty regarding the role of certain generation assets in the energy transition policy (coal, nuclear and combined cycles) and consequently the development of the associated risks, iii) considering the greater presence forecast in renewables, iv) considering the increasing volatility of prices in the electricity wholesale market and emission allowances and v) assessing the references provided by very recently announced transactions in conventional electricity generation assets in Spain.

At 31 December 2018 the recoverable amount calculated as the value in use of the conventional electricity generation CGU, which is equivalent to its carrying value, was Euros 3,591 million. A sensitivity analysis was carried out independently for each of the following variations in the key assumptions:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 333 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 258 million.
- a decrease in electricity output of 5% would increase impairment by Euros 203 million.
- an increase in fuel costs of 5% would increase impairment by Euros 364 million.
- a decrease in electricity prices of 5% would increase impairment by Euros 528 million.

- Unión Fenosa Gas:

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas and stopped paying the utilisation fee for the Damietta liquefaction plant in Egypt. This led Unión Fenosa Gas to file various arbitration petitions, the progress of which is described in Note 37.

The most sensitive matters included in the impairment test are as follows:

- Gas volumes to be supplied from each supply source. The main causes of the differences between the past and current cash flow projections are the decrease in the volumes of gas to be supplied from Egypt and to liquefying at the plant during the Strategic Plan 2018-2022 because the agreement with EGAS has still not materialised and due to the delays in coming to an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence. Naturgy continues to be confident that the resolution of the arbitration processes will enable a commercial agreement to be reached, enabling the recommencement of gas supplies to the plant as swiftly as possible.
- Gas supply costs. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets based on the change in the composition of gas volumes affected by the situation in Egypt.
- Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Union Fenosa Gas operates.
- A long-term growth rate of 1.9% (1.9% in 2018) and a pre-tax discount rate of 13.5% (15.1% in 2018) have been used.

Test result in 2019

Following the update of the test, the impairment recorded in 2018 has not varied in 2019.

Test result in 2018

As a result of impairment already arising in periods prior to 31 December 2018, the recoverable value of Unión Fenosa Gas was approximately equivalent to its carrying value and therefore any negative variation in the assumptions meant that the recoverable value would less than the carrying value.

In 2018, Euros 538 million was recorded with respect to the impairment of the 50% interest in Unión Fenosa Gas recorded under the heading “Profit/(loss) from equity-consolidated companies”.

The accumulated impairment at 31 December 2019 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 1,166 million (Euros 1,166 million at 31 December 2018). At 31 December 2019, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 309 million (Euros 340 million at 31 December 2018) (Note 9). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 17 million (Euros 16 million at 31 December 2018).

– EcoEléctrica L.P.:

The main assumptions relate to the scenario considered for the renewal of the contract with Puerto Rico Electric Power Authority (PREPA), which is shaped by the long-term energy projections. Additionally, a pre-tax discount rate of 8.3% was used (8.3% in 2018).

Test result in 2019

Euros 27 million relates to the reversal of the impairment of the 50% interest in the company recorded under the heading “Profit/(loss) from equity-consolidated companies”, by improving flows estimation consequence of the contract renewal hypotheses.

Test result in 2018

Euros 34 million was recorded with respect to the reversal of the impairment of the 50% interest in the company recorded under the heading “Profit/(loss) from equity-consolidated companies”.

At 31 December 2019, the recoverable amount calculated as the value in use of EcoEléctrica L.P., which is equivalent to its carrying value, was Euros 291 million (Euros 271 million at 31 December 2018) (Note 9). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would result in a reversal of impairment under Euros 8 million (increase of Euros 6 million in 2018).

Information on other impairment tests performed

As regards the remaining CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment. An analysis of possible impairment losses has been carried out based on the flows of the Strategic Plan. The most sensitive aspects that are included in the projections used and which are based on industry forecasts and historical experience are as follows:

- Supply of gas, electricity and services:
 - Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.
 - In addition, a long-term growth rate of 0.5% and a pre-tax discount rate of 6.7% have been used for this CGU. The discount rate has been determined specifically for the CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2018 the long-term growth rate was 1.9%, while the pre-tax discount rate applied for said CGU was 6.8%.
- Renewable electricity generation:
 - Electricity generated. Projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data.
 - Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts. It was decided to measure the initial right-of-use asset for an amount equivalent to the lease liability as of 1 January 2019 for all lease contracts.
 - Remuneration. For facilities with a right to specific remuneration, this has been estimated based on the remuneration parameters for the established regulated income period.
 - Operation and maintenance costs. Estimated from historical costs of managed park.
 - Taxes laid down in Law 15/2012 (Note 2.2).
 - In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 5.9% have been used for this CGU. The discount rate has been determined specifically for the new CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2018 the long-term growth rate for the Electricity Spain CGU was 1.9%, while the pre-tax discount rate applied for said CGU was 6.1%.
- International Electricity Generation:
 - Operation and maintenance costs. Estimated on the basis of historical costs.
 - International electricity generation is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.
 - In addition, long-term growth rates of 1.9% - 3.5% (2.1% - 4.0 % in 2018) and pre-tax discount rates of 7.1% - 16.6% (7.9% - 14.8% in 2018) have been used for these CGUs.
- Electricity and gas distribution in Spain:
 - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 described in Note 2.1 on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.
 - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
 - In addition, long-term growth rates of 0.5% - 1.5% (1.2% in 2018) and pre-tax discount rates of 5.4% - 5.8% (6.0% - 6.5% in 2018) have been used for these CGUs.
- Latin America North and South Infrastructures:
- Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
 - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
 - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
 - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
 - In addition, long-term growth rates of 0.6% - 3.5% (1.3% - 3.8% in 2018) and pre-tax discount rates of 8.5% - 13.9% (9.9% - 17.6% in 2018) have been used for these CGUs.

Naturgy has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts of these remaining CGUs have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

	Increase	Decrease
Discount rate	50 basis points	-
Growth rate	-	50 basis points
Electricity generated	-	5%
Electricity price	-	5%
Fuel supply costs	5%	-
Tariff/remuneration performance	-	5%
Operating and maintenance costs	5%	-
Investments	5%	-

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for each of these CGUs.

Test results

As a result of the previous process in the 2019 and 2018 fiscal years, the recoverable values, calculated according to the methodology described in Note 3.4.6, have been higher than the net accounting values recorded in these Consolidated Annual Accounts except for:

2019

- Impairment of Euros 38 million from the electricity generation business in the investments in Panama, under the heading "Depreciation/amortisation and impairment losses" in Property, plant and equipment (Note 7) as a result of the update for impairment testing purposes of the electricity production and electricity price assumptions. In addition, a long-term growth rate of 2.5% and a pre-tax discount rate of 13.3% have been used.

The recoverable amount calculated as the value in use of the Panama electricity generation CGU, which is equivalent to its carrying value, was Euros 45 million. A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 1 million.

- An impairment loss of Euros 50 million on the electricity generation business in the investments in Costa Rica, under "Non-current financial assets"(Note 10) as a result of the updating of the assumption on

electricity production considered in the concession agreement. A pre-tax discount rate of 9.8% - 16.6% was used.

- The recoverable amount calculated as the value in use of the Costa Rica electricity generation CGU, which is equivalent to its carrying value, was Euros 148 million. A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 1 million.

2018

- Euros 171 million recorded under "Depreciation/amortisation and impairment losses" relates to computer software (Note 6), resulting from the review thereof under the new Strategic Plan 2018-2022 and taking obsolescence into account.
- Euros 179 million relating to the impairment of capitalised costs in various gas distribution projects included in Latin America South Infrastructures for an amount of Euros 45 million recorded under the heading "Depreciation/amortisation and impairment losses" in Intangible Assets (Note 6) and other miscellaneous projects included under Remainder amounting to Euros 134 million due to their non-feasibility, of which Euros 86 million was recorded under the heading "Depreciation/amortisation and impairment losses" under Property, plant and equipment (Note 7) and Euros 48 million recorded in Inventories (Note 13).

Additionally, prior to the approval of the new Strategic Plan 2018-2022, in 2018 other impairments or write-downs of various assets for an amount of Euros 54 million were recognised:

- Euros 30 million from the electricity generation business in the Dominican Republic recognised in March 2018 under the heading "Depreciation/amortization and impairment losses" in Property, plant and equipment (Note 7) as a result of the update for impairment testing purposes of the electricity production and electricity price assumptions that have been necessary in a scenario of growth in the generation park capacity with other technologies in that country. In addition, a long-term growth rate of 4.0% (4.0% in 2017) and a pre-tax discount rate of 13.8% (12.8% in 2017) have been used.

At 31 December 2018 the recoverable amount calculated as the value in use of the electricity generation CGU in the Dominican Republic, which is equivalent to its carrying value, was Euros 57 million. A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 2 million.

- Euros 24 million recorded in April and May 2018 under "Depreciation/amortization and impairment losses" in Property, plant and equipment (Note 7) corresponding to the impairment of capitalised costs in various projects included under Remainder due to their non-feasibility.

Note 6. Intangible assets

The movement in 2019 and 2018 in intangible assets is as follows:

	Concessions IFRIC 12	Other concessions and similar	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	1,662	3,489	1,430	1,371	7,952	4,760	12,712
Amortisation fund and impairment losses	(587)	(665)	(936)	(603)	(2,791)	-	(2,791)
Carrying amount at 31/12/2017	1,075	2,824	494	768	5,161	4,760	9,921
Impact of application IFRS 15	-	-	-	61	61	-	61
Carrying amount at 01/01/2018	1,075	2,824	494	829	5,222	4,760	9,982
Investment (Note 4)	101	13	111	56	281	-	281
Amortisation charge	(59)	(47)	(127)	(115)	(348)	-	(348)
Impairment losses (Note 5)	(45)	-	(171)	(118)	(334)	(1,538)	(1,872)
Currency translation differences ⁽¹⁾	(56)	(142)	(4)	(3)	(205)	(4)	(209)
Business combinations (Note 33)	-	-	-	28	28	9	37
Reclassifications and other ⁽²⁾	(5)	(4)	2	(7)	(14)	(12)	(26)
Carrying amount at 31/12/2018	1,011	2,644	305	670	4,630	3,215	7,845
Gross cost	1,702	3,386	1,313	1,282	7,683	3,215	10,898
Amortisation fund and impairment losses	(691)	(742)	(1,008)	(612)	(3,053)	-	(3,053)
Carrying amount at 31/12/2018	1,011	2,644	305	670	4,630	3,215	7,845
Investment (Note 4)	91	4	90	37	222	-	222
Amortisation charge	(60)	(38)	(96)	(95)	(289)	-	(289)
Impairment losses (Note 5)	-	-	-	-	-	-	-
Currency translation differences ⁽¹⁾	9	(103)	(2)	(1)	(97)	(8)	(105)
Business combinations (Note 33)	64	-	-	-	64	-	64
Reclassifications and other ⁽²⁾	6	(30)	(4)	9	(19)	(5)	(24)
Carrying amount at 31/12/2019	1,121	2,477	293	620	4,511	3,202	7,713
Gross cost	1,900	3,269	1,313	1,310	7,792	3,202	10,994
Amortisation fund and impairment losses	(779)	(792)	(1,020)	(690)	(3,281)	-	(3,281)
Carrying amount at 31/12/2019	1,121	2,477	293	620	4,511	3,202	7,713

(1) Includes effect of inflation in Argentina (Note 3.3).

(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 12).

Note 4 includes a breakdown of investments in intangible assets by segment.

"Concessions IFRIC 12" includes concessions regarded as intangible assets under IFRIC 12 "Service concession agreements" (Note 34).

The heading "Other concessions and similar" includes principally:

- The Maghreb-Europe pipeline concession (Note 34) amounting to Euros 102 million at 31 December 2019 (Euros 131 million at 31 December 2018).
- Indefinite useful life concessions per the following breakdown:

	31.12.2019	31.12.2018
Electricity distribution Spain	684	684
Electricity distribution Chile	922	1,004
Gas distribution Chile	747	795

The heading "Other intangible assets" mainly includes:

- Licences to renewable generation farms totalling Euros 171 million at 31 December 2019 (Euros 185 million at 31 December 2018). Includes Euros 22 million for Ibereólica Cabo leones II S.A. (Euros 22 million at 31 December 2018) and Euros 26 million for Guimaranias (Euros 28 million at 31 December 2018) (Note 33).

- Contracts recognised as assets under IFRS 15 amounting to Euros 56 million at 31 December 2019 (Euros 60 million at 31 December 2018).
- The value of gas supply contracts and other contractual rights acquired as a result of the business combinations involving CGE for an amount of Euros 147 million at 31 December 2019 (Euros 159 million at 31 December 2018); Unión Fenosa for an amount of Euros 193 million at 31 December 2019 (Euros 213 million at 31 December 2018) and Naturgy Energy (UK) Ltd for an amount of Euros 11 million at 31 December 2019 (Euros 12 million at 31 December 2018).

Movements in and the composition of goodwill by CGU in 2019 and 2018 are set out below:

	1.1.2019	Business Combinations	Currency translation differences	Transfer held for sale	CGU		31.12.2019
					reclassification	Impairment	
Gas and Electricity	1,639	-	8	-	-	-	1,647
Electricity Spain	-	-	-	-	-	-	-
Conventional generation Spain	-	-	-	-	-	-	-
Renewable generation Spain	743	-	-	-	-	-	743
Supply of gas, electricity and services	443	-	-	-	-	-	443
International generation Mexico	441	-	8	-	-	-	449
International generation Chile	4	-	-	-	-	-	4
International generation Brazil	8	-	-	-	-	-	8
EMEA Infrastructures	1,070	-	-	-	-	-	1,070
Electricity distribution Spain	1,070	-	-	-	-	-	1,070
Latin America South Infrastructures	356	-	(20)	(5)	-	-	331
Gas distribution Brazil	17	-	-	-	-	-	17
Gas distribution Chile	68	-	(5)	-	-	-	63
Electricity distribution Chile	271	-	(15)	(5)	-	-	251
Latin America North Infrastructures	150	-	4	-	-	-	154
Gas distribution Mexico	20	-	1	-	-	-	21
Electricity distribution Panama	130	-	3	-	-	-	133
Rest	-	-	-	-	-	-	-
Total	3,215	-	(8)	(5)	-	-	3,202

	1.1.2018	Business Combinations	Currency translation differences	Transfer held for sale	CGU		31.12.2018
					reclassification	Impairment	
Gas and Electricity	3,148	9	20	-	-	(1,538)	1,639
Electricity Spain	2,708	-	-	-	(2,708)	-	-
Conventional generation Spain	-	-	-	-	1,538	(1,538)	-
Renewable generation Spain	-	-	-	-	743	-	743
Supply of gas, electricity and services	16	-	-	-	427	-	443
International generation Mexico	420	-	21	-	-	-	441
International generation Chile	4	-	-	-	-	-	4
International generation Brazil	-	9	(1)	-	-	-	8
EMEA Infrastructures	1,070	-	-	-	-	-	1,070
Electricity distribution Spain	1,070	-	-	-	-	-	1,070
Latin America South Infrastructures	386	-	(30)	-	-	-	356
Gas distribution Brazil	18	-	(1)	-	-	-	17
Gas distribution Chile	74	-	(6)	-	-	-	68
Electricity distribution Chile	294	-	(23)	-	-	-	271
Latin America North Infrastructures	144	-	6	-	-	-	150
Gas distribution Mexico	20	-	-	-	-	-	20
Electricity distribution Panama	124	-	6	-	-	-	130
Rest	12	-	-	(12)	-	-	-
Total	4,760	9	(4)	(12)	-	(1,538)	3,215

“CGU reclassification” in 2018 includes, as a result of the redefinition of the CGUs indicated in Note 5, the reallocation of the goodwill of the Electricity Spain CGU to the Gas supply, electricity and services CGU, the Conventional electricity CGU and the Renewable electricity generation CGU, based on the relative values of the goodwill associated with the reorganised units, at 30 June 2018. In 2018 an impairment analysis was carried out for these CGUs, resulting in impairment in the conventional electricity generation in Spain CGU for the entire goodwill amounting to Euros 1,538 million (Note 5).

At 31 December 2019, Naturgy records investment commitments totalling Euros 24 million relating (Euros 31 million at 31 December 2018) basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

Intangible assets include, at 31 December 2019, fully amortised assets still in use totalling Euros 697 million (Euros 673 million at 31 December 2018).

Note 7. Property, plant and equipment

The movements in the accounts in 2019 and 2018 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas tankers	Other Property, plant and equipment	PPE under construction	Total
Gross cost	644	11,020	12,454	8,405	1,118	987	1,105	35,733
Depreciation fund and impairment losses	(121)	(5,644)	(4,676)	(1,889)	(297)	(452)	-	(13,079)
Carrying amount at 01/01/2018	523	5,376	7,778	6,516	821	535	1,105	22,654
Investment (Note 4)	13	314	96	258	380	36	943	2,040
Divestment	(19)	-	-	-	-	-	-	(19)
Depreciation charge	(34)	(398)	(421)	(349)	(67)	(70)	-	(1,339)
Impairment losses (Note 5)	(31)	-	(2,257)	-	-	(110)	-	(2,398)
Currency translation differences(1)	(8)	(21)	44	(42)	-	(11)	(53)	(91)
Reclassifications and other (2)	-	54	240	5	-	(132)	(358)	(140)
Carrying amount at 31/12/2017	444	5,325	5,480	6,439	1,134	248	1,637	20,707
Gross cost	578	11,352	12,791	8,565	1,498	549	1,637	36,970
Depreciation fund and impairment losses	(134)	(6,027)	(7,311)	(2,126)	(364)	(301)	-	(16,263)
Carrying amount at 31/12/2018	444	5,325	5,480	6,439	1,134	248	1,637	20,707
First application IFRS 16 (Note 3.2)	-	-	-	-	(1,134)	-	-	(1,134)
Carrying amount at 01/01/2019	444	5,325	5,480	6,439	-	248	1,637	19,573
Investment (Note 4)	17	216	82	132	-	38	978	1,463
Divestment	(8)	(8)	(5)	-	-	(6)	-	(27)
Depreciation charge	(37)	(381)	(374)	(328)	-	(34)	-	(1,154)
Impairment losses (Note 5)	-	-	(38)	-	-	-	-	(38)
Currency translation differences (1)	(8)	(33)	28	(111)	-	2	6	(116)
Business combinations (Note 33)	1	-	-	-	-	3	-	4
Reclassifications and other (2)	(2)	101	990	476	-	64	(1,687)	(58)
Carrying amount at 31/12/2019	407	5,220	6,163	6,608	-	315	934	19,647
Gross cost	563	11,534	13,757	8,999	-	634	934	36,421
Depreciation fund and impairment losses	(156)	(6,314)	(7,594)	(2,391)	-	(319)	-	(16,774)
Carrying amount at 31/12/2019	407	5,220	6,163	6,608	-	315	934	19,647

(1) Includes effect of inflation in Argentina (Note 3.3).

(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 12).

Note 4 include a breakdown of investments in property, plant and equipment by segment.

In 2019 land and property sales took place generating a pre-tax capital gain of Euros 28 million. The most significant sale relates to the sale in December 2019 of the LNG cargo facility that was being developed by Gas Natural Puerto Rico, Inc. for USD 23 million, giving rise to a capital gain before income tax of Euros 12 million (Note 29).

In November 2018 Naturgy sold the building located in calle Goya, Madrid, for Euros 24 million, generating a capital gain before corporate income tax of Euros 9 million (Note 29).

As a result of the application of IFRS 16, the assets included under the heading "Gas tankers" acquired under a financial lease have been reclassified to "Right-of-use assets" (Notes 3.2 and 8).

Set out below is a breakdown of fixed assets in course of construction by business area:

	31.12.2019	31.12.2018
Gas and Electricity	541	859
EMEA Infrastructures	91	92
Latin America South Infrastructures	246	612
Latin America North Infrastructures	56	63
Rest	-	11
Total	934	1,637

The decrease in Gas and Electricity fixed assets under construction relates mainly to the commissioning of investments in wind and photovoltaic generation parks in Spain, Australia and Brazil. Additionally, the decrease in Latin America South Infrastructure corresponds to the commissioning of networks, mainly in Chile.

At 31 December 2019 and 2018, Naturgy had no significant real estate investments.

At 31 December 2019, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2,347 million (Euros 2,150 million at 31 December 2018).

It is Naturgy's policy to take out insurance where deemed necessary to cover risks that could affect its fixed assets.

At 31 December 2019, Naturgy records investment commitments totalling Euros 453 million (Euros 621 million at 31 December 2018) relating basically to the construction of new renewable generation facilities and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2019 in fixed assets projects during their construction total Euros 14 million (Euros 8 million in 2018). The financial expenses capitalised in 2019 account for 2.1% of total financial costs on net borrowings (1.1% in 2018). The average capitalisation rate for 2019 and 2018 was 2.5% and 3.2%, respectively.

Note 8. Right-of-use assets

Movements in 2019 in right-of-use asset accounts and the related accumulated depreciation and provisions are as follows:

	Land and buildings	Gas tankers ⁽¹⁾	Vehicles	Other Property, plant and equipment	Total
First application IFRS 16 at 01/01/2019 (Note 3.2)	261	1,176	19	2	1,458
Additions	72	36	2	19	129
Divestments	(4)	-	-	-	(4)
Depreciation charge	(32)	(123)	(10)	-	(165)
Currency translation differences	(1)	-	(1)	-	(2)
Carrying amount at 31/12/2019	296	1,089	10	21	1,416

(1) Includes transfer of property, plant and equipment by gas tankers that were in a financial lease regime as of 31 December 2018 for 1,134 million euros, as well as the recognition of medium-term chartering tankers by application of IFRS16 (Note7)

Naturgy has signed lease agreements in which it is a lessee for the following category of underlying assets:

- Land for energy use for combined cycle plants, wind farms, photovoltaic parks, transformation center facilities, propane (LPG) or liquefied natural gas (LNG) facilities.
- Buildings (offices, warehouses, premises, parkings...).
- Long and medium term gas transportation tankers
- Vehicles

At 31 December 2019, in containers for gas transportation, eight gas tankers are included under finance long term leases and three medium term leased gas tankers.

Note 9. Investments in companies

Associates and joint ventures

Set out below is a breakdown of equity-consolidated investments:

	At 31.12.19	At 31.12.18
Associates	54	57
Joint ventures	677	759
Total	731	816

Appendix I lists all the associates and joint ventures in which Naturgy holds an interest, stating their activity and the percentage of the shareholding and equity interest.

The most significant shareholdings are Unión Fenosa Gas and EcoEléctrica L.P. (Note 4).

Movements during 2019 and 2018 in equity-consolidated investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Other joint ventures	Total joint ventures	Associates	Total
Value of shareholding at 31/12/2017	925	358	168	1,451	49	1,500
Impact of application IFRS 9	(9)	(14)	-	(23)	-	(23)
Value of shareholding at 01/01/2018	916	344	168	1,428	49	1,477
Investment	-	-	1	1	-	1
Divestment	-	-	(2)	(2)	-	(2)
Shares of profits/(losses)	(583)	22	40	(521)	8	(513)
Dividends received	-	(107)	(29)	(136)	-	(136)
Currency translation differences	5	12	(20)	(3)	-	(3)
Other comprehensive income	-	-	-	-	-	-
Reclassifications and other	2	-	(10)	(8)	-	(8)
Value of shareholding at 31/12/2018	340	271	148	759	57	816
Investment	-	-	2	2	-	2
Divestment	-	-	(35)	(35)	(7)	(42)
Shares of profits/(losses)	(37)	73	35	71	4	75
Dividends received	-	(56)	(25)	(81)	(1)	(82)
Currency translation differences	6	6	4	16	-	16
Other comprehensive income	-	-	-	-	-	-
Reclassifications and other ⁽¹⁾	-	-	(55)	(55)	1	(54)
Value of shareholding at 31/12/2019	309	294	74	677	54	731

(1) Includes the transfer to "Non-current assets held for sale" at the date on which this classification is applied of the electricity distribution investments in Chile and the change in consolidation method for the gas distribution investments in Chile included in the swap and of Ghesa (Note 12).

On April 2019, Naturgy sold the 45% interest it held in the associated company Torre Marenostrum, S.L. to Inmobiliaria Colonial for Euros 28 million, giving rise to a pre-tax capital gain of Euros 20 million (Note 30).

On 3 December 2019, Naturgy sold the interest it held through the group company Naturgy Renovables, S.L.U. in Molinos de Cidacos (50.0%), Molinos de la Rioja (33.3%) and DER Rioja (36.25%) to Iberdrola Renovables La Rioja for Euros 40 million, giving rise to a pre-tax capital gain of Euros 5 million (Note 30).

In 2018, impairment was recognised with respect to the Unión Fenosa Gas shareholding amounting to Euros 538 million and in Ecoeléctrica, L.P. amounting to Euros 34 million, of which Euros 27 million have been reversed in 2019 (Note 5).

There follows a breakdown of assets, liabilities, revenue and results of Naturgy's main interests in joint ventures (by shareholding percentage):

	At 31.12.2019		At 31.12.2018	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Non-current assets	699	246	780	229
Current assets	137	64	117	58
Cash and cash equivalents	25	13	62	7
Non-current liabilities	(387)	(13)	(397)	(4)
Non-current financial liabilities	(281)	(9)	(171)	-
Current liabilities	(140)	(3)	(160)	(12)
Current financial liabilities	(41)	-	(10)	-
Net assets	309	294	340	271
Net borrowings (1)	297	(4)	119	(7)

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2019		2018	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Revenue	675	154	843	141
Raw materials and consumables	(611)	(78)	(762)	(63)
Personnel expenses	(10)	(5)	(9)	(4)
Other operating income/expenses	(20)	(11)	(23)	(12)
Gross operating results	34	60	49	62
Depreciation, amortisation and impairment losses	(46)	(15)	(69)	(14)
Impairment due to credit losses	(16)	3	(24)	9
Operating profit	(28)	48	(44)	57
Net financial income/(expense)	(21)	-	(18)	1
Results of equity-consolidated companies	3	-	5	-
Profit/(loss) before tax	(46)	48	(57)	58
Corporate income tax	7	(2)	11	(2)
Attributed to non-controlling interests	2	-	1	-
Profit/(loss) attributed for the year from continuing operations	(37)	46	(45)	56
Shareholding impairment (Note 5)	-	27	(538)	(34)
Share of profits	(37)	73	(583)	22

There are no contingent liabilities affecting interests in joint ventures.

The contractual commitments for the acquisition and sale of interests in joint ventures at 31 December 2019 and 31 December 2018 are as follows:

	At 31 December 2019	At 31 December 2018
Acquisition		
Energy purchases (1)	3,103	3,840
Energy transmission (2)	113	117
Total contractual obligations	3,216	3,957
Sale		
Energy sales (3)	1,206	1,339
Provision of capacity assignment services (4)	95	134
Total contractual obligations	1,301	1,473

- (1) Reflects long-term commitments to buy natural gas from Unión Fenosa Gas and EcoEléctrica L.P. (ended by 31 December 2019)
- (2) Includes operating costs associated with gas tanker chartering agreements with Unión Fenosa Gas under a financial lease arrangement.
- (3) Reflects long-term commitments to sell natural gas of Unión Fenosa Gas.
- (4) Reflects service provision commitments under power generation capacity assignment contracts from EcoEléctrica L.P. to Puerto Rico Electricity Power Authority.

Certain investment projects related to interests in joint ventures have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2019, the outstanding balance of this type of financing totals Euros 183 million (Euros 210 million at 31 December 2018).

Joint operations

Naturgy participates in different joint operations that meet the conditions indicated in Note 3.4.1.b and which are described in Appendix I, section 3. The relevant interests in joint operations at 31 December 2019 and 2018 are as follows:

	2019	2018
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%

The contribution from the joint operations to Naturgy's assets, liabilities, revenue and results is analysed below:

	At 31.12.19	At 31.12.18
Non-current assets	136	45
Current assets	74	87
Cash and cash equivalents	1	1
Non-current liabilities	(90)	(75)
Non-current financial liabilities	-	-
Current liabilities	(83)	(70)
Current financial liabilities	(12)	(10)
Net assets	37	(13)
Net borrowings (1)	11	9

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2019	2018
Revenue	222	269
Operating expenses	(165)	(175)
Gross operating results	57	94
Depreciation, amortisation and impairment losses (1)	72	(498)
Operating profit	129	(404)
Net financial income/(expense)	-	-
Profit/(loss) before tax	129	(404)
Corporate income tax	(32)	101
Profit/(loss) attributed for the year from continuing operations	97	(303)

(1) Includes generation asset impairment (Note 5)

Note 10. Financial assets

Financial assets classified by nature and category break down as follows at 31 December 2019 and 2018:

At 31 December 2019	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Equity instruments	35	190	-	225
Derivatives (Note 19)	9	20	-	29
Other financial assets	-	-	484	484
Non-current financial assets	44	210	484	738
Derivatives (Note 19)	5	-	-	5
Other financial assets	-	-	328	328
Current financial assets	5	-	328	333
Total	49	210	812	1,071

At 31 December 2018	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Equity instruments	262	85	-	347
Derivatives (Note 19)	11	7	-	18
Other financial assets	-	-	545	545
Non-current financial assets	273	92	545	910
Derivatives (Note 19)	6	24	-	30
Other financial assets	-	-	398	398
Current financial assets	6	24	398	428
Total	279	116	943	1,338

Financial assets recognised at fair value at 31 December 2019 and at 31 December 2018 are classified as follows:

	31 December 2019				31 December 2018			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Financial assets								
Fair value through other comprehensive income	-	14	35	49	-	17	262	279
Fair value through profit or loss	-	210	-	210	-	31	85	116
Total	-	224	35	259	-	48	347	395

The movement in equity instruments in 2019 and 2018, based on the method applied for calculating their fair value, is as follows:

	31 December 2019				31 December 2018			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
At 1 January	-	48	347	395	-	80	560	640
Additions	-	-	-	-	-	-	-	-
Changes recognised directly in equity	-	(3)	(227)	(230)	-	(8)	(181)	(189)
Changes recognised in income statement		95	-	95		(26)	(10)	(36)
Currency translation differences	-	(1)	-	(1)	-	2	-	2
Transfers and other (1)	-	85	(85)	-	-	-	(22)	(22)
At 31 December	-	224	35	259	-	48	347	395

(1) In 2018 pertains to the transfer to held-for-sale of the interest in Richards Bay (Note 12).

Fair value through other comprehensive income

– Equity instruments:

Mainly includes the 85.4% interest in Electricadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 million USD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately 500 million USD, the viability of which is considered remote.

Given the difficulty in assessing the fair value due to the specific situation of this asset, the shareholding in question was valued on the basis of the latest available information in audited financial statements, which reflect an attributed equity value of 85.4% of the Euros 28 million shareholding, entailing the recognition of a decrease in the fair value of this investment of Euros 225 million. At 31 December 2018 this holding was valued at Euros 253 million.

For this equity investment the option permitted by IFRS 9 was used to irrevocably classify it in the new category of "Equity instruments at fair value through other comprehensive income" (Note 3.2) and therefore this decrease in fair value has been recorded under "Other accumulated comprehensive income".

Fair value through profit or loss

- Equity instruments: the 14.9% interest in the Medgaz, S.A., the company that operates the submarine gas pipeline between Algeria and Spain, in the amount of Euros 190 million (Euros 85 million at 31 December 2018).

On 15 October 2019 Naturgy and Sonatrach S.p.A. (Sonatrach) reached an agreement with Mubadala for the acquisition of its 42.09% interest in Medgaz, S.A. and therefore following completion of the operation Medgaz will be owned by Sonatrach (51.0%) and Naturgy (49.0%). Naturgy will acquire 34.05% of Medgaz for Euros 445 million and accordingly the fair value of the 14.95% current interest has been valued based on the price agreed. In 2018 and prior years, the fair value was determined based on discounted cash flows from future dividends.

Amortised cost

The breakdown at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Commercial loans	44	47
Gas system income deficit	-	7
Deposits and guarantees deposits	105	104
Other loans	335	387
Other non-current financial assets	484	545
Commercial loans	29	30
Electricity system income deficit	151	95
Gas system income deficit	27	131
Dividend receivable	-	5
Other loans	121	137
Other current financial assets	328	398
Total	812	943

The breakdown by maturities at 31 December 2019 and 2018 is as follows:

Maturities	At 31.12.19	At 31.12.18
No later than 1 year	328	398
Between 1 year and 5 years	185	224
More than 5 years	299	321
Total	812	943

The fair values and carrying amounts of these assets do not differ significantly.

The heading “Gas system revenue deficit” includes temporary mismatches between gas system revenues and costs, funded by Naturgy pursuant to Law 18/2014 of 17 October, amounting to Euros 27 million (Euros 138 million at 31 December 2018). This amount will be recovered through gas system settlements which in 2019 have allowed the imbalances of 2017 and 2018 to be recovered. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been recognised in long term and short term items based on the estimated recovery period.

“Gas system revenue deficit” includes the temporary mismatches between electricity system revenues and costs financed by Naturgy pursuant to Law 24/2013 of 26 December in the amount of Euros 151 million (Euros 95 million at 31 December 2018) and which generate a recovery right over the following five years and interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

“Commercial loans” mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 11% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

The heading “Deposits and guarantees deposits” basically include amounts deposited with the competent Public Administrations, under applicable legislation, in respect of guarantees and deposits received from customers when contracts are concluded to secure the supply of electricity and natural gas (Note 20).

“Other loans” includes, basically:

- a loan of Euros 115 million (Euros 145 million at 31 December 2018) for financing ContourGlobal La Rioja. S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011,

of which Euros 24 million is classified under current assets (Euros 22 million in 2018). The loan, which is secured by the shares of this company and by its assets, bears annual interest at a market rate and matures in 2021.

- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” (Note 3.4.3.b and Note 34), in the amount of Euros 168 million (Euros 224 million at 31 December 2018), of which Euros 14 million is classified in current assets (Euros 16 million in 2018). These credits are classified under this heading as they represent an unconditional right to receive cash in fixed or determinable amounts.

Derivatives

The variables upon which the valuation of the derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 19 shows the details of the derivative financial instruments.

Note 11. Other non-current assets and trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2019 and 31 December 2018, classified by nature and category, are as follows:

At 31 December 2019	Fair value through other comprehensive income		Total
	Amortised cost		
Derivatives (Note 19)	247	-	247
Other assets	-	334	334
Other non-current assets	247	334	581
Derivatives (Note 19)	305	-	305
Other assets	-	4,595	4,595
Trade and other receivables	305	4,595	4,900
Total	552	4,929	5,481

At 31 December 2018	Fair value through other comprehensive income		Total
	Amortised cost		
Derivatives (Note 19)	162	-	162
Other assets	-	172	172
Other non-current assets	162	172	334
Derivatives (Note 19)	45	-	45
Other assets	-	5,089	5,089
Trade and other receivables	45	5,089	5,134
Total	207	5,261	5,468

Financial assets recognised at fair value at 31 December 2019 and at 31 December 2018 are classified as follows:

	31 December 2019				31 December 2018			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Financial assets								
Fair value through other comprehensive income	-	552	-	552	-	207	-	207
Fair value through profit or loss	-	-	-	-	-	-	-	-
Total	-	552	-	552	-	207	-	207

Fair value through other comprehensive income

Non-current derivative financial assets at fair value through other comprehensive income include the changes in market value of two contracts between the Australian group company Crookwell Development

Pty Ltd (Crookwell) and the distributor ActewAGL (ACT) and the Australian group company Berrybank Development Pty Ltd (Berrybank) and the State of Victoria (Australia) whereby Crookwell and Berrybank undertake to sell on the market, at the spot price, the output from a plants owned by them and to settle with ACT and the State of Victoria the difference between the price of each delivery and a fixed price for a specific volume of MW. Both contacts cover the sale price of the plants' output for a period of 20 years in the first case and 15 years in the second, and have been recorded as a cash-flow hedging financial instrument (Note 19).

In addition, operating hedging derivatives are included to cover gas sales (see Note 19).

Amortised cost

	At 31.12.19	At 31.12.18
Receivable, revenue from capacity services	167	146
Other loans	167	26
Other non-current assets	334	172
Trade receivables	4,662	5,187
Receivables with related companies (Note 35)	34	17
Provision for impairment due to debtor credit losses	(785)	(789)
Trade receivables for sales and services	3,911	4,415
Public Administrations	79	113
Prepayments	92	85
Sundry receivables	232	291
Other receivables	403	489
Current income tax asset	281	185
Trade and other receivables	4,595	5,089
Other non-current assets and trade and other receivables	4,929	5,261

The fair values and carrying amounts of these assets do not differ significantly.

The heading "Receivable, revenue from capacity services" relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission (Note 3.4.20.f).

As of December 31, 2019, the long-term customer balances corresponding to price stabilization mechanisms in Chile are included in the "Other credits" section (Note 2.4.2).

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 21 days.

At 31 December 2019 the accumulated balances for electricity and gas sales yet to be invoiced are included under "Trade receivables" and amount to Euros 1,618 million (Euros 1,748 million at 31 December 2018).

The movement in the impairment provision for debtor credit losses is as follows:

	2019	2018
At 31 December	(789)	(650)
First application IFRS 9 (Note 3.2)	-	(101)
At 1 January	(789)	(751)
Provision for impairment due to credit losses	(134)	(179)
Write offs	136	136
Currency translation differences	2	5
Transfers and other	-	-
At 31 December	(785)	(789)

Note 12. Non-current assets and disposal groups of assets held for sale and discontinued operations

At 31 December 2019, non-current assets held for sale relate to the electricity generation business in Kenya and the 47.9% interest in Ghesa Ingeniería y Tecnología, S.A. (Ghesa).

- As a result of the strategic review of its business, Naturgy initiated a competitive process for the sale of 100% of its shareholding in Iberafrika Power Limited, in Kenya. On 27 June 2018, Naturgy reached an agreement with AEP Energy Africa Limited for the sale at a total value (Enterprise Value) of USD 62 million. After a number of term extensions, AEP was notified of the termination of the contract in March 2019 and the sale process has continued. Finally, on September 19, 2019 a new sales agreement has been reached with A.P. Moller Capital, for a total value (Enterprise Value) equivalent to the previous one, subject to compliance with certain conditions, which are expected to be met in the first quarter of 2020. The fair value has been determined based on the sale price less the costs of sale and its update has not had a significant impact on the consolidated profit and loss account.

As Naturgy has a firm commitment to sell these assets that are clearly identified, the process is under way and it is considered that the sale is highly probable, or the sale has already been completed, the accounting balances of these assets and liabilities were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or area of operation. Therefore, all income and expenses pertaining to these lines of business for 2019 and 2018 are disclosed under "Profit for the year from discontinued operations, net of taxes".

- In July 2019, Naturgy and the other Ghesa shareholders concluded an agreement with CPE for the sale of their respective shareholdings (47.9% in the case of Naturgy). This agreement will materialise once certain suspensive conditions are met, which is expected to occur in the first quarter of 2020. Since the expected sale value of this interest is higher than its carrying amount, no valuation impact has been recognised under IFRS 5. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

At 31 December 2018, non-current assets held for sale related to the electricity generation business in Kenya and the distribution of electricity in Moldova, the latter being sold in 2019.

2019

In April 2019, Naturgy signed an agreement with Duet Private Equity Limited for the sale of 100% of the electricity distribution subsidiaries in Moldova, a line of business that was considered to be held for sale at 31 December 2017. The transaction, which values the capital of the investees at Euros 141 million, including dividends prior to completion of the transaction (Euros 48 million in 2018 and Euros 68 million in 2019), took place in July 2019 with no significant impact on the consolidated income statement. At the time of the transfer, it was considered that these were discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or area of operation. Therefore, all income and expenses pertaining to these lines of business for 2019 and 2018 are disclosed under "Profit for the year from discontinued operations, net of taxes".

On 10 July 2019 the Chilean group company Compañía General de Electricidad, S.A. (CGE) reached an agreement with the Argentine company Cartellone Energía y Concesiones, S.A. (CECSA) to exchange CGE's shares in the electricity distribution companies in Argentina (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for CECSA's shares in the gas distribution companies in Argentina (Gasnor, S.A. and Gasmarket, S.A.). The sale took place on 30 July for a total price of USD 40 million (Euros 36 million), which is the same price set for the acquisition, without any significant impact on the consolidated financial statements. The interest in the electricity distribution companies was classified as held-for-sale at 30 June 2019 and since the sale value of these holdings was higher than their carrying amount no valuation impact was recorded under IFRS 5. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

On 1 October, 100% of the shareholding in Empresa de Transmisión Eléctrica Transemel, S.A., which carries out electricity transmission activities in Chile, was sold. The total sale price amounted to Euros 155 million, generating a capital gain of Euros 68 million before taxes (Note 30). The investment in Transemel had been classified as held-for-sale at 30 June 2019 and since the expected sale value of this holding was higher than its carrying amount no valuation impact was recorded under IFRS 5. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

2018

On 1 and 22 February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy to the companies 2i Rete Gas and Edison, respectively, was completed. Additionally, on 18 April 2018 the assignment of the gas supply contract was completed. The total sale price amounted to Euros 766 million, generating a capital gain of Euros 188 million after taxes.

On 17 November 2017, Naturgy entered into a binding agreement with Brookfield Infrastructure for the sale of its 59.1% interest in Gas Natural SA ESP, a Colombian company engaged in the distribution and retail sale of gas, for 1,678,927 million Colombian pesos (Euros 468 million). The transaction was structured in two phases, the first of which was completed in December 2017 through successive sales operations on the Colombian stock exchange. Following that phase, Naturgy's percentage holding was reduced to 41.9% and control over Gas Natural S.A. ESP was lost. This investment was subsequently recorded using the equity method. On 28 May 2018, the acceptance period for the public offering on Gas Natural S.A. ESP expired, thereby completing the sale of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, which was settled on 1 June 2018. This amount is equivalent to the carrying value of the dividends received and therefore there has been no impact on the consolidated income statement.

On 27 June 2018 Naturgy reached a preliminary agreement for the sale of its 70% interest in Kangra Coal Proprietary Limited (mining business in South Africa) to Menar Holding. The transaction was completed in December 2018. The transaction represents an equity value of USD 28 million for 70% of Naturgy's shares. The conclusion of the transaction was subject to compliance with the terms and procedures laid down in Kangra's shareholders' agreement and the finalisation of the transaction was subject to the necessary regulatory approvals and competition authorisation. In May 2018, as the sale of this business was highly probable, these assets were classified as non-current assets held for sale. At that date, for the estimate of the fair value minus costs to sell required by IFRS 5, a Level 3 valuation was made taking into account the price of the sale offers received less costs to sell. Given that previously, in March 2018, an impairment of Euros 140 million had been foreseen, the result of the reduction in the carrying value of the resulting investment amounting to Euros 141 million did not have a significant additional impact, like the final sale of the company.

As Naturgy sold these assets that were clearly identified, the process was under way and it was considered that the sale was highly probable, or the sale has already been completed, the accounting balances of these assets and liabilities were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or area of operation. Therefore, all income and expenses pertaining to these lines of business for 2018 are disclosed under "Profit for the year from discontinued operations, net of taxes".

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 31 December 2019 and 2018:

2019	International Electricity Kenya	Ghesa	Total
Intangible assets	-	-	-
Property, plant and equipment	42	-	42
Investments recorded using the equity method	-	12	10
Non-current financial assets	-	-	-
Deferred tax assets	-	-	-
NON-CURRENT ASSETS	42	12	54
Inventories	8	-	8
Trade and other receivables	10	-	10
Other current financial assets	1	-	1
Cash and cash equivalents	-	-	-
CURRENT ASSETS	19	-	19
TOTAL ASSETS	61	12	73
Grants	-	-	-
Non-current provisions	-	-	-
Non-current financial liabilities	-	-	-
Deferred tax liabilities	9	-	9
Other non-current liabilities	-	-	-
NON-CURRENT LIABILITIES	9	-	9
Current financial liabilities	30	-	30
Trade and other payables	2	-	2
Other current liabilities	5	-	5
CURRENT LIABILITIES	37	-	37
TOTAL LIABILITIES	46	-	46
2018			
	International Electricity Kenya	Electricity distribution Moldova	Total
Intangible assets	-	1	1
Property, plant and equipment	41	64	105
Investments recorded using the equity method	-	-	-
Non-current financial assets	-	1	1
Deferred tax assets	-	1	1
NON-CURRENT ASSETS	41	67	108
Inventories	8	-	8
Trade and other receivables	10	35	45
Other current financial assets	-	-	-
Cash and cash equivalents	-	41	41
CURRENT ASSETS	18	76	94
TOTAL ASSETS	59	143	202
Grants	-	9	9
Non-current provisions	-	1	1
Non-current financial liabilities	-	-	-
Deferred tax liabilities	9	1	10
Other non-current liabilities	-	-	-
NON-CURRENT LIABILITIES	9	11	20
Current financial liabilities	30	3	33
Trade and other payables	2	33	35
Other current liabilities	5	-	5
CURRENT LIABILITIES	37	36	73
TOTAL LIABILITIES	46	47	93

Breakdowns by nature of the heading “Profit for the year from discontinued operations net of taxes” in the consolidated income statement for 2019 and 2018 are as follows:

2019	International Electricity Kenya	Electricity distribution Moldova	Total
Revenue	32	155	187
Raw materials and consumables	(10)	(126)	(136)
Other operating income	-	-	-
Personnel expenses	(3)	(4)	(7)
Other operating expenses	(4)	(7)	(11)
Release of fixed asset grants to income and other	-	-	-
GROSS OPERATING RESULTS	15	18	33
Fixed asset depreciation/amortisation	-	-	-
Impairment due to credit losses	-	-	-
Other results	(11)	(14)	(25)
OPERATING PROFIT/(LOSS)	4	4	8
Financial income	-	-	-
Financial expenses	(2)	(1)	(3)
Exchange differences	-	-	-
NET FINANCIAL INCOME/(EXPENSE)	(2)	(1)	(3)
Profit/(loss) on equity method companies	-	-	-
PROFIT/(LOSS) BEFORE TAXES	2	3	5
Corporate income tax	(2)	(3)	(5)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	-	-	-
Attributable to:			
The parent company	-	-	-
Non-controlling interests	-	-	-

2018	Gas distribution Italy	Gas distribution Columbia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Revenue	7	-	237	36	17	41	338
Raw materials and consumables	-	-	(198)	(30)	(7)	(21)	(256)
Other operating income	2	-	1	1	1	-	5
Personnel expenses	(1)	-	(7)	(2)	(1)	(11)	(22)
Other operating expenses	(3)	-	(13)	(1)	(4)	(8)	(29)
Release of fixed asset grants to income and other	-	-	-	-	-	-	-
GROSS OPERATING RESULTS	5	-	20	4	6	1	36
Fixed asset depreciation/amortisation	-	-	-	-	-	(13)	(13)
Impairment due to credit losses	-	-	-	(1)	-	-	(1)
Other results (1)	58	-	(73)	130	(7)	(141)	(33)
OPERATING PROFIT/(LOSS)	63	-	(53)	133	(1)	(153)	(11)
Financial income	-	-	1	-	-	1	2
Financial expenses	-	-	(1)	-	(2)	(1)	(4)
Exchange differences	-	-	-	-	-	-	-
NET FINANCIAL INCOME/(EXPENSE)	-	-	-	-	(2)	-	(2)
Profit/(loss) on equity method companies	-	7	-	-	-	-	7
PROFIT/(LOSS) BEFORE TAXES	63	7	(53)	133	(3)	(153)	(6)
Corporate income tax	(1)	-	(3)	(1)	(2)	3	(4)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	62	7	(56)	132	(5)	(150)	(10)
Attributable to:							
the parent company	62	7	(56)	132	(4)	(110)	31
Non-controlling interests	-	-	-	-	(1)	(40)	(41)

(1) Gas Distribution Colombia includes the capital gain on the sale of the shareholding and the impact of the fair-value measurement of the remaining interest. International Electricity Kenya includes the reduction in the carrying amount of the investment to measure it at fair value less costs to sell.

The total comprehensive income from this activity in the years ended 31 December 2019 and 2018 breaks down as follows:

2019	International Electricity Kenya	Electricity distribution Moldova	Total
Consolidated profit/(loss) for the year	-	-	-
Other comprehensive income recognised directly in equity:			
Financial assets at fair value through other comprehensive income	-	-	-
Currency translation differences	-	(5)	(5)
Transfer to the income statement:			
Currency translation differences	-	-	-
Total comprehensive income for the year	-	(5)	(5)

2018	Gas distribution Italy	Gas distribution Columbia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Consolidated profit/(loss) for the year	62	7	(56)	132	(5)	(150)	(10)
Other comprehensive income recognised directly in equity:							
Financial assets at fair value through other comprehensive income	-	-	-	-	-	(18)	(18)
Currency translation differences	-	-	9	-	-	(8)	1
Transfer to the income statement:							
Currency translation differences	-	-	-	-	-	50	50
Total comprehensive income for the year	62	7	(47)	132	(5)	(126)	23

The cash flows from discontinued operations included in the consolidated cash flow statements are:

2019	International Electricity Kenya	Electricity distribution Moldova	Total
Cash flow from:			
Operation	2	9	11
Investment	(1)	(2)	(3)
Financing	(1)	(33)	(34)

2018	Gas distribution Italy	Gas distribution Columbia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Cash flow from:							
Operation	(14)	-	62	(6)	8	4	54
Investment	(1)	-	(19)	-	-	(1)	(21)
Financing	-	-	(51)	10	(8)	-	(49)

Transactions between the companies making up the discontinued business with other group companies are not significant. Therefore, intragroup cash flows with the discontinued business are not significant.

Note 13. Inventories

The breakdown of Inventories is as follows:

	At 31.12.19	At 31.12.18
Natural gas and liquefied gas	445	498
Coal and fuel oil	39	53
Nuclear fuel	56	56
CO ₂ emission allowances	196	147
Raw materials and other inventories	60	96
Total	796	850

At 31 December 2019 Naturgy has commitments for the acquisition of inventories amounting to Euros 31 million (Euros 34 million at 31 December 2018) corresponding to nuclear fuel.

Gas inventories basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

At 31 December 2019, the cumulative amount corresponding to inventory impairment amounts to Euros 75 million (Euros 63 million at 31 December 2018).

Note 14. Cash and cash equivalents

Cash and cash equivalents breaks down as follows:

	At 31.12.19	At 31.12.18
Cash at banks and in hand	1,574	1,469
Short term investments (Spain and rest of Europe)	881	161
Short term investments (International)	230	86
Total	2,685	1,716

The investments in cash equivalents mature in less than three months and bear a weighted effective interest rate of 1.18% at 31 December 2019 (0.78% at 31 December 2018).

At 31 December 2019 and 2018 there are no investments in sovereign debt, nor are there any significant restrictions on cash withdrawals.

All investments in "Cash and cash equivalents" are valued at amortised cost.

Note 15. Equity

The main equity items are analysed below.

Share capital and share premium

The variations in 2019 and 2018 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2018	1,000,689,341	1,001	3,808	4,809
Variation	-	-	-	-
At 31 December 2018	1,000,689,341	1,001	3,808	4,809
Capital reduction	(16,567,195)	(17)	-	(17)
At 31 December 2019	984,122,146	984	3,808	4,792

All issued shares are fully paid up and carry equal voting and dividend rights.

On 5 August 2019, capital was reduced through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in this Note). Following the capital reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

The Company's Board of Directors, which for these purposes may be substituted by the Executive Committee, for a maximum term of five years as from 20 April 2017, is empowered to increase share capital by Euros 500,344,670 through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act.

The Spanish Capital Companies Act specifically allows the use of the "Share premium" balance to increase capital and imposes no specific restrictions on its use.

The most representative holdings in the share capital of Naturgy Energy Group at 31 December 2019 and 31 December 2018, in accordance with the public information available or the information released by the Company itself, are as follows:

	Interest in share capital %	
	2019 ⁽⁵⁾	2018 ⁽⁴⁾
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ⁽¹⁾	24.4	25.6
- Global Infrastructure Partners III ⁽²⁾	20.3	20.0
- CVC Capital Partners SICAV-FIS, S.A. ⁽³⁾	20.4	20.1
- Sonatrach	4.1	3.9

(1) In 2019, participation through Criteria Caixa S.A.U. In 2018, 20.4% of participation through Criteria Caixa S.A.U. and 5.2% indirect participation (5.0% through Energía Boreal 2018, S.A. and 0.2% of others).

(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l. The Company Rioja Acquisition S.à.r.l. was absorbed by Rioja Bidco Shareholdings, S.L.U. in 2019.

(4) On 22 February 2018 Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018 the transaction was completed and Repsol, S.A. ceased to be the owner of said company.

(5) Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

All Naturgy shares are traded on the four official Spanish Stock Exchanges and the continuous market, and form part of Spain's Ibex 35 stock index.

Naturgy's share price at the end of 2019 is Euros 22.40 (Euros 22.26 at 31 December 2018).

Reserves and retained earnings

"Reserves" includes the following reserves:

	2019	2018
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	27	109
Capital Redemption Reserve	17	-
Other reserves and retained earnings	6,343	10,881
Voluntary reserve Naturgy Energy Group, S.A.	10,973	7,305
Other reserves and retained earnings	(4,630)	3,576
	6,687	11,290

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the articles of association of Naturgy Energy Group, S.A., 2% of net income for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

Law 22/2015 on Auditing eliminated the requirement to record annually the restricted reserve for at least

5% of the goodwill figuring under assets on the balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the parent company's balance sheet.

At the annual general meeting held on 5 March 2019, the shareholders agreed to the transfer to Voluntary Reserves of Euros 82 million from the Goodwill Reserve.

Capital redemption reserve

Following the approval of the ordinary general meeting of shareholders of 5 March 2019, in the year a capital reduction was carried out due to amortization of own shares with the decrease of 17 million euros and 383 million voluntary reserves.

Additionally, in application of article 335 c) of the Capital Companies Act, a Reserve for amortized capital is constituted for an amount equal to the nominal value of the amortized shares, as unavailable.

Other reserves and retained earnings

Relates basically to voluntary reserves for retained earnings.

Share-based payments

Within the framework of the Strategic Plan 2018-2022, on 31 July 2018 the Board of Directors approved a long term variable incentive plan (LTI) involving the Executive Chairman and 25 other executives, whose characteristics are those approved by the General Shareholders meeting on 5 de march 2019.

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the shareholders of Naturgy Energy Group S.A. in the period concerned.

It is arranged through the acquisition of shares in Naturgy Energy Group S.A. through an investee company that can generate a surplus. This surplus, if any, is the incentive that will be given to the participants. At the expiration of the plan, this company will obtain a profit derived from the collection of dividends on its shares, changes in the share price and other income and expenses, mainly financial in character. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling its obligations it will distribute any surplus among its members in the form of shares.

The surplus will be received only if a minimum profitability threshold has been surpassed, which implies a share price of Euros 19.15 when the LTI expires and assuming that all the dividends foreseen in the Strategic Plan 2018-2022 are paid.

If they leave the Company, the beneficiaries will only be entitled, in certain cases, to receive a part of the final incentive calculated in proportion to their length of service in the Company with respect to the duration of the plan.

The fair value of the equity instruments granted has been determined at the grant date using a Monte Carlo simulation valuation model based on the share price at the date of the concession with the following assumptions:

Forecast share price volatility (1)	17.73%
Plan duration (years)	5
Expected dividends	6.26%
Risk-free interest rate	0.34%

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 4.5 million (Euros 4.5 million in 2018) has been recorded in the consolidated income statement for 2019 under Personnel expenses, credited to Reserves in the consolidated balance sheet.

Treasury shares

Movements during 2019 and 2018 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
At 1 January 2018	-	-	-
Acquisitions	10,782,040	227	1.0
Acquisitions LTI coverage	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	-
Disposals	(5,029,881)	(99)	(0.5)
At 31 December 2018	14,037,332	321	1.4
Share acquisition plan	332,382	7	-
Delivered to employees	(310,812)	(7)	-
2018 buyback programme	11,169,458	279	1,1
Capital reduction	(16,567,195)	(400)	(1,6)
Acquisitions	5,162,320	121	0,5
Disposals	-	-	-
At 31 December 2019	13,823,485	321	1.4

In 2019 there has been no profit or loss on transactions involving Naturgy's treasury shares (profit of Euros 0.4 million in 2018 recorded in "Other reserves").

The General Meeting of Shareholders of 5 March 2019 authorized the Board of Directors so that, within a term not exceeding five years, it may acquire, on a one-time basis, one or several times, shares of the company that are fully paid up, without ever having the nominal value of the shares acquired directly or indirectly, in addition to those already owned by the Company and its subsidiaries, exceeds 10% of the subscribed capital, or any other legally established. The consideration price or value may not be less than the nominal value of the shares or exceed the value of the stock exchange.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the treasury shares of Naturgy Energy Group, S.A. relate to:

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 20 April 2017, within the Share Acquisition Plan 2017-2018-2019, those relating to 2017 and 2018 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan were set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 have been delivered, leaving a surplus of 21,570 treasury shares.
- 2018 buyback programme: Within the Strategic Plan 2018-2022, The Board of Directors of Naturgy Energy Group, S.A. approved a treasury shares buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of 24.13 euros per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of 22.42 euros per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.
- Capital reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:
 - a) Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.
 - b) the aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares

with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 2.1% of share capital at the date of communication, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.
- Long-term Variable Incentive Plan: In 2018 Naturgy acquired 8,639,595 treasury shares the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan (see paragraph on Share-based payments in this Note).

Movements during 2019 and 2018 involving the treasury shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. are as follows:

	Number of shares		In million euro
	Compañía General de Electricidad, S.A.	CGE Gas Natural, S.A.	
At 1 January 2018	6,466,178	5,373,555	9
Acquisitions	4,087,225	-	4
Disposals and other	(6,466,178)	(5,373,555)	(9)
At 31 December 2018	4,087,225	-	4
Acquisitions	-	-	-
Disposals and other	(4,087,225)	-	(4)
At 31 December 2019	-	-	-

The shares recorded in 2017 were acquired from shareholders that held rights of withdrawal following the mergers by absorption of Transnet, S.A., Emel Norte, S.A. and Emelat Inversiones, S.A. into Compañía General de Electricidad on 8 February 2017 and 27 July 2017, and following the merger by absorption of Gas Natural Chile, S.A. into CGE Gas Natural, S.A. on 31 May 2017.

In 2018, as a result of the merger between the company and its subsidiaries CGE Distribución S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. approved by the shareholders at an extraordinary general meeting of Compañía General de Electricidad S.A. on 30 November 2017, the shareholders of said companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 60 shareholders holding 1,936,176 shares.

On 31 May 2018 an extraordinary shareholders' meeting was held which approved the merger by absorption of Empresa Eléctrica de Arica S.A., Empresa Eléctrica de Iquique S.A. and Empresa Eléctrica de Antofagasta S.A. into Compañía General de Electricidad S.A. As a result of this operation the shareholders of both companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 66 shareholders holding 2,151,049 shares.

Treasury shares resulting from the right of withdrawal must be disposed of in the securities market within a maximum of one year, at the end of which they must be redeemed if they have not been sold. During 2019 capital was reduced as a matter of law since 4,087,225 treasury shares had not been subscribed within the term of one year as from their payment date (6,466,178 shares by CGE, S.A. and 5,373,555 by CGE Gas Natural, S.A. in 2018).

Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31.12.19	At 31.12.18
Profit attributable to equity holders of the parent company	1,401	(2,822)
Weighted average number of ordinary shares in issue	977,636,309	997,663,816
Earnings per share from continuing operations (in euro):		
- Basic	1.43	(2.86)
- Diluted	1.43	(2.86)
Earnings per share from discontinued activities (in euro):		
- Basic	-	0.03
- Diluted	-	0.03

The average weighted number of ordinary shares used in the calculation of earnings per share in 2019 and 2018 is as follows:

	2019	2018
Weighted average number of ordinary shares	993,971,684	1,000,689,341
Weighted average number of treasury shares	(16,335,375)	(3,025,525)
Weighted average number of shares in issue	977,636,309	997,663,816

Basic earnings per share are the same as diluted earnings per share as there were no instruments that could be converted into ordinary shares during those years and at the 2019 year-end the conditions for considering the shares pertaining to the incentive described in the paragraph on Share-based remuneration in the calculation of diluted earnings are not met.

Dividends

Set out below is a breakdown of the payments of dividends made in 2019 and 2018:

	31.12.19			31.12.18		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	134%	1.34	1,319	140%	1.40	1,400
Other shares (without voting rights, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	134%	1.34	1,319	140%	1.40	1,400
a) Dividends charged to income statement	134%	1.34	1,319	140%	1.40	1,400
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

Additionally, dividends paid to non-controlling shareholders in 2019 amounted to Euros 582 million (Euros 576 million in 2018). See "Non-controlling interests" in this Note, with which dividend payments have amounted to Euros 1,901 million (Euros 1,976 million in 2018).

2019

The general meeting of shareholders held on 5 March 2019 approved a supplementary dividend of 0.570 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 20 March 2019.

On 23 July 2019, the Company's Board of Directors resolved to pay an interim dividend of 0.294 euros per share out of 2019 results, paid on July 31, 2019 to the outstanding shares on this date for an amount of 289 million euros.

Naturgy Energy Group, S.A. had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 23 July 2019 is as follows:

Profit after tax	838
Reserves to be replenished	-
Maximum amount distributable	838
Forecast maximum interim dividend payment (1)	294
Cash resources	1,395
Undrawn credit facilities	5,035
Total liquidity	6,430

(1) Amount considering total shares issued

On 29 October 2019, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of Euros 0.473 per share out of 2019 results for a total of Euros 465 million, which was paid on 12 November 2019 with respect to the outstanding shares at that date.

Naturgy Energy Group, S.A. had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 30 October 2019 is as follows:

Profit after tax	1,095
Reserves to be replenished	-
Maximum amount distributable	1,095
Dividend on account result 2019	289
Forecast maximum interim dividend payment (1)	465
Cash resources	1,238
Undrawn credit facilities	4,982
Total liquidity	6,220

(2) Amount considering total shares issued

On 4 February 2020, the Board of Directors approves the proposal that will be presented to the General Meeting of Shareholders for the distribution of the Company's net profit for the year 2019, which is the following:

AVAILABLE FOR DISTRIBUTION

Available for distribution 4,415

DISTRIBUTION:

TO DIVIDENDS: the gross aggregate amount shall be equal to the sum of the following quantities (the "Dividend"):

- (i) Euros 754 million relating to the two interim dividends for 2019 paid by the Company, equivalent jointly to Euros 0.767 per share by the number of shares that were not direct treasury shares on the relevant dates; and
- (ii) the amount obtained by multiplying Euros 0.603 per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined ("Complementary dividend").

The supplementary dividend will be paid through entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), and the Board of Directors is expressly empowered to delegate its powers to the director(s) it deems so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may (i) set the date on which the shareholders entitled to receive the dividend are determined and the date of payment; (ii) determine the definitive amount of the supplementary dividend, and (ii) designate the entity that is to act as payment agent.

TO RETAINED EARNINGS Determinable amount obtained by subtracting the dividend amount from the distribution base.

Total distributed 4,415

This proposal for the distribution of profits prepared by the Board for approval by the Annual General Meeting includes as supplementary payment of Euros 0.603 per share for each qualifying share outstanding at the proposed date of payment, 25 March 2020. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2019 dividend (Euros 0.603 per share) the same number of treasury shares is maintained as at the 2019 year end (5,183,890 treasury shares, see section on Treasury shares), the amount applied to voluntary reserves would be Euros 3,071 million.

2018

The proposal for the distribution of 2017 profits approved by the Annual General Meeting held on 27 June 2018 included the payment of a supplementary dividend of Euros 0.670 per share for a total amount of Euros 670 million, which was paid in full in cash on 5 July 2018.

On 24 July 2018, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay an interim dividend of Euros 0.28 per share out of 2018 results, for a total of Euros 280 million, which was paid on 31 July 2018.

On 31 October 2018, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay an interim dividend of Euros 0.45 per share out of 2018 results for a total of Euros 450 million, which was paid on 27 November 2018 with respect to the outstanding shares at that date.

Other equity items

Movements in other equity items break down as follows:

	Financial assets at fair value	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
31.12.2017	(45)	(47)	(9)	(101)	(899)	(1,000)
Impact first application of new standards (Note 3.2)	(16)	-	2	(14)	-	(14)
31.12.2017	(61)	(47)	(7)	(115)	(899)	(1,014)
Change in value	(183)	(24)	2	(205)	(212)	(417)
Taken to income statement	-	100	(15)	85	50	135
Other	22	-	-	22	-	22
31.12.2018	(222)	29	(20)	(213)	(1,061)	(1,274)
Change in value	(225)	332	(31)	76	(105)	(29)
Taken to income statement	-	1	(7)	(6)	28	22
Other	-	-	-	-	27	27
31.12.2019	(447)	362	(58)	(143)	(1,111)	(1,254)

The heading "Currency translation differences" includes the exchange differences described in Note 3.4.2 as a result of the euro's fluctuation against the main currencies of Naturgy's foreign companies. This heading also includes the effect of the restatement of the financial statements of companies in hyperinflationary economies.

Non-controlling interests

	Non-controlling interests
Balance at 31/12/2017	3,571
Impact of first application of new standards (Note 3.2)	(13)
Balance at 01/01/2018	3,558
Total comprehensive income for the year	210
Distribution of dividends	(505)
Payments return on other equity instruments	(58)
Sale of 20% of gas distribution business in Spain without loss of control (Note 3.4.1)	458
Sale of Kangra Coal Proprietary Limited (Note 12)	(9)
Redemption treasury shares CGE, S.A.	(5)
Other changes	(2)
Balance at 31/12/2018	3,647
Total comprehensive income for the year	352
Distribution of dividends	(576)
Payments return on other equity instruments	(58)
Expiration buyback commitment Naturgy México	69
Redemption treasury shares CGE, S.A.	(4)
Other changes	(5)
Balance at 31/12/2019	3,425

The most significant movements for 2019 relate to:

- At 31 December 2018, the heading "Other current liabilities" included the buyback commitment without a premium granted on 22 September 2008 and renewed in June 2013 to Sinca Inbursa, S.A. de C.V. (Inbursa) pertaining to 14.125% of Naturgy México, S.A. de C.V. (formerly Gas Natural México, S.A. de C.V.) and 14% of Sistemas de Administración, S.A. de C.V. in the amount of Euros 69 million (Note 20).

In May 2019, the term of this commitment expired without Inbursa having exercised its right. Therefore, the derecognition of the liability and the corresponding increase in non-controlling interests was recorded as an equity transaction, as it involved a percentage change that did not represent a loss of control, leading to an increase in "Non-controlling interests" of Euros 69 million, a decrease in "Other current liabilities" of Euros 69 million, a negative impact on "Reserves" of Euros 27 million and a positive impact on "Currency translation differences" of Euros 27 million.

The most significant movements for 2018 relate to:

- On 3 August 2017 Naturgy signed an agreement with a consortium formed by Allianz Capital Partners and Canada Pension Plan Investment Board to sell a 20% interest in the natural gas distribution business in Spain for an amount of Euros 1,500 million.

On 19 March 2018, once the necessary regulatory and competition approvals were completed, Naturgy transferred 20% of the shares in Holding de Negocios de Gas, S.A. to said consortium. As the transaction involves a sale of non-controlling interests not leading to a loss of control, it has been recorded as an equity transaction, entailing an increase of Euros 458 million in Non-controlling interests and an increase in Reserves of Euros 1,016 million.

- Derecognition of non-controlling interests corresponding to Kangra Coal Proprietary Limited (mining business in South Africa) as a result of the sale in December 2018 (Note 12).

Perpetual subordinated debentures

In previous years, Naturgy Finance, B.V. issued the following perpetual subordinated debentures for an aggregate amount of Euros 1,500 million.

Issuance	Nominal	Early redemption option	Coupon
November 2014	1,000	2022	4,125%
April 2015	500	2024	3.375%

Interest accrued on these debentures is not payable but rather is cumulative. Nonetheless, Naturgy must pay it if dividends are paid out or the decision to exercise the early redemption option is taken.

Although no contractual maturity has been established for these debentures, Naturgy Finance, B.V. has the option to redeem them early on the early redemption option date and subsequently, on every interest payment date.

Naturgy recognised the cash received in “Non-controlling interests” under equity in the consolidated balance sheet on the understanding that the issues did not meet the conditions to be considered as a financial liability, because Naturgy Finance B.V. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Naturgy Finance, B.V.

The interest accrued during 2019 and 2018 amounts to Euros 58 million and has been recognised in “Non-controlling interests” in the consolidated income statement for 2019 and 2018.

Preference shares

In 2005 Unión Fenosa Preferentes, S.A. carried out a preference share issue for a nominal amount of Euros 750 million, of which Euros 640 million was repurchased in 2015, the remainder still being in circulation.

Dividends are variable and non-cumulative, accruing interest at the 3-month Euribor plus a 1.65% spread. The dividend is paid per calendar quarter in arrears, subject to the existence of distributable profits in Naturgy, (considering as such the lower between the declared net profit of Naturgy and the net profit of Naturgy Energy Group, S.A. as guarantor) and the payment of a dividend by Naturgy Energy Group, S.A. In addition, Unión Fenosa Preferentes, S.A.U. has the option, but not the obligation, to pay the holders of the preference shares a benefit in kind by increasing their nominal value.

The shares are perpetual, with the option for the issuer to redeem them at nominal value.

Naturgy recognised the cash received in “Non-controlling interests” under equity in the consolidated balance sheet on the understanding that the issue did not meet the conditions to be considered as a financial liability, because Unión Fenosa Preferentes, S.A.U. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Unión Fenosa Preferentes, S.A.U.

Set out below is a breakdown of the most significant non-controlling interests:

Company	2019			2018		
	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other remuneration	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other remuneration
Metrogas, S.A.	497	25	32	545	24	29
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	107	37	77	145	17	24
Fuerza y Energía de Tuxpan S.A. de C.V.	120	17	-	116	10	-
Empresa de Distribución Eléctrica Metro Oeste, S.A.	104	16	-	92	(1)	-
Ecoeléctrica L.P.	80	21	3	75	6	31
Europe Maghreb Pipeline, Ltd.	40	60	56	41	53	70
Gas Natural Mexico, S.A. de C.V.	102	12	38	44	1	7
Ceg Río, S.A.	36	10	3	37	6	8
Aprovisionadora global de energía, S.A.	44	17	10	29	16	27
Nedgia Catalunya, S.A.	192	46	-	181	27	-
Nedgia Madrid, S.A.	58	17	-	53	9	-
Other companies (1)	433	57	357	677	(2)	321
Subtotal	1,813	335	576	2,035	166	517
Preference shares	110	2	1	110	2	1
Subordinated perpetual debentures	1,502	58	58	1,502	58	58
Other equity instruments	1,612	60	59	1,612	60	59
Total	3,425	395	635	3,647	226	576

(1) 2019, includes dividends accrued in the amount of 38 million euros distributed by the Holding de Negocios de Gas, S.A. (Euros 265 million in 2018) and Euros 266 million euros distributed by the company Global Power Generation, S.A. (Euros 32 million in 2018).

Dividends paid to non-controlling interests in 2019 amounted to Euros 582 million (Euros 576 million in 2018).

Set out below is the financial information relating to the most significant non-controlling shareholdings (amounts at 100%):

Company	31 December 2019			31 December 2018		
	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	1,946	(700)	(59)	1,986	(709)	(51)
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	763	(303)	(215)	787	(284)	(174)
Fuerza y Energía de Tuxpan S.A. de C.V.	1,122	(134)	(57)	1,092	(131)	(56)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	1,122	(409)	(367)	1,008	(291)	(399)
Ecoeléctrica L.P.	310	(13)	(3)	287	(4)	(12)
Europe Maghreb Pipeline, Ltd.	182	(1)	(5)	186	(1)	(4)
Gas Natural Mexico, S.A. de CV	827	(371)	(106)	667	(237)	(138)
Ceg Río, S.A.	241	(42)	(106)	234	(50)	(89)
Aprovisionadora global de energía, S.A.	151	(33)	(26)	108	(32)	(18)
Nedgia Catalunya, S.A.	1228	(119)	(101)	1,207	(128)	(124)
Nedgia Madrid, S.A.	404	(44)	(54)	390	(46)	(59)

Appendix I contains a breakdown of Naturgy's investee companies, stating their activity and the percentage of the shareholding and equity interest.

The analysis performed to determine that Naturgy exercises control over the consolidated entities identified no cases requiring a complex judgement, since Naturgy is entitled to variable returns from its involvement in the investee and has the capacity to influence those returns through its power in the investee, based on Naturgy's representatives on the Board of Directors and its participation in significant decisions. Additionally, in general terms, there are no significant restrictions, such as protective rights, on Naturgy's capacity to access or utilise assets, or to settle liabilities.

Note 16. Deferred income

The breakdown and the movements under this heading in 2019 and 2018 have been as follows:

	Capital grants	Revenues from pipeline networks and branch lines	Other	Total
At 1.1.18	121	618	103	842
Amount received	1	52	4	57
Release to income	(9)	(24)	(9)	(42)
Currency translation differences	-	2	8	10
Transfers and other	(3)	(1)	-	(4)
At 31.12.18	110	647	106	863
Amount received	14	59	6	79
Release to income	(7)	(29)	(10)	(46)
Currency translation differences ⁽¹⁾	-	-	(11)	(11)
Transfers and other	12	1	-	13
At 31.12.19	129	678	91	898

(1) Others includes the impact of hyperinflation in Argentina.

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments or other entities for the gasification or electrification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted (Note 3.4.22).
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities (Note 3.4.22).

Note 17. Provisions

The breakdown of provisions at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Provisions for employee obligations	537	431
Other provisions	632	694
Non-current provisions	1,169	1,125
Current provisions	291	297
Total	1,460	1,422

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2019			2018		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	425	6	431	455	10	465
Appropriations/reversals charged to income statement	21	6	27	24	(1)	23
Payments during the year	(28)	-	(28)	(28)	-	(28)
Currency translation differences	(5)	-	(5)	(11)	-	(11)
Changes recognised directly in equity	112	-	112	(15)	-	(15)
Transfers and other applications (1)	-	-	-	-	(3)	(3)
At 31 December	525	12	537	425	6	431

Pensions and other similar obligations

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	At 31.12.19	At 31.12.18	At 1.1.18
Spain (1)	404	311	342
Brazil (2)	62	61	50
Chile (3)	44	45	50
Mexico (4)	13	6	11
Rest	2	2	2
Total	525	425	455

1) *Pension plans and other post-employment benefits in Spain*

Most of Naturgy's post-employment obligations in Spain consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2019 and 31 December 2018, it held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

2) *Pension Plans and Other post-employment benefits in Brazil*

At 31 December 2019 and at 31 December 2018, the following benefits payable by Naturgy for certain employees in Brazil were still in effect:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post-employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

3) *Pension plans and Other post-employment benefits in Chile*

At 31 December 2019 and at 31 December 2018, the following benefits payable by Naturgy for certain employees in Chile were still in effect:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.
- Pension supplements for employees hired prior to 1992 in some electricity distribution companies.
- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

4) *Pension Plans and Other post-employment benefits in Mexico*

At 31 December 2019 and at 31 December 2018, the following benefits payable by Naturgy for certain employees in Mexico were still in effect:

- Length-of-service award payable after 15 years of service
- Severance indemnity for employees without the service requirement, payable in the event of death at work, incapacity or redundancy.

- Severance indemnity equivalent to three months' salary plus 20 days' salary per year of service.
- Additional compensation only in the event of retirement equal to 1% of the base salary per year of service.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Present value of obligations								
At 1 January	1,011	149	45	8	1,103	149	50	12
Service cost for the year	4	-	2	-	5	1	2	1
Interest cost	18	13	2	-	18	14	2	1
Changes recognised in equity	140	18	5	7	(47)	12	3	(6)
Benefits paid	(62)	(11)	(7)	-	(68)	(10)	(7)	-
Currency translation differences	-	(2)	(3)	-	-	(17)	(5)	-
Transfers and other	-	-	-	-	-	-	-	-
At 31 December	1,111	167	44	15	1,011	149	45	8
Fair value of plan assets								
At 1 January	700	88	-	2	761	99	-	1
Expected yield	11	8	-	-	11	9	-	-
Contributions	5	-	-	-	4	1	-	-
Changes recognised in equity	40	18	-	-	(21)	(2)	-	-
Benefits paid	(49)	(8)	-	-	(55)	(8)	-	1
Currency translation differences	-	(1)	-	-	-	(11)	-	-
Transfers and other	-	-	-	-	-	-	-	-
At 31 December	707	105	-	2	700	88	-	2
Provisions for pensions and similar obligations	404	62	44	13	311	61	45	6

The amounts recognised in the consolidated income statement for the above-mentioned pension plans are as follows:

	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Service cost for the year	4	-	2	-	5	1	2	1
Past service cost	-	-	-	-	-	-	-	-
Interest cost	18	13	2	-	18	14	2	1
Expected return on plan assets	(11)	(8)	-	-	(11)	(9)	-	-
Total charge to the income statement	11	5	4	-	12	6	4	2

Benefits to be paid in the coming years for the above-mentioned commitments are as follows:

	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
1 to 5 years	1	-	-	-	1	-	-	-
5 to 10 years	23	-	27	1	16	-	26	1
More than 10 years	380	62	17	12	294	61	19	5
Provisions for pensions and similar obligations	404	62	44	13	311	61	45	6

The weighted average term of defined benefit commitments is as follows:

Years	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Weighted average term of pension commitments	12.3	11.5	10.3	18.2	11.8	10.2	9.7	16.5

Movements in the liability recognised in the consolidated balance sheet are as follows:

	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
At 1 January	311	61	45	6	342	50	50	11
Charge against the income statement	11	5	4	-	12	6	4	2
Contributions paid	(18)	(3)	(7)	-	(17)	(3)	(7)	(1)
Changes recognised in equity	100	-	5	7	(26)	14	3	(6)
Transfers	-	-	-	-	-	-	-	-
Currency translation differences	-	(1)	-	-	-	(6)	(5)	-
Other	-	-	-	-	-	-	-	-
Business Combinations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
At 31 December	404	62	44	13	311	61	45	6

The amount of cumulative actuarial gains and losses recognised directly in equity is negative by Euros 199 million at 31 December 2019 (Spain: negative by Euros 111 million, Brazil: negative by Euros 71 million, Chile: negative by Euros 12 million, and Mexico: negative by Euros 5 million). At 31 December 2018, the cumulative negative figure was Euros 87 million (Spain: negative by Euros 11 million, Brazil: negative by Euros 71 million, Chile: negative by Euros 7 million, and Mexico: positive by Euros 2 million).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Financial assumptions	84	11	6	5	-	(3)	-	(2)
Demographic assumptions	-	-	-	-	-	-	-	-
Experience	16	(4)	(1)	2	(26)	13	3	(4)
Limits on assets	-	(7)	-	-	-	4	-	-
At 31 December	100	-	5	7	(26)	14	3	(6)

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

% of total	2019				2018			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Shares	-	12%	-	-	-	12%	-	-
Bonds	100%	81%	-	100%	100%	81%	-	100%
Real estate and other assets	-	7%	-	-	-	7%	-	-

Real yields on the plan-related assets in 2019, relating basically to Spain and Brazil, have been Euros 19 million (Euros 21 million in 2018).

The main annual actuarial assumptions used were as follows:

	At 31.12.19				At 31.12.18			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Discount rate (1)	0.0 a 1.33%	6.65%	0.35%	7.25%	0.3 a 2.39%	9.75%	2.05%	9.25%
Expected return on plan assets (1)	0.0 a 1.33%	6.65%	-	7.25%	0.3 a 2.39%	9.75%	-	9.25%
Future salary increases (1)	2.0%	4.64%	2.0%	5.5%	2.0%	5.55%	2.0%	5.5%
Future pension increases (1)	2.0%	3.6%	NA	3.4%	2.0%	4.5%	NA	3.4%
Inflation rate (1)	2.0%	3.6%	3.0%	4.0%	2.0%	4.5%	3.0%	4.0%
Mortality table	PERMF 2000	AT-2000	RV-2014	EMSSA 2009	PERMF 2000	AT-2000	RV-2014	EMSSA 2009
Life expectancy:								
Men								
Retired in the current year	23.0	20.5	19.4	22.7	22.9	20.5	19.4	22.7
Retiring within 20 years	43.0	37.9	37.0	39.8	42.9	37.9	37.0	39.7
Women								
Retired in the current year	27.5	23.0	24.1	25.2	27.4	23.0	24.1	25.1
Retiring within 20 years	48.9	41.4	42.8	45.0	48.8	41.4	42.8	44.9

(1) annual

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2019 in million euros are as follows:

	Benefits				Contributions			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Post-employment	50	7	-	-	13	1	4	-
Post-employment medical	-	-	-	-	3	2	-	-
At 31 December	50	7	-	-	16	3	4	-

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation + 1%	Discount +1%	Healthcare +1%
Present value of obligations	122	(141)	22
Fair value of plan assets	32	(61)	-
Provision for pensions	90	(80)	22
Service cost for the year	2	(2)	-
Interest cost	2	9	1
Expected return on plan assets	-	(6)	-

Other obligations with personnel

Within the framework of the Strategic Plan 2018-2022, a new long-term incentive plan implemented for Naturgy executives not included in the plan referred to in Note 14, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2019 totals Euros 12 million (Euros 3 million at 31 December 2018).

At 31 December 2019 a provision has been recorded corresponding to the remuneration programmes 2017-2019 in the amount of Euros 2 million (Euros 6 million at 31 December 2018 in relation to the remuneration programmes 2016-2018 and 2017-2019), classified as current .

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions			Current provisions	Total
	Due to facility closure costs	Other provisions	Total		
At 1.1.18	408	256	664	183	847
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	7	16	23	-	23
– Appropriations charged to other results	-	52	52	222	274
– Reversals	(9)	(14)	(23)	-	(23)
Appropriations/reversals charged to fixed assets	-	-	-	-	-
Payments	(1)	-	(1)	(112)	(113)
Currency translation differences	(1)	(3)	(4)	(2)	(6)
Transfers and other (1)	(23)	6	(17)	6	(11)
At 31.12.18	381	313	694	297	991
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	6	4	10	-	10
– Appropriations charged to other results	-	45	45	195	240
– Reversals	(4)	(12)	(16)	(2)	(18)
Appropriations/reversals charged to fixed assets	3	-	3	-	3
Payments	-	(21)	(21)	(164)	(185)
Currency translation differences	-	(2)	(2)	1	(1)
Transfers and other (1)	1	(82)	(81)	(36)	(117)
At 31.12.19	387	245	632	291	923

(1) In 2019 it mainly includes transfers after CINIIF 23 application (Note 22). Additionally, in 2018 and 2019 it includes the transfer to “Non-current assets held for sale” at the date on which this classification is applied (Note 12).

The heading “Provisions due to facility closure costs” includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

The heading “Other provisions” mainly includes provisions recorded to cover obligations derived principally from tax claims, lawsuits and arbitration, insurance and other liabilities. Provisions have been recorded during the year due to the development of certain civil, administrative and tax-related claims existing in various Group companies.

The item “Current provisions” relates mainly to CO₂ emissions estimated for the year in the amount of Euros 153 million at 31 December 2019 (Euros 143 million in 2018).

No provision for business contracts was deemed necessary at 31 December 2019 or 2018.

The estimated payment periods for the non-current obligations provisioned in this item are Euros 364 million in between one and five years (Euros 368 million at 31 December 2018), Euros 140 million in between five and 10 years (Euros 151 million at 31 December 2018) and Euros 128 million after more than 10 years (Euros 175 million at 31 December 2018).

Note 18. Financial liabilities

The breakdown of borrowings at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Issuing of debentures and other negotiable obligations	8,668	9,763
Borrowings from financial institutions	5,485	3,534
Derivative financial instruments (see Note 19)	99	55
Lease liabilities (Note 3.4.4)	1,446	-
Other financial liabilities	3	-
Non-current borrowings	15,701	13,352
Issuing of debentures and other negotiable obligations	1,112	995
Borrowings from financial institutions	941	1,043
Derivative financial instruments (see Note 19)	28	30
Lease liabilities (Note 3.4.4)	198	-
Other financial liabilities	7	11
Current borrowings	2,286	2,079
Total	17,987	15,431

Financial liabilities recognised at fair value at 31 December 2019 and at 31 December 2018 are classified as follows:

	31 December 2019				31 December 2018			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Financial liabilities								
Fair value through profit or loss	-	-	-	-	-	-	-	-
Hedging derivatives	-	127	-	127	-	85	-	85
Total	-	127	-	127	-	85	-	85

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	At 31.12.19	At 31.12.18	At 31.12.19	At 31.12.18
Issuing of debentures and other negotiable securities	8,668	9,763	9,575	10,529
Loans from financial institutions and other financial liabilities	5,488	3,534	5,550	3,570

Bonds and other marketable securities are quoted and therefore their fair value is estimated on the basis of their quoted price (Level 1). In loans from financial institutions and other financial liabilities, the fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2019 and 31 December 2018 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The following tables describe consolidated gross borrowings by instrument at 31 December 2019 and 31 December 2018 and their maturity profile, taking into account the impact of the derivative hedges.

	2020	2021	2022	2023	2024	2025 and later years	Total
At 31 December 2019:							
Issuing of debentures and other negotiable securities							
Fixed	1,107	866	470	663	1,132	5,394	9,632
Floating	5	98	3	3	3	36	148
Institutional Banks and other financial institutions							
Fixed	115	158	125	91	91	1,052	1,632
Floating	135	92	72	39	18	46	402
Lease liabilities							
Fixed	198	108	85	261	79	913	1,644
Floating	-	-	-	-	-	-	-
Commercial Banks and other financial liabilities							
Fixed	205	413	349	288	909	312	2,476
Floating	521	433	405	98	524	72	2,053
Total Fixed	1,625	1,545	1,029	1,303	2,211	7,671	15,384
Total Floating	661	623	480	140	545	154	2,603
Total	2,286	2,168	1,509	1,443	2,756	7,825	17,987

	2019	2020	2021	2022	2023	2024 and later years	Total
At 31 December 2018:							
Issuing of debentures and other negotiable securities							
Fixed	992	959	1,203	512	778	6,221	10,665
Floating	4	-	89	-	-	-	93
Institutional Banks and other financial institutions							
Fixed	95	115	158	125	91	1,143	1,727
Floating	131	131	90	70	36	29	487
Commercial Banks and other financial liabilities							
Fixed	128	226	177	297	228	7	1,063
Floating	729	367	181	42	77	-	1,396
Total Fixed	1,215	1,300	1,538	934	1,097	7,371	13,455
Total Floating	864	498	360	112	113	29	1,976
Total	2,079	1,798	1,898	1,046	1,210	7,400	15,431

Had the impact of the derivatives on borrowings been excluded, fixed-rate financial debt would amount to Euros 12,777 million at 31 December 2019 (Euros 11,801 million at 31 December 2018) and, at floating rates, Euros 5,083 million at 31 December 2019 (Euros 3,545 million at 31 December 2018).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2019 and 31 December 2018 and its maturity profile, taking into account the impact of the derivative hedges:

	2020	2021	2022	2023	2024	2025 and later years	Total
At 31 December 2019:							
Euro debt	1,395	1,259	730	1,111	1,258	6,083	11,836
Foreign Currency Debt:							
US Dollar	519	182	174	65	1,203	754	2,897
Chilean peso	210	386	304	213	117	688	1,918
Mexican peso	55	161	147	2	171	143	679
Brazilian real	84	53	154	52	7	66	416
Australian dollar	7	126	-	-	-	91	224
Colombian peso	-	-	-	-	-	-	-
Argentinian peso	16	1	-	-	-	-	17
Total	2,286	2,168	1,509	1,443	2,756	7,825	17,987

	2019	2020	2021	2022	2023	2024 and later years	Total
At 31 December 2018:							
Euro debt	1,216	1,240	1,429	684	960	6,453	11,982
Foreign Currency Debt:							
US Dollar	394	24	97	106	1	2	624
Chilean peso	244	340	232	171	246	789	2,022
Mexican peso	102	48	89	44	-	120	403
Brazilian real	97	137	50	41	3	36	364
Colombian peso	1	-	-	-	-	-	1
Argentinian peso	25	9	1	-	-	-	35
Total	2,079	1,798	1,898	1,046	1,210	7,400	15,431

Borrowings in euros in 2019 have borne an effective average interest rate of 2.20% (2.32% in 2018) while borrowings in foreign currency have borne an effective average interest rate of 6.19% in 2019 (6.58% in 2018) including derivative instruments assigned to each transaction.

At 31 December 2019, Naturgy has credit facilities totalling Euros 5,549 million (Euros 5,468 million at 31 December 2018), of which Euros 5,352 million has not been drawn down (Euros 5,234 million at 31 December 2018).

Bank borrowings totalling Euros 4,658 million (Euros 2,784 million at 31 December 2018) and issued bonds amounting to Euros 50 million are subject to the fulfilment of certain financial ratios.

Most of the drawn-down borrowings include a clause relating to a change in control, the activation of which depends on the simultaneity of some of the following events: the non-permanence of any of the current reference shareholders in a significant percentage; the loss of investment grade status from the Rating Agencies, or the incapacity to meet the financial obligations under the contract.

Specifically, the bonds issued, in a volume of Euros 8,725 million (Euros 9,708 million at 31 December 2018), could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

There are also loans for an amount of Euros 1,791 million that could be subject to early repayment in the event of a change in control (Euros 2,014 million at 31 December 2018). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the preparation date of these consolidated annual accounts, Naturgy is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Naturgy in the process of optimising the financing assigned to each of the business units to increase visibility in the accounts, the financial autonomy and obtain financing in the same currency as that in which the cash flows originate greater flexibility.

The most relevant financial instruments are as follows:

Issuing of debentures and other negotiable securities

In 2019 and 2018 the evolution of the issues of debt securities has been as follows:

	At 1.1.2019	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2019
Issued in a European Union Member State which required the filing of a prospectus	9,289	5,194	(6,031)	90	8,542
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-
Issued outside a European Union Member State	1,469		(204)	(27)	1,238
Total	10,758	5,194	(6,235)	63	9,780

	At 1.1.2018	Impact IFRS 9	At 1.1.2018	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2018
Issued in a European Union Member State which required the filing of a prospectus	10,958	(48)	10,910	6,478	(8,026)	(73)	9,289
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-	-	-
Issued outside a European Union Member State	1,256	-	1,256	389	(187)	11	1,469
Total	12,214	(48)	12,166	6,867	(8,213)	(62)	10,758

An analysis of the most relevant characteristics of the main issuance programmes for debentures and other negotiable securities by Naturgy is as follows, excluding the impact of accrued unpaid interest:

At 31 December 2019

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	4,444
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands / Spain	1999	Euro	8,725	8,725	-	750
Negotiable bonds and Certificates Programme							
Empresa de Distribución Eléctrica Metro-Oeste, S.A.	Panama	2010	USD	44	-	44	-
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	-
Sertao I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	-
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	471	225	246	-
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	7	-	7	-
Grupo CGE	Chile	2015	Chilean peso	1,945	864	1,081	-

At 31 December 2018

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	6,478
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands / Spain	1999	Euro	15,000	9,708	5,292	-
Negotiable bonds and Certificates Programme							
Empresa de Distribución Eléctrica Metro-Oeste, S.A.	Panama	2010	USD	44	-	44	-
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	30
Sertao I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	29
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	445	213	232	156
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	12	-	12	-
Grupo CGE	Chile	2015	Chilean peso	2,011	900	1,111	174

The breakdown of the nominal balance issued under the EMTN programme is as follows:

Issuance	Drawn-down nominal amount		Maturity	Coupon %
	31.12.2019	31.12.2018		
July 2009	-	339	2019	6.375
November 2009	555	590	2021	5.125
January 2010	579	579	2020	4.500
May 2011	-	237	2019	5.375
September 2012	355	355	2020	6.000
January 2013	396	462	2023	3.875
January 2013 (1)	-	204	2019	2.125
April 2013	454	491	2022	3.875
July 2013 (2)	101	101	2023	3.974
October 2013	276	300	2021	3.500
March 2014	412	500	2024	2.875
May 2014	154	200	2023	2.625
January 2015	401	500	2025	1.375
April 2016	600	600	2026	1.250
April 2016	-	300	2021	0.515
January 2017	1,000	1,000	2027	1.375
April 2017	742	1,000	2024	1.125
October 2017	300	300	2029	1.875
November 2017	800	800	2025	0.875
January 2018	850	850	2028	1.500
November 2019	750	-	2029	0.750
Total	8,725	9,708		

(1) CHF 250 million as nominal value.

(2) NOK 800 million as nominal value.

2019

In November 2019 Naturgy issued bonds under its EMTN programme for an amount of Euros 750 million maturing in 10 years and with a 0.75% coupon, the proceeds of which were used in a bond buy-back offer for Euros 653 million of debentures maturing between 2021 and 2025.

This operation, given that the instruments have substantially different conditions, has been accounted for as a cancellation of the original financial liability and subsequent recognition of a new financial liability.

In addition, in December 2019 an offer was made for the repurchase of a bond amounting to Euros 300 million, maturing in 2021 with a coupon of 0.515%.

These two operations involved a net disbursement of Euros 203 million and have had a negative impact on the heading of "Other financial expenses" of the consolidated profit and loss account of 97 million euros (Note 31).

In 2019 bonds have matured for a total amount of Euros 780 million and with an average coupon of 5.28%.

2018

In January 2018 Naturgy issued bonds under its EMTN programme for an amount of Euros 850 million maturing in 10 years and with a 1.5% coupon, the proceeds of which were used in a bond buy-back offer for Euros 916 million of debentures maturing between 2019 and 2023, which entailed a net disbursement of Euros 66 million.

On 22 October 2018, the company successfully repurchased bonds under its EMTN programme amounting to Euros 314 million with maturities between 2019 and 2021. Additionally, on 18 December 2018 the repurchase of Euros 19 million of a bond maturing in January 2020 with a coupon of 4.50% was completed.

In 2018 two bonds have matured for a total amount of Euros 1,099 million and with an average coupon of 4.59%.

In March 2018, Gas Natural México S.A. de C.V. issued Euros 156 million through 3-year bonds at floating interest consisting of the interbank interest rate (TIIE) plus 0.40%, and 7-year bonds with fixed interest of 8.89%.

In October 2018, Sobral I Solar Energia SPE S.A. and Sertao I Solar Energia SPE S.A. issued bonds amounting to Euros 59 million, of which Euros 30 million are at 15 years and 3 months at a floating interest rate consisting of the NTN-B rate (linked to the IPCA inflation rate) plus 1.95%, and the remainder at 14 years and 3 months at a variable interest rate consisting of the NTN-B plus 1.20%.

On 6 December 2018, Compañía General de Electricidad S.A, the Chilean subsidiary of Naturgy Energy Group, S.A., completed a bond issue for a total amount of 5 million Unidades de Fomento (UF), equivalent to Euros 174 million. The issue comprises two bond series: one series of 2 million UF (Euros 70 million) with a term of 7 years and an annual coupon of 1.95%, and another series of 3 million UF (Euros 104 million) with a term of 23 years and an annual coupon of 2.85%.

Borrowings from financial institutions

European bank loans (commercial / institutional banks)

In June 2019, Global Power Generation S.A. signed a new syndicated loan for USD 1,500 million (Euros 1,335 million), maturing in five years. This amount includes an undrawn credit line of USD 125 million (Euros 111 million) and a tranche in Mexican pesos of Euros 163 million drawn by the subsidiary Fuerza y Energía Bii Hioxo S.A. de C.V. In addition, the subsidiary Crookwell Development Pty Ltd (GPG Australia) has obtained a new refinanceable seven-year loan of Euros 98 million.

In December 2019, Naturgy Renovables S.L.U. obtained a new syndicated loan of Euros 500 million maturing in seven years.

Concerning borrowings from institutional credit entities, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 1,791 million with maturities between 2020 and 2037 which had been fully utilised at 31 December 2019 (Euros 2,011 million drawn down at 31 December 2018). In addition, borrowings are recorded from the Official Credit Institute (ICO) totalling Euros 200 million, maturing in 2029 at the latest (Euros 200 million at 31 December 2018).

During 2018, Naturgy used part of its cash surplus to repay practically all corporate bank financing amounting to Euros 1,660 million.

Loans from Latin American credit institutions (commercial / institutional banks)

At 31 December 2019 borrowings from various Latin American financial institutions totalled Euros 2,599 million (Euros 2,264 million at 31 December 2018). The geographic breakdown of these loans is as follows:

Country	31.12.2019	31.12.2018
Chile	1,103	1,163
Panama	632	524
Brazil	362	314
Mexico	426	190
Peru	60	55
Colombia	-	1
Other	16	17
	2,599	2,264

All borrowings from credit institutions in Latin America at 31 December 2019 and 31 December 2018 relate to commercial banks.

Lease liabilities

From 1 January 2019, due to the application of IFRS 16 "Leases", lease liabilities are treated as part of financial liabilities (see Note 3.2).

The main finance lease liabilities recognised in this item at 31 December are as follows:

- In 2003 Naturgy acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m³ through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.
- In 2007 and 2009 two 138,000 m³ tankers were acquired, together with Repsol, under 25-year time-charter agreements, extendable for consecutive 5-year periods. In 2014, Naturgy and Shell entered into an agreement, as part of the sale of the Repsol Group's liquefied natural gas business, to obtain exclusive use of each of the two tankers, Naturgy using the tanker acquired in 2009 under a time charter expiring in 2029 and extendable for consecutive five-year periods.
- In March 2014, Naturgy acquired a 173,000 m³ tanker to carry liquefied natural gas under an 18-year finance lease expiring in 2032.
- In September and November 2016, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176.300 m³ under a 20-year finance lease expiring in 2036.
- In March and June 2018, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176.000 m³ each under a 20-year finance lease expiring in 2037.
- Likewise, leases of medium-term freight for gas transportation with the Hoegh Giant, TBN Gannet and Torbent Spirit tankers, in application of IFRS 16 are also considered financial leases.
- Other relevant financial liabilities associated with lease contracts, which relate to the leases on office buildings and land for energy use linked to generation facilities. (Note 8).

Naturgy's activity as a lessor in contracts that qualify as financial leases is of little relevance, highlighting the collection commercial rights for the transfer of the right to use gas and electricity facilities.

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2019 is 6.7% (6.6% at 31 December 2018).

Note 19. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

On 23 June 2016, the UK voted in a national referendum to leave the European Union ("Brexit"). The original date scheduled for the UK's departure was 29 March 2019; this was subsequently postponed to 31 October 2019 and finally to 31 January 2020. The withdrawal agreement was signed by the EU and the United Kingdom on 24 January and approved by the European Parliament on 29 January 2020; it came into force at midnight on 31 January 2020, when the United Kingdom ceased to be an EU Member State and became classified as a third country. The entry into force of the withdrawal agreement marked the beginning of a transition period until 31 December 2020 whose purpose is to give citizens and businesses time to adapt. During the transition period, the United Kingdom will continue to apply European Union law but will no longer be represented in the EU institutions. The transition period may be extended once for at most one or two years, subject to agreement by the parties before 1 July 2020. The agreement guarantees the orderly withdrawal of the United Kingdom from the European Union. Negotiations on the future relations

between the EU and the United Kingdom were set to begin once the United Kingdom had left the EU; consequently, there is significant uncertainty about the future relations between the United Kingdom and the EU, including the laws and regulations that will apply. The course of the negotiations has had, and may continue to have, adverse effects on the economic and political situation of the European Union and on the stability of the international financial markets. Apart from that international impact, Naturgy's exposure to risk arising from Brexit is not considered to be material.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Naturgy employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The financial debt structure at 31 December 2019 and 2018 (Note 18), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.19	At 31.12.18
Fixed interest rate	15,384	13,455
Floating interest rate	2,603	1,976
Total	17,987	15,431

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

The sensitivity of results and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2019	+50	(13)	70
	-50	13	(70)
2018	+50	(10)	52
	-50	10	(52)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Naturgy finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-euro currency with which Naturgy operates most is the US Dollar. The sensitivity of Naturgy's profits and equity (Other equity items) to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		Effect on profit before tax	Effect on equity before tax
2019	+5%	-	35
	-5%	-	(36)
2018	+5%	-	13
	-5%	-	(13)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial. At 31 December 2019 Naturgy's equity denominated in Argentinian pesos totals Euros 244 million (Euros 155 million at 31 December 2018) representing a pre-tax impact on equity of Euros 12 million at 5% sensitivity (Euros 8 million at 31 December 2018).

Commodity price risk

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants. Therefore, Naturgy is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products and the prices of natural gas hubs.

The exposure to these risks is managed and mitigated by natural hedging through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

In electricity and CO₂ emission allowances trading by Naturgy, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

The sensitivity of results and equity (Other equity items) to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in gas price	Effect on profit before tax	Effect on equity before tax
2019	+10%	-	(82)
	-10%	-	82
2018	+10%	-	(23)
	-10%	-	23

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
2019	+10%	(2)	(52)
	-10%	2	52
2018	+10%	-	9
	-10%	-	(9)

Naturgy has no relevant investments in upstream businesses or commodities production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity in which revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.
- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so

as to maximise the risk-profit relationship. Additionally to that policy, a large portion of Naturgy's supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy's markets and prices of the supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which the Group does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses (Note 11) estimated by Naturgy on the basis of available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2019 or 2018.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 31 December 2019, Naturgy had received guarantees totalling Euros 154 million to cover the risk of large industrial customers (Euros 39 million at 31 December 2018). In 2019, bank guarantees amounting to Euros 3 million were enforced (Euros 4 million at 31 December 2018).

At 31 December 2019 and 2018 Naturgy did not have significant concentrations of credit risk. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, by having a customer base that is broadly distributed on an international scale; secondly, a diverse product range, from energy supply to the implementation of tailored energy solutions; thirdly, there are different customer types, such as residential customers, self-employed entrepreneurs and small and large businesses in both the public and private sectors and in different segments of the economy.

An ageing analysis of financial assets and related expected losses at 31 December 2019 and 2018 is set out below:

31 December 2019	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	16.7%	1.7%	11.2%	48.3%	95.6%
Trade receivables for sales and provisions of services	4,696	3,277	660	151	608
Expected loss	785	57	74	73	581

31 December 2018	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	15.0%	1.3%	20.2%	87.6%	95.3%
Trade receivables for sales and provisions of services	5,204	4,156	338	87	623
Expected loss	789	44	69	77	599

The impaired financial assets are broken down in Note 11.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

Liquidity risk

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2019 and 2018 are analysed below:

Liquidity source	Availability 2019	Availability 2018
Undrawn credit facilities (Note 18)	5,352	5,234
Undrawn loans	-	-
Cash and cash equivalents (Note 14)	2,685	1,716
Total	8,037	6,950

There is also additional capacity to issue debt in the capital markets unused for Euros 2,378 million (Note 18).

The breakdown of the maturities of the financial liabilities at 31 December 2019 and 2018 is as follows:

	2020	2021	2022	2023	2024	2025 and later years	Total
At 31 December 2019							
Trade and other payables (Note 21)	(3,744)	-	-	-	-	-	(3,744)
Loans and other financial payables	(2,798)	(2,622)	(1,914)	(1,820)	(3,099)	(9,780)	(22,033)
Financial derivatives	(23)	-	9	(7)	(10)	(63)	(94)
Other liabilities	-	-	-	-	-	-	-
Total (1)	(6,565)	(2,622)	(1,905)	(1,827)	(3,109)	(9,843)	(25,871)

	2019	2020	2021	2022	2023	2024 and later years	Total
At 31 December 2018							
Trade and other payables (Note 21)	(4,067)	-	-	-	-	-	(4,067)
Loans and other financial payables	(2,501)	(2,280)	(2,351)	(1,480)	(1,325)	(9,017)	(18,954)
Financial derivatives	-	(1)	-	4	(15)	(25)	(37)
Other liabilities (3)	(202)	(125)	(118)	(110)	(104)	(732)	(1,391)
Total (1)	(6,770)	(2,406)	(2,469)	(1,586)	(1,444)	(9,774)	(24,449)

(1) Does not include financial derivatives.

(2) The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 18.

(3) Includes financial leases that, in 2019 by application of IFRS 16, become part of Loans and other financial payables.

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2019	2018
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

The leverage ratio is as follows:

	2019	2018
Net borrowings:	15,268	13,667
Non-current borrowings (Note 18)	15,701	13,352
Current borrowings (Note 18)	2,286	2,079
Cash and cash equivalents (Note 14)	(2,685)	(1,716)
Derivatives (Note 19)	(34)	(48)
Equity:	13,976	14,595
Equity holders of the Company (Note 15)	10,551	10,948
Non-controlling interests (Note 15)	3,425	3,647
Leverage (Net borrowings / (Net borrowings + Net equity))	52.2%	48.4%

From 1 January 2019, due to the application of IFRS 16 "Leases", lease liabilities are treated as part of financial liabilities (Note 3.2).

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.19		At 31.12.18	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	276	150	180	100
Cash flow hedge				
- Interest rate	-	72	-	26
- Interest rate and foreign exchange rate	29	27	18	29
- Price of commodities	247	51	162	45
Fair value hedge				
- Interest rate and foreign exchange rate	-	-	-	-
Other financial instruments	-	-	-	-
Derivative financial instruments – non current	276	150	180	100
Hedging derivative financial instruments	309	60	61	98
Cash flow hedge				
- Interest rate	-	17	-	9
- Interest rate and foreign exchange rate	4	9	18	14
- Exchange rate	1	2	10	7
- Price of commodities	304	31	33	68
Fair value hedge				
- Interest rate and foreign exchange rate	-	-	-	-
- Exchange rate	-	1	-	-
Other financial instruments	1	2	14	19
- Price of commodities	1	1	8	19
- Exchange rate	-	1	6	-
Derivative financial instruments current	310	62	75	117
Total	586	212	255	217

The fair value of derivatives is determined based on observable variables in an active market (Level 2).

“Other financial instruments” includes the derivatives not qualifying for hedge accounting.

The impact on the consolidated income statement of derivative financial instruments is as follows:

	2019		2018	
	Operating results	Financial results	Operating results	Financial results
Cash flow hedge	44	(34)	(50)	(55)
Fair value hedge	(8)	1	(6)	(5)
Other financial instruments	2	(17)	-	(2)
Total	38	(50)	(56)	(62)

The breakdown of derivatives at 31 December 2019 and 2018, their fair value and maturities of their notional values is as follows:

	Fair value	31.12.19 Notional value						Subsequent years	Total
		2020	2021	2022	2023	2024			
INTEREST RATE HEDGES:									
Cash flow hedges:									
Financial swaps (EUR)	(80)	844	63	141	91	70	1,074	2,283	
Financial swaps (USD)	(6)	-	-	-	-	635	-	635	
Financial swaps (MXN)	(2)	-	-	-	-	84	-	84	
Financial swaps (AUD)	(1)	-	-	-	-	-	80	80	
Options (EUR)	-	-	-	-	40	-	-	40	
EXCHANGE RATE HEDGES:									
Cash flow hedges:									
Foreign exchange insurance (USD)	(1)	711	-	-	-	-	-	711	
Foreign exchange insurance (BRL)	-	2	-	-	-	-	-	2	
Fair value hedges:									
Foreign exchange insurance (BRL)	-	38	-	-	-	-	-	38	
Foreign exchange insurance (USD)	-	67	-	-	-	-	-	67	
Foreign exchange insurance (DHN)	-	6	-	-	-	-	-	6	
Foreign exchange insurance (EUR) ⁽¹⁾	(1)	47	-	-	-	-	-	47	
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:									
Cash flow hedges:									
Financial swaps (NOK)	(26)	-	-	-	101	-	-	101	
Financial swaps (UF)	23	10	10	172	231	22	22	467	
COMMODITIES HEDGES:									
Cash flow hedges:									
Commodities price derivatives (EUR)	21	283	3	-	-	-	-	286	
Commodities price derivatives (USD)	337	807	403	151	112	0	-	1,473	
Commodities price derivatives (AUD)	111	22	39	40	41	41	532	715	
OTHER:									
Commodities price derivatives (EUR)	-	-	-	-	-	-	-	-	
Commodities price derivatives (USD)	-	-	-	-	-	-	-	-	
Foreign exchange derivatives (USD)	(1)	18	-	-	-	-	-	18	
TOTAL	374	2,855	518	504	616	852	1,708	7,053	

(1) Arranged by companies using a functional currency other than the euro.

	Fair value	31.12.18 Notional value						Subsequent years	Total
		2019	2020	2021	2022	2023			
INTEREST RATE HEDGES:									
Cash flow hedges:									
Financial swaps (EUR)	(35)	95	844	63	141	91	1,392	2,626	
Options (EUR)	-	-	-	-	-	40	-	40	
EXCHANGE RATE HEDGES:									
Cash flow hedges:									
Foreign exchange insurance (USD)	4	278	-	-	-	-	-	278	
Foreign exchange insurance (GBP)	-	24	-	-	-	-	-	24	
Foreign exchange insurance (MXN)	(6)	167	-	-	-	-	-	167	
Foreign exchange insurance (AUD)	6	84	-	-	-	-	-	84	
Foreign exchange insurance (BRL)	(1)	54	-	-	-	-	-	54	
Fair value hedges:									
Foreign exchange insurance (BRL)	-	14	-	-	-	-	-	14	
Foreign exchange insurance (USD)	-	47	-	-	-	-	-	47	
Foreign exchange insurance (DHN)	-	5	-	-	-	-	-	5	
Foreign exchange insurance (EUR) ⁽¹⁾	-	52	-	-	-	-	-	52	
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:									
Cash flow hedges:									
Financial swaps (CHF)	16	204	-	-	-	-	-	204	
Financial swaps (NOK)	(27)	-	-	-	-	101	-	101	
Financial swaps (UF)	4	-	11	11	183	245	46	496	
COMMODITIES HEDGES:									
Cash flow hedges:									
Commodities price derivatives (EUR)	(25)	270	7	-	-	-	-	277	
Commodities price derivatives (USD)	(22)	195	141	108	108	110	-	662	
Commodities price derivatives (AUD)	129	16	21	39	39	40	565	720	
OTHER:									
Commodities price derivatives (EUR)	(11)	7	-	-	-	-	-	7	
Commodities price derivatives (USD)	-	1	-	-	-	-	-	1	
Foreign exchange derivatives (USD)	6	439	-	-	-	-	-	439	
TOTAL	38	1,952	1,024	221	471	627	2,003	6,298	

(1) Arranged by companies using a functional currency other than the euro.

Note 20. Other current and non-current liabilities

The breakdown of this heading at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Finance lease liabilities (1)	-	1,186
Deposits and guarantees deposits (2)	214	210
Derivative financial instruments (see Note 19)	51	45
Other liabilities	227	99
Other non-current liabilities	492	1,540
Dividend payable	81	37
Expenses accrued pending payment	177	202
Finance lease liabilities (1)	-	132
Derivative financial instruments (see Note 19)	-	11
Other liabilities (3)	28	89
Other current liabilities	286	471
Total other liabilities	778	2,011

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Finance lease liabilities

At 31 December 2018, this heading included payables under finance leases which, at 1 January 2019, pursuant to IFRS 16, have been classified as financial debt (see Note 16).

(2) Deposits and guarantees deposits

The item “deposits and guarantees deposits” basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 10) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(3) Other liabilities

At 31 December 2018, this heading included, among other items, the buyback commitment without a premium granted on 22 September 2008 and renewed in June 2013 to Sinca Inbursa, S.A. de C.V. (Inbursa) pertaining to 14.125% of Naturgy México, S.A. de C.V. (formerly Gas Natural México, S.A. de C.V.) and 14% of Sistemas de Administración, S.A. de C.V. in the amount of Euros 69 million.

In May 2019, the term of this commitment expired without Inbursa having exercised its right. Therefore, the derecognition of the liability, amounting to Euros 69 million, and the corresponding increase in non-controlling interests was recorded as an equity transaction (Note 15).

As of 31 December 2019, the balances of long-term suppliers corresponding to price stabilization mechanisms in Chile are included (Note 2.4.2).

Note 21. Trade and other payables

The breakdown at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Trade payables	3,092	3,224
Trade payables with related parties (Note 35)	26	43
Trade payables	3,118	3,267
Public Administrations	425	541
Derivative financial instruments (see Note 19)	34	76
Accrued wages and salaries	112	130
Other payables	22	20
Other payables	593	767
Current tax liabilities	33	33
Total	3,744	4,067

The fair value and carrying value of these liabilities do not differ significantly.

Disclosure of deferrals of payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers in Spain, is as follows:

	2019	2018
Total payments (million euro)	11,027	13,457
Total outstanding payments (million euro)	314	450
Average supplier payment period (days) ⁽¹⁾	23	22
Transactions paid ratio (days) ⁽²⁾	23	22
Transactions pending payment ratio (days) ⁽³⁾	24	23

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

Note 22. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2019 is indicated in Appendix III.

The remaining Naturgy companies pay their taxes individually, in accordance with the schemes applicable to them.

Set out below is the reconciliation between corporate income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes" for 2019 and 2018:

	2019	%	2018	%
Profit/(loss) before tax	2,272		(3,365)	
Statutory tax	568	25%	(841)	(25%)
Effect of net results under equity method	(19)	(0.8%)	128	3.8%
Application of tax rates of foreign companies	(33)	(1.4%)	(31)	(0.9%)
Tax deductions	(11)	(0.5%)	(11)	(0.3%)
Remeasurement deferred taxes on mergers	-	-	(43)	(1.3%)
Tax revaluation an revaluation deferred taxes Argentina	(21)	(0.9%)	-	-
Other items	(8)	(0.4%)	19	0.6%
Corporate income tax	476	21.0%	(779)	(23.2%)

Breakdown of current/deferred expense:

Current-year tax	587	195
Deferred tax	(111)	(974)
Corporate income tax	476	(779)

In 2019, Argentina reformed its tax regulations to correct inflation-related distortions by adapting asset values. Naturgy chose to avail itself of the provisions of Tax Revaluation Law No. 27430, which allowed certain assets to be revalued for accounting and tax purposes upon payment of a levy which amounted to ARS 369 million. As a result, deferred taxes associated with assets were revalued, and the net impact of the related levy on "Corporate income tax" in the consolidated income statement amounted to Euros 21 million.

Law No. 27541 on Social Solidarity and Reactivation of Production in the Framework of Public Emergency suspended the reduction in the income tax rate to 25% and the application of a 13% withholding tax on dividends that had been planned for 2020. The suspension applies in 2020 and 2021, when the corporate income tax rate will be 30% and the withholding rate on dividends will be 7%, and it results in an increase in deferred tax liabilities in the amount of Euros 1 million, with a contra-item in "Corporate income tax" in the consolidated income statement.

Part of the asset impairments and write-downs recorded in 2018 (Note 5) will be tax deductible in future periods and accordingly temporary differences have been identified, recognising deferred tax revenue in the amount of Euros 966 million.

On 31 May 2018, following the business reorganisation and corporate streamlining process in Chile, Compañía General de Electricidad, S.A. carried out a vertical merger of its subsidiaries Empresa Eléctrica de Arica, S.A., Empresa Eléctrica de Iquique, S.A. and Empresa Eléctrica de Antofagasta, S.A. The resulting goodwill was allocated to the value for tax purposes of the non-monetary assets received from the absorbed company equivalent to its carrying amount at the date of the operation, generating a decrease in deferred tax liabilities of Euros 43 million with a balancing entry under Corporate income tax in the consolidated income statement.

Income qualifying for the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2004 of March 5 (TRLIS) and the

resulting investments made in previous periods are explained in the annual accounts for the relevant years. The relevant breakdown is as follows:

Year of sale	Amount obtained on the sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	4	4	2	2011
2012	1	1	-	2012
2013	1	1	1	2013
2014	414	414	210	2014
Total	420	420	213	

The reinvestment was made in fixed assets used in business activities and was carried out by both the parent company the other companies included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the revised CIT Act) and the investments in which it has been used in prior years are explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	141	141	79	-	79
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	309	309	226	-	226
2007	105	105	93	-	93
2009	161	161	87	-	87
2010	790	790	556	-	556
2011	450	450	394	1	393
2012	38	38	32	-	32
Total	3,635	3,635	2,406	31	2,375

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of “Other comprehensive income” of the Consolidated Statement of Comprehensive Income for the year is as follows:

	At 31.12.19			At 31.12.18		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Fair value measurement of assets through other comprehensive income	(225)	-	(225)	(188)	-	(188)
Cash flow hedges	321	(35)	286	110	(24)	86
Currency translation differences	(108)	-	(108)	(193)	-	(193)
Actuarial gains and loss (Note 17)	(112)	24	(88)	15	(3)	12
Total	(124)	(11)	(135)	(256)	(27)	(283)

Set out below is an analysis of and movements in deferred taxes:

Deferred income tax assets	Provisions for employee benefit obligations	Provision for bad debts and other provisions	Tax credits (1)	Amortisation differences	Financial instrument and asset valuation	Other	Total
At 31.12.17	185	180	38	263	64	119	849
Impact IFRS 9 and IFRS 15	-	13	-	-	-	13	26
At 1.1.18	185	193	38	263	64	132	875
Charged/(credited) to income statement (2)	25	396	(13)	388	3	17	816
Movements related to equity adjustments	(2)	(1)	-	-	12	(1)	8
Currency translation differences	(4)	(3)	(1)	3	(1)	(4)	(10)
Transfers and other (3)	-	(2)	2	-	-	-	-
At 31.12.18	204	583	26	654	78	144	1,689
Charged/(credited) to income statement	14	(22)	(13)	(35)	1	2	(53)
Movements related to equity adjustments	26	-	-	-	2	-	28
Currency translation differences	(1)	(9)	(2)	1	-	(2)	(13)
Transfers and other (3)	-	(33)	3	(90)	(4)	(2)	(126)
At 31.12.19	243	519	14	530	77	142	1,525

(1) At 31 December 2019 and 2018 the tax credits mainly relate to tax loss carryforwards from various CGE companies basically generated by the application of the accelerated depreciation tax incentive. The recovery of these credits is reasonably assured as they are not subject to any time limit and pertain to companies that historically generate recurring profits.

(2) In 2018, it includes an increase in deferred tax assets due to impairment recognised in the year.

(3) In 2019 includes transfers as a consequence of CINIF 23 application (Note 17). Additionally, in 2019 and 2018 it includes transfers to "held for sale" at the date on which this classification is applied (Note 12).

Deferred income tax liabilities	Amortisation differences	Deferred gains	Business combination valuation (1)	Financial instrument and asset valuation	Other	Total
At 31.12.17	667	197	1,287	31	130	2,312
Impact IFRS 9 and IFRS 15	-	-	-	-	27	27
At 1.1.18	667	197	1,287	31	157	2,339
Charged/(credited) to income statement (2)	(104)	-	(81)	3	24	(158)
Business combinations (Note 33)	-	-	9	-	-	9
Movements related to equity adjustments	29	-	-	27	-	56
Currency translation differences	(12)	-	(40)	1	6	(45)
Transfers and other (3)	(12)	-	(37)	(1)	(2)	(52)
At 31.12.18	568	197	1,138	61	185	2,149
Charged/(credited) to income statement (2)	98	-	(53)	4	9	58
Business combinations (Note 33)	(3)	-	-	-	-	(3)
Movements related to equity adjustments	-	-	-	37	-	37
Currency translation differences	(26)	-	(25)	1	1	(49)
Transfers and other (3)	4	11	(32)	-	74	57
At 31.12.19	641	208	1,028	103	269	2,249

(1) The heading "Business combination valuation" includes principally the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Naturgy Energy Group, S.A. in 2009, allocated to net assets acquired, which will not have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Naturgy in 2014 and of various prior acquisitions completed by CGE.

(2) In 2018, it includes the decrease in deferred tax assets resulting from impairment recognised in the year. In addition, the decrease in deferred tax liabilities of Euros 43 million resulting from the Compañía General de Electricidad merger operations mentioned above was included under "Depreciation/amortisation differences" in 2018.

(3) 2019 includes transfers as a consequence of CINIF 23 application (Note 17). Additionally, in 2019 and 2018 it includes transfers to "held for sale" at the date on which this classification is applied (Note 12).

At 31 December 2019 the tax credits that have not been recorded totalled Euros 11 million (Euros 17 million at 31 December 2018).

In July 2018 tax inspection proceedings were instigated against Naturgy Energy Group, S.A. as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT. The periods under inspection for corporate income tax purposes (tax consolidation regime) are from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT Group for VAT purposes.

The inspection proceedings are not expected to significantly impact the Group companies.

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Spanish Group's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

In general, the other Naturgy companies are open to inspection for the following periods:

Country	Period
Argentina	2014-2019
Brazil	2015-2019
Colombia	2016-2019
Chile	2014-2019
Mexico	2015-2019
Panama	2013-2019

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. Naturgy considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy assesses the effect of uncertain tax treatments and recognises the effect of the uncertainty on taxable earnings, tax bases and unused tax losses and credits. Naturgy has recognised sufficient provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments that are individually material.

Note 23. Revenue

The breakdown of this heading in the consolidated income statement for 2019 and 2018 is as follows, by category with the relevant operating segment reporting structure:

2019	Gas and Electricity	EMEA Infrastructures	Latin America South Infrastructures	Latin America North Infrastructures	Other	Total
Sales of gas and access to distribution networks	5,577	1,167	3,099	593	-	10,436
Sales of electricity and access to distribution networks	4,479	813	2,211	887	-	8,390
LNG sales	3,018	-	-	-	-	3,018
Registrations and facility checks	57	21	11	13	-	102
Assignment power generation capacity	285	-	-	-	-	285
Rentals meters and facilities	308	38	11	-	-	357
Other income	256	12	144	28	7	447
Total	13,980	2,051	5,476	1,521	7	23,035

2018	Gas and Electricity	EMEA Infrastructures	Latin America South Infrastructures	Latin America North Infrastructures	Other	Total
Sales of gas and access to distribution networks	6,430	1,178	2,781	541	-	10,930
Sales of electricity and access to distribution networks	5,052	792	2,137	768	-	8,749
LNG sales	3,409	-	-	-	-	3,409
Registrations and facility checks	40	26	11	14	-	91
Assignment power generation capacity	276	-	-	-	-	276
Rentals meters and facilities	338	33	10	-	-	381
Other income	253	15	140	40	55	503
Total	15,798	2,044	5,079	1,363	55	24,339

Reporting by geographic area

Naturgy's revenue by country of destination is analysed below:

	2019	2018
Spain	10,124	11,225
Rest of Europe	2,639	2,926
France	1,504	1,594
Portugal	555	527
Ireland	130	181
United Kingdom	113	159
Other Europe	337	465
Latin American	8,509	8,065
Chile	3,055	2,976
Brazil	1,853	1,695
Mexico	1,376	1,441
Panama	901	774
Argentina	725	723
Dominican Republic	164	146
Other Latin America	435	310
Other	1,763	2,123
China	177	420
India	394	359
USA	262	180
Japan	260	299
Egypt	-	286
Pakistan	112	174
Other countries	558	405
Total	23,035	24,339

Note 24. Raw materials and consumables

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Energy purchases	14,131	15,425
Access to transmission networks	1,617	1,942
Other purchases and changes in inventories	563	356
Total	16,311	17,723

Note 25. Other operating income

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Other management income	163	165
Operating grants	1	1
Total	164	166

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 67 million (Euros 68 million in 2018); whose fair value is estimated by reference to the expenses incurred (Note 27), with no margin.

Note 26. Personnel expenses

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Wages and salaries	653	702
Termination benefits	168	180
Social security costs	112	123
Defined contribution plans	31	36
Defined benefit plans (Note 17)	6	9
Share-based payments (Note 15)	5	5
Own work capitalised	(105)	(115)
Other	54	70
Total	924	1,010

The average number of Naturgy employees was 12,138 in 2019 and 13,945 in 2018, analysed by category as follows:

	2019	2018
Executives	1,253	1,359
Middle management	2,386	2,708
Specialists	4,211	4,504
Operational staff	4,288	5,374
Total	12,138	13,945

The average number of employees in the year with disability equal to or greater than 33% is as follows, by category:

	2019	2018
Executives	6	6
Middle management	20	18
Specialists	70	82
Operational staff	78	82
Total	174	188

The number of Naturgy employees at the end of 2019 and 2018 broken down by category, gender and geographical area, is as follows:

	2019			2018		
	Men	Women	Total	Men	Women	Total
Executives	873	360	1,233	933	365	1,298
Middle management	1,755	553	2,308	1,884	565	2,449
Specialists	2,684	1,572	4,256	2,687	1,608	4,295
Workers	2,735	1,315	4,050	3,299	1,359	4,658
Total	8,047	3,800	11,847	8,803	3,897	12,700

	2019	2018
Spain	6,017	6,469
Rest of Europe	117	156
Latin American	5,524	5,895
Rest	189	180
Total	11,847	12,700

Both the calculation of the average number of employees and the calculation of the number of employees at the end of Naturgy's financial year include the number of employees in the joint venture entities pro-rated by the percentage interest. At 31 December 2019, the number of employees at the year-end of these entities stood at 193 (189 at 31 December 2018) and the average number of employees was 193 (190 at 31 December 2018).

In both the calculation of the number of employees at the year end and the calculation of the average

number of employees, the employees of companies classified as discontinued operations (Note 12) and the employees of companies consolidated using the equity method have not been taken into account, in accordance with the following breakdown:

	2019		2018	
	Number of employees at year end	Average number of employees	Number of employees at year end	Average number of employees
Discontinued operations	78	510	786	1,453
Equity-consolidated companies	477	681	818	818

Note 27. Other operating expenses

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Taxes	360	437
Operation and maintenance	362	368
Advertising and other commercial services	157	208
Professional services and insurance	116	143
Concession construction or improvements services (IFRIC 12) (Note 25)	67	68
Supplies	67	79
Services to customers	61	71
Other	286	442
Total	1,476	1,816

Note 28. Profit/(loss) on disposals of fixed assets

In 2019 this heading mainly reflects the sale in December 2019 of the LNG cargo facility that was being developed by Gas Natural Puerto Rico, Inc. for US dollars 23 million, giving rise to a capital gain before income tax of Euros 12 million, as well as minor sales in Spain and Chile (Note 7).

In 2018 this heading mainly reflected the capital gain of Euros 9 million from the sale of a building in calle Goya, Madrid, and other smaller sales in Spain and Chile (Note 7).

Note 29. Depreciation and non-financial asset impairment losses

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Amortisation intangible assets (Note 6)	289	348
Depreciation PPE (Note 7)	1,154	1,326
Depreciation right-of-use assets (Note 8)	165	-
Intangible asset and goodwill impairment (Notes 5 and 6)	-	1,872
PPE impairment (Notes 5 and 7)	38	2,398
Inventory impairment (Note 13)	12	63
Total	1,658	6,007

Nota 30. Other results

In 2019 it is mainly included in this heading of the Profit and Loss Account:

- The profit before taxes of Euros 68 million for the sale of Empresa de Transmision Eléctrica Transemel, S.A. (Chile) for Euros 155 million (Note 12).
- The surplus before tax of Euros 5 million for the sale of the shares in the joint ventures Molinos de Cidacos, Molinos de la Rioja and DER Rioja for an amount of Euros 40 million (Note 9).
- The capital gain before taxes of Euros 20 million for the sale of the stake in the associated company Torre Marenostrum, S.L. amounting to Euros 28 million (Note 9).

Note 31. Net financial income/(expense)

The breakdown of this heading for 2019 and 2018 is as follows:

	2019	2018
Dividends	13	17
Interest income	26	19
Other ⁽¹⁾	41	86
Total financial income	80	122
Cost of borrowings ⁽²⁾	(652)	(557)
Interest expenses pension plans	(17)	(14)
Other financial expense ⁽²⁾	(168)	(231)
Total financial expense	(837)	(802)
Variations in the fair value of financial instruments ⁽³⁾	89	(5)
Net exchange differences	2	-
Net financial income/(expense)	(666)	(685)

(1) 2019 includes impairment of the assets of the generation activity in Costa Rica amounting to Euros 50 million (Note 5).

(2) 2019 includes the interest expense on finance leases which, following the entry into force of IFRS 16, are included under Financial Debt (Note 3.4.20) as well as the cost of bonds repurchase (Note 18) for Euros 97 million. In 2018, interest expenses on finance leases were included under Other financial expenses (Euros 78 million).

(3) Includes variation of fair value of equity instruments (Note 10) and variation of fair value of derivative financial instruments (Note 18).

Note 32. Cash generated by operating activities and other cash-flow breakdowns

The breakdown of cash generated from operations in 2019 and 2018 is as follows:

	2019	2018
Profit/(loss) before tax	2,272	(3,365)
Adjustments to profit/(loss):	2,040	7,131
Depreciation, amortisation and impairment expenses (Notes 5, 6, 7 and 8)	1,658	6,007
Other adjustments to net income:	382	1,124
Net financial income (Note 12 and 31)	666	685
Profit of entities recorded by equity method (Note 9 and 12)	(75)	513
Transfer of deferred income (Note 16)	(46)	(42)
Net variation in Provisions	(37)	(27)
Pre-tax profit/(loss) from discontinued activities net of capital gains and impairment (Note 12)	-	20
Other results	(126)	(25)
Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences):	545	(208)
Inventories	32	(125)
Trade and other receivables	445	(392)
Trade and other payables	68	309
Other cash flows from operating activities:	(836)	(677)
Interest paid	(646)	(621)
Interest collected	33	23
Dividends received	170	184
Income tax paid	(393)	(263)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	4,021	2,881

Payments on investments in Group companies, associates and business units at 31 December 2019 and 2018 break down as follows:

	2019	2018
Acquisition Guimaranias (Note 33)	8	27
Capital increase La Mudarra and Ruralia	2	-
Total	10	27

Receipts due to divestments in Group companies, associates and business units at 31 December 2019 and 2018 break down as follows:

	2019	2018
Sale Italy (Note 12)	-	746
Sale Kangra (Note 12)	-	20
Gas Natural, S.A. ESP (Note 12)	-	334
Sale Torremarenostrom (Note 9)	28	-
Sale Transemel (Note 12)	155	-
Sale Molinos de Cidacos, Molinos de la Rioja and DER Rioja (Note 9)	40	-
Sale Moldavia (Note 12)	10	-
Other	1	9
Total	234	1,109

The breakdown of payments for the acquisition of equity instruments at 31 December 2019 and 2018 is as follows:

	2019	2018
Sale 20% Nedgia	-	1,500
Naturgy Energy Group, S.A. treasury shares (Note 15)	(405)	(309)
CGE treasury shares (Note 15)	-	(2)
Total	(405)	1,189

Movements in borrowings in 2019 2018 are set out below, disclosing separately the changes that generate cash flows from those that do not:

	Generate cash flow				Do not generate cash flow			At 31.12.2019
	At 1.1.2019	Impact IFRS 16	A 1.1.2019	Increase	Decrease	Currency translation differences	Transfers and other	
Issuing of debentures and other negotiable obligations	10,758	-	10,758	5,194	(6,235)	(42)	105	9,780
Borrowings from financial institutions	4,577	-	4,577	3,017	(1,096)	(40)	(32)	6,426
Derivative financial instruments	85	-	85	-	-	-	42	127
Lease liabilities	-	1,642	1,642	-	(144)	20	126	1,644
Other financial liabilities	11	-	11	40	(48)	4	3	10
Total	15,431	1,642	17,073	8,251	(7,523)	(58)	244	17,987

	Generate cash flow				Do not generate cash flow			At 31.12.2018
	At 31.12.2017	Impact IFRS 9	At 1.1.2018	Increase	Decrease	Currency translation differences	Transfers and other	
Issuing of debentures and other negotiable obligations	12,214	(48)	12,166	6,867	(8,213)	(51)	(11)	10,758
Borrowings from financial institutions	6,128	-	6,128	1,306	(2,728)	(129)	-	4,577
Derivative financial instruments	49	-	49	-	-	(1)	37	85
Other financial liabilities	68	-	68	170	(215)	(12)	-	11
Total	18,459	(48)	18,411	8,343	(11,156)	(193)	26	15,431

(1) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 12).

"Other changes in cash and cash equivalents" includes cash fluctuations due to changes in the consolidation scope and transfers held for sale.

Note 33. Business combinations

2019

Gasnor, S.A. y Gasmarket, S.A.

On 10 July 2019 the Chilean group company Compañía General de Electricidad, S.A. (CGE) reached an agreement with the Argentine company Cartellone Energía y Concesiones, S.A. (CECSA) to exchange CGE's shares in the electricity distribution companies in Argentina (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for CECSA's shares in the gas distribution companies in Argentina (Gasnor, S.A. and Gasmarket, S.A.). The sale took place on 30 July 2019 for a total price of USD 40 million (Euros 36 million), which is the same price set for the acquisition.

Through this exchange, Naturgy acquired 100% of the gas companies in Argentina in which it had previously held 50%. In this business combination carried out in stages, Naturgy has adjusted the value of 50% of its previously held interests in the acquired companies to their fair value at the date of acquisition.

The net assets acquired at 30 July 2019 break down as follows:

Acquisition cost	72	
Fair value of the net assets	72	
Goodwill (Note 6)	0	
	Fair value	Carrying amount
Intangible assets (Note 6)	64	64
Property, plant and equipment (Note 7)	4	4
Other current assets	58	58
Cash and cash equivalents	9	9
TOTAL ASSETS	135	135
Deferred tax liabilities (Note 22)	3	3
Current borrowings (Note 18)	1	1
Other current liabilities	59	59
TOTAL LIABILITIES	63	63
Net assets acquired	72	72
Fair value of the net assets acquired	72	
Acquisition price	72	
Cash and cash equivalents in subsidiary acquired	(9)	
Net acquisition cost	63	

At the date of acquisition, no assets requiring restatement or contingent liabilities were identified based on the balance sheet of Gasnor, S.A. and Gasmarket, S.A. at 30 July 2019 and, accordingly, no asset restatements or provisions additional to those included in the carrying amount were recognised.

The measurement of net assets was basically performed using the following methodology:

- The businesses were measured following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the measurement were a discount rate of 19.02% and a growth rate of 2%.
- The most sensitive assumptions included in the projections and which are based on sector forecasts and the analysis of historical information are the evolution of gas prices in Argentina and operation and maintenance costs.

This business combination has been accounted for provisionally, as the 12-month period from the acquisition date established under IFRS 3 has still not terminated.

2018

Guimaranía Solar Spe

In March 2018, through its subsidiary Global Power Generation, Naturgy agreed to the purchase of the companies Guimaranía I Solar Spe Ltda. and Guimaranía II Solar Spe Ltda., two solar plants in Brazil, from Canadian Solar.

At the acquisition moment, Guimaranía Solar was an 83 MW photovoltaic project located in the state of Minas Gerais with a power generation of 165 GWh per year. It came into operation in 2018. These companies have also signed a 20-year energy reserve contract with Câmara de Comercialização de Energia Eléctrica (CCEE) under which the sale of the energy produced is reserved for the CCEE as the sole customer, at rates set in BRL and indexed to local inflation.

The total cost of the business combination amounted to Euros 35 million. Goodwill was calculated at Euros 9 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 01 January 2018 and goodwill break down as follows:

Acquisition cost	35	
Fair value of the net assets	26	
Goodwill (Note 6)	9	
	Fair value	Carrying amount
Intangible assets (Note 6)	28	1
Other current assets	6	6
Cash and cash equivalents	1	1
TOTAL ASSETS	35	8
Deferred tax liabilities (Note 22)	9	-
TOTAL LIABILITIES	9	-
Fair value of the net assets acquired	26	
Acquisition price	35	
Cash and cash equivalents in subsidiary acquired	1	
Net acquisition cost	34	

In the purchase price allocation process, the assets were identified that could be revalued based on the balance sheet of Guimaranía I Solar Spe Ltda. and Guimaranía II Solar Spe Ltda. at 30 April 2018, relating to intangible assets represented by the value of the authorisations necessary to operate the facility. The deferred tax liabilities relating to the revaluations were also recognised.

These net assets of Guimaranía I Solar Spe Ltda. and Guimaranía II Solar Spe Ltda. were basically measured using the following methodology:

- The business was valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the valuation were an IRR of 13.17% as the return required on the investment, and cash-flow projections based on income at the price agreed in the energy reserve contract and the distribution and maintenance costs typical of the business.

Note 34. Service concession arrangements

Naturgy manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Note 2). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	8
Gasnor, S.A.	Gas distribution	Argentina	35 (extendable 10)	8
Energía San Juan S.A.	Electricity distribution	Argentina	60	37
Companhia Distribuidora de Gás do Rio de Janeiro, S.A., Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	8-11
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	3-11
Naturgy Generación S.L.U., S.A. and Naturgy Renovables, S.L.	Hydraulic power generation	Spain	14-65	3-44
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	8-19
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendable)	2
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriquí, S.A.	Electricity distribution	Panama	15	9
Gas Natural Perú, S.A.	Gas distribution	Peru	20-year extendable	15

As indicated in Note 3.4.3.b, Naturgy applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil and Peru, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 3.4.3.b) fall outside the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall outside the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

Note 35. Information on transactions with related parties

Related parties are as follows:

- Significant Naturgy shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

Based on this definition, the significant shareholders of Naturgy are Fundació Bancaria Caixa d’Estalvis i Pensions de Barcelona (“la Caixa”), Global Infrastructure Partners III (GIP) and subsidiaries, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.) since 18 May 2018 and Repsol, S.A. (Repsol) until 17 May 2018.

- Directors and executives of the company, and their close relatives. The term “director” means a member of the Board of Directors and the term “senior management personnel” refers to personnel reporting directly to the Executive Chairman and the Internal Audit Manager. Operations with directors and executives are disclosed in Note 36.
- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

Aggregate transactions with significant shareholders are as follows (thousand euro):

2019	Significant shareholders				Group companies
	"la Caixa" group	CVC group	GIP group		
Expense and Income (thousand euro)					
Financial expenses	-	-	-	-	-
Leases	-	-	-	-	3
Receipt of services	10	-	-	-	11,245
Purchase of goods (1)	-	-	13,368	-	344,034
Other expenses	-	-	-	-	-
Total expenses	10	-	13,368	-	355,282
Financial income	-	-	-	-	70
Leases	-	-	-	-	-
Provision of services	-	-	-	-	12,649
Sale of goods (1)	1,217	27,028	-	-	128,473
Other income	-	-	-	-	1,734
Total income	1,217	27,028	-	-	142,926
Other transactions (thousand euro)					
Acquisition of property, plant and equipment, intangible assets or other	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	-	-	2,085
Dividends and other profits distributed (2)	333,486	268,548	267,584	-	-
Trade debtors and creditors (thousand euros)					
Trade and other receivables	74	5,274	-	-	29,418
Trade and other payables	-	-	15	-	26,461
2018					
Expense and Income (thousand euro)	Significant shareholders				Group companies
	"la Caixa" group (*)	Repsol group (**)	CVC group (***)	GIP group	
Financial expenses	-	-	-	-	6
Leases	-	-	-	-	6
Receipt of services	12	3,944	-	-	10,838
Purchase of goods (1)	-	160,003	-	-	355,707
Other expenses (2)	-	-	-	-	-
Total expenses	12	163,947	-	-	366,557
Financial income	-	-	-	-	2,294
Leases	-	-	-	-	-
Provision of services	36	20,545	-	-	21,198
Sale of goods (1)	3,095	367,115	-	-	34,331
Other income	-	-	-	-	1,853
Total income	3,131	387,660	-	-	59,676
Other transactions (thousand euro)					
Acquisition of property, plant and equipment, intangible assets or other	-	295	-	-	-
Financing agreements, loans and capital contributions(lender)	-	-	-	-	3,695
Sale of property, plant and equipment, intangibles or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	-	-	-	-	-
Warranties and guarantees received	-	-	-	-	-
Dividends and other profits distributed (2)	346,808	-	281,202	280,193	-
Other operations	-	-	-	-	-
Trade debtors and creditors (thousand euros)					
Trade and other receivables	137	-	-	-	16,765
Trade and other payables	-	-	-	-	42,734

(*) Since 1 January 2018 only transactions with Fundación la Caixa and CriteríaCaixa are reported.

(**) Until 17 May 2018.

(***) Since 18 May 2018.

- (1) Basically includes energy purchase and sale In the case of group companies, basically corresponds to operations with Unión Fenosa Gas.
- (2) At 31 December 2019 the "La Caixa" dividend includes Euros 60,257 thousand which corresponds to the 100% payable to Energía Boreal 2018, S.A. (Euros 43,230 thousands attributable). At 31 December 2018 included Euros 22,516 thousand.

Note 36. Information on members of the Board of Directors and senior management personnel

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 27 June 2018 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the Bylaws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit Committee (AC) and Appointments and Remuneration Committee (ARC), totalled Euros 3,955 thousand (Euros 4,412 thousand in 2018), broken down in euros as follows:

	Office	Board	AC	ARC	Total
D. Francisco Reynés Massanet	Executive Chairman	1,100,000	-	-	1,100,000
D. Ramón Adell Ramón	Coordinating Director	205,000	60,000	90,000	355,000
D. Enrique Alcántara-García Irazoqui	Director	175,000	60,000	-	235,000
D. Marcelino Armenter Vidal	Director	175,000	-	60,000	235,000
D. Francisco Belil Creixell	Director	175,000	90,000	60,000	325,000
Dña. Helena Herrero Starkie	Director	175,000	60,000	-	235,000
D. Rajaram Rao	Director	175,000	60,000	-	235,000
Rioja Bidco Shareholdings, S.L.U., D. Javier de Jaime Guijarro ⁽¹⁾	Director	102,083	-	35,000	137,083
Rioja S.à.r.l, D. Javier de Jaime Guijarro ⁽¹⁾	Director	72,917	-	25,000	97,917
D. Pedro Sainz de Baranda Riva	Director	175,000	60,000	60,000	295,000
D. Claudi Santiago Ponsa	Director	175,000	-	60,000	235,000
D. Scott Stanley ⁽²⁾	Director	160,417	-	55,000	215,417
Theatre Directorship Services Beta, S.à.r.l., D. José Antonio Torre de Silva López de Letona	Director	175,000	60,000	-	235,000
D. William Alan Woodburn ⁽³⁾	Director	14,583	-	5,000	19,583
		3,055,000	450,000	450,000	3,955,000

(1) Rioja S.à.r.l. replaced Rioja Bidco Shareholdings, S.L.U as a Director in August 2019

(2) Since 29 January 2019.

(3) Until 29 January 2019.

In 2019, as in 2018, no amounts were received for other items.

At 31 December 2019, the Board of Directors consisted of 12 members.

There were significant changes in the Board of Directors structure in 2018. On 6 February 2018, the Board of Directors agreed to appoint a new Executive Chairman due to the departure of the former CEO and Chairman. As a result, the number of Board members was reduced to 16 persons. Subsequently, on 27 June 2018, the General Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12 members. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at 7 persons and the number of Appointments and Remuneration Committee members was set at 7 persons.

For the executive functions carried out in the year 2019, the Chief Executive Officer has earned Euros 3,371 thousand corresponding to fixed compensation (Euros 930 thousand), annual variable (Euros 2,369 thousand) and other items (Euros 72 thousand), although the amount corresponding to the annual variable remuneration will be settled as a contribution to the pension plan of which the Chief Executive Officer is a beneficiary, in accordance with the contractually established (Euros 809 thousand, Euros 2,097 thousand and Euros 11 thousand in the year 2018; also, in the year 2018, the annual variable remuneration was settled as a contribution to the pension plan).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed to the social welfare plan mentioned above, totalled Euros 477 thousand in 2019 (Euros 490 thousand in 2018). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 5,232 thousand at 31 December 2019 (Euros 2,457 thousand in 2018).

In addition, in 2018, the remuneration earned by the former CEO for executive functions up to 6 February 2018 amounted to a total of Euros 15,395 million and contributions to pension plans and group insurance, together with the premiums paid for life insurance, amounted to Euros 34 thousand.

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and 25 other executives take part. It is arranged through the acquisitions of shares the main characteristics of which are described in Note 15. The new incentive requires the adaptation of the Remuneration Policy and the Executive Chairman's contract, which are subject to the suspensive condition of being approved by the shareholders in general meeting.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total fixed remuneration, annual variable remuneration and 1.25 times total fixed remuneration (as long-term variable remuneration subject to having achieved the minimum profitability target under the LTI). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

Except as mentioned for the CEO, the members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2018 by Naturgy Energy Group, S.A. for the entire policy amounted to Euros 140 thousand (Euros 121 thousand in 2018).

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

The Directors of Naturgy have not reported any conflict of interest to the Board of Directors that has to be notified.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During the years 2019 and 2018, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Director.

At 31 December 2019, 11 people make up this group, without taking into account the Internal Audit Director (13 people at 31 December 2018), one of whom is a woman. During 2019 there has been 1 casualty in April 2019 and another casualty on 31 December 2019.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 6,217 thousand, Euros 3,452 thousand, Euros 1,081 thousand and Euros 362 thousand, respectively, in 2019 (Euros 6,769 thousand, Euros 3,853 thousand, Euros 595 thousand and Euros 230 thousand, respectively, in 2018). The long-term variable incentive plan (ILP) in which 25 executives participate, is described in Note 15.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,422 thousand in 2019 (Euros 1,599 thousand in 2018). Funds accumulated due to these contributions amount to Euros 17,967 thousand at 31 December 2019 (Euros 23.309 thousand at 31 December 2018).

Advances amounting to Euros 45 thousand had been granted to management personnel at 31 December 2019 (Euros 30 thousand at 31 December 2018). At 31 December 2019, same as in 2018, Naturgy had not granted any new guarantees on loans to management personnel. Severance benefits received by senior management personnel leaving Naturgy amounted to Euros 3,832 thousand in 2019 (Euros 6,493 thousand in 2018).

The contracts signed with the 11 directors contain a clause that establishes compensation between a fixed annual remuneration in some cases and three and a half annual remuneration in others, in certain cases of extinction of the relationship, which include certain situations of change in control, unfair dismissal or the cases contemplated in articles 40, 41 or 50 of the Statute of Workers. Likewise, 10 of these contracts contain a clause that establishes compensation equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period of two years.

Note 37. Litigation, arbitration, guarantees and commitments

Litigation and arbitration

The companies in the Naturgy Group are involved in certain judicial and extrajudicial disputes within the ordinary course of their activities. At the date of preparation of these consolidated annual accounts, the main litigation or arbitration in which Naturgy companies are involved are the following:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Rio de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG, in which Naturgy holds an interest of 54.2%. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of tax payable in dispute, including interest, amounted on that date to BRL 386 million (Euros 84 million). In November 2015, the above-mentioned Federal do Rio de Janeiro first-instance court issued a judgement partially allowing CEG's appeal and reducing the total amount to BRL 260 million (Euros 57 million), rejecting the imposition of aggravated interests of delay and sanction. The sentence was appealed by both parties. This reduction in the amount of the contingency will not be final until the possible appeals have been lodged, which could take another four years according to a preliminary estimate. Naturgy has appealed against the judgment and considers, together with the company's legal advisors, that even the reduced amount is unfounded.

Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy has requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contains various provisions that require negotiations between the parties, which have given rise to a second arbitration process.

Claim against Metrogas, S.A.

Transportadora de Gas del Norte S.A. lodged various complaints against Metrogas, S.A., a Chilean company 55.6% owned by Naturgy, before the civil and commercial courts of first instance in Argentina for supposed breach of contract in the transport of Argentinian gas to Chile during the Argentina gas crisis. In April 2017, Metrogas, S.A. received a judicial notice declaring a joinder of claims, meaning that the total amount stands at USD 227 million (Euros 203 million). The procedures are at the first instance stage.

Environmental incentive to coal plants in Spain

In 2007, the Spanish authorities introduced an environmental incentive to support the installation of new sulphur oxide filters in existing coal plants. In November 2017, the European Commission opened an investigation to determine whether this incentive complied with the European Union's state aid rules. In the event of an unfavourable result, the risk estimated in the consolidated financial statements, which does not include the period in which the plants were subject to the economic regime of Royal Decree 134/2010, could be as much as Euros 67 million.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. A decision has yet to be issued in the arbitration being conducted in Madrid. On 19 December 2018 Unión Fenosa Gas obtained confirmation of the award in the United Kingdom and expects to obtain confirmation in the United States. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last, as has been done. In January 2020, since Egypt had not provided the guarantees established by the ICSID, the temporary suspension was lifted and, consequently, enforcement actions resumed.

Social Bond

The Supreme Court has ordered to reimbursement of the amounts contributed by Naturgy Energy Group, S.A. to the social bond for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, the Administration appealed to the Constitutional Court. That Court revoked the Supreme Court decision and returned the proceeding to the point prior to the issuance of judgement. The Constitutional Court questioned why the Supreme Court had not applied for a preliminary ruling from the Court of Justice of the European Union and it applied for a preliminary ruling.

Electricaribe

On 14 November 2016 the Superintendencia for Residential Public Services of the Republic of Colombia ("the Superintendencia") reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendencia. On 14 March 2017 the Superintendencia announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 MUSD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote (Note 10). The main hearings were held in December 2019 and an award is expected at the end of 2020.

Naturgy's consolidated balance sheet at 31 December 2019 includes provisions for litigation, based on the best estimate made using the information available at the date of preparation of these consolidated annual accounts on their progress and ongoing negotiations, which cover the estimated risks. Naturgy therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this note.

Guarantees

Guarantees furnished by Naturgy at 31 December 2019 and 2018 are as follows:

- Guarantees provided to third parties, basically for investment commitments, construction and distribution network expansion, tenders, bids and business contracts amounting to Euros 1,831 million (Euros 1,282 million at 31 December 2018).
- Guarantees relating to the economic obligations resulting from its participation in the Spanish gas system (MIBGAS) and the Spanish electricity system (MEFF and OMIE) for Euros 489 million (Euros 562 million at 31 December 2018).
- Financial guarantees relating to the guarantee for compliance with obligations under loans received by investee companies amounting to Euros 6 million (Euros 8 million at 31 December 2018). In addition, guarantees exist for compliance with obligations under loans received by investee companies amounting to USD 78 million (Euros 69 million).
- Guarantees for debt issues by group companies Gas Natural Capital Markets, S.A., Gas Natural Finance, B.V., Unión Fenosa Preferentes, S.A.U. and Gas Natural México S.A. de C.V. totalling Euros 10,335 million (Euros 11,531 million at 31 December 2018).
- Guarantees for obligations under gas purchase and transport contracts and the chartering of gas tankers of group companies Gas Natural Aprovevisionamientos, S.A. and Gas Natural Europe, S.A.S.
- At 31 December 2018 there was an irrevocable guarantee by Naturgy Energy Group, S.A. for all the liabilities and commitments of Naturgy Ltd and its subsidiaries in Ireland, in accordance with Article 357 of the 2014 Companies Act of Ireland, in order to file the consolidated financial statements of Naturgy instead of its separate financial statements on the basis of the exemption allowed under Section 1 (b) of said Act.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfilment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that the liabilities not foreseen at 31 December 2019, if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2019:

Acquisition	At 31 December 2019						and later years
	Total	2020	2021	2022	2023	2024	
Energy purchases (1)	59,070	6,981	6,766	5,294	5,102	4,441	30,486
Energy transmission (2)	2,627	429	421	242	164	174	1,197
Investment (3)	477	442	35	-	-	-	-
Operating leases (4)	57	41	16	-	-	-	-
Nuclear fuel purchases	31	14	17	-	-	-	-
Total contractual obligations	62,262	7,907	7,255	5,536	5,266	4,615	31,683

Sale	At 31 December 2019						and later years
	Total	2020	2021	2022	2023	2024	
Energy sales (5)	14,778	4,627	1,786	1,002	675	529	6,159
Provision of capacity assignment services (6)	3,090	314	282	286	297	286	1,625
Total contractual obligations	17,868	4,941	2,068	1,288	972	815	7,784

- 1) Basically reflects the long-term commitments for natural gas purchases amounting to Euros 59,045 million under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 3.4.8.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2019.

This also includes long-term commitments to buy electricity, calculated based on prices at 31 December 2019.

- 2) Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2019. It also reflects operating costs associated with

charter contracts for gas tankers under finance leases for the eight tankers currently in operation (Note 19).

- 3) It reflects investment commitments basically for the construction of renewable generation plants in Spain, Chile and Australia, the development of the distribution network and other gas infrastructures and the development of the electricity distribution network. (Note 7).
- 4) It mainly reflects the commitments for operating leases of short-term ships (expire in 2021) or whose quotas are variable, as well as the commitments for leases of short-term buildings, land linked to generation facilities whose quotas are variable and other leases of Low value

Includes the rental of the “Torre del Gas” building, owned by Inmobiliaria Colonial, Socimi, S.A. (formerly Torremarenostrom, S.L.), with an operating lease agreement with no purchase option until 2020.

The cost of these operating leases amounted to Euros 38 million in 2019 (Euros 138 million for 2018).

- 5) It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for “own use” (Note 3.4.8.3). The commitments have been calculated based on natural gas prices at 31 December 2019.

This also includes long-term commitments to sell electricity, calculated based on prices at 31 December 2019.

- 6) It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 3.4.22). The commitments made in these contracts have been calculated based on prices at 31 December 2019.

Note 38. Auditors’ fees

Total fees for auditing and related services and other services in 2019 amounted to Euros 4,718 thousand (Euros 5,239 thousand in 2018).

The fees accrued in thousand euro by the different companies trading under the Ernst & Young (EY) brand in 2019 and 2018 are as follows:

	Thousand Euros					
	2019			2018		
	Ernst & Young, S.L.	Rest EY network	Total	Ernst & Young, S.L.	Rest EY network	Total
Auditing services	1,713	2,441	4,154	1,728	2,682	4,410
Assurance services and services related to the audit ⁽¹⁾	179	135	314	42	30	72
Other services ⁽¹⁾	22	163	185	298	423	721
Total fees	1,914	2,739	4,653	2,068	3,135	5,203

(1) These headings include verification reports on non-financial information, comfort letters and advice on sustainability

Additionally, other audit firms have provided various Group companies with audit services amounting to Euros 65 thousand in 2019 (Euros 36 thousand in 2018).

The calculation of the auditor’ fees for the current period and in the comparative analysis with the previous year does not take into account the fees relating to companies that have been reclassified to discontinued operations, amounting to Euros 38 thousand and accrued by other audit firms in 2019 (Euros 141 thousand in 2018).

Note 39. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy, approved in the first half of 2019 and which applies to all geographical areas and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy. To this end, four strategic environmental axes have been established:

- Environmental governance and management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Natural capital and biodiversity.

The most important milestones for 2019 in environmental governance and management are the approval of the Global Environmental Policy and the 2018-2022 Environmental Plan, which include actions, monitoring indicators and global objectives to improve environmental performance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital. The objectives of this Environmental Plan include a 21% reduction in Scope 1 and Scope 2 greenhouse gas emissions in absolute terms by 2022 with respect to the figures for 2017, which is in line with the global objective of keeping global warming below 1.5°C.

Environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to ensure continuous improvement.

Concerning climate change and the energy transition, the main lines of action carried out in 2019 are growth in low or zero emission renewable capacity, the replacement of carbon-intensive fuels by more sustainable fuels, the promotion of sustainable mobility and the reduction of leak emissions in gas distribution networks. Likewise, a new, more precise methodology has been implemented in the gas distribution network in Spain for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

During 2019 there has been a reduction in direct CO₂ emissions compared to 2018 as a result of a reduction in coal generation.

In the circular economy, the lines of work are different. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were developed to reduce the consumption of various materials and consumables. Actions have also been taken to enhance waste recovery and reduce waste generation. Concerning water, there was a decrease in 2019 compared to 2018, mainly due to lower demand for coal-fired power plants. It should finally be noted that innovation projects have been carried out in new energy models that are fully aligned with the circular economy. An example of this is the pilot plant for generating renewable gas from urban wastewater at the Butarque treatment plant (Madrid).

In 2019, Naturgy has conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with the prevention, reduction in and compensation for our impacts, and the enhancement of the value of the natural surroundings.

Environmental activities undertaken in 2019 amounted to Euros 546 million (Euros 494 million in 2018), of which Euros 465 million relate to environmental investments and Euros 81 million relate to environmental management of facilities, excluding those derived from the coal market. The investments made include

those relating to new renewable generation projects (Euros 422 million), mainly wind and photovoltaic farms which will contribute to reducing specific emissions of CO₂ and other atmospheric pollutants.

Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2019, total consolidated CO₂ emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 6.2 million tonnes of CO₂ (9.1 million tonnes of CO₂ in 2018). This three million tonne decrease is due to the reduced operation of coal-fired plants.

Naturgy devises a strategy each year for managing transfers to its CO₂ emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 40. Events after the reporting date

On 20 January 20, following the fulfillment of the suspensive conditions of the agreement signed in July 2019 (Note 12), Naturgy, together with the rest of the shareholders, completed the transfer of their total shares in Ghesa Ingeniería y Tecnología, S.A. and in Empresarios Agrupados Internacional, S.A to CPE, without significant impact on results.

APPENDIX I Naturgy companies

1. Subsidiaries

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Naturgy BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Gascart S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasnor S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasmarket S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	80.0
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	F.C.	80.0	80.0
Nedgia Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Aragón, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Balears, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	76.0
Nedgia Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	72.1
Nedgia Catalunya, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	79.8
Nedgia Galicia, S.A.	Spain	Gas distribution	F.C.	68.5	54.8
Nedgia Madrid, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	70.0
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	100.0	70.9
Naturgy México, S.A. de C.V.	Mexico	Gas distribution	F.C.	70.9	70.9
Naturgy Perú, S.A.	Peru	Gas distribution	F.C.	100.0	100.0
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Naturgy Almacенamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0

Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2
Natural Energy, S.A.	Argentina	Gas supply	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply	F.C.	100.0	100.0
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Naturgy LNG, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas supply	F.C.	100.0	100.0
Gas Natural Fenosa LNG International Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM Limited	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy LNG Marketing Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy Servicios, S.A. de C.V.	Mexico	Gas supply	F.C.	100.0	70.9
Naturgy LNG Singapore Pte. Ltd	Singapore	Gas supply	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply	F.C.	100.0	100.0
Comercializadora Regulada Gas & Power, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Mataró Energía Sostenible, S.A.	Spain	Gas and electricity supply	F.C.	51.1	51.1
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Energy, Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Energy (UK), Ltd	United Kingdom	Gas and electricity supply	F.C.	100.0	100.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank Development Finco Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell 3 Development Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell 3 Development Finco Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Finco Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Finco Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Global Power Generation Brasil Geracao de Energia Ltda	Brazil	Electricity generation	F.C.	100.0	75.0
Guimaranía I Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Guimaranía II Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0

Sertao i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
GPG Solar Chile 2017 SpA	Chile	Electricity generation	F.C.	100.0	75.0
Iberéolica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Parque Eólico Vientos del Pacífico, S.p.A	Chile	Electricity generation	F.C.	100.0	75.0
Hidroeléctrica Rio San Juan S.A.S. ESP, En Liquidación	Colombia	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Wind, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Fenosa, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Ruralia, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Wind 4, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñaroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation	F.C.	79.8	79.8
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	90.0	90.0
Iberáfrica Power Ltd. (3)	Kenya	Electricity generation	F.C.	100.0	75.0
El Gritón Solar S.A. de C.V.	Mexico	Electricity generation	F.C.	80.0	60.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3

Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Naturgy Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
Naturgy IT, S.L.	Spain	IT services	F.C.	75.0	75.0
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A. En Liquidación	Brazil	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services	F.C.	100.0	100.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Naturgy Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Naturgy Ingeniería Nuclear, S.L.	Spain	Engineering services	F.C.	100.0	100.0
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Proyectos Balmes México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Spanish Israeli Operation and Maintenance Company, Ltd. En Liquidación	Israel	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería México, S.A. de C.V. . En Liquidación	Mexico	Engineering services	F.C.	100.0	100.0
GPG Energía México, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Engineering Panamá, S.A.	Panama	Engineering services	F.C.	100.0	100.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Naturgy Alfa Investments, S.A.U	Spain	Financial services	F.C.	100.0	100.0
Naturgy Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Participaciones, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Finance B.V.	Netherlands	Financial services	F.C.	100.0	100.0
Clover Financial and Treasury Services, DAC.	Ireland	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Lean Grids Services Chile SpA	Chile	Services	F.C.	100.0	100.0
Lean Grids Services Mexico, S.R.L.	Mexico	Services	F.C.	100.0	100.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Lean Corporate Services, S.L..	Spain	Services	F.C.	100.0	100.0
Lean Customer Services, S.L.	Spain	Services	F.C.	100.0	100.0

Lean Gríds Services, S.L.	Spain	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	100.0	70.9
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	F.C.	100.0	71.5
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services	F.C.	71.0	71.0
Naturgy Services, S.A.	Panama	Services	F.C.	100.0	100.0
Inversiones Hermill, S.A.	Dominican Rep.	Services	F.C.	100.0	100.0
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Holding Negocios Electricidad, S.A.	Spain	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Global Power Generation Australia Pty, Ltd.	Australia	Holding company	F.C.	98.7	74.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
Naturgy Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Gas and Power, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	F.C.	100.0	100.0
Medina Partnership, S.A.U.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Acciones, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Unión Fenosa Minería, S.A.	Spain	Holding company	F.C.	100.0	100.0
GPG México Wind, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
GPG México, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
First Independent Power (Kenya), Ltd. (4)	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100.0	75.0
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe, S.A.	Panama	Holding company	F.C.	100.0	75.0
Buenergía Gas &Power, LLC	Puerto Rico	Holding company	F.C.	95.0	71.3
CGE Group:					
Compañía General de Electricidad, S.A.	Chile	Electricity distribution	F.C.	96.0	96.0
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	96.0
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100.0	96.0
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	96.0
CGE Magallanes S.A.	Chile	Electricity distribution	F.C.	99.9	95.9

Empresa Eléctrica de Magallanes S.A.	Chile	Electricity distribution	F.C.	55.2	53.0
Energy Sur Ingeniería, S.A.	Chile	Services	F.C.	55.0	52.8
Transformadores Tusan S.A.	Chile	Services	F.C.	100.0	96.0
TV Red S.A.	Chile	Services	F.C.	90.0	47.7
CGE Gas Natural, S.A.	Chile	Holding company	F.C.	92.3	92.3
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	92.3
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60.0	55.4
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.4
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	55.4
Centrogas S.A.	Chile	Services	F.C.	100.0	55.6
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	55.6
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.5
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100.0	92.3
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100.0	92.3
CGE Servicios, S.A.	Chile	Services	F.C.	100.0	100.0

1. Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
2. Parent company's interest in the subsidiary.
3. Companies recognised as held for sale

2. Joint ventures

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Grupo UF Gas:					
Unión Fenosa Gas, S.A.	Spain	Gas supply	E.M.	50.0	50.0
Segas Services, S.A.E.	Egypt	Gas infrastructures	E.M.	100.0	40.7
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas infrastructures	E.M.	80.0	40.0
Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply	E.M.	100.0	50.0
Unión Fenosa Gas Infraestructuras B.V.	Netherlands	Holding company	E.M.	100.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	E.M.	51.3	36.4
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V.	Mexico	Gas supply	E.M.	50.0	35.4
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	39.6	36.6
Montouto 2000, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Spain	Electricity generation	E.M.	21.0	21.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services	E.M.	47.9	47.9
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100.0	35.6
CGE Group:					
Gasoductos GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47.0	26.1
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	27.8
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.4
Gasoductos GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47.0	26.1
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary.

3. Jointly-controlled assets and operations

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Gas Natural West África, S.L.	Spain	Gas infrastructures	P.C.	40.0	40.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Tánger Larache	Morocco	Gas infrastructures	P.C.	24.0	24.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	P.C.	65.8	65.8
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary

4. Associates

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Qalhat LNG S.A.O.C. (UF Gas Group)	Oman	Gas infrastructures	E.M.	7.4	3.7
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20.0	20.0
CER's Commercial Corp	Panama	Services	E.M.	25.0	18.8
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary

APPENDIX II Variations in consolidation scope

The main consolidation scope changes during 2019 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Naturgy IT, S.L.	Incorporation	9 January	100.0	100.0	Full
P.H. La Perla, S.A.	Liquidation	7 March	100.0	-	-
Compañía General de Electricidad, S.A.	Capital reduction	21 March	0.2	96.0	Full
Energías Eólicas de Fuerteventura, S.L.	Acquisition	5 April	50.0	100.0	Full
Crookwell 3 Development Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Crookwell 3 Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Crookwell Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Berrybank Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Ryan Corner Development Finco Pty Ltd	Incorporation	9 April	100.0	100.0	Full
Torre Marenstrum, S.L.	Disposal	30 April	45.0	-	-
Holding Negocios Electricidad, S.A.	Incorporation	29 May	100.0	100.0	Full
Naturgy México, S.A. de C.V.	Decrease in shareholding	31 May	14.1	70.9	Full
Sistemas de Administración y Servicios, S.A. de C.V.	Decrease in shareholding	31 May	14.0	71.0	Full
Comercializadora Metrogas, S.A. de CV	Decrease in shareholding	31 May	14.1	70.9	Full
Energía y Confort Administración de Personal, S.A. de C.V.	Decrease in shareholding	31 May	13.5	71.5	Full
Administradora de Servicios de Energía México, S.A. de CV	Decrease in shareholding	31 May	14.1	70.9	Full
Naturgy Servicios, S.A. de C.V.	Decrease in shareholding	31 May	14.1	70.9	Full
CH4 Energía S.A. de C.V.	Decrease in shareholding	31 May	7.1	35.4	Equity
Gas Natural Vehicular del Norte Asociación en Participación	Decrease in shareholding	31 May	7.3	36.4	Equity
Naturgy Ingeniería Nuclear, S.L.	Incorporation	6 June	100.0	100.0	Full
Lean Corporate Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Lean Customer Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Lean Grids Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Empresa de Distribución Eléctrica de Tucumán S.A.	Share exchange	30 July	47.9	-	-
Compañía Eléctrica de Inversiones S.A.	Share exchange	30 July	47.9	-	-
Empresa Jujeña de Energía S.A.	Share exchange	30 July	43.1	-	-
Empresa Jujeña de Sistemas Energéticos Dispersos S.A.	Share exchange	30 July	43.1	-	-
Norelec S.A.	Share exchange	30 July	47.9	-	-
Dimater, S.A.	Share exchange	30 July	47.9	-	-
Empresa de Construcción y Servicios, S.A.	Share exchange	30 July	47.9	-	-
Energética del Norte, S.A.U.	Share exchange	30 July	47.9	-	-
Noanet, S.A.	Share exchange	30 July	47.9	-	-
Gascart S.A.	Share exchange	30 July	50,0	100,0	Full
Gasnor S.A.	Share exchange	30 July	50,0	100,0	Full
Gasmarket S.A.	Share exchange	30 July	50,0	100,0	Full
Gas Natural Fenosa Furnizare Energie, S.R.L.	Disposal	31 July	100.0	-	-
Red Unión Fenosa, S.A.	Disposal	31 July	100.0	-	-
Medina Partnership, S.A.U.	Incorporation	09 August	100.0	100.0	Full
Lean Grids Services Chile SpA	Incorporation	25 August	100.0	100.0	Full
Naturgy IT, S.L.	Disposal	4 September	25.0	75.0	Full
Berrybank Development Finco Pty Ltd.	Capital increase	12 September	0.0	74.0	Full
Ryan Corner Development Finco Pty Ltd	Capital increase	12 September	0.0	74.0	Full
Berrybank Development Pty, Ltd	Capital increase	12 September	0.0	74.0	Full
Ryan Corner Development Pty, Ltd	Capital increase	12 September	0.0	74.0	Full
Lean Grids Services Mexico, S.R.L	Incorporation	18 September	100.0	100.0	Full
Ener Renova España, S.L.	Liquidation	19 September	40.0	-	-
Gas Natural Rigassificazione Italia, S.P.A.	Liquidation	27 September	100.0	-	-
Empresa de Trasmisión Eléctrica Transemel, S.A.	Disposal	1 October	100.0	-	-
Los Andes Huarpes, S.A.	Liquidation	19 November	98.0	-	-
Molinos de la Rioja, S.A.	Disposal	03 December	33.3	-	-

Molinos del Cidacos, S.A.	Disposal	03 December	33.3	-	-
Desarrollo de Energías Renovables de la Rioja, S.A.	Disposal	03 December	33.3	-	-
Gas Natural Fenosa Minería, B.V.	Liquidation	18 December	100.0	-	-
Gas Natural Fenosa Technology INC	Liquidation	31 December	100.0	-	-
Gas Natural Fenosa Ing. y Desarrollo de Generacion Mexico, S.A.	Liquidation	31 December	100.0	-	-

(1) See Note 3.5 and Note 12.

The main changes in the consolidation scope in 2018 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Compañía General de Electricidad, S.A.	Redemption own shares	1 February	0.3	97.3	Full
Gas Natural Italia S.P.A.	Disposal	22 February	100.0	-	-
Nedgia, S.P.A.	Disposal	22 February	100.0	-	-
Gas Natural Vendita Italia, S.P.A.	Disposal	22 February	100.0	-	-
Cilento Reti Gas, S.R.L.	Disposal	22 February	60.0	-	-
Guimaranía I Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Guimaranía II Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Holding de Negocios de Gas, S.A.	Disposal	19 March	20.0	80.0	Full
Global Power Generation Brasil Geração de Energia Ltda.	Incorporation	3 April	100.0	100.0	Full
Tratamiento Cinca Medio, S.L En liquidación	Acquisition	5 April	10.0	90.0	Full
Tratamiento Almazán, S.L, En liquidación	Acquisition	5 April	10.0	100.0	Full
Sociedad de Tratamiento La Andaya, S.L en liquidación	Acquisition	5 April	5.0	65.0	Full
Sociedad de Tratamiento Hornillos, S.L. en liquidación	Acquisition	5 April	5.6	100.0	Full
Gasoducto del Pacífico (Cayman) Ltd. en liquidación	Liquidation	16 April	56.7	-	-
Societat Eòlica de l'Enderrocada, S.A.	Capital reduction	10 May	0.2	79.8	Full
Serviconfort Colombia, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural, S.A. ESP	Disposal	1 June	41.9	-	-
Gas Natural del Oriente, S.A. ESP	Disposal	1 June	54.5	-	-
Gas Natural Cundiboyacense, S.A. ESP	Disposal	1 June	77.5	-	-
Gas Natural Servicios, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural del Cesar, S.A. ESP	Disposal	1 June	62.2	-	-
Compañía General de Electricidad, S.A.	Merger	30 June	1.5	95.8	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. en liquidación	Liquidation	1 July	100.0	-	-
Energética del Norte, S.A.	Incorporation	2 July	47.9	47.9	Equity
Compañía Española de Industrias Electroquímicas, S.A.	Disposal	31 July	100.0	-	-
Soluziona Technical Services, Llc. en liquidación	Liquidation	30 September	100.0	-	-
Compañía General de Electricidad, S.A.	Redemption own shares	1 October	0.1	95.9	Full
Naturgy Alfa Investments, S.A.U	Incorporation	10 October	100.0	100.0	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.S. en liquidación	Liquidation	29 October	100.0	-	-
Naturgy Infraestructuras EMEA, S.L.	Incorporation	7 November	100.0	100.0	Full
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Liquidation	14 November	63.9	-	-
Eólica Tramuntana, S.L.	Capital increase	28 November	5.8	65.8	Proportionate
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. En Liquidación	Disposal	30 November	100.0	-	-
Naturgy Gas and Power, S.L.U.	Incorporation	12 December	100.0	100.0	Full
Kangra Coal (Proprietary), Ltd.	Disposal	14 December	100.0	-	-
Unión Fenosa South Africa Coal (Proprietary), Ltd	Disposal	14 December	100.0	-	-
Welgedacht Exploration Company Ltd	Disposal	14 December	100.0	-	-
Sociedad de Tratamiento La Andaya, S.L. en liquidación	Acquisition	20 December	35.0	100.0	Full

APPENDIX III Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Generación, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Iberia, S.A.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Informática, S.A.
Energías Ambientales de Somozas, S.A.	Naturgy Infraestructuras EMEA, S.L.
Energías Especiales Alcohólicas, S.A.	Naturgy Ingeniería Nuclear, S.L.
Europe Maghreb Pipeline, Ltd.	Naturgy Inversiones Internacionales, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy IT, S.L.U.
Fenosa, S.L.U.	Naturgy LNG, S.L.
Gas Natural Comercializadora, S.A.	Naturgy Participaciones, S.A.
Gas Natural Exploración, S.L.	Naturgy Renovables Ruralia, S.L.U.
Gas Natural Redes GLP, S.A.	Naturgy Renovables, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Wind 4, S.L.U.
General de Edificios y Solares, S.L.	Naturgy Wind, S.L.U.
Global Power Generation, S.A.	Nedgia Andalucía, S.A.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Nedgia Aragón, S.A.
GPG México Wind, S.L.U.	Nedgia Balears, S.A.
GPG México, S.L.U.	Nedgia Castilla La-Mancha, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Catalunya, S.A.
Holding de Negocios Electricidad, S.A.	Nedgia Cegas, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Madrid, S.A.
La Propagadora del Gas, S.A.	Nedgia Navarra, S.A.
Lean Corporate Services, S.L.U.	Nedgia, S.A.
Lean Customer Services, S.L.U.	Operación y Mantenimiento Energy, S.A.
Lean Grids Services, S.L.U.	P.E. El Hierro, S.L.
Lignitos de Meirama, S.A.	P.E. Montamarta, S.L.
Medina Partnership, S.A.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñaroldana, S.L.
Naturgy Alfa Investments, S.A.U.	Petroleum Oil & Gas España, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Sociedad de Tratamiento La Andaya, S.L.
Naturgy Capital Markets, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Naturgy Commodities Trading, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Distribución Latinoamérica, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Minería, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.U.
Naturgy Gas and Power, S.L.U.	

CONSOLIDATED DIRECTORS' REPORT

Consolidated Directors' Report for the year ended 31 December 2019

Contents

1. Main milestones and key figures	3
2. Market trends, risks and opportunities	7
3. Corporate governance	11
4. Business performance and results	16
5. Forecast Group performance	37
6. Sustainable innovation	44
7. Non-financial disclosures	47
7.1. Business model and value creation	48
7.2. Commitment to results	54
7.3. Service excellence	55
7.4. Responsible environmental management	60
7.5. Interest in people	68
7.6. Health and safety	81
7.7. Responsible supply chain	86
7.8. Social commitment	91
7.9. Integrity and transparency	96
7.10 Non-financial information statement - Table of contents	104

Annexes

I. Additional information	107
II. Alternative performance metrics	109
III. Glossary of non-financial indicators	111
IV. About this report	113
V. Report on independent review of non-financial information statement	116
VI. Annual Corporate Governance Report	117
VII. Report on independent review of ICFR	118

1. Main milestones and key figures

1.1. Main milestones in 2019

January to March

- In January 2019, the Board of Directors approved a revised version of the Corporate Responsibility Policy in accordance with the Code of Good Governance issued by the Spanish National Securities Market Commission.
- Naturgy was recognised by Carbon Disclosure Project (CDP) as a world leader in combating climate change, as the only Spanish energy company to be included in CDP's A 2018 List.
- The company was granted European funding (ERDF and Horizon 2020) to implement the European Social Watt project, to investigate and implement innovative measures in connection with energy poverty.
- In January 2019, Naturgy announced the closure of La Robla, Narcea and Meirama coal-fired power plants by mid-2020.
- The Shareholders' Meeting on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share out of 2018 income, which was paid in cash on 20 March 2019.

April to June

- The Board of Directors approved the revised Human Rights Policy, in accordance with the United Nations Guiding Principles on Business and Human Rights.
- In April 2019, Naturgy reached an agreement to sell 100% of its electricity distribution subsidiaries in Moldova to Duet Private Equity Limited for Euros 141 million. The sale was completed in June 2019.
- The company was the world leader in the multiutilities sector of FTSE4Good for the second consecutive year.

July to September

- On 23 July 2019, the Company's Board of Directors declared an interim dividend of Euros 0.294 per share out of 2019 income, paid in cash on 31 July 2019.
- On 27 July 2019, an agreement was reached to sell 100% of Chilean electricity transmission company Transemel, S.A. to Redes Energéticas Nacionais (REN), the Portuguese grid operator, for Euros 155 million.
- On 5 August 2019, capital was reduced through the cancellation of 16,567,195 own shares with a par value of Euros 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution (the shares had been acquired under the Naturgy Energy Group, S.A. share buyback programme). Following the capital reduction, share capital stood at Euros 984 million, made up of 984,122,146 shares with a par value of Euros 1 each.
- The company was granted European funding (ERDF and Horizon 2020) for the European Energy Poverty Intelligence Unit project in Getafe (EPIU Getafe), with the aim of reducing energy poverty, developing new services and applying custom solutions adapted to vulnerable groups.
- Naturgy was the leader of the gas utilities sector of the Dow Jones Sustainability Index (DJSI).

October to December

- On 15 October 2019, Naturgy and Sonatrach reached an agreement to acquire 42.09% of Medgaz, S.A. from Mubadala. Following closure of the transaction, Medgaz will be owned by Sonatrach (51.0%) and Naturgy (49.0%). The transaction is expected to be completed by the end of March 2020, subject to certain conditions and approvals.
- On 29 October 2019, the Board of Directors of Naturgy Energy Group, S.A. declared a second interim dividend of Euros 0.473 per share out of 2019 income, paid in cash on 12 November 2019.
- On 19 November 2019, Naturgy completed its first bond issue under the new Business Plan: Euros 750 million which were used for a bond tender offer.
- Naturgy obtained the highest sustainability rating (AAA) from MSCI.

- It was ranked among the top 5 in the Utilities sector by Sustainalytics, whose rating is used to set the interest rate on a credit line with ING.
- The Naturgy Foundation's energy refurbishment solidarity fund refurbished its 1,000th home under agreements with third-sector institutions.
- The Environment Plan 2018-2022 was approved, which sets out actions, tracking indicators and overall objectives so as to enhance governance in the area of the environment and climate change, reduce greenhouse gas emissions, promote the use of renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Renewable gas, produced by the Butarque wastewater treatment plant in Madrid, was injected into the Spanish gas distribution grid for the first time.
- A total of 799 MW of renewable energy capacity were commissioned and 116 MW were in the final stages of construction, corresponding to 21 wind farms and 5 solar photovoltaic farms, which cost a total of Euros 860 million and were allotted to Naturgy in auctions held by the government in 2017.

Financial performance (Euros million)

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix contains a definition of the APMs.

Main financial aggregates

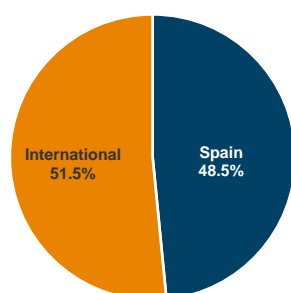
	2019	2018	%
Net sales	23,035	24,339	(5.4)
EBITDA	4,562	4,019	13.5
Income attributable to equity holders of the parent	1,401	(2,822)	-
Capital expenditure	1,685	2,321 ¹	(27.4)
Net borrowings (at 31/12) ¹	15,268	15,309 ²	(0.3)
Free cash flow after non-controlling interests	1,958	3,054 ³	(35.9)

¹ Including Euros 380 million related to two LNG tankers in time-charter regime incorporated during 1H18 (non-cash investments).

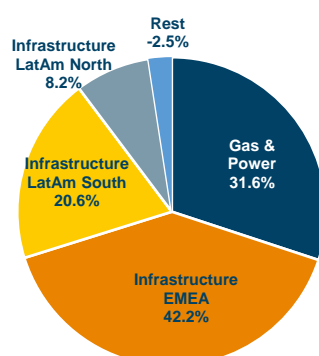
² Net borrowings IFRS 16 adjusted.

³ Including almost Euros 2,600 million of divestments.

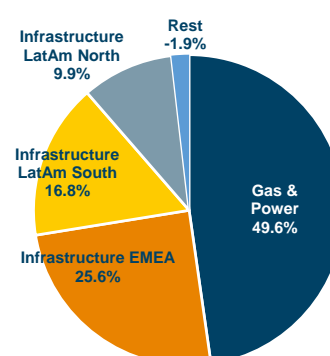
EBITDA by geography in 2019 (%)



EBITDA by business in 2019 (%)



Capital expenditure by business in 2019 (%)



Key financials & metrics

	2019	2018
Leverage ¹	52.2%	51.2%
EBITDA/Cost of net borrowings	7.3x	7.5x
Net borrowings ¹ /EBITDA	3.3x	3.8x

¹ 2018 Proforma applying IFRS 16.

Main stock market ratios and shareholder remuneration

	2019	2018
Total no. of shares ('000)	984,122	1,000,689
Average no. of shares ('000) ¹	977,636	998,966
Share price at 31/12 (Euros)	22.40	22.26
Market capitalisation at 31/12 (Euros million)	22,044	22,275
Earnings per share (Euros) ¹	1.43	(2.83)
Dividend paid	1,319	1,400

¹ Calculated using the weighted average number of own shares in the year.

1.2. Operational performance

Distribution	2019	2018
Gas distribution (GWh)	465,844	449,259
Electricity distribution (GWh)	53,519	54,920
Gas supply points ('000)	11,075	10,605
Electricity supply points ('000)	7,691	7,569
Gas distribution network (km)	133,917	119,998
Length of electricity transmission and distribution network (km)	218,831	215,532
Gas	2019	2018
Supply (GWh)	214,975	237,379
International LNG (GWh)	124,277	140,669
Total gas supply (GWh)	339,252	378,048
Electricity	2019	2018
Installed capacity in Spain (MW)	13,724	12,504
Installed capacity in rest of world (MW)	3,169	3,093
Total installed capacity (MW)	16,893	15,597
Net production in Spain (GWh)	25,771	28,307
Net production in rest of world (GWh)	18,933	18,351
Total net production (GWh)	44,704	46,658

1.3. Environmental and social performance

Environment	2019	2018
Power generation emission factor (t CO ₂ /GWh)	301	342
Greenhouse gas (GHG) emissions (M tCO ₂ eq) ¹	15.4	18.3
Emissions-free installed capacity (%)	30.1	27.5
Emissions-free net production (%)	27.0	24.9
Interest in people	2019	2018
No. of employees at year-end ²	11,847	12,700
Training hours per employee	25.2	49.9
Men/women (%)	68/32	69/31
Health and safety	2019	2018
No. of accidents leading to days lost	28	28
Frequency	1.2	1.0
Commitment to society and integrity	2019	2018
Economic value distributed (Euros million)	21,533	23,413
No. of notifications received by the Ethics Committee	194	199

¹ GHG: greenhouse gases, measured as tCO₂ equivalent (scope 1).

² Does not include the number of employees at discontinued operations (78 persons in 2019 and 786 persons in 2018)

2. Market trends, risks and opportunities

2.1. Market trends

Reduction of CO₂ emissions and expansion of renewable energy, with natural gas as a key contributor.

The Paris Agreement (XXI United Nations Climate Change Conference - COP 21) seeks to minimise the impact of climate change, entailing a reduction in emissions that is only possible if there is a long-term energy transformation. The energy transformation may be an opportunity, since it will require increased investment, but it will also reshape the appeal of businesses and investments alike.

Although there is no single path to achieving the climate goals, the most ambitious scenarios pose significant challenges for fossil fuels.

Due to falling capital costs, renewables are consolidating their leadership and will be the fastest-growing primary energy source in the medium and long term. Renewables are expected to expand from 2% of primary energy demand in 2018 to 7% by 2040.

Natural gas is expected to account for 25% of the primary energy mix in 2040, as it is the main energy source that is compatible with the climate commitments.

Growing electricity demand and energy efficiency

In terms of final energy consumption, electricity will expand by 58%, from total worldwide demand of 23,000 TWh in 2018 to 36,500 TWh in 2040. Development of the emerging economies will require increased use of electrical applications (motors, cooling systems, information technology, etc.), while greater electrification of homes and transportation, coupled with digitalisation, will drive growth of electricity as a final energy source.

Electricity's share of total energy demand is expected to rise from 19% in 2018 to 24% in 2040.

Big data and data analytics

Digitalisation in the energy sector, such as the development of applications and services that transform the relationship with customers due to greater connectivity, will enable demand management to be optimised (smart devices) and the portfolio of products and services to be expanded.

2.2. Risks

2.2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders. This requires establishing the risk tolerance by setting limits for the main risk categories. In this way, the company can anticipate the consequences of certain risks and be perceived in the market as sound and stable, with all the benefits that entails.

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360° view of the group's processes, existing controls and the associated risks.

Risk management bodies

Guaranteeing the predictability and sustainability of the company's operational and financial performance is a key aspects of risk management at Naturgy, and is supported by a number of bodies with clearly identified areas of responsibility.



Audit Committee

Supervises the company's internal control and risk management systems. Its function is to identify the various types of risk and the measures implemented to mitigate them, and to address them in the event that they materialise in the form of actual damage.

Risk Committee

Entrusted with determining and reviewing the company's target risk profile. It ensures that the risk profile is aligned with the company's strategic position and it also safeguards stakeholders' interests. It also exercises oversight to ensure that the entire organisation understands and accepts its responsibility for identifying, assessing and managing the main risks.

Risk Control Units

In charge of monitoring and reporting risks and ensuring that they fall within the limits defined in the target risk profile established by the Risks Committee. Three units in particular stand out:

- Risks and Insurance: Identifies, monitors and tracks the Group's overall risk profile based on a definition of policies and metrics in coordination with the business units. Supports the Risk Committee in determining and monitoring the overall risk profile.
- Gas & Power Risks: Oversees and proposes measures to mitigate risks on the basis of Group policy, reducing volatility to achieve the target rate of return.
- Internal audit: Reviews and tracks the internal control system established by Senior Management and evaluates the operational risks linked to the processes. Supports the Audit Committee in its supervisory functions.

Business, Corporate and Project units

Responsible for applying the general principles established in the Risk Control and Management Policy and for risk management in their areas of responsibility, observing, reporting, managing and mitigating risks.

Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

The system addresses basically three categories of risk:

- Market risk, understood as the uncertainty related to commodity prices, exchange rates and interest rates, which may impact the company's balance sheet, its procurement costs or its ability to raise funding in the capital markets. It is measured using two yardsticks: in the short term, focused on the income statement, and in the long term, focused on enterprise value, including the capacity to generate

cash flow and its stability, variations in the funding structure, and volatility in the applicable discount rates.

- Credit risk, i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.
- Operating risk, i.e. the possibility of financial losses as a result of failures in processes, internal systems or other factors. It enables risk to be measured objectively, which is decisive for raising awareness within the company and for improving management of exposure, all of which have an essential impact on the reinsurance market's perception of Naturgy's operational excellence.

2.2.2. Main Risks

Risk type	Description	Management approach	Metric	Trend	
Market risks					
Commodity prices	Gas	Volatility in the international markets that set gas prices.	Physical and financial hedges. Portfolio management	Stochastic	↑ Decoupling of long-term contracts from hub prices.
	Electricity	Volatility in the Spanish and Portuguese electricity markets	Physical and financial hedges. Optimisation of the power generating fleet.	Stochastic	↑ Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	←→ Aggregate demand pressure in Spain in a context of energy efficiency.
	Electricity	Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output.	Optimisation of the balance between supply and generation.	Stochastic	↑ Aggregate demand pressure in Spain in a context of energy efficiency.
Regulatory	Exposure to regulatory review of the criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑ Different business units at different stages of maturity.	
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	←→ Uncertainty about growth prospects in Latin America.	
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	←→ Uncertainty about the interest rate scenario.	
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or due to a material amendment of same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	←→ Different business units are affected by different taxes.	

Risk type	Description	Management approach	Metric	Trend
Credit risk				
Credit	Uncertainty about performance of bad debt ratios as a result of the economic cycle.	Analysis of customer solvency to define specific contractual conditions. Debt collection process.	Stochastic	↔ Pursues efficiency in debt collection.
Operational risk				
Operational: Insurable risks	Accidents, damage and non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	↑ Growing tension in the insurance market in the face of natural catastrophes.
Operational: Image and reputation	Impaired perception of Naturgy by stakeholders.	Identification and tracking of potential reputational events. Transparency.	Scenarios	↔ Stabilisation of MERCO index score.
Operational: Environment	Harm to the natural and/or social environment.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	↓ Implementation of an Integrated Management System that is audited and certified each year by AENOR.
Operational: climate change	Business impact of measures to combat climate change. Effect of climate management on the company's valuation. Growing exposure of facilities to natural catastrophes in an increasingly restrictive reinsurance market.	Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios	↑ Uncertainty about policy developments to encourage energy efficiency.
Operational: Cybersecurity	Cyberattacks	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios	↑ The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact

Metrics used:

- **Stochastic:** production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- **Scenarios:** analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks (interest rate, exchange rate, commodities prices, credit risk and liquidity risk) are discussed in Note 19 to the Consolidated Annual Accounts.

2.3. Opportunities

Naturgy's main opportunities are as follows:

- **Renewable generation:** Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Generation mix:** Naturgy's generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity markets.
- **Portfolio of natural gas and LNG procurements:** Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Group's various businesses in a flexible, diversified way by optimising for different energy scenarios. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.
- **A balanced structural position** in businesses and regions, many of them with stable flows that are independent of commodity prices, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.
- **Technological development and innovation:** Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.

3. Corporate governance

Attached as an annex and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2019, as required by article 526 of the Capital Companies Act.

3.1. Corporate Governance Model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main recommendations and standards in this area, and it adopts advanced corporate governance practices for this purpose.

The corporate governance terms of reference comprise basically:

- Articles of Association (updated in 2018)
- Regulations of the Board of Directors and its committees (updated in 2019)
- Regulations of the General Meeting of Shareholders (updated in 2018)
- Human Rights Policy
- Code of Ethics (updated in 2015)

The main shareholders of Naturgy as of 31 December 2019 and 2018 are as follows:

	Stake (%)	
	2019 (5)	2018 (4)
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ⁽¹⁾	24.4	25.6
- Global Infrastructure Partners III ⁽²⁾	20.3	20.0
- CVC Capital Partners SICAV-FIS, S.A. ⁽³⁾	20.4	20.1
- Sonatrach	4.1	3.9

(1) In 2019, participation through Criteria Caixa S.A.U. In 2018, 20.4% of participation through Criteria Caixa S.A.U. and 5.2% indirect participation (5.0% through Energía Boreal 2018, S.A. and 0.2% of others).

(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l. Rioja Bidco Shareholdings, S.L.U was merged into Rioja Acquisition S.à.r.l. in 2019.

(4) On 22 February 2018, Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol, S.A. ceased to be a shareholder of that company.

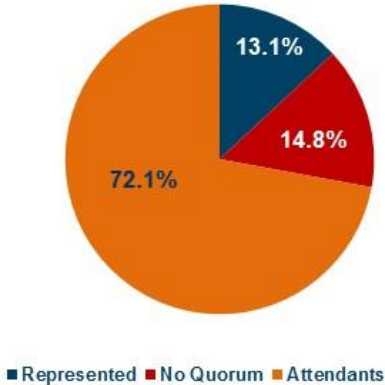
(5) Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Following the changes in ownership structure, on 27 June 2018 the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at seven persons and the number of Appointments and Remuneration Committee members was set at seven persons.

3.2. Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Attendance at the 2019 Shareholders' Meeting (%): 85.2%



3.3. Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee and an Appointments and Remuneration Committee, whose functions are as set out in the Act; a majority of members of both committees are independent directors.

The main issues addressed by the Board of Directors in 2019 are as follows:

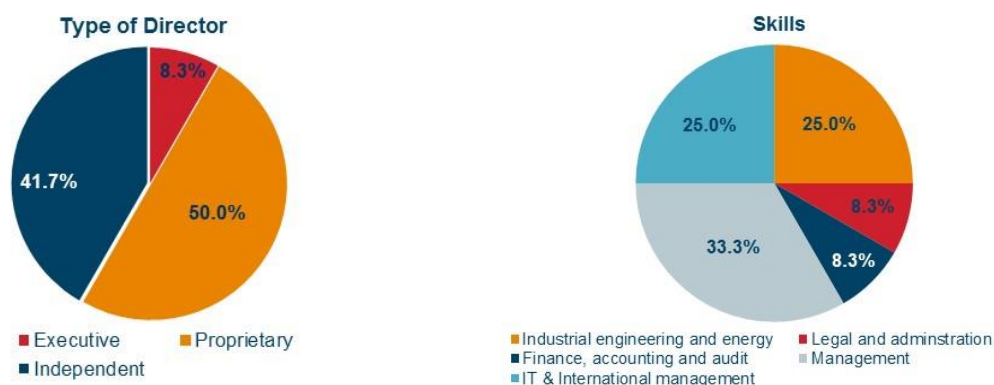
- Reflection on strategy
- 2019 Budget and continuous operational oversight
- Health and safety issues
- Financial and accounting information
- Proposal for the distribution of 2019 income and shareholder remuneration.
- Corporate governance: improvements in aspects of corporate governance in order to adapt to the recommendations of the CNMV, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports.
- Notice of the Shareholders' Meeting: motions proposed by the Board, reports and supplementary documentation.
- Selection and proposals for appointments in the governing bodies.
- Employee remuneration
- Funding strategy
- Analysis of the main projects
- Main regulatory decisions
- Cybersecurity

Composition of the Board of Directors and its committees (at 31 December 2019)

Board of Directors		Audit Committee	Appointments and Remuneration Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet			Executive	6/02/2018
Lead director	Mr. Ramón Adell Ramón	Director	Chairman	Independent	18/06/2010
Director	Mr. Enrique Alcántara-García Irazoqui	Director		Proprietary	27/06/1991
Director	Mr. Marcelino Armenter Vidal		Director	Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Director	Independent	14/05/2015
Director	Ms. Helena Herrero Starkie	Director		Independent	04/05/2016
Director	Mr. Rajaram Rao	Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l.1, Mr. Javier de Jaime Guijarro		Director	Proprietary	01/08/2019
Director	Mr. Pedro Sainz de Baranda Riva	Director	Director	Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Director	Independent	27/06/2018
Director	Mr. Scott Stanley		Director	Proprietary	29/01/2019
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director		Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Coboleda	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

¹ Rioja S.à.r.l. substituted Rioja Bidco Shareholdings, S.L.U. as Director in August 2019.

Board of Directors profile (%)



Board of Directors activities and performance

Number of meetings of the Board of Directors and its committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
2019	16	N/A	6	6
2018	14	2	7	11

3.4. Management structure

Naturgy's management structure consists of four business units (Gas and Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2019, it comprised the following executives:

Business Units

Gas and Power, managed by Mr. Manuel Fernández Álvarez
 Infrastructure EMEA, managed by Ms. Rosa María Sanz García
 Infrastructure South LatAm, managed by Mr. Antonio Gallart Gabás
 Infrastructure North LatAm, managed by Mr. José García Sanleandro

Corporate Units

Finance, managed by Mr. Carlos J. Álvarez Fernández
Strategy and Development, managed by Mr. Antonio Basolas Tena
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Communication and Institutional Relations, managed by Mr. Jordi García Tabernero
Resources, up to 31 December 2019, managed by Mr. Antoni Peris Mingot
Controlling, managed by Mr. Jon Ganuza Fernández de Arroyabe
Capital Markets, managed by Mr. Steven Fernández Fernández

Projects

LEAN project, managed by Mr. Miguel Aller Blanco

3.5. Remuneration policy

Board of Directors

The annual report on director remuneration was presented as a separate item for a consultative vote at the Shareholders' Meeting in 2019.

Directors' remuneration for their membership of the Board and its committees consists solely of fixed amounts determined on the basis of the positions they hold.

Remuneration for membership of the Board of Directors and its committees (Euros/year):

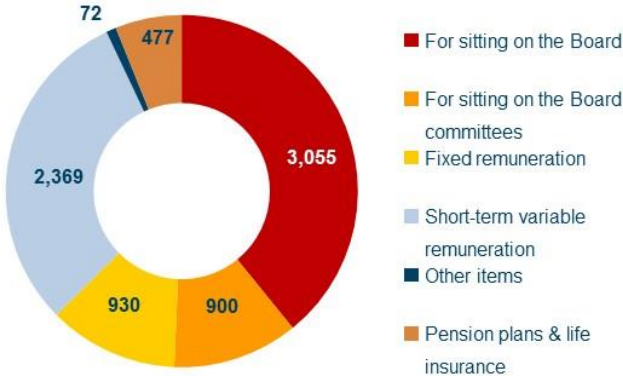
	Euro/year
Chairman of the Board of Directors	1,100,000
Director	175,000
Lead director	30,000
Committee chairman	90,000
Committee member	60,000

The Executive Chairman's remuneration for his executive functions is based on the following:

Item	Objective	Criteria
Basic fixed annual remuneration	Remunerate the level of responsibility attached to these functions.	Ensure that the remuneration is competitive vis-à-vis comparable companies.
Annual variable remuneration	Tie remuneration to the company's performance in the short term.	Based on 100% of the total fixed annual remuneration, multiplied by the degree to which the goals were actually achieved in the year. Achievement is capped at 150%. No remuneration is payable if goal achievement is less than 80%. It can be will be settled (fully or partially) as a contribution to the pension plan instead of cash annually if agreed by the parts. The goals and weightings for 2019 were as follows: 20% organic growth capex (1/3 maximization maintenance capex, 1/3 improvement growth capex IRR and 1/3 improvement growth investments),, 25% operational efficiency, 30% free cash flow before capex, 15% comparable consolidated profit, and 10% other qualitative aspects.
Long-term incentive plan	Strengthen the commitment to achieving the goals set out in the strategic plans.	Related to the return obtained by shareholders in the period of reference, which coincides substantially with that of the Business Plan 2018-2022.
Other items	Safeguard the company's benefits.	Health, death benefit and disability insurance. Energy subsidy, company car, housing assistance.

The remuneration is supplemented by contributions to a group health insurance policy.

Total remuneration earned by the Board of Directors in 2019, by type (Euros '000):



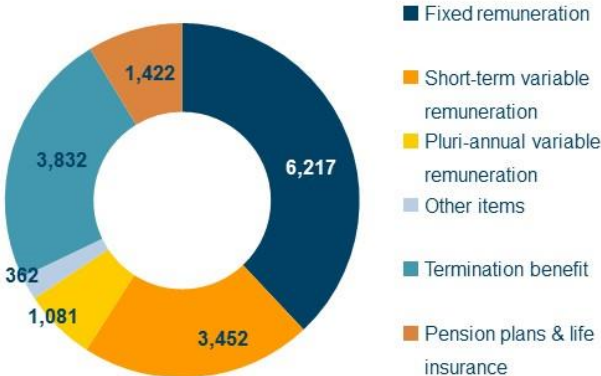
Total remuneration: Euros 7,803 million

Executives

The general remuneration policy for executives is determined by the Board of Directors on the basis of a proposal by the Appointments and Remuneration Committee.

The remuneration model contains the same components as above for the Executive Chairman's executive functions.

Total remuneration earned by the Management Committee and head of Internal Audit¹ in 2019, by type (Euros '000)



Total remuneration: Euros 16,366 million

¹ In accordance with CNMV Circular 5/2013, for the purposes of remuneration, senior management includes executives who report directly to the company's chief executive and also the head of internal audit.

4. Business performance and results

4.1 Executive summary

- The year 2019 has been marked by growth in international activities and efficiencies across businesses, which have compensated for a more challenging energy scenario in liberalized activities vs. last year. All in all, ordinary Ebitda and Net income reached Euros 4,668 million and Euros 1,432 million respectively in the period (up 6% and 15% vs. last year), meeting the company's targets for the year.
- Since the launch of the 2018-2022 Strategic Plan, Naturgy has taken decisive steps towards supporting the energy transition. We were the first Spanish energy group to request permission to shut down its coal plants in Spain in 2018, and during 2019 we became one of the leading investors in clean technologies in the country, allocating over Euros 400 million to develop renewable projects, the highest in the company's history.
- The company has also continued to invest in renewable projects abroad, deploying Euros 145m in growth projects in Australia and Chile. As a result, Naturgy's total installed renewable capacity increased to 2,580MW as at the end of 2019, representing a 45% growth over the year. The company's efforts have resulted in reduced direct CO₂ emissions (MtCO₂) and emission factor (tCO₂/GWh) by 16% and 12% respectively during the year. We expect additional reductions over the coming years.
- We also support the ongoing energy transition through the investments in our regulated businesses, notably in electricity networks in Spain and internationally, having invested approximately Euros 500 million during the year.
- All in all, over 60% of the company's total Capex has been deployed in renewables and electricity networks over the period, vs. approximately 50% during 2018.
- Our continued efforts in environmental, sustainability and governance best practices (ESG), have not gone unnoticed, and Naturgy has been recognized as a world leader in the gas utilities sector for the third consecutive year in the Dow Jones Sustainability World Index (DJSI World), a global benchmark in measuring ESG's best corporate practices.
- 2019 has also been a year of important regulatory developments. On July, the CNMC released a series of draft proposals covering electricity distribution and transportation activities (2020 – 2025), as well as gas distribution and transportation and regasification activities (2021 – 2026). Said proposals were amended before the end of the year following a period of allegations from all stakeholders. As of the date of this report, the new regulation for electricity distribution and transportation activities covering 2020 – 2025 has been approved and is currently in force. On the other hand, the regulation for both gas distribution and transportation and regasification activities for the next regulatory period (2021 – 2026) remains to be approved.
- Throughout this process, the company has undertaken a relentless effort to protect the interests of all its stakeholders, advocating for a fair and objective regulatory methodology. A framework which provides visibility and the adequate incentives to execute the investments needed to support the energy transition. The company remains firmly committed to adapt its business in order to protect the interests of all its stakeholders.
- Naturgy continues implement its efficiency plan with an acceleration which has delivered Euros 270 million cost savings in 2019, above the initial Euros 100 million commitment for the year. Efficiencies will remain a key driver of performance in the following years and the group reiterates its firm commitment to its 2022 efficiency targets. During 2019, the company has completed various outsourcing initiatives (Project Lean), including agreements with Telefonica, IBM or Everis. To streamline our operations, with over 250 efficiency measures underway including digitization and office reallocations.
- Portfolio optimization is also a driver of the company's strategy, and the latest corporate transactions demonstrate its ability to create value through portfolio management and asset rotation, simplifying its business positioning and geographic footprint.
- During 2019, Naturgy completed the sale of its Moldovan subsidiaries for an equity valuation of Euros 141 million (including pre-closing dividends). Also during the year, Naturgy completed the disposal of Transemel, an electricity transmission subsidiary in Chile, for an equity consideration (100%) of Euros 155 million and an Enterprise Value of Euros 182 million, equivalent to approximately 23.5x EV/EBITDA 2018.

- On the acquisition front, in October, Naturgy reached an agreement to acquire a 34% stake in Medgaz for Euros 445 million. The transaction will allow the company to reach a 49% stake in Medgaz, thus transforming its position into a strategic stake which will allow the joint control of the Medgaz together with Sonatrach. The transaction was agreed at a multiple equivalent to 6.9x the expected EBITDA in 2021, which includes the approved 2bcm expansion program of the current pipeline.
- Finally and also during 2019, CGE, Naturgy's subsidiary in Chile, completed an asset swap in Argentina, whereby CGE transferred its 50% stake in 2 electricity distribution subsidiaries in exchange for a 50% stake in a gas distribution subsidiary and the associated commercialization in the country. As a result, CGE now controls and consolidates 100% of the aforementioned gas distribution subsidiaries.
- The company will continue to actively pursue value creation through asset rotation and is currently analyzing a number of opportunities, both potential divestments and acquisitions.
- We also continued to work on improving the risk profile of our merchant activities. A good example of these efforts could be International LNG where we increased the amount of volumes secured for the year ahead to approximately 90% of its 2020 LNG volumes (up from 80% the previous year). In power supply, Naturgy has reduced its portfolio of fixed price sales contracts with a view to reduce pool price risk by matching fixed contracts to the company's infra marginal production via PPA's.
- Net debt as of 31 December 2019, under IFRS 16 criteria, stood at Euros 15,268 million, down from Euros 15,309 million as of year-end 2018. During the period, the company continued to progress on its capital structure optimization. Some of the transactions completed during 2019 include, a new syndicated loan in international power generation amounting to US\$1.5bn. We also executed a liability management exercise completed in November whereby Naturgy executed the repurchase of Euros 653 million in existing notes and issued a new bond of Euros 750 million with a tenor of 10 years at a cost of 0.75%. The company continues to optimize the financing allocated into each of the business units for greater accountability and funding autonomy, in the same currency where cash flows are originated, allowing for intra-group debt cancellation.
- Naturgy maintains a balanced capital allocation and a sustainable dividend policy. Its solid results and increased focus on cash flow generation have allowed it to maintain its net debt levels stable in the period, after the cash outflows related to shareholder remuneration and the investments in the development of its renewable projects and networks businesses. The company maintains a balanced capital allocation policy, devoting substantial investment for growth, keeping its net debt levels stable and delivering an attractive shareholder remuneration.
- Naturgy delivers its shareholder remuneration policy (Euros 1.37/share dividend from the 2019 results and potential Euros 400 million share buyback) with the last proposal of dividend against 2019 results to be distributed in March following the AGM's approval. In addition and as envisioned on its Strategic Plan 18-22, Naturgy completed the cancellation of 16,567,195 own shares on 5 August, 2019, equivalent to approximately 1.7% of the share capital of the company. The share capital of the Company resulting from the reduction was set at 984,122,146 shares. The company's share buyback program is ongoing and since July 2019 we have bought back Euros 121 million worth of shares until the 31 December 2019 and are on track to complete the second Euros 400 million tranche of its buyback by the end of June 2020.
- In conclusion, Naturgy continues to make steady progress on the implementation of its Strategic Plan in order to become more predictable and less volatile, more focused on core businesses and geographies, as well as more electric and supportive of the energy transition, with the objective of generating long term value of all its stakeholders, in a sustainable and environmental fashion.

Summary 2019 results

- 2019 has been marked by growth in international activities and active operational management across businesses, which have compensated for a more challenging energy scenario. All in all, ordinary EBITDA and Net income reached Euros 4,668 million and Euros 1,432 million respectively in the period (up 6% and 15% vs. last year), delivering on the company's targets, despite the more challenging energy scenario.
- On the Infrastructure side, the regulatory updates in Latin America recognizing prior FX and inflation movements, together with stability in the European operations, contributed to an overall positive performance in the period.

- In Gas & Power, 2019 has been driven by a notable improvement in G&P services sales, which experienced margin recovery in power supply, offsetting a challenging scenario in International LNG and Europe Power generation. The company's new commercial policies and de-risking efforts, together with efficiencies, also helped offset the low gas prices in the period.
- Total capex amounted to Euros 1,685 million in the year, mainly reflecting ongoing investments in renewable projects as well as investments in remunerated networks.
- As of 31 December 2019, net debt amounted to Euros 15,268 million, stable vs. last year, thanks to the increased focus on cash flow generation of the company and despite the substantial investments for growth in energy transition assets and its shareholder remuneration commitments. As a result, Net Debt / EBITDA declined to 3.3x from 3.8x as of 31 December 2018.
- All in all, 2019 results continue to illustrate Naturgy's capacity to deliver on its commitments, as well as its balanced capital allocation, pursuing profitable growth and an attractive shareholder remuneration, while maintaining stable debt levels.

4.2. Key comparability factors and non-ordinary items

The main transactions completed in 2019 with an impact in comparability in the 2019 vs. 2018 results are the following:

- On April 2019 Naturgy completed the sale of 45% of its interests in its associated affiliate Torre Marenostrum, S.L. to Inmobiliaria Colonial for Euros 28 million, generating capital gains of Euros 20 million.
- On 30 July 2019, CGE, Naturgy's subsidiary in Chile, completed an asset swap in Argentina, whereby CGE will now control and consolidate 100% of the gas distribution subsidiaries, while formerly co-controlled electricity distribution subsidiaries are no longer within Naturgy's consolidation perimeter. The impact in 31 December 2019 EBITDA from this asset swap is Euros 8 million.
- On 31 July 2019 Naturgy completed the disposal of 100% of its interests in its Moldova electricity distribution activities. The transaction valued the company's equity at Euros 141 million (including pre-closing dividends) and did not generate significant capital gains for Naturgy. The contribution of this business in 2018 was Euros -57 million, including a write-down of the investment for Euros -73 million, recognised under "Income from discontinued operations" in the consolidated income statement.
- On 19 September 2019 Naturgy reached an agreement to sell its entire stake in Iberafrica Power, in Kenya. The contribution of this business in 2018 was Euros -5 million, recognized under "Income from discontinued operations" in the consolidated income statement.
- On 1 October 2019, the group completed the disposal of Transemel, an electricity transmission subsidiary in Chile, for an equity consideration (100%) of Euros 155 million and an Enterprise Value of Euros 182 million, equivalent to approximately 23.5x EV/EBITDA 2018.
- On 15 October 2019, Naturgy and Sonatrach S.p.A. entered into an agreement with Cepsa for the acquisition of the 42.09% stake that Cepsa holds in Medgaz, S.A. This transaction will allow Naturgy to increase its stake in Medgaz from its current 14.95% to a 49.0%, becoming a strategic stake. Based on the transaction price, Naturgy revalued its former 14.95% stake with a non-ordinary impact of Euros 101 million in its 2019 P&L statement.

The main transactions completed in 2018 with an impact in comparability in the 2019 vs. 2018 results are the following:

- The disposal of the gas distribution and supply business in Italy, together with the transfer of the gas supply contract. The contribution of these businesses in 2018 was Euros 195 million recognised under "Income from discontinued operations" in the consolidated income statement.
- The disposal of the remaining 41.9% of the gas distribution business in Colombia. The contribution of this business in 2018 was Euros 7 million recognised under "Income from discontinued operations" in the consolidated income statement.
- The sale of a 20% minority stake in the gas distribution business in Spain for Euros 1,500 million, which resulted in an increase of Euros 1,016 million in the "Reserves" caption in the consolidated balance sheet.

- In December 2018 the sale of Kangra Coal was completed for an equity value of Euros 28 million. The contribution of this business in 2018 was Euros -150 million, including a write-down of the investment for Euros -141 million, recognised under "Income from discontinued operations" in the consolidated income statement.

Non-ordinary items

Non-ordinary items are summarized below:

Euros million	Ebitda		Net Income	
	2019	2018	2019	2018
Gas transport & procurement retroactivity	-	(50)	-	(38)
Chile extraordinary expenses	-	(44)	-	(28)
Restructuring costs	(168)	(180)	(126)	(137)
Asset write-down	-	-	(23)	(3,824)
CNMC CCGT fine	-	-	-	49
Provisions reversal	-	-	-	42
Discontinued operations and minority interests	(20)	-	(20)	-
Chile mergers tax effect	49	-	33	-
Sales of land and buildings	24	18	23	11
Interest in companies sales	-	-	65	-
Liability management cost	-	-	(73)	-
Medgaz valuation	-	-	101	-
Other	9	(138)	(11)	(142)
Total	(106)	(394)	(31)	(4,067)

- At the EBITDA level, non-ordinary impacts in 2019 amounted to Euros -106 million, the bulk of them corresponding to capture costs derived from the implementation of the efficiency plan and the CNMC CCGT fine. These are partially offset by the reversal of provisions and sales of land and buildings.
- At the Net income level, non-ordinary items in 2019 amounted to Euros -31 million. In addition to the impacts previously mentioned, the revaluation of the former Medgaz financial stake generated a positive impact of Euros 101 million. This has been partially offset by the costs of the liability management exercise (Euros -73 million) completed in the fourth quarter of the year.

Foreign exchange impact

Exchange rate fluctuations in the period are summarized below:

2019	Acc. average	% Change	Ebitda	Net income
USD/€	1.12	(5.1)	47	17
MXN/€	21.56	(5.1)	13	3
BRL/€	4.41	2.3	(7)	(1)
ARS/€ ¹	67.27	56.0	(53)	(28)
CLP/€	786.70	3.9	(19)	(4)
Other	-	-	1	-
Total	-	-	(18)	(13)

¹ Exchange rate as at 31 December 2019 as a consequence of considering Argentina as an hyperinflationary economy.

4.3. Consolidated results

	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Net sales	23,035	24,339	(5.4)	23,013	24,373	(5.6)
Ebitda	4,562	4,019	13.5	4,668	4,413	5.8
Other results	(1,658)	(6,007)	(72.4)	(1,601)	(1,581)	1.3
Depreciation, amortisation and impairment expenses	(134)	(179)	(25.1)	(134)	(165)	(18.8)
Impairment of credit losses	93	-	-	-	-	-
Ebit	2,863	(2,167)	(232.1)	2,933	2,667	10.0
Financial result	(666)	(685)	(2.8)	(604)	(666)	(9.3)
Profit/(loss) of companies measured under the equity method	75	(513)	(114.6)	48	59	(18.6)
Income tax	(476)	779	(161.1)	(510)	(469)	8.7
Income from discontinued operations	-	(10)	-	-	-	-
Non-controlling interest	(395)	(226)	74.8	(435)	(346)	25.7
Net income	1,401	(2,822)	(149.6)	1,432	1,245	15.0

Net sales

Net sales totaled Euros 23,035 million in 2019, 5.4% below 2018, mainly as a result of lower energy prices and volumes sold in the liberalized businesses that have not been offset by growth in the infrastructure businesses.

Ebitda

Consolidated Ebitda in the period amounted to Euros 4,562m, a 13.5% increase vs. 2018, supported by a positive performance in the infrastructure businesses, the new commercial strategy in supply activity and efficiency gains. Stripping out non-ordinary effects, ordinary EBITDA grew by 5.8%.

Comparative breakdown of Ebitda by business unit is as follow:

	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Gas & Power	1,441	1,360	6.0	1,420	1,453	(2.3)
EMEA Infrastructures	1,923	1,802	6.7	1,981	1,849	7.1
LatAm South Infrastructures	938	791	18.6	947	846	11.9
LatAm North Infrastructures	376	232	62.1	377	275	37.1
Rest	(116)	(166)	(30.1)	(57)	(10)	-
Total	4,562	4,019	13.5	4,668	4,413	5.8

Ebit (Operating income)

The depreciation, amortisation and impairment expenses in the exercise 2019 amounted Euros 1,658 million (Euros 6,007 million in the exercise 2018 because of the impairment of assets of Euros 4,333 million booked in 2018).

Impairment of credit losses amounted Euros 134 million through the Euros 179 million of the previous year, a decrease of 25.1%.

EBIT of the exercise 2019 amounted to Euros 2,863 million.

Financial result

Euros million	2019	2018	Change (%)
Cost of net financial debt	(626)	(538)	16.4
Other financial expenses/income	(40)	(147)	(72.8)
Financial result	(666)	(685)	(2.8)

The financial result amounted to Euros -666 million, down 2.8%. The increase in the cost of the net financial debt, and decrease in other financial expenses, is explained by the reclassification, following IFRS 16, of the cost of financial leases to the cost of net financial debt, previously registered as other financial expenses. In relation to this, IFRS 16 has increased the cost of net financial debt by Euros 100 million. At 31 December 2019 results also include Euros -97 million non-ordinary expenses caused by the liability management exercise completed in the last quarter of 2019 and an income of Euros 101 million concerning to the Medgaz revalorization.

The average cost of gross financial debt for the year 2019 stands at 3.2%¹ vs. 3.1% in 2018; 86% of gross debt is at fixed rates.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 75 million in 2019 mostly as a result of the contributions from Ecoeléctrica (Euros 73 million), UF Gas subgroup (Euros -37 million) and CGE subgroup affiliates (Euros 22 million).

Income tax

The effective tax rate as of 31 December 2019 stood at 21.0%, in line with 2018, estimated without considering the non-ordinary impacts from write-downs and the deferred taxes from mergers in Chile.

Income from discontinued operations

In 2019 there was no contributions from discontinued operations. Their impact in 2018 is detailed below:

	2018
Colombia gas	7
Italia	194
Kenia	(5)
Moldavia	(56)
Kangra	(150)
Total	(10)

Non-controlling interest

The non-controlling interest breakdown is as follows:

	2019	2018	Change (%)
EMPL	(61)	(54)	13.0
Nedgia	(83)	(57)	45.6
Other interest	(191)	(55)	-
Other equity instruments	(60)	(60)	-
Total	(395)	(226)	74.8

The increase in other affiliates is mostly explained by the good evolution of the Latam activities in 2019 as well as the positive impact in this caption of the write-downs made in Kangra and Kenya in 2018.

The other equity instruments caption includes the accrued interest on perpetual subordinated notes (hybrids).

Net income

Net ordinary income in 2019 amounted to Euros 1,432 million, up 15%, excluding non-ordinary items.

4.4. Analysis of results by segment

4.4.1. Gas & Power

Ebitda	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Supply of gas, electricity and services	447	164	-	428	238	79.8
International LNG	344	496	(30.6)	312	496	(37.1)
Generation Europe	270	411	(34.3)	313	429	(27.0)
Generation International	380	289	31.5	367	290	26.6
Total	1,441	1,360	6.0	1,420	1,453	(2.3)

Ordinary Ebitda declined 2.3% during the period, despite a strong performance in Gas, power and service sales as well as International power generation which could not compensate for the weak performance in International LNG and Europe power generation, as a result of lower sales and margins during the period.

4.4.1.1. Supply of gas, electricity and services

Results

	2019	2018	%
Net sales	11,420	13,064	(12.6)
Procurement	(10,660)	(12,428)	(14.2)
Gross margin	760	636	19.5
Other revenues	28	10	-
Net personnel expenses	(118)	(134)	(11.9)
Taxes	(13)	(63)	(79.4)
Other expenses	(210)	(285)	(26.3)
Ebitda	447	164	-
Depreciation, amortisation and operating provisions	(142)	(139)	2.2
Operating income	305	25	-

Ordinary Ebitda reached Euros 428 million in 2019 up 79.8% vs. 2018 mainly as a result of higher margins in power supply, resulting from lower pool prices, the company's new commercial strategy and lower opex from efficiencies. These effects were partially offset by lower gas sales and margins, both in the industrial and retail segments.

Main aggregates

The main aggregates in the supply activity are as follows:

	2019	2018	%
Gas sales (GWh)	214,975	237,379	(9.4)
Industrial clients	137,528	160,779	(14.5)
Residential Spain	24,918	27,740	(10.2)
Electricity	20,662	17,112	20.7
Third parties	31,867	31,749	0.4
Electricity sales (Gwh)	25,032	35,437	(29.4)
Liberalized market	20,095	30,384	(33.9)
PVPC	4,937	5,053	(2.3)
Residential contracts (Spain) (thousands, a 31/12)	11,018	11,470	(3.9)
Gas	3,993	4,174	(4.3)
Electricity	4,213	4,490	(6.2)

	2019	2018	%
Services	2,812	2,806	0.2
Number contracts per client	1.54	1.52	-
Market share of gas contracts (Spain)	50.9	53.3	(2.4 pp)

Gas sales declined by 9.4% during the year, mainly as a result of lower sales in the Spanish industrial and residential segments (-14.5% and -10.2% respectively), as a result of increased competition and mild weather respectively. Those were partially compensated by higher sales to CCGTs (+20.7%) and third parties (+0.4%).

Power sales fell by 29.4% in the year mostly as a result of lower sales in the liberalized market (-33.9%), following our strategy to focus on margins and reduce fixed-price selling contracts to match our infra-marginal production. VPSC1 sales declined by 2.3%.

4.4.1.2. International LNG

Results

	2019	2018	%
Net sales	3,018	3,529	(14.5)
Procurement	(2,652)	(3,003)	(11.7)
Gross margin	366	526	(30.4)
Other revenues	17	2	-
Net personnel expenses	(25)	(23)	8.7
Taxes	(1)	-	-
Other expenses	(13)	(9)	44.4
Ebitda	344	496	(30.6)
Depreciation, amortisation and operating provisions	(133)	(75)	77.3
Operating income	211	421	(49.9)

Ordinary Ebitda reached Euros 312 million, down 37.1% vs. 2018, as a result of lower volumes and margins in the period. As mentioned in the past, market conditions in 2018 were of extraordinarily high gas prices and demand, and should not be considered as a point of reference for year 2019.

The contribution to Ebitda from the maritime transport activity amounted to Euros 190 million (Euros 143 million in 2018).

Main aggregates

	2019	2018	%
Gas sales (GWh)	124,277	140,669	(11.7)
Shipping fleet capacity (m ³)	1,811,741	1,293,040	40.1

Volumes sold declined by 11.7% vs. 2018 because of the reduction in short-term sales (-49.9%). Long-term sales continue to show a healthy growth (+37.4%) supported by the commercial efforts intended to reduce margin volatility.

As of 31 December 2019, contracted sales for 2020 stand at 90%.

4.4.1.3. Generation Europe

Includes power generation in Spain, also conventional and renewable.

Results

	2019	2018	%
Net sales	1,701	2,050	(17.0)
Procurement	(891)	(1,091)	(18.3)
Gross margin	810	959	(15.5)
Other revenues	14	16	(12.5)
Net personnel expenses	(138)	(140)	(1.4)
Taxes	(222)	(247)	(10.1)
Other expenses	(194)	(177)	9.6
Ebitda	270	411	(34.3)
Depreciation, amortisation and operating provisions	(282)	(4,279)	-
Operating income	(12)	(3,868)	-

2019 Ordinary Ebitda amounted to Euros 313 million, down 27.0% vs. 2018, mainly driven by: i) a reduced contribution from ancillary markets as CCGTs become the marginal technology (coal abatement), ii) higher competition due to excess gas and low gas prices, iii) suspension of CCGT availability payments, and iv) low hydro production.

Main aggregates

The key figures of Naturgy's generation business in Spain are as follows:

Market prices

	2019	2018	%
Forward Price (€/MWh) ¹	54.8	55.3	(0.9)
Pool Price (€/MWh) ²	47.7	57.3	(16.8)

¹ Monthly average of the 12-month forward Spanish base prices in the Iberian Energy Derivatives Exchange (OMIP) in the period.

² Average price in the daily power generation market.

Installed capacity

	2019	2018	%
Installed capacity (MW):	13,724	12,504	10.1
Generation	11,751	11,325	3.8
Hydroelectric	1,954	1,954	-
Nuclear	604	604	-
Coal	1,766	1,766	-
CCGTs	7,427	7,001	6.1
Renewable and cogeneration output	1,973	1,179	70.6
Wind	1,561	1,012	58.0
Small hydroelectric	111	109	1.5
Solar	250	-	-
Cogeneration and other	51	58	(12.1)

Electric energy produced and Electricity sales

	2019	2018	%
Electric energy produced (GWh)	25,771	28,307	(9.0)
Generation	22,596	25,736	(12.2)
Hydroelectric	2,816	3,344	(15.8)
Nuclear	4,542	4,422	2.7
Coal	699	3,693	(81.1)
CCGTs	14,538	14,277	1.8
Renewable and cogeneration output	3,175	2,571	23.5
Wind	2,258	1,958	15.3
Small hydroelectric	544	549	(0.9)
Solar	226	-	-
Cogeneration and other	147	36	-
Market share of generation	16.1	17.5	(1.4) pp

Total production declined by 9.0%, although unevenly split: coal and hydro production fell by 81.1% and 15.8% respectively, while renewable production (driven by new installed capacity) increased by 23.5%. CCGT's production grew slightly in the year (+1.8%).

Pool prices decreased vs. 2018, averaging €47.7/MWh in 2019, down 16.8% as a result of coal abatement and lower gas prices, most notably in 2H19.

Naturgy continued to increase its exposure to renewable through the development of 667 MW of wind and 250 MW of solar projects awarded in the Spanish auctions, of which close to 800 MW came into operation during 2019. As such, the operating installed capacity as of 31 December 2019 reached 1,973 MW, a 67.4% increase over 2018.

4.4.1.4. Generation International (GPG)

Results

	2019	2018	%
Net sales	921	917	0.4
Procurement	(449)	(527)	(14.8)
Gross margin	472	390	21.0
Other revenues	13	10	30.0
Net personnel expenses	(38)	(39)	(2.6)
Taxes	(4)	(3)	33.3
Other expenses	(63)	(69)	(8.7)
Ebitda	380	289	31.5
Depreciation, amortisation and operating provisions	(158)	(152)	3.9
Operating income	222	137	62.0

Ordinary Ebitda in the period reached Euros 367 million, up 26.6% vs. 2018. Growth was supported by i) new installed capacity put into operation in Brazil and Australia in 2018, ii) higher margins and sales, and iii) cost efficiencies. The above were also supported by the favourable FX evolution (+Euros 14 million).

The breakdown of the ebitda by country is as follows:

	2019	2018	Change (%)	FX	Adjusted change (%)
Mexico	295	243	21.4	14	15.6
Rest	85	46	84.8	-	84.8
Total	380	289	31.5	14	26.6

Main aggregates

Installed capacity

	2019	2018	%
Installed capacity (MW)	3,169	3,093	2.5
Mexico (CCGT)	2,365	2,289	3.3
Mexico (wind)	234	234	-
Brazil (solar)	153	153	-
Costa Rica (hydroelectric)	101	101	-
Panama (hydroelectric)	22	22	-
Dominican Republic (oil-fired)	198	198	-
Australia (wind)	96	96	-

Electric energy produced and availability factor

	2019	2018	%
Electric energy produced (GWh)	18,933	18,351	3.2
Mexico (CCGT)	16,123	15,923	1.3
Mexico (wind)	670	701	(4.4)
Brazil (solar)	302	155	94.7
Costa Rica (hydroelectric)	369	330	11.8
Panama (hydroelectric)	70	94	(25.7)
Dominican Republic (oil-fired)	1,105	1,092	1.2
Australia (wind)	294	56	-
Availability factor (%)			
Mexico (CCGT)	96.1	92.1	3.9 pp
Costa Rica (hydroelectric)	96.8	93.5	3.3 pp
Panama (hydroelectric)	83.3	87.0	(3.7) pp
Dominican Republic (oil-fired)	87.9	90.2	(2.3) pp

4.4.2. Infrastructure EMEA

Ebitda	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Gas Distribution Spain	935	884	5.8	965	921	4.8
Electricity Distribution Spain	675	630	7.1	703	640	9.8
Infrastructure Magreb	313	288	8.7	313	288	8.7
Total	1,923	1,802	6.7	1,981	1,849	7.1

Ordinary EBITDA reached Euros 1,981 million (+7.1%) in 2019 as a result of a stable performance across all businesses together with operational improvements.

4.4.2.1. Gas distribution Spain

Results

	2019	2018	%
Net sales	1,237	1,254	(1.4)
Procurement	(74)	(75)	(1.3)
Gross margin	1,163	1,179	(1.4)
Other revenues	38	40	(5.0)
Net personnel expenses	(98)	(118)	(16.9)
Taxes	(25)	(28)	(10.7)
Other expenses	(143)	(189)	(24.3)
Ebitda	935	884	5.8
Depreciation, amortisation and operating provisions	(301)	(320)	(5.9)
Operating income	634	564	12.4

Ordinary Ebitda in 2019 increased 4.8% vs. 2018 to Euros 965 million, mainly driven by lower opex.

Main aggregates

The key figures of Naturgy's gas distribution business in Spain are as follows:

	2019	2018	%
Sales – TPA (GWh)	204,578	197,313	3.7
Distribution network (km)	56,743	56,124	1.1
Increase in connection points (thousand)	3	31	(89.8)
Connection points (thousand) (at 31/12)	5,406	5,403	0.1

Total gas sales grew by 3.7%, while connection points remained stable (+0.1%) vs. 2018.

4.4.2.2. Electricity distribution Spain

Results

	2019	2018	%
Net sales	880	855	2.9
Procurement	-	-	-
Gross margin	880	855	2.9
Other revenues	18	26	(30.8)
Net personnel expenses	(92)	(94)	(2.1)
Taxes	(30)	(30)	-
Other expenses	(101)	(127)	(20.5)
Ebitda	675	630	7.1
Depreciation, amortisation and operating provisions	(249)	(252)	(1.2)
Operating income	426	378	12.7

2019 Ordinary Ebitda amounted to Euros 703 million, a 9.8% increase vs. 2018 primarily due to the contribution of new investments brought into operation and lower interruption times vs. 2018.

Main aggregates

	2019	2018	%
Sales – TPA (GWh)	31,006	32,698	(5.2)
Connection points (thousand) (at 31/12)	3,758	3,740	0.5
Opex/km (€/km)	1,456	1,780	(18.2)
ICEIT (minutes)	42	46	(9.0)

Unitary opex per km of installed network continue to improve, decreasing 18.2% during the period to 1,456 €/km.

4.4.2.3. Infrastructure Magreb

Results

	2019	2018	%
Net sales	334	310	7.7
Procurement	-	-	-
Gross margin	334	310	7.7
Other revenues	1	-	-
Net personnel expenses	(7)	(6)	16.7
Taxes	-	-	-
Other expenses	(15)	(16)	(6.3)
Ebitda	313	288	8.7
Depreciation, amortisation and operating provisions	(36)	(44)	(18.2)
Operating income	277	244	13.5

2019 Ordinary Ebitda increased by 8.7% to Euros 313 million. Growth was mainly explained by the positive FX evolution (Euros 16 million) and the tariff update, despite the significant reduction in transported volumes.

The above illustrates the low sensitivity of Ebitda to transported volumes.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2019	2018	%
Gas transport-EMPL (GWh):	68,703	117,526	(41.5)
Portugal-Morocco	27,412	41,263	(33.6)
Spain (Naturgy)	41,290	76,263	(45.9)

4.4.3. Infrastructure Latin America South

Ebitda	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Electricity Chile	353	243	45.3	347	288	20.5
Gas Chile	238	211	12.8	239	222	7.7
Brazil gas	262	223	17.5	263	223	17.9
Argentina gas	72	108	(33.3)	85	107.0	(20.6)
Argentina electricity	15	10	50.0	15	10	50.0
Peru gas	(2)	(4)	(50.0)	(2)	(4)	(50.0)
Total	938	791	18.6	947	846	11.9

Ordinary EBITDA amounted to Euros 947 million in the period, 11.9% higher than the previous year, primarily driven by regulatory stability and efficiencies, and despite the negative FX evolution (-Euros 74 million), notably in Argentina.

According to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, FX differences arising during the year have been applied to 2019 results, which have been as well updated by inflation rates.

4.4.3.1. Electricity Chile

Results

	2019	2018	%
Net sales	2,214	2,137	3.6
Procurement	(1,649)	(1,592)	3.6
Gross margin	565	545	3.7
Other revenues	26	24	8.3
Net personnel expenses	(86)	(128)	(32.8)
Taxes	(6)	(7)	(14.3)
Other expenses	(146)	(191)	(23.6)
Ebitda	353	243	45.3
Depreciation, amortisation and operating provisions	(64)	(166)	(61.4)
Operating income	289	77	275.3

2019 Ordinary Ebitda reached Euros 347 million, up 20.5% vs. 2018, mainly as a result of i) higher regulated revenues and ii) lower opex from efficiency improvements. On the flipside, the FX impact amounted to Euros -14 million.

In "Depreciation, amortisation and operating provisions" are included Euros 68 million of other results for the sale of Transemel.

Main aggregates

	2019	2018	%
Electricity sales (GWh):	15,227	15,082	1.0
Electricity sales	11,474	12,220	(6.1)
TPA	3,753	2,862	31.1
Connection points (thousand) (at 31/12)	3,002	2,928	2.5
Electricity transmitted (GWh)	13,918	14,636	(4.9)
Transmission network (km, at 31/12)	3,516	3,528	(0.3)

At the operating level, the business experienced growth in connection points (+2.5%) and electricity distributed (+1.0%); on the flipside, sales from the transmission activity decreased by 4.9%.

4.4.3.2. Gas Chile

Includes the activities of gas distribution and supply.

Results

	2019	2018	%
Net sales	746	738	1.1
Procurement	(438)	(441)	(0.7)
Gross margin	308	297	3.7
Other revenues	6	5	20.0
Net personnel expenses	(29)	(29)	0.0
Taxes	(3)	(2)	50.0
Other expenses	(44)	(60)	(26.7)
Ebitda	238	211	12.8
Depreciation, amortisation and operating provisions	(70)	(57)	22.8
Operating income	168	154	9.1

Ordinary Ebitda totaled Euros 239 million, 7.7% more than in 2018, driven by i) higher supply volumes, ii) higher unitary margins in distribution sales, and iii) efficiency improvements.

Main aggregates

	2019	2018	%
Gas sales (GWh)	46,537	45,404	2.5
Gas distribution sales (GWh)	10,309	10,957	(5.9)
Gas commercialization sales (GWh)	6,829	4,761	43.4
TPA (GWh)	29,399	29,686	(1.0)
Distribution network (km)	7,773	7,557	2.8
Increase in connection points (thousand)	18	24	(22.4)
Connection points (thousand) (at 31/12)	644	626	2.9

Total gas sales increased slightly (+2.5%), as higher sales in the supply activity were partially offset by a reduction in volumes distributed, mainly to the industrial segment.

Connection points increased by 2.9%.

4.4.3.3. Gas distribution Brazil

Results

	2019	2018	%
Net sales	1,815	1,565	16.0
Procurement	(1,458)	(1,217)	19.8
Gross margin	357	348	2.6
Other revenues	35	39	(10.3)
Net personnel expenses	(27)	(31)	(12.9)
Taxes	(5)	(4)	25.0
Other expenses	(98)	(129)	(24.0)
Ebitda	262	223	17.5
Depreciation, amortisation and operating provisions	(71)	(75)	(5.3)
Operating income	191	148	29.1

2019 Ordinary Ebitda increased 17.9% to Euros 263 million on the back of tariff indexation and efficiency improvements, which were partially offset by negative FX impact (Euros 6 million) and lower sales, in particular for electricity generation.

Main aggregates

	2019	2018	%
Gas activity sales (GWh)	70,295	72,079	(2.5)
Gas sales	59,652	58,866	1.3
TPA	10,643	13,213	(19.4)
Distribution network (km)	8,050	7,678	4.8
Increase in connection points (thousand)	19	27	(28.7)
Connection points (thousand) (at 31/12)	1,135	1,116	1.7

Despite the good evolution in 4Q19, overall gas sales were down 2.5% driven by lower demand from power generation and lower sales to the retail segment due to high temperatures in 2019.

Connection points grew 1.7% in the period.

4.4.3.4. Gas distribution Argentina

Results

	2019	2018	%
Net sales	554	513	8.0
Procurement	(385)	(316)	21.8
Gross margin	169	197	(14.2)
Other revenues	35	31	12.9
Net personnel expenses	(22)	(15)	46.7
Taxes	(31)	(22)	40.9
Other expenses	(79)	(83)	(4.8)
Ebitda	72	108	(33.3)
Depreciation, amortisation and operating provisions	(24)	(15)	60.0
Operating income	48	93	(48.4)

2019 Ordinary Ebitda amounted to Euros 85 million, a 20.6% decrease over 2018 mostly from a negative FX impact (Euros 39 million). Excluding this impact, Ebitda would have grown on the back of i) the final application of the new tariff framework in April 2018, ii) tariff indexation, and iii) higher gas sales and margins.

Main aggregates

The main aggregates in this area are as follows:

	2019	2018	%
Gas activity sales (GWh)	86,701	76,287	13.7
Gas sales	35,502	30,651	15.8
TPA	51,199	45,636	12.2
Distribution network (km)	38,630	26,179	47.6
Increase in connection points (thousand)	24	14	67.4
Connection points (thousand) (at 31/12)	2,229	1,665	33.9

In aggregate, sales and connection points for gas and electricity grew by 13.7% and 33.9% respectively in the year due to the incorporation of the new distribution companies result of the swap of shares done in by CGE.

4.4.3.5. Electricity distribution Argentina

Results

	2019	2018	%
Net sales	139	123	13.0
Procurement	(89)	(70)	27.1
Gross margin	50	53	(5.7)
Other revenues	5	-	-
Net personnel expenses	(8)	(9)	(11.1)
Taxes	(15)	(21)	(28.6)
Other expenses	(17)	(13)	30.8
Ebitda	15	10	50.0
Depreciation, amortisation and operating provisions	-	(1)	-
Operating income	15	9	66.7

2019 Ordinary EBITDA amounted to Euros 15 million, a 50.0% increase over 2018 including a negative FX impact (Euros -14 million).

Main aggregates

Las principales magnitudes en la actividad son las siguientes:

	2019	2018	%
Electricity activity sales (GWh)	1,909	1,962	(2.7)
Connection points (thousand) (at 31/12)	237	233	1.7

4.4.4. Infrastructure Latin America North

	Reported			Ordinary		
	2019	2018	Change (%)	2019	2018	Change (%)
Ebitda						
Gas distribution Mexico	229	161	42.2	230	170	35.3
Electricity distribution Panama	147	71	107.0	147	105	40.0
Total	376	232	62.1	377	275	37.1

2019 Ordinary Ebitda amounted to Euros 377 million, up 37.1%, on the back of a good operational performance, higher demand and efficiency improvements, as well as a positive FX evolution (Euros 19 million).

4.4.4.1. Gas distribution Mexico

Results

	2019	2018	%
Net sales	635	596	6.5
Procurement	(345)	(352)	(2.0)
Gross margin	290	244	18.9
Other revenues	14	10	40.0
Net personnel expenses	(23)	(28)	(17.9)
Taxes	-	(1)	-
Other expenses	(52)	(64)	(18.8)
Ebitda	229	161	42.2
Depreciation, amortisation and operating provisions	(67)	(79)	(15.2)
Operating income	162	82	97.6

2019 Ordinary Ebitda increased 35.3% to Euros 230 million.

The positive evolution of the business was driven mainly by i) tariff updates, (ii) higher capacity reservation revenues from industrial clients, (iii) higher distribution margins, and iv) efficiency improvements. In addition, there was a positive Euros 11 million FX impact.

Main aggregates

	2019	2018	%
Gas activity sales (GWh)	57,733	58,178	(0.8)
Gas sales	22,842	21,284	7.3
TPA	34,891	36,894	(5.4)
Distribution network (km)	22,722	22,461	1.2
Increase in connection points (thousand)	(135)	23	-
Connection points (thousand) (at 31/12)	1,661	1,796	(7.5)

Connection points decreased by 7.5%, as a result of the new commercial strategy aimed at improving customer profitability.

4.4.4.2. Electricity distribution Panama

Results

	2019	2018	%
Net sales	891	771	15.6
Procurement	(695)	(644)	7.9
Gross margin	196	127	54.3
Other revenues	4	3	33.3
Net personnel expenses	(10)	(13)	(23.1)
Taxes	(4)	(5)	(20.0)
Other expenses	(39)	(41)	(4.9)
Ebitda	147	71	107.0
Depreciation, amortisation and operating provisions	(47)	(39)	20.5
Operating income	100	32	-

2019 Ordinary Ebitda amounted to Euros 147 millions, 40.0% higher than in 2018.

The positive evolution was due to the annual indexation under the new regulatory period (2019-2022), higher volumes sold and efficiency improvements, which more than compensated for slightly higher energy losses. A Euros 8 million positive FX impact added to the good operational performance.

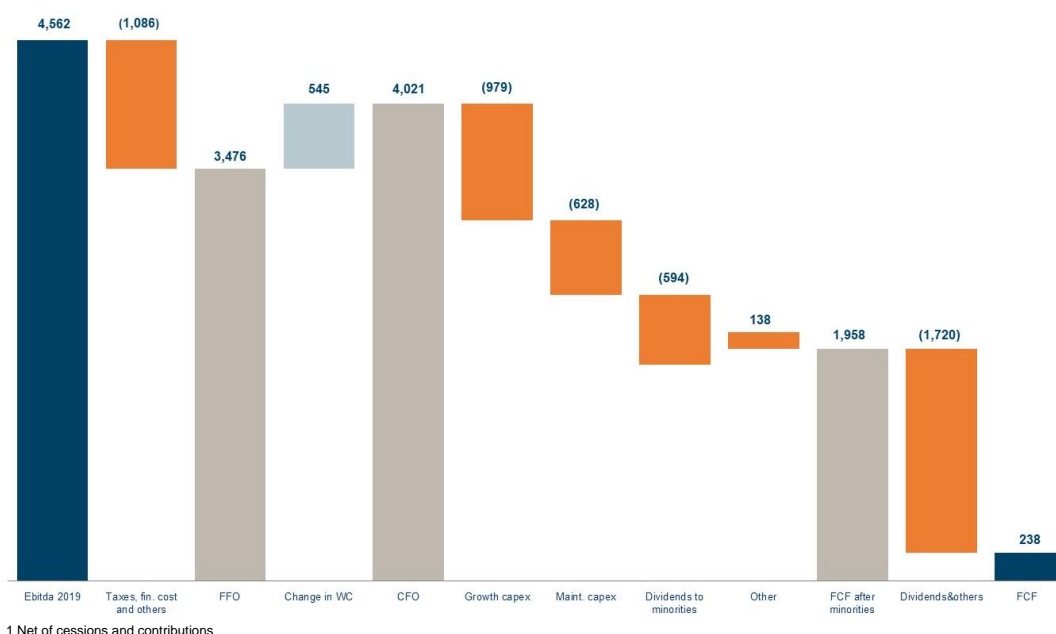
Main aggregates

	2019	2018	%
Electricity sales (GWh):	5,378	5,178	3.9
Electricity sales	4,819	4,888	(1.4)
TPA	558	289	93.0
Connection points (thousand) (at 31/12)	694	669	3.7

Electricity sales and connection points grew by 3.9% and 3.7% respectively.

4.5. Cash flow

The evolution of cash flow in the year 2019 is as follows:



2019 free cash flow after minorities amounted to Euros 1,958 million. In addition to the stronger operating results, the company experienced a positive evolution of its working capital, explained by an increased focus on working capital management as well as other seasonal circumstances occurring in the period.

Free cash flow after minorities was mostly allocated to the payment of dividends (Euros 1,307 million) and the share buyback program (Euros 405 million), the balance being primarily devoted to the reduction in net debt and other effects in the period.

Capex

The breakdown of net investments by type is as follows:

	2019	2018	%
Investments in property, plant and equipment and intangible assets	1,685	2,321	(27.4%)
Financial assets	-	35	-
Total gross investments	1,685	2,356	(28.5%)
Divestments and others	(382)	(2,640)	-
Total net investments	1,303	(284)	-

Investments in property, plant and equipment and intangible assets amounted to Euros 1,685 million in 2019, a 27.4% decrease with respect to the previous year due to it included the recognition of two new gas carriers under finance lease (Euros 380 million).

The breakdown of investments in property, plant and equipment and intangible assets is as follows:

	Growth Capex			Maintenance Capex			Capex		
	2019	2018	% 2019/ 2018	2019	2018	% 2019/ 2018	2019	2018	% 2019/ 2018
Gas & Electricity	623	998	(37.6)	212	137	54.7	835	1,135	(26.4)
Supply of gas, electricity and services	47	59	(20.3)	50	2	-	97	61	59.0
International LNG	1	380	(99.7)	1	-	-	2	380	(99.5)
Generation Europe	420	385	9.1	107	77	39.0	527	462	14.1
International generation	155	174	(10.9)	54	58	(6.9)	209	232	(9.9)
Infrastructure EMEA	179	248	(27.8)	253	225	12.4	432	473	(8.7)
Gas distribution Spain	119	194	(38.7)	48	46	4.3	167	240	(30.4)
Electricity distribution Spain	60	54	11.1	200	174	14.9	260	228	14.0
EMPL	-	-	-	5	5	-	5	5	-
Infrastructure LatAm South	159	278	(42.8)	124	181	(31.5)	283	459	(38.3)
Electricity distribution Chile	62	97	(36.1)	49	110	(55.5)	111	207	(46.4)
Gas Chile	69	114	(39.5)	7	17	(58.8)	76	131	(42.0)
Gas distribution Brazil	20	34	(41.2)	30	26	15.4	50	60	(16.7)
Gas Argentina	6	15	(60.0)	33	26	26.9	39	41	(4.9)
Electricity Argentina	-	5	(100.0)	5	2	150.0	5	7	(28.6)
Gas distribution Peru	2	13	(84.6)	-	-	-	2	13	(84.6)
Infrastructure LatAm North	91	113	(19.5)	76	71	7.0	167	184	(9.2)
Gas distribution Mexico	35	60	(41.7)	23	21	9.5	58	81	(28.4)
Electricity distribution Panama	56	53	5.7	53	50	6.0	109	103	5.8
Rest	-	1	(100.0)	(32)	69	(146.4)	(32)	70	(145.7)
Total	1,052	1,638	(35.8)	633	683	(7.3)	1,685	2,321	(27.4)

Maintenance capex in 2019 amounted to Euro 633 million, compared to Euros 683 million in 2018, a 7.3% reduction resulting from the optimization of capex processes.

Growth capex in the period represented over 60% of total capex and amounted to Euros 1,052 million.

Growth capex in 2019 includes the following:

- A total of Euros 418 million invested during the period in the construction of different renewable projects in Spain (wind and solar), with close to 800 MW put in operation in 2019.
- Euros 155 million invested in the development of 180 MW of wind capacity in Australia and 324 MW of wind and solar capacity in Chile that will come into operation before 3Q20 and 1Q21 respectively.

Divestments

- On 30th July 2019, CGE, Naturgy's subsidiary in Chile, completed an asset swap in Argentina, whereby CGE transferred its 50% stake in 2 electricity distribution subsidiaries, in exchange for a 50% stake in a gas distribution company and the associated commercialization. As a result, CGE now controls and consolidates 100% of the gas distribution subsidiaries.
- On 31 July 2019 Naturgy completed the disposal of 100% of its interests in its Moldova electricity distribution activities. The transaction valued the company's equity at Euros 141 million (including pre-closing dividends) and did not generate significant capital gains for Naturgy. The contribution of this business in 9M18 was Euros -57 million, including a write-down of the investment for Euros -73 million, recognized under "Income from discontinued operations" in the consolidated income statement.

- On 1 October 2019, the group completed the disposal of Transemel, an electricity transmission subsidiary in Chile, for an equity consideration (100%) of Euros 155 million and an Enterprise Value of Euros 182 million, equivalent to approximately 23.5x EV/EBITDA 2018.

4.6. Financial position

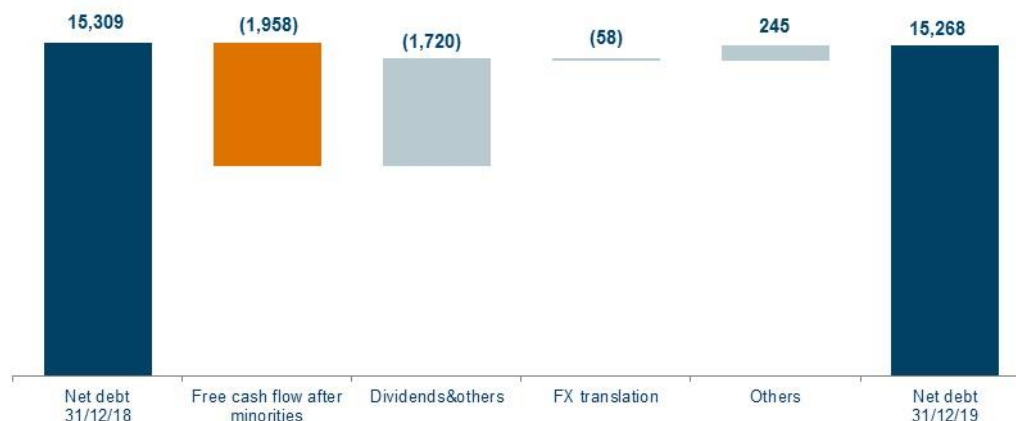
Net debt as of 31 December 2019, under IFRS 16 criteria, stood at Euros 15,268 million, down Euros 41 million over the net debt figure as of year-end 2018, after the Euros 1,712 million allocated to dividend payment and share buy-back. As a result, Net Debt/LTM EBITDA declined to 3.3x from 3.8x as of 31 December 2018.

During 2019, the most relevant financing operations were the following:

- A liability management exercise completed in November whereby Naturgy executed the repurchase of Euros 653 million in existing notes and simultaneously issued a new bond of Euros 750 million with a tenor of 10 years.
- GPG formalized a new syndicated loan for USD 1,5 bn with 5 years maturity (extendable +2 years).
- Euros 500 million green loan signed by Naturgy Renovables with a 7 year maturity, which has been supplemented by a Euros 100 million credit line.
- A loan for Euros 98 million signed to finance renewable assets in Crockwell (Australia) with a 7 year maturity.
- A credit line in Mexican pesos for an equivalent of Euros 69m and withdrew loans for Euros 92 million with a 3 year maturity for Naturgy Mexico.
- Renewal of different loans in Brazil and Chile for an equivalent of Euros 74 million with maturities between 2.5 and 5 years.

Net debt evolution (Million euros)

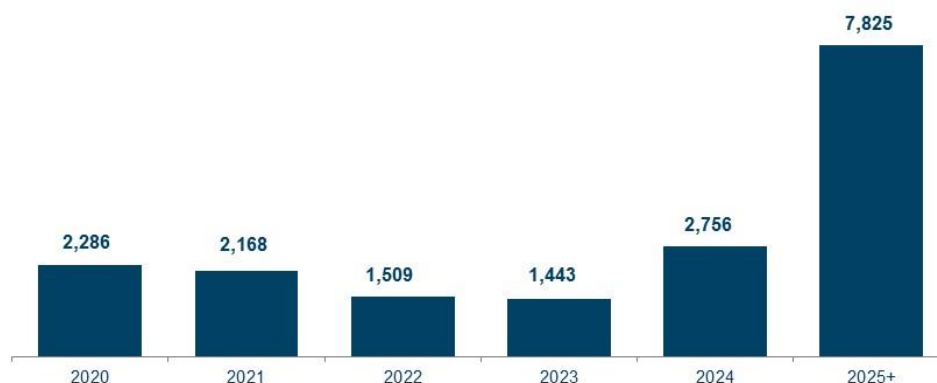
The net debt evolution from 31 December 2018 to 31 December 2019 is as follows:



The average cost of debt, excluding the cost of lease liabilities under IFRS 16, is 3.2%, in line with the level in 2018 (3.1%).

Gross debt maturities

The gross debt maturities are as follows:



The evolution of the principal ratios applied referent to the Net financial debt is as follows:

		2019	2018
Ebitda/Net financial cost	Times	7.3	7.5
Net financial debt / Ebitda	Times	3.3	3.8

¹ 2018 proforma aplicando NIIF16.

The detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency is as follows:

	Group	Chile		Brazil		Argentina		Peru		Mexico		Panama		Holding & others	
		Dec'19	Dec'18	CLP	USD	BRL	ARS	USD	MXN	USD	USD	EUR/USD			
Net financial debt	MEuros	15.268	15.309	1.796	27	271	(34)	63	416	611					2.118
Average cost of gross debt ⁽¹⁾	%	3,2	3,1	5,8	5,5	7,3	69,8	3,2	8,8	4,4					2,2
% Fixed (Gross debt)	%	86	87	73	48	8	17	6	48	66					96

¹ Does not include cost from IFRS 16 Debt.

5. Forecast Group performance

5.1 Foundations of strategy

The Business Plan 2018-2022, unveiled in London on 28 June 2018, established the group's business model, which is focused on value creation.

Naturgy is focused on responding to its own industrial model, based on:

- Treating the energy transition as an opportunity.
- Being a flexible, competitive company.
- Transforming via digitalisation.
- Placing the customer at the centre of the model.

Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO₂ emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

As a result, the following lines of action have been established:

- triple renewable installed capacity by 2022.

- leverage Naturgy's lead in combined cycle plants and in the global LNG market.
- develop the use of natural gas in transportation.
- develop renewable gas.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and improvement of energy efficiency, supporting greater electrification and greater penetration by gas in countries where the company already operates.

Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Business Plan:

- Organisation: the businesses will be autonomous units with full responsibility for their results, while seeking to optimise company personnel. To this end, a number of changes have been implemented at the organisational level in both corporate governance and the organisational structure in order to facilitate decision-making and the business units' autonomy and responsibility, while always guaranteeing control by the parent company.
- Process re-engineering: reviewing service contracts with suppliers, establishing new cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
- Asset management: search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

Naturgy presented an efficiency plan and undertook to cut annual operating expenses by Euros 500 million by 2022.

Transforming via digitalisation

The following key levers for digitalisation have been defined for 2022:

- Customer relations: 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).
- Processes and operations: Over 80% automation of internal processes and operations.
- Remote control of assets: Achieve 80% coverage of assets with sensors and remote control by 2022, from 56% in 2017.
- Advanced analysis techniques: Data-driven management to be implemented in over 90% of processes Group-wide. The main projects to be undertaken in this connection will be in the following areas: develop predictive models for asset maintenance; use models to pursue customer segmentation, predict churn and apply advanced pricing approaches.

These projects will drive the Group's transformation via digitalisation.

Placing the customer at the centre of the model

Enhance our commitment to the customer by placing them at the centre of Naturgy's strategy based on:

- A single customer experience model
- Defining services and solutions that provide added value to the customer.
- Improve customer segmentation.
- Innovation and digitalisation

Key factors in this connection are technological innovations such as smart apps, smart meters, remote control, autoproduction of electricity, energy storage, etc.

5.2 Value creation

The main objective of the Business Plan 2018-2022 is to guide the company towards value creation and lay the foundations for the Group's new industrial model. Naturgy's commitment to value creation is underpinned by four basic pillars: simplicity and accountability, optimisation, discipline in investment, and shareholder remuneration.

Simplicity and Accountability

1. Corporate governance and organisation structure

In terms of corporate governance, major changes were made in 2018, such as reducing the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents).

A new and simplified organisational structure was defined comprising four business units (Gas and Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm) and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility for their bottom line, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

A new Opex & Capex Committee was created with the task of ensuring the execution of the company's efficiency plan and for fulfilling the discipline in capital expenditure envisaged in the Business Plan.

With these changes, Naturgy simplified its corporate governance to streamline decision-making and redesigned its organisational structure to attribute greater autonomy and responsibility to the individual businesses.

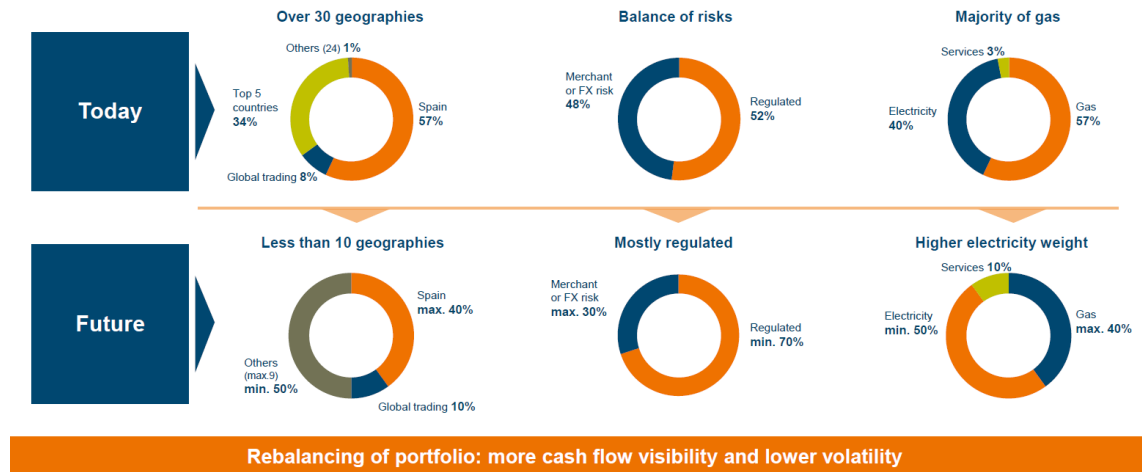
2. Strategic positioning

Naturgy defines its strategic positioning on the basis of the following criteria:

	Where to invest	Where to divest
Markets	<ul style="list-style-type: none">- Big markets with strong growth potential.- Where Naturgy has a significant market share or critical mass.- That offer legal certainty.- Stable macroeconomic environments (e.g. the EU, North America, OECD).	<ul style="list-style-type: none">- Markets that are small and/or offer little growth potential.- High regulatory risk.- Highly concentrated.- Volatile macroeconomic environments.
Businesses	<ul style="list-style-type: none">- Electricity or gas grids.- Sale of electricity under contract.- Customer services.- Controlling stakes.	<ul style="list-style-type: none">- Low level of integration or synergy with the rest of the Group.- Unhedged volatility.- Non-controlling stakes.
Profitability	<ul style="list-style-type: none">- Above hurdle rate.	<ul style="list-style-type: none">- Below hurdle rate.

A total of Euros 5.3 billion of expenditure in growth capex have been identified, and Euros 300 million are expected to be realised through divestments.

Naturgy is also working to balance the weight of its businesses in its mix of activities and will be more ambitious to increase the contribution by regulated activities and by electricity. In the future, the company expects that at least 70% of its business will be linked to regulated activities (currently 52%), with half related to electricity (currently 40%). It also expects to increase exposure to services to about 10%, reinforcing its commitment to the customer.



Additionally, on the basis of developments in the markets where it operates and in line with the assumptions and foundations of the new Business Plan, Naturgy reviewed the value of its assets in 2018, which resulted in a one-time impairment in the amount of Euros 4.851 billion before taxes, booked in 2018. This impairment had no impact on shareholder remuneration and it is proving to be accretive from 2019 because of the lower depreciation charge.

Optimisation

Financial strategy focuses on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. All optimisation measures will be supervised by the new Opex & Capex Committee.

Under the Business Plan 2018-2022, the company continues to optimise the businesses through additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022. These efficiencies are focused on an analysis of the company's non-core activities and on the assignment of operational functions within each of the business units, all supported by the ongoing digitalisation processes.

Naturgy plans to cut group-level capex by Euros 200 million per year with respect to the average in 2015-2017, while increasing the percentage of investment allocated to organic growth in comparison with previous years. In average terms, the goal is for 63% of capital expenditure to be allocated to growth in 2018-2022 vs. an average of 54% in 2015-2017.

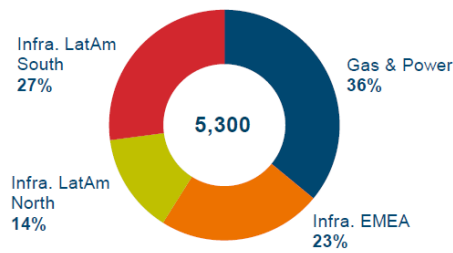
Disciplined investment

Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

1. Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.
2. A clear positioning focused on target markets and businesses.
3. Industrial leadership via controlled subsidiaries.
4. Risk management, minimising the volatility of commodity prices and exchange rates.

Applying these rules, Naturgy plans to invest Euros 8.4 billion over the next five years, of which Euros 5.3 billion will be allocated to growth, increasing the proportion of growth capex to 63% of the total in the period:

Growth capex by business (€M)



Fully identified growth capex

Financial discipline will enhance free cash flow so as to sustain attractive shareholder remuneration.

Shareholder remuneration

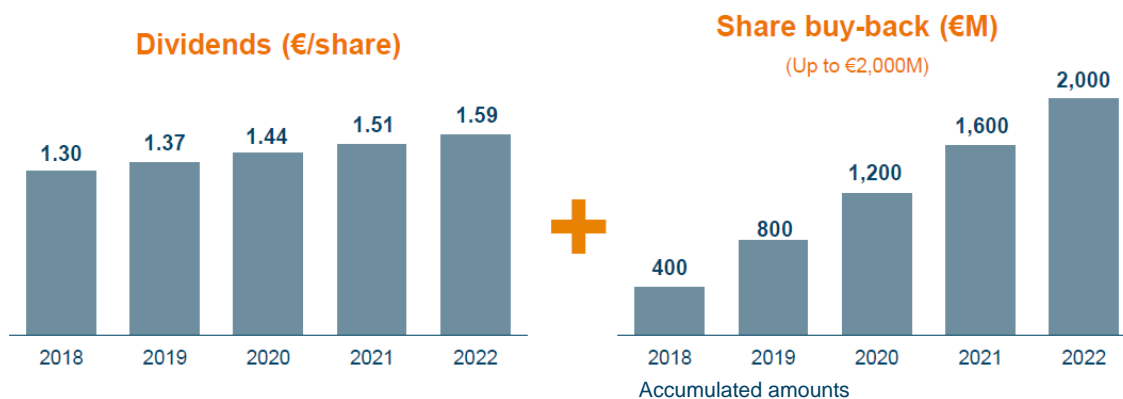
The company increased the dividend charged to 2018 earnings by 30% to Euros 1.30 per share.

Under the Business Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

1. at the end of the first half of the year (20% of the total dividend)
2. at the end of the third quarter (35%)
3. after the Shareholders' Meeting (the remaining 45%)

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it can allocate a maximum of Euros 2 billion to buying back own shares, capped at Euros 400 million per year.

The calendar change was implemented in 2019: a first interim dividend amounting to Euros 0.294 per share was paid in July 2019 and a second interim dividend amounting to Euros 0.473 per share was paid in November 2019. Also, the planned Euros 400 million share buyback was completed in 2019, as a result of which 16,567,195 shares were cancelled in a capital reduction.







5.3 Business prospects

Naturgy's key financial targets for 2022 are as follows:

Key financial targets for 2022

EBITDA 2017: 3,915	~5,000	Annual avg. FCF 2017: ~1,300	~1,800
Net income 2017: 1,360	~1,800	Net debt 2017: ~16,400	~16,400

The business goals set in the Business Plan are summarised below:

	 Gas & Power	 Infra. EMEA	 Infra. LatAm South	 Infra. LatAm North
Asset base 2018	~9,200	~9,800	~7,300	~1,500
EBITDA 2022	~1,700	~1,600	~1,200	~400
Total capex 18-22	~2,700	~2,300	~2,300	~1,000

The growth prospects for the individual businesses, as defined in the Business Plan 2018-2022, are as follows:

Gas & Power

The Business Plan 2018-2022 targets EBITDA of Euros 1.7 billion per year, with capex amounting to Euros 2.7 billion in the period 2018-2022. This will be driven by organic growth and higher efficiency in exploiting assets. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Supply of gas, electricity and services	<ul style="list-style-type: none"> Define a new integrated commercial model Maximise value by focusing on customers. Exploit the strong growth potential of the services and solutions business. 	EBITDA 2022 = 549 Capex 18-22 = 452 74% growth capex
International LNG	<ul style="list-style-type: none"> Diversified, flexible portfolio of procurement contracts. Sales secured under contracts with end customers. Entry into attractive new markets, such as the Floating Storage Regasification Unit (FSRU), small-scale solutions and bunkering. 	EBITDA 2022 = 422 Capex 18-22 = 392 100% growth capex
Generation Europe	<ul style="list-style-type: none"> Double the volume of renewable energy while cutting total costs. Increase CCGT load factor. Adjust cost of conventional generating fleet. 	EBITDA 2022 = 507 Capex 18-22 = 1,296 64% Growth capex
International generation	<ul style="list-style-type: none"> Expand in renewables. Generate recurring cash flow. 	EBITDA 2022 = 270 Capex 18-22 = 568 68% growth capex

Infrastructure EMEA

The EBITDA target for this business is around Euros 1.645 billion, with capex in the period 2018-2022 totalling about Euros 2.310 billion. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities
Gas Networks Spain	<ul style="list-style-type: none"> - Pursue organic growth by exploiting the scope for expanding gas penetration. - Limit the business's regulatory risk. - Increase efficiency via digital transformation.
Electricity networks Spain	<ul style="list-style-type: none"> - Work towards a more flexible, digitalised distribution system. - Future capex to offset regulatory risks. - Pursue efficiency via digitalisation.
EMPL	<ul style="list-style-type: none"> - Revenues guaranteed until the concession expires (2021). - Negotiations advancing to renew Maghreb-Europe gas pipeline concession.

Infrastructure LatAm South

The EBITDA target for this business is around Euros 1.2 billion, with total capex of about Euros 2.3 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Chile Electricity	<ul style="list-style-type: none"> - Distribution: the regulatory model is expected to improve in 2020 to capture updates in technology and service quality. - Transmission: improvements expected due to grid upgrades and new regulations to address the bottleneck produced by the growth of renewable energy. 	EBITDA 2022 = 436 Capex 18-22 = 1,105 60% growth capex
Chile Gas	<ul style="list-style-type: none"> - Organic growth via greater penetration and higher demand for heating. - Drive gas exchanges between Argentina and Chile via existing pipelines. 	EBITDA 2022 = 245 Capex 18-22 = 497 85% growth capex
Brazil Gas	<ul style="list-style-type: none"> - Organic growth through increasing penetration in the gas market as well as seeking new concessions. - Leverage the huge growth potential of the services business. 	EBITDA 2022 = 322 Capex 18-22 = 399 57% growth capex
Argentina Gas	<ul style="list-style-type: none"> - Organic growth underpinned by grid upgrades and implementation of new networks, expanding the grid in the territory. - Leverage the huge growth potential of the services business. 	EBITDA 2022 = 159 Capex 18-22 = 323 41% growth capex

Infrastructure LatAm North

The EBITDA target for this business is around Euros 400 million, with capex totalling about Euros 1 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Mexico Gas	<ul style="list-style-type: none"> Organic growth through greater penetration in the gas market and new concessions Strong growth potential in services via new customers and the existing customer base. 	EBITDA 2022 = 247 Capex 18-22 = 616 22% growth capex
Panama Electricity	<ul style="list-style-type: none"> Strong growth is projected against a backdrop of moderate risk to the country's economy, with remuneration stable in USD. The tariff review for 2019-2022 is expected to be positive. Significant improvement in operational efficiency and lower power losses. Capture competitive advantages in services and solutions. 	EBITDA 2022 = 146 Capex 18-22 = 341 30% growth capex

5.4 Financial strategy

To support the business strategy, the finance strategy targets net debt at end-2022 at the same level as end-2017 (Euros 16.4 billion, per IFRS 16) as strong cash flow will make it possible to distribute dividends (Euros 6.9 billion) and allocate Euros 2 billion to share buybacks or inorganic growth opportunities.

Finance policy focuses on maintaining the rating and leverage while managing the debt structure to make it more effective. The debt structure will be diversified, prioritising access to capital markets and institutional funds, with at least 70% of debt at fixed cost while seeking "natural" hedges by ensuring that subsidiaries are funded in the currency in which they generate cash flows.

At business level, each business unit would be provided with the necessary liquidity and the necessary level of indebtedness to operate autonomously.

6. Sustainable innovation

Risks and management approach

Naturgy sees innovation as vital to the company's transformation. It provides efficiency, by imagining disruptive new business models and discovering new ways to be more customer-centric, taking advantage of new technologies or following the latest market trends.

The approach to managing innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation. It enables us to anticipate the impact of the profound changes that are taking place in society, such as the digital transformation, which affect our customers' way of life and needs, or the energy transition towards a decarbonised economy.

With this goal of transformation and considering innovation to be indispensable to achieving the objectives established in the Business Plan, the corporate innovation policy is a framework for action for all group employees.

Analysis of 2019 results

Investment in innovation (Euros million)

In 2019, a total of Euros 36 million were spent on innovation (Euros 63 million in 2018), as indicated below:

	2019	2018
Investment in innovation	36	63

Innovation vision

Naturgy's Innovation Model is structured around priority lines of innovation that are aligned with the Business Plan and are sponsored and supported by the business lines. To implement the plan, Naturgy uses a two-pronged innovation model:

- *Push*: focused on developing in-house technology solutions that respond to challenges identified in the strategic vision.
- *Pull*: draws on the open innovation ecosystem to find business opportunities, ideas and talent.

Innovation is governed by the Strategic Innovation Committee, which is composed of the Chairman and his direct reports; the committee's main mission is to ensure that all innovation initiatives are aligned with the strategic lines of innovation.

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets both in the time period of the business plan and in the longer term, which contributes to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

- Renewable generation and storage
- Advanced management of distribution assets
- Renewable gas and hydrogen
- Distributed generation and storage
- Sustainable mobility
- Customer solutions

Renewable generation and storage

To fulfil the commitment to combating climate change, Naturgy must evolve steadily towards an emissions-free energy mix while always guaranteeing security and quality of supply. Renewable energies will play a very important role in this new model; to ensure continuity of supply, they must be supported by reliable storage systems, which is why the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2019 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the *project to hybridise the La Vega I & II wind farm with storage facilities*; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid.

Advanced management of distribution assets

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

In the area of electricity distribution, the *SPIDER* project commenced in 2019 with the aim of developing and integrating low-cost sensors capable of measuring the position and vibrations of power line conductors so as to have advance warning of vegetation impacts on the conductors before they cause faults.

In the field of gas networks, and on a more global scale, *Ris3CAT* encompasses 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

Renewable gas and hydrogen

Renewable natural gas is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of CO₂ emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the “circular economy” since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the *Public-Private Renewable Gas Unit*, developed with EnergyLab and the sewage treatment company in the municipal of Bens (A Coruña, Spain), which involves the creation of a plant for producing biomethane from the organic sludge produced by a municipal wastewater treatment plant; an experimental programme enabled the process to be optimised successfully. At the same site, a highly innovative experimental biological methanation plant has been set up that uses hydrogenotrophic micro-organisms (archaea) that are capable of transforming a feedstock consisting of CO₂ and H₂ into biomethane or renewable gas.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility offered by that Royal Decree of joint ownership of autoproduction facilities. There are now smart infrastructures and systems that make it possible to decentralise electricity distribution, which is revolutionising the current models and opening up new business opportunities.

The distributed generation and autoproduction initiatives that were under way in 2018 continued in 2019. One of these initiatives is the Manhattan project, which seeks to develop new products and services to leverage the energy produced by customers, in which Naturgy offers storage facilities.

Sustainable mobility

The company continues to work on the nationwide deployment of natural gas filling stations that are open to the public, and it is participating in technology projects for filling vehicles with this type of fuel at the user level. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, and it has researched solutions for storing energy in flywheels in pursuit of greater energy efficiency.

During 2019, Naturgy not only continued to promote improvements in natural gas-fired mobility but it also undertook important projects in the area of electric mobility. The NEAR (New Electricity Assets for Recharging) project (2019-2020) attempts to define the distributor's role in the deployment of public recharging infrastructure. During 2019, the efficiencies arising from the use of the existing network infrastructure to deploy electric recharging points were examined.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tankers trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). A *pilot energy assistant for residential customers* project was launched in 2019 with the aim of testing how a solution based on Artificial Intelligence can provide advice to customers with home photovoltaic installations on the most appropriate schedules for energy consumption by certain equipment.

In the field of sustainable building, the KIC COFAST project gave rise in 2019 to a patent application consisting of the development and market launch of a new standardised integrated solution for fast charging stations for electric vehicles based on a small-scale natural gas-fired cogeneration plant.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. In 2019, work was carried out to development a virtual assistant that uses AI-driven natural language processing to automate the customer care process.

Planning and technology monitoring

Monitoring takes place through Observatories, involving over 200 people from the various business units and corporate areas. These groups share and analyse information from an end-to-end perspective: technology, commercial, regulatory, social and market aspects. The Observatories' conclusions are reflected in roadmaps that define the high-level planning of Innovation in each of the six priority lines.

In 2019, a digital management system was implemented for monitoring technology with the goal of acquiring, processing, analysing and reporting information in a more agile and flexible way so as to encourage horizontal collaboration initiatives. A number of think tanks were established to examine trends in the energy industry and detect new business opportunities.

Naturgy continued to operate its two innovaHubs, in Madrid and Barcelona, which are conceived as open spaces that are freely available for innovative activities and in which forms of collaborative agile work can be explored. The numerous activities in the area of Innovation included MeetUps and Techbreakfasts, both with a similar informal, dynamic and collaborative format, where companies and startups are able to exhibit their products, technology or services and gain first-hand knowledge of innovations in a given thematic area.

7. Non-financial information statement

This disclosure of non-financial information was drawn up in line with the requirements of Act 11/2018, of 28 December, on non-financial disclosures and diversity, approved by the Spanish Congress on 13 December 2018, which amends the Commercial Code, the consolidated text of the Capital Companies Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial disclosures and diversity (from Royal Decree-Act 18/2017, of 24 November).

It was drafted on the basis of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), which also serve as a reference for drafting the Corporate Responsibility Report that is published each year and which, this year, complements and elaborates upon these non-financial disclosures.

In this context, through the non-financial disclosures, Naturgy seeks to provide information on environmental, social, personnel and human rights, corruption and bribery and society issues that are germane to the company in the pursuit of its business activities.

The content of this report was selected and drafted on the basis of the outcome of the materiality analysis carried out in 2019 (See Appendix IV, About this Report).

For each question set out in the Act, the materiality for the company, the policies and risks associated with each one, and the benchmark indicator used for monitoring and evaluating it are set out below.

7.1 Business model and value creation

7.1.1 Business model

Naturgy is an integrated energy group that supplies gas and electricity to over 18 million customers. It focuses on gas distribution and supply and on electricity generation, distribution and supply. It also operates other business lines, such as energy services, which enhance the diversification of activities and revenues, staying at the forefront of new market trends, meeting customers' specific needs and offering them an integrated service not confined to selling energy.

Naturgy's **mission** is to:

Meet the needs of ...	With a vision of ...	Based on our values
Our shareholders	Offering increasing sustainable profitability	> Commitment to results > Customer-oriented > Sustainability > Interest in people > Social responsibility > Integrity
Our customers	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment	
Our employees	Offering opportunities for professional and personal development	
Society	Contributing positively through a commitment to global citizenship	

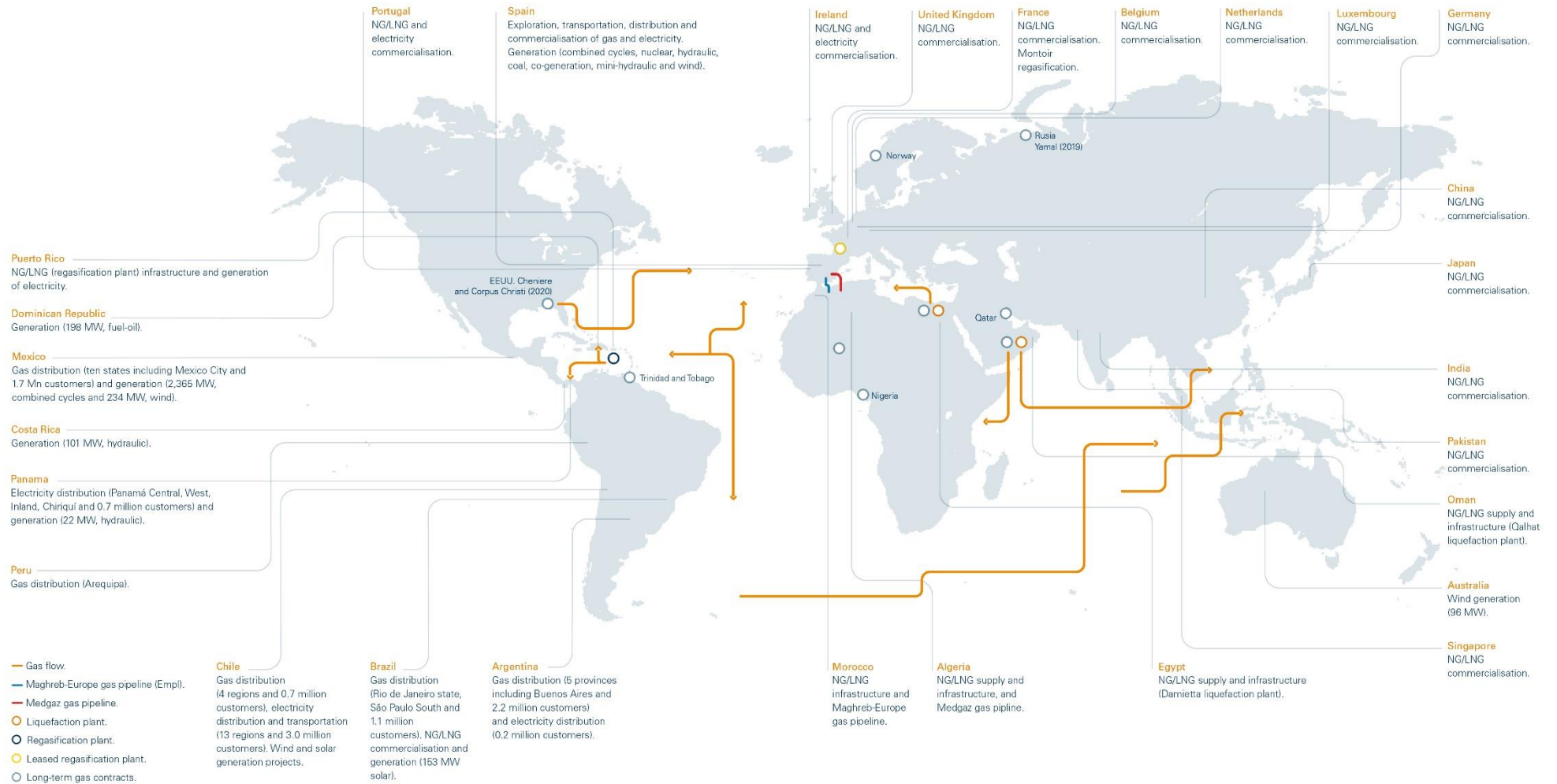
Naturgy's business model is implemented through a number of companies in Spain, elsewhere in Europe, and in Latin America and Africa, and is underpinned by the following main businesses:

Gas & Power	32% EBITDA: Spain, Europe and Latin America
Infrastructure EMEA	42% EBITDA: Spain and Africa
Infrastructure LatAm South	21% EBITDA: Latin America
Infrastructure LatAm North	8% EBITDA: Latin America

Note: -3% other activities

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring a regular supply of gas and electricity, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Worldwide presence



Business lines

Leadership in the gas business

	Networks	Gas		
	Gas distribution	Infrastructure	Procurement	Supply
	11.1 million distribution connections 133,917 km of network	Eight long term LNG carriers Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz	~ a supply portfolio totalling 30 bcm	339 TWh of gas supplied
Our positioning	<p>Spain Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.</p> <p>Latin America Latin America's top distributor, catering for more than 5.7 million customers. Presence in Argentina, Brazil, Chile, Mexico and Peru and in five of the ten largest Latin American cities.</p>	<ul style="list-style-type: none"> - Eight LNG carriers (1.3 Mm³) - Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline¹. - Stake in the Ecoeléctrica regasification plant and two liquefaction plants (Damietta and Qalhat). - 0.5 bcm of company-owned storage capacity and 0.9 bcm of leased capacity. 	<p>Business model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins.</p> <p>26% market share in Spain.</p> <p>Competitive supply to combined cycle plants (CCGT).</p>
Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	<p>Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.</p> <p>Storage capacity enables it to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.</p>	A diversified, flexible portfolio of procurement contracts, enabling it to address value-added markets.	<p>Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally.</p> <p>Its positioning in international markets is aimed at extracting additional margins through appropriate supply business.</p> <p>Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.</p>

¹ An agreement for the purchase of an additional 34.05% subject to certain conditions was reached on 15 October 2019.

A key player in the electricity business

	Networks	Electricity	
	Electricity Distribution	Generation	Supply
	7.7 million supply connections 218,831 km of network	16.9 GW of power generation capacity	25.0 TWh supplied
Our positioning	<p>Spain The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers.</p> <p>Latin America Presence in Argentina, Chile and Panama (3.9 million customers).</p>	<p>Spain Capacity of 13.7 GW, with a significant presence in five technologies: 7.4 GW CCGT, 2 GW hydroelectric, 1.7 GW coal, 2 GW renewable and 0.6 GW nuclear. Naturgy has a market share of 17.4% in non-renewable generation and 2.1% in renewable generation.</p> <p>International Capacity of 3.2 GW: 2.4 GW CCGT (Mexico), 0.2 GW oil-fired (Dominican Republic), 0.1 GW hydroelectric (Costa Rica and Panama) and 0.5 GW renewables (Mexico, Australia and Brazil).</p>	<p>Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain.</p> <p>One of the main traders in the Spanish market.</p> <p>A dual fuel supply and a broad range of value-added services.</p>
Our strength	<p>Naturgy is a leader in the markets where it operates.</p> <p>Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business.</p>	<p>The company has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.</p> <p>Naturgy's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation.</p>	<p>Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.</p>

7.1.2 Value creation and sustainable management

The long-term commitment to value creation and sustainable management is specified in the Corporate Responsibility Policy, which provides the common framework for action that guides the company's socially responsible conduct; it was approved and updated by the Board of Directors in January 2019, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.

This policy undertakes eight commitments to the company's stakeholders:

1. Commitment to results
2. Service excellence
3. Responsible environmental management
4. Interest in people
5. Health and safety
6. Responsible supply chain
7. Social commitment
8. Integrity and transparency

These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

Naturgy has all the essential kinds of capital with which to develop its business model, which is based on the responsible and sustainable management of all the resources it uses.

Our capitals

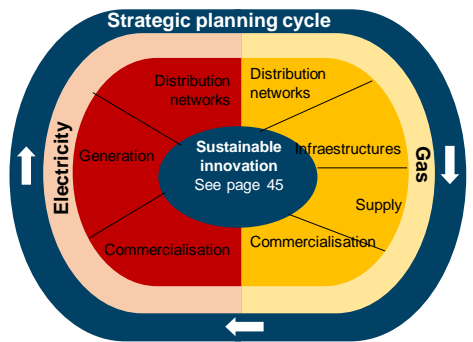
<p>Financial</p> <ul style="list-style-type: none"> ➤ Sustainable cash generation. Free cash flow= 1,958 M€. ➤ Strict financial discipline. Leverage = 52.2% 	<p>Human</p> <ul style="list-style-type: none"> ➤ Professional development and talent management. ➤ Diversity and equal opportunities. ➤ Extending principles to supplier chain. 	<p>Manufactured</p> <ul style="list-style-type: none"> ➤ Investment and maintenance in gas and electricity distribution networks. ➤ Sustainable innovation. ➤ Operation development of electricity production capacity. 	<p>Environmental</p> <ul style="list-style-type: none"> ➤ Environmentally-friendly products and services. ➤ Energy efficiency. ➤ Undertaking to reduce emissions. 	<p>Social</p> <ul style="list-style-type: none"> ➤ Relations and dialogue with stakeholders. ➤ Guarantee of supply
---	--	---	---	---

External environment

Economic environment
 Regulation
 Environmental policies.
 Technological developments and new business models.

For further information on the external environment, please see the "Environment, risks and opportunities" chapter, page 7.

For further information on the strategic planning cycle, please see the "Forecast group performance" chapter, page 38.



Corporate Governance

Our commitments

- Commitment to results.
- Service excellence.
- Responsible management of the environment.
- Interest in people.
- Health and safety.
- Responsible supply chain.
- Commitment to society.
- Integrity and transparency.

Internal environment

Our results

<p>➤ Dividends policy. Pay-out: 1,319 M€</p> <p>➤ Meeting financial targets. Ordinary Ebitda: 4,668 M€ Ordinary net profit: 1,432 M€</p> <p>Shareholders</p>	<p>➤ Corporate University and training plans % Staff trained: 85.8</p> <p>➤ Retaining talent. Voluntary rotation : 2.7</p> <p>➤ Health and safety. Accident frequency index : 1.2</p> <p>Employees</p>	<p>➤ Gas distribution: 465,844 GWh</p> <p>➤ Electricity distribution: 53,519 GWh</p> <p>➤ Gas supply: 339,252 GWh</p> <p>➤ Net production: 44,704 GWh</p> <p>Customers</p>	<p>➤ Direct GHG emissions : 15.4 MtCO₂ eq.</p> <p>➤ CO₂ emissions / generation: 301 tCO₂/GWh</p> <p>Customers Society</p>	<p>➤ Economic value distributed : 21,533 M€</p> <p>➤ Social investment: 8 M€</p> <p>Society</p>
---	---	--	---	---

Our stakeholders

In 2019, Naturgy developed a 2019-2022 Sustainability Master Plan to accompany the company's transformation process and which is aligned with the Business Plan 2018-2022, in order to facilitate compliance with the strategy, seize opportunities in terms of sustainability and develop actions, and the objectives for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The 2019-2022 Sustainability Master Plan was based on a materiality analysis that included an internal analysis which considered the Business Plan, the risk map, the annual reports, the corporate responsibility policy, the code of ethics and other internal policies, as well as internal documentation on ESG performance. There was also an external analysis that considered regulatory and industry trends and the requirements of analysts, investors, competitors and the mass media. The analysis identified 33 key issues for the company and its stakeholders.

The Plan focuses on, and is oriented towards, enhancing those facets of the industry transformation where the company is lagging. To this end, four drivers were established that encompass 30 actions: Innovation for the customer, Commitment and talent. The opportunity offered by environmental challenges and renewable energy, and Integrity and transparency.

7.2 Commitment to results

What does this mean for Naturgy? Risks and management approach

In a challenging environment, Naturgy's goal is to maintain a sound financial and business profile. Naturgy's business model pursues a balance between regulated or contracted activities and unregulated ones while applying a strict finance policy.

Shareholders and investors are viewed as being among Naturgy's primary stakeholders. Therefore, properly managing risks and developing a solid business model that guarantees sustainability and long-term value creation are the key business goals.

Our commitment

- To pursue sustained returns that are commensurate with the risks while ensuring that decisions are based on approved risk levels and thresholds.
- To promote efficient resource allocation and management within the framework of continuous process improvement.
- To continue incorporating sustainability features into the relationship with investors.

How do we measure our performance?

EBITDA
Net profit
Investments
Indebtedness
Cash flow after non-controlling interests

Analysis of 2019 results

The analysis of Naturgy's 2019 consolidated result and the breakdown by business is shown in the "Business performance and results" section of this report.

Sustainability indices, green bonds and sustainable funding

Presence in socially responsible investing indices and ratings

The company occupies significant positions in the leading sustainability indices on the strength of its environmental, social and governance (ESG) performance metrics. Naturgy has been part of the Dow Jones Sustainability Index uninterruptedly for the last 15 years, and in 2019 it ranked first in the world in the Gas Utilities sector for the third consecutive year. The company has also been a member of FTSE4Good since the index was created in 2001, and ranks as world leader in the Multiutilities sector for

the second consecutive year. During 2019, Naturgy was evaluated by rating agencies such as MSCI, from which it again obtained the maximum rating (AAA), and Sustainalytics, which continued to rate it among the top 5 of the 193 utilities it evaluates. The company also maintained the score obtained from Vigeo Eiris in 2018 (the evaluation is performed every two years), and is a member of the three Euronext Vigeo indices: World 120, Europe 120 and Eurozone 120. Naturgy is also a member of the MSCI Global Climate Index and MSCI ESG Leaders Index.

In 2019, Naturgy was recognised as a world leader for its action against climate change through inclusion in CDP's Climate Change 2018 A List. The company obtained the highest possible score in this climate change index in recognition of its action to reduce emissions, mitigate climate risks and develop a low carbon economy.

Green bonds and sustainable funding

In 2017, Naturgy developed a reference framework for the issuance of green bonds to fund renewable energies. Under this framework, on 15 November 2017, Naturgy issued a green bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. As of 31 December 2019, all the funds from the issue had been invested in the planned green projects.

In addition, in order to cover its funding needs and in line with its progress in sustainability, in 2017 Naturgy arranged a sustainable loan with ING Bank NV Sucursal in Spain for a total amount of Euros 330 million for 4 years, with the possibility of a one-year extension, whose spread is indexed to the company's sustainability performance as assessed by independent rating agency Sustainalytics, which issues a report and a rating in this connection.

As a result of a 7.6% improvement in the rating, the spread on that funding was cut by 5% in 2018 and that reduction was maintained in 2019 as the index remained at similar levels.

7.3 Service excellence

What does it mean for Naturgy? Risks and management approach

The customer is the center of operations at Naturgy. Through active dialogue, the company will provide speedy and efficient service which, as well as complying with the legal and profitability requirements, meets the customer's needs.

If the company fails to provide quality products and services, has a customer service that can be improved, and lacks communicative fluidity with the customer, it runs the risk of the customer requesting to finalise the contract or submitting complaints.

The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

Loss of service quality, as a result of network maintenance, can lead to increased supply cuts, efficiency losses, resulting in financial penalties by the regulator and increased complaints and claims by consumers, while at the same time it can worsen the company's image and reputation in society.

What is our commitment?

Working towards ongoing improvement of safety, reliability and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.

Fostering active and two-way communication that allows us to understand the expectations and opinions of customers and to adapt the responses of Naturgy to their needs.

Facilitating relationships with customers through simple and efficient operations.

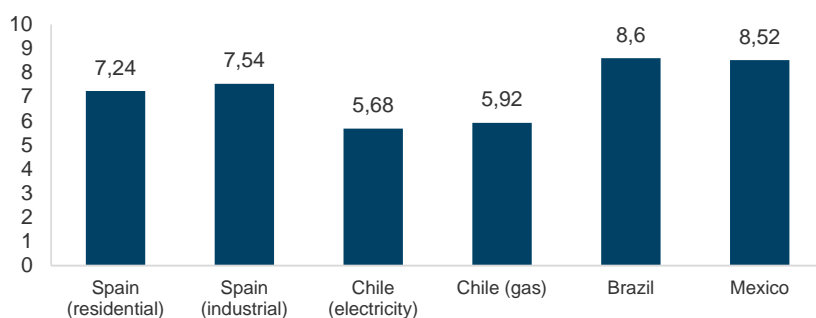
Providing innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.

Furnishing the customer with a differential value proposition through products and services that adapt to each segment and to their needs.

Applying technological innovation and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

How do we measure our performance?

2019 Overall satisfaction with service quality



NB: Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale. Argentina and Panama have not measured satisfaction of the global service quality during 2019; this measurement will be carried out in 2020.

What are our main milestones in 2019?

- Digitalisation of the bill and greater self-management by the customer on the website.
- Simplification of the Naturgy Customers digital universe.
- Development of a new in-store customer service model.
- Generation of new products called SuperPacks (fixed monthly price according to consumption and inclusion of Value Added Services) and reduction of the commercial portfolio with a view to simplifying the customer's digital journey.
- Website simplification of portfolio (two tariffs) and subsequent simplification of online contracting, avoiding unnecessary clicks.
- Update of the cybersecurity regulatory body.
- Update of the procedural, technical and operational protection measures established by Naturgy in its Model of Protection of the strategic assets.
- New in-store customer service model.

What are our goals for 2020?

- Develop new solutions for sustainable mobility and recharging points.
- Implementation and monitoring of the Global Customer Experience Policy in business.
- Develop new channels of communication with the client in a more personalised way using Internet of Things (IoT), Artificial Intelligence (AI) and machine learning technologies.
- Designing energy management solutions for the generation, distribution and storage of energy.
- Develop remote operation control models at plants.

Analysis of the 2019 results

The customer as the focal point

In 2019, Naturgy consolidates the new stage started in 2018, with a renewed brand that reflects what we are: flexible, agile, with excellent service, innovative, and more committed to the environment.

Placing the customer at the centre of the activity is an indispensable necessity to achieve the commitment that allows the establishment of long term relationships of trust. To do this, we listen to the customer to evolve through their eyes, their needs and their experience in every interaction with us. Their voice contributes to the development of our value proposition and service excellence.

Customer Experience programme (CeX)

The Customer Experience programme, based on cultural transformation, was born in 2015 at group level with the purpose of making the company a benchmark at international level in customer satisfaction in the energy sector, measured in terms of recommendation.

With Customer Experience the company introduces a new methodology through which the customer is at the centre the decision-making process, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience within the company.

The evolution of the Customer Experience programme has led Naturgy to place the customer at the centre of its industrial model, to satisfy their expectations and to anticipate their needs. In accordance with the Corporate Responsibility Policy and the commitment to service excellence, the CeX vision is set out in the following CeX Principles for the group:

- “Customers are at the center of everything we do.”
- “We treat our customers the way we would like to be treated.”
- “We like to innovate to make everyday life easier for our customers.”

Consequently, in April 2019 the Global Customer Experience Policy was formalised, defining a framework for action, which must be complied with, on five lines of work considered necessary to guarantee the centrality of the customer:

1. Customer measurement
2. Objectives and annual action plan
3. Clear communication
4. Claims
5. Channel partners

Quality and reliability of the service

Maintenance of the gas and electricity facilities is an essential aspect within Naturgy’s mission to achieve a level of quality and reliability of the service that satisfies customers and enables us to comply with the regulatory requirements of the countries where we operate and with the most demanding standards of the industry. The aim of maintenance is to improve the safety and reliability of gas and electricity networks, and to maintain a high level of service quality.

Naturgy employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures. The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

A set of inspection and assessment actions are carried out, which help to define the corresponding preventive and mitigation measures to ensure a safe and ongoing supply, maximising the useful life of assets, and which are included in the Maintenance Plan for each type of facility.

The preventive and corrective maintenance procedures are frequently subject to reviews by the Technical Quality, Safety, and Internal Auditing, Compliance and Control divisions.

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, *inter alia*, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometers of the grid and facilities inspected, and the number of incidents per kilometer of grid.

To ensure that supply meets demand, Naturgy regularly reviews the operating conditions of its networks, to make sure these are correctly sized or, if appropriate, to determine the potential needs of repowering or enlarging these. Furthermore, in electricity distribution, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the development of smart grids, the application of drones to the maintenance of facilities and the introduction of predictive maintenance techniques for the main grid equipment.

Customer’s satisfaction and experience

Naturgy listens to its customers’ opinions and incorporates them into the decision-making in order to develop innovative products and services that meet their needs and expectations.

The company has a model to measure customers’ experience, through which it constantly monitors the satisfaction of its customers and the level of recommendation.

The model is based on three levers:

- Measurement: Naturgy collects the opinion of customers through surveys that are classified into two complementary blocks: general surveys on positioning, and interaction or point-of-contact surveys with the company.
- Analysis: the results are added to the daily management reports, which allows us to include the customer’s voice in decision-making.
- Close the loop: process that enables immediate corrective action through the management of alerts that activate whenever the recommendation thresholds established required to maintain the level of quality that the company imposes with its customer relations are not reached.

Products and services adapted to customers' requirements and priorities

Naturgy’s commercial offer is targeted at homes, businesses and major customers. The products offered are not restricted solely to the supply of gas and electricity, but encompass other aspects:

Products and services adapted to customers' needs			
Costumers type	Homes	Businesses	Major customers
Products and services	Natural gas and electricity		Natural gas, electricity and LNG
	Energy services		
	Equipment		Services with value-added
	Savings and energy efficiency		Efficiency and sustainability
		Energy solutions	
		Customised management and advisory services	

The commercial strategy of Naturgy focuses on customer satisfaction, meeting their expectations with value-added propositions, innovating and incorporating digitalisation, whilst seeking to simplify the portfolio of products and services to facilitate a simpler and more complete experience to customers.

During 2019, all the products in the portfolio have been improved and adapted to the demands of customers, especially the services of self-consumption, equipment and electric mobility.

Customer Service

The Customer Service activity includes all the processes and sub-processes linked to customer service activities through all the channels provided by the Company, as well as invoicing and collection. Naturgy has introduced an innovative Customer Service Model that is adapted to customers' characteristics and needs, offering accessible solutions that allow for greater comfort and flexibility to its customers' requests. Technological innovation reduces language or disability barriers. With regard to transparency in communication of claims or complaints submitted, the model implemented in commercialisation and distribution complies with the obligations set out in circular 2 of 2016 issued by the National Securities Market Commission (CNMC), reporting every quarter with regard to the details on the situation of claims processed in accordance with the formats and deadlines established by the regulator. This model is included in the quality management system certified in accordance with ISO 9001 by AENOR.

The customer service channels that Naturgy makes available to its customers offer personalised and close attention that aims to exceed customer expectations. In the case of commercialisation, customer service is differentiated according to the value of the customer.

In 2019, Naturgy has worked in two areas, the personalisation of customer service, listening to customers, analysing their behaviour, to anticipate their demands, and the digitalisation of channels providing a fast and flexible resolution with management autonomy and simplicity, being environmentally sustainable.

Customer service model

Our model comprises three focal points:

- Operational and training model: the aim is to anticipate customers' needs through predictive and data analysis models.
- Technological model: committed to a technological revolution that encourages greater self-management by customers.
- Procurement and financial model: building a partnership model with suppliers and an alignment of the win-to-win objectives.

Provision of customer service at Naturgy:

- Digital Channel
- Telephone Channel
- Guarantee Office
- Face-to-face Channel - Stores
- Face-to-face Channel - Personal Manager

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers. During 2019, the company managed a total volume of 1,642,935 complaints and claims (it does not include the data from Panama, as it is not available), representing 3 % of total customer contacts. The average global response time was 8.21 days.

With regard to commercialisation, complaints are periodically analysed by the Indicators Monitoring Committee and, in the event of any non-compliance, the necessary corrective actions are established for their correct resolution. Most claims are related to billing, contracting and collection.

In the area of gas and electricity distribution, any claim or complaint received from customers via the different channels available, whether through their gas or electricity marketer in issues for which the

distributor is responsible (meter reading, supply quality, new registrations, etc.), directly with the electricity or gas distributor of the Naturgy Group through the customer service channels of the distributors, via the website contacts, by postal mail or through any competent organisation, is received and processed centrally in our integrated claims management system at the shared services department within the Third Party Access to the Network Unit (TPA) of the distribution companies.

The organisation handles not only customers of the electricity or gas system in its operational area, but also any individual or legal entity that may have a claim or complaint through the action or non-action of our distribution assets (works in progress, technical elements on public thoroughfares, etc.) is dealt with as if they were a customer.

Privacy and security of data

Naturgy, as part of its commitment to privacy and security of employee and customer data, has updated the cybersecurity regulatory body to adapt it to the new structure of the organisation. This update is being carried out using a series of international standards and best practices as a control framework, such as ISO 27001, NIST SP 500-53 or ISA 62441. The documents of the new regulatory body are published on the corporate regulatory site and are accessible to all group employees. Once the documents have been approved in their final version, they will be adapted for each of the geographical areas in which the group operates.

Work is underway to include cybersecurity from the design in projects through the Security in Projects initiative, whose medium- and long-term objective is to cover all projects and initiatives that arise within the group.

In relation to personal data protection, work continues in line with the requirements of the General Data Protection Regulation (GDPR), using the results of the Data Protection Impact Assessments (DPIA) to determine the technical measures that need to be applied to the systems (both in production and pre-production environments), establishing a benchmark of different tools to select the most appropriate one.

7.4 Responsible environmental management

What does it mean for Naturgy? Risks and management approach

Naturgy is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand. We go beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and we work with and encourage our stakeholders to use energy responsibly both at our own facilities and at those of our customers.

Inadequate management of climate change and its associated risks can lead to substantial losses for the company, caused by the increase in exposure to natural disasters, the decarbonisation trend of the sector and the loss of affinity on the part of stakeholders. Moreover, improper environmental management can cause environmental impacts and the deterioration of natural conditions and biodiversity in the areas where the company operates. This, in addition to the direct impact on the environment, can cause the company reputational harm, and the risk is greater if the company has infrastructures and/or carries out operations in protected areas.

What is our commitment?

- Contribute to sustainable development through eco-efficiency, rational use of natural and energy resources, minimisation of environmental impact, promotion of innovation and use of the best available technologies and processes.
- Contribute to the mitigation of and adaptation to climate change through low-carbon and renewable energies, promotion of savings and energy efficiency, application of new technologies.
- Integrate environmental criteria in business processes, new projects, activities, products and services, as well as in the selection and evaluation of suppliers.
- Minimise the adverse effects on ecosystems and promote the conservation of biodiversity.
- Promote the efficient and responsible use of energy and natural resources, establishing activities to improve their management in the framework of the circular economy.

- Guarantee the prevention of pollution through continuous improvement and using the best techniques available as well as analysing, controlling and minimising environmental risks.

The previous commitments of the Corporate Responsibility Policy are developed in the Global Environmental Policy approved in the first half of 2019 and which applies to all countries and businesses, where it is established that, from its potential to contribute to environmental protection, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a model of a circular, low-carbon and digital economy. To this end, four strategic environmental axes are established:

- Governance and environmental management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Natural capital and biodiversity.

Naturgy's basic principles of action in these axes are explained later in the corresponding sections.

As a complement to the Global Environmental Policy, in the second half of 2019 the Environmental Plan was approved, which defines the action lines to be developed within the framework of the Strategic Plan to 2022; the monitoring indicators and objectives are summarised in the table below:

Action	Indicator	Units	Objective
Strengthening governance in environment and climate change	Percentage of industrial Ebitda certified in ISO 14001	%	Have a percentage of industrial Ebitda certified under ISO 14001 of at least 90% by 2022
Reduction of greenhouse gas emissions	Absolute GHG emissions scope 1 and scope 2	million tCO ₂ e	Reduce emissions by 21% in 2022 compared to 2017
	CO ₂ intensity in power generation	tCO ₂ e/GWh	Reduce specific CO ₂ emissions from power generation by 22% in 2022 compared to 2017.
	Percentage of the generation mix from renewable sources measured in installed power over the total of the group.	%	Have, by 2022, a percentage of renewable power in electricity generation higher than 34%.
Renewable gas and boosting the circular economy	Total water consumption	hm ³	Reduce water consumption by 20% in 2022 compared to 2017.
	Total waste production (hazardous + non-hazardous).	kt	Reduce total waste production (hazardous + non-hazardous) by 70% in 2022 compared to 2017.
	Percentage of total waste recycled and recovered (hazardous + non-hazardous).	%	Double the percentage of waste recycled and recovered by 2022 compared to 2017.
Protection of biodiversity and development of natural capital.	Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling).	Nº	Conduct at least 300 biodiversity initiatives per year.

It is important to note that the absolute emissions and GHG intensity targets are aligned with the global objective of keeping the temperature rise below 1.5°C.

In the following section, most of these indicators are monitored and the rest are analysed in the Corporate Responsibility Report, where annual fulfilment of the objectives is assessed.

How do we measure our performance?

	Unidad	2019	2018
Direct greenhouse gas emissions (GHG)	MtCO ₂ eq	15.4	18.3
Emission factor for electricity generation	tCO ₂ /GWh	301	342
Installed capacity free of emissions ¹	%	30.1	27.5
Net production free of emissions ¹	%	27.0	24.9
Activity with environmental certification ²	%	88.7	88.7
Water consumption	hm ³	20.0	26.5
Consumption of raw materials	Kt	5,503	6,718
Natural gas	Kt	4,897	4,736
Coal	Kt	297	1,630
Petroleum derivatives	Kt	309	352
Uranium	Kt	0.01	0.01
Direct energy consumption ³	GWh	58	61
Indirect energy consumption ⁵	GWh	632	641
Natural gas (final use of natural gas distributed/commercialized)	TWh	567	578
Electricity (for generated electricity supplied)	TWh	65	63
Resources targeted at the prevention of environmental risks ⁴	Million Euros	546	494

1 Includes hydroelectric, wind, nuclear and solar generation.

2 Percentage of Ebitda certified with regard to that which is certifiable. The Ebitda used to calculate this percentage corresponds to the end of November.

3 It includes consumption of renewable, non-renewable and electricity resources and separates the electricity and the heat sold.

4 All environmental expenditures and investments have been considered. Since 2018 the criterion has been changed and all investment in renewable energy are included.

5 In 2019, a new concept that had not been considered in previous years has been included, the indirect consumption of energy by generation of supplied electricity. To be able to compare it, the data has been calculated for the previous years.

Provisions and guarantees for environmental risks

The company makes financial provisions to cover the materialisation of potential environmental risks. In addition, Naturgy has guarantees to cover the occurrence these risks in the insurance policies it has taken out. Specifically, the insurance policies that the company has contracted and in which there is environmental coverage are:

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: Limit of Euros 520 million per loss event.
- Protection and compensation insurance: maximum limit of US dollar 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

What are our main milestones in 2019?

- Approval of the Global Environmental Policy.
- Approval of the Environmental Plan 2018-2022, with actions, monitoring indicators and global objectives to strengthen environmental and climate change governance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Recognition of Naturgy by CDP as a world leader for its action against climate change (2018 A List), the only Spanish energy company awarded this recognition.
- Application for closure of all coal-fired power stations.
- Growth of renewable power with low or zero emission.
- Development of renewable gas projects.
- Promotion of sustainable mobility.
- Extension of the biodiversity actions and plans.

- Progress in the certification of new environmental management systems pursuant to the ISO 14001.
- Implementation in the gas distribution network in Spain of a new, more precise methodology for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

What are our goals for 2020?

- Growth of renewable energies, in line with the goal of the Strategic Plan 2018-2022 to contribute to the decarbonisation of the electricity generation mix.
- Closure of the coal-fired power stations in the first half of 2020 contributing to the mitigation of climate change and to the energy transition.
- Promote innovation and the development of renewable gas projects as an energy and storage vector that facilitates the transition to a circular and decarbonised energy model.
- Offer sustainable mobility solutions for cities and land and maritime transport that improve air quality.
- Protect biodiversity in operations, applying a preventive approach, implementing best practices and encouraging the creation of natural capital.

Analysis of the 2019 results

1. Governance and environmental management

Environmental governance and management is a strategic pillar for Naturgy, which expresses its commitment in the Corporate Responsibility Policy approved by the Board of Directors and developed in the Global Environmental Policy, which was approved in the first half of 2019. The policy includes the company's action principles, with an emphasis on promoting the sustainable development of society through the supply of competitive, safe energy and with the utmost respect for the environment.

The action principles in governance and environmental management are the follows:

- Ensure compliance with environmental legislation and more stringent voluntary requirements; anticipate, as far as possible, adaptation to new regulations.
- Prevent pollution and reduce environmental impacts along the value chain by encouraging the involvement of employees, collaborating companies and stakeholders.
- Integrate the environment into management of risks and opportunities, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
- Establish targets that drive continuous improvement in environmental performance.
- Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
- Promote transparency, in line with international reporting standards, to facilitate communication with our stakeholders.
- Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive dialogue with Public Administrations, NGOs, universities, customers and other stakeholders.

The most significant current and foreseeable effects of the company's activities on the environment are the following:

- Contribution to climate change.
- Pollution of air, water and land.
- Consumption of non-renewable raw materials.
- Biodiversity loss.

To minimise these effects, Naturgy employs a preventive approach throughout the entire value chain of its business:

- Certified and externally-audited environmental management system aimed at preventing pollution and reducing environmental impacts, involving employees, suppliers and other stakeholders.

During the design phase of new facilities and during dismantling, the environmental conditions of the surrounding area are studied and the projects are adapted, including the necessary preventive, corrective and compensatory measures. During the operational phase, strict monitoring is

performed to ensure compliance with legislation and to maintain impacts within the limits set.

- Integration of the environment in the management of risks and opportunities and in the decision-making processes, paying special attention to climate change and the energy transition.

To ensure consistency and uniformity in the company's key environmental management processes, there are global methodologies and tools that are used in different businesses and geographies, including the following:

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafety, for recording and management of the findings, nonconformities, observations and opportunities to improve environmental management.
- Enablon, for recording and centralized management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc. The system is also used to monitor environmental targets and action plans.
- Geographical information system of biodiversity, showing the protected natural areas, the group's facilities and the initiatives carried out to protect and improve natural capital.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of group activities.
- DAMAS, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and supervised to reduce environmental impact and for continuous improvement.
- Environmental audits, both external and internal, conducted within the scope of the integrated management system.
- Specific tool for climate change management tool.

Integrated Management System

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards. This system is audited externally every year.

In 2019 this audit was carried out by AENOR in all businesses and countries.

The processes certified through this system are:

- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Transportation of electricity.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving customer service, billing and collection and training.
- Building maintenance.

In addition, the energy services activity included in wholesale and retail commercialisation of natural gas and electricity is certified in the energy management system according to ISO 50001.

Environmental risk management

Naturgy identifies, records and analyses all the environmental risks and events that have occurred in order to define, apply and disseminate preventive measures to reduce potential damage to the environment. To do this, facilities with environmental risk are assessed using recognised standards as a reference. The first

element for management are self-protection plans and their associated procedures, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations that can cause environmental damage. In addition, there are global and uniform procedures and systems in the different businesses and geographies for reporting, classifying, monitoring and managing environmental events, including the tool Prosafety.

This methodology allows not only an adequate and uniform monitoring of environmental events, but also the identification, analysis, development, application and exchange of preventive measures and best practices in risk management at a global level.

For management of the climate change risk, Naturgy has a specific tool, developed in Ms Excel and @Risk, which allows us to estimate the group's exposure to risks at an aggregate level and broken down by business and geography. This tool analyses the impact of climate change on different businesses and technologies, over time periods (short, medium and long term) and geographies. This allows us to estimate the impact of different climate change scenarios (IPCC) through different indicators:

- Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- Environmental: emissions of CO₂.
- Business: market shares and penetration levels.
- Economic: impact forecasts on level of revenue, Ebitda, cash flow and present value of the business, as well as estimates of the value at risk for different confidence levels.

In addition, it means we can simulate new scenarios based on new products or services, the implementation of R&D&I actions, generating different scenarios to assess the impact beforehand in order to take the right decisions.

2. Climate change and energy transition

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less CO₂-intensive energy products and services to help mitigate climate change and the energy transition. The principles actions in climate change and energy transition are the follows:

- Promote renewable energies, natural gas and energy savings and efficiency as key elements towards a low carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Within the Environmental Plan, Naturgy has a voluntary objective for the reduction of GHGs: to reduce scope 1 and 2 emissions by 21% in 2022 with respect to 2017 values. This target is aligned with science to avoid an increase in temperature above 1.5 °C.

The main strategic lines of action in terms of climate to reduce GHG emissions are:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Close down the coal-fired power stations.
- Promote natural gas as an alternative to the most emitting fossil fuels.
- Promoting energy efficiency at our customers.
- Promote sustainable mobility that reduces GHG emissions and also air pollution, helping to improve air quality.
- Exploring and developing technologies to reduce emissions.

For management of climate change, the following means are available:

- Climate change risk management tool.

- Climate change and energy transition objectives included in the Environmental Plan.
- Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the group's carbon footprint.
- Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indices on climate change, such as the CDP.
- Participation in the following initiatives related to climate action:
 - Carbon Pricing Leadership Coalition (CPLC).
 - Caring for Climate.
 - Statement on fiduciary duty and climate change disclosure.
 - Corporate commitment with the Science Based Targets climate policy initiative.

3. Circular economy and eco-efficiency

Naturgy promotes the circular economy through the efficient use of resources to reduce environmental impacts. The main action principles for the circular economy and eco-efficiency are as follows:

- Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
- Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and low-carbon economic model.

Within the framework of the integrated management system, Naturgy develops management and control procedures aimed at minimising the consumption of resources and the generation of waste. That is disposed of in landfills, through prevention, reuse, recycling and/or energy recovery.

As far as energy consumption is concerned, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both at its own facilities and at its customers, contribute to reducing the environmental impact of unconsumed energy.

Water is another of the natural resources used, with most of the water collected for the processes being returned to the environment. In order to manage this resource properly, a risk assessment was carried out on water management, where the use of water by the facilities and the characteristics of the environment in which they are located were analysed, categorizing them according to water stress.

Depending on its origin, the main source of supply is the sea, with fresh water accounting for a much smaller contribution. In global terms, most water consumption is due to the operation of the thermal power stations, in particular to the evaporation of water in the cooling towers. It is important to note that Naturgy, aware of the water stress or scarcity of water in the environments of some of its thermal power stations, introduced systems for the reuse of wastewater from cities or other industries in these facilities.

Regarding effluent discharges, at power stations we monitor and analyse not only the effluents, but also of the waters of the environment receiving the effluent discharges. The treatment equipment and systems worked as planned in 2019, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made.

According to the data in the 2018 Corporate Responsibility Report, the trend with regard to waste is positive, as both the production of waste and the amount of waste going to landfill or being incinerated without energy recovery is decreasing. Most of the waste produced in 2018 (441.4 kt), 52% of which was ash and cinders from coal-fired power stations, was non-hazardous. The rest (8.4 kt) was hazardous waste. For operational reasons, data on waste generated in 2019 is not currently available. However, it is expected that in 2019 the trend will continue and the total amount of waste produced will be reduced, mainly due to lower coal generation (82% compared to 2018), as this is the main source of waste. In any case, detailed waste information will be made public in the 2019 Corporate Responsibility Report

Moreover, numerous innovation initiatives are under development in the field of renewable gas, in order to promote this new energy vector. There are two sources of renewable gas. On the one hand, surplus renewable electricity at times of high production and reduced consumption, which are transformed into hydrogen through electrolysis of water. This process does not emit CO₂ and transforms water into hydrogen and oxygen molecules using electricity generated totally by CO₂-free sources. This hydrogen can be used

as a direct fuel or converted into synthetic methane. The second source is organic waste from domestic waste or wastewater, farms, agriculture or food industries. This organic waste, which is subjected to a process of anaerobic digestion, is converted into a biogas, with a low concentration of methane, which is then subjected to a concentration process until it reaches the quality required for injection into the gas grids. Although the use of biogas is not new, the main innovation of the process is the second stage of “upgrading”, which raises the concentration of methane to the required quality in the gas networks, allowing its injection, transport and use at points far from those of production, commoditizing it for different uses, such as electricity generation, transport, industry and in the residential and commercial sectors.

The benefits of renewable gas include the reduction of greenhouse gas emissions, which can even be negative, depending on the source of the waste from which it is produced. Thus, the use of renewable gas would be a CO₂ sink, i.e. it would succeed in removing CO₂ from the atmosphere. This happens because organic waste is naturally decomposed by methane-generating bacteria. Since methane has about twenty-five times the global warming potential of CO₂, its use as a fuel reduces the climate impact by the same amount. In addition, the environmental management of such conflicting organic waste as livestock droppings, slurry, manure, chicken droppings, etc., sewage sludge or the organic fraction of domestic waste is improved, also avoiding the undesirable effects that these produce, such as water pollution, odours, etc. In the process, a by-product, the digestate, is also generated, which is an excellent fertilizer and can be introduced into the market, thus completing the logic of the circular economy. From the economic point of view, the advantages are also obvious, as it constitutes a new business model that supports rural development and the establishment of employment and population in agricultural and livestock environments, through the development of new projects and facilities. As far as security of supply is concerned, the impact is clearly positive, reducing the country’s external energy dependence and, therefore, its energy bill.

With regard to light and noise pollution and food waste, following the materiality analysis conducted by the company, these issues have not emerged as matters of the utmost importance, nor as other relevant issues for the company, which is why no information is included in this regard.

4. Natural capital and biodiversity

Naturgy is committed to the preservation of natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species. The main action principles for the natural capital and biodiversity are as follows:

- Respect natural capital, biodiversity and cultural heritage in the environments where the group operates.
- Move towards no net loss of biodiversity, with a preventive approach (hierarchy of impact mitigation), implementing best practices and promoting the creation of natural capital.

The key impacts on biodiversity that may arise from the company’s operation in the area of the sites and in the areas adjacent to them, are the following:

- Temporary condition affecting the fauna present in the environment, as a consequence of the construction of transportation and distribution infrastructure of gas and electricity.
- Permanent condition affecting bird life and arboreal vegetation, as a result of the operation of transport networks and the distribution of electricity.
- Impact on the abiotic and biotic environment of the environments around the facilities, as a consequence of emissions arising from combustion.
- Condition affecting the populations of species present in the environment, as a consequence of changes in land use and the permanent presence of the facilities in the natural environment.
- Effect on the aquatic environment, as a result of effluent discharges.
- Relevant effect on biodiversity (positive and negative), as a consequence of the creation of reservoirs associated with hydraulic power stations.

The development of Naturgy’s activities requires the occupation of land. When the facilities are being designed, environmental impact studies are conducted, in which the protected areas that have a high ecological value are analysed, adapting the project to avoid or minimise the impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced. Introducing additional voluntary measures contributes to the knowledge and mitigation of

the impacts arising from the development of new projects and the operation of the facilities once they have been introduced. The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

In addition, in the areas surrounding the facilities, especially in those that are close to protected areas or of high value for biodiversity, studies are carried out to improve the knowledge of the natural spaces and to reduce impacts.

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity measures carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

7.5 Interest in people

What does it mean for Naturgy? Risks and management approach

For Naturgy it is essential to foster a quality working environment, based on respect, diversity and personal and professional development. Naturgy also has a Code of Ethics that establishes the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the group's relations and interactions with its stakeholders.

Persons that suffer any kind of discrimination or do not feel themselves to be fairly rewarded tend to reduce their pride of belonging and lower their productivity.

With regard to attracting and retaining talent, the new profiles of workers do not have an internalised sense of belonging to the company and are looking for a job with which they feel fulfilled, so it is no longer sufficient to offer a suitable salary and development plan, and instead companies must offer a series of social benefits to employees and have values for society with which workers can identify. Companies that do not adapt to this reality may not attract the right talent to their organisations.

The major transformation of the energy sector and digitalisation require new expertise and skills which, if they are not covered in a flexible way, would place the company at a disadvantage with its competitors, with the resulting consequences this could have on the business.

What is our commitment?

- To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, work history, etc.).
- To encourage the professional development of persons as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To promote the effective introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of persons.
- To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

How do we measure our performance?

Distribution of employees by age group, country, gender, and professional category

	2019											
	Nº employers	Age			Management team		Middle managers		Technicians		Operators	
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)
Argentina	1,175	23.8	38.0	38.2	3.7	0.9	12.4	4.2	14.9	6.8	42.1	15.0
Australia	10	33.3	55.6	11.1	-	-	11.1	-	22.2	-	55.6	11.1
Belgium	3	100.0	-	-	33.3	-	-	33.3	-	33.3	-	-
Brazil	456	21.5	63.5	14.9	4.8	3.7	8.4	5.9	21.3	16.3	27.5	12.1
Chile	2,471	21.0	48.9	30.1	2.9	0.8	12.9	3.1	31.8	10.6	25.2	12.7
Colombia	71	32.4	50.7	16.9	8.5	15.5	5.6	9.9	16.9	25.4	8.5	9.9
Costa Rica	20	15.8	63.2	21.1	-	-	5.3	-	10.5	-	78.9	5.3
Spain	6,017	9.2	61.8	29.0	10.9	4.6	15.2	4.9	20.5	16.2	17.5	10.3
France	53	54.7	45.3	-	13.2	3.8	9.4	5.7	24.5	35.8	1.9	5.7
Netherlands	7	50.0	50.0	-	-	-	16.7	16.7	33.3	16.7	16.7	-
Ireland	37	43.8	46.9	9.4	12.5	-	12.5	6.3	40.6	25.0	3.1	-
Israel	16	71.4	21.4	7.1	-	-	21.4	7.1	50.0	7.1	14.3	-
Morocco	93	8.6	36.6	54.8	4.3	1.1	40.9	2.2	11.8	2.2	26.9	10.8
Mexico	874	32.7	58.0	9.2	5.8	2.2	17.9	3.9	26.8	11.0	22.3	10.1
Panama	357	35.3	38.1	26.6	4.8	2.5	23.4	12.4	14.4	9.9	22.3	10.2
Peru	21	42.9	52.4	4.8	-	4.8	14.3	4.8	33.3	14.3	9.5	19.0
Portugal	17	29.4	70.6	-	-	5.9	-	-	23.5	52.9	-	17.6
Puerto Rico	4	25.0	25.0	50.0	50.0	-	-	-	-	-	-	50.0
Dominican Republic	75	14.7	65.3	20.0	-	2.7	25.3	9.3	2.7	8.0	49.3	2.7
Singapore	12	75.0	25.0	-	25.0	-	-	-	50.0	12.5	-	12.5
Uganda	58	66.7	26.3	7.0	1.8	-	35.1	3.5	5.3	-	45.6	8.8

The number of employees column contains the staff at year-end with centralised and non-centralised management by its percentage of participation; the rest of the information refers to the staff managed which are the staff of the companies integrated by the global integration method of consolidation.

The companies consolidated through the equity method and which do not provide a headcount breakdown would total 555 employees, distributed as follows: Spain 361, Egypt 87, Puerto Rico 29 and Kenya 78.

	2018											
	Nº employers	Age			Management team		Middle managers		Technicians		Operators	
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)
Germany	7	14.3	57.1	28.6	-	-	-	-	71.4	28.6	-	-
Argentina	767	21.3	37.4	41.3	3.7	0.8	13.7	3.5	15.1	4.8	45.0	13.4
Australia	8	50.0	37.5	12.5	-	-	-	-	25.0	-	62.5	12.5
Belgium	3	66.7	33.3	-	33.3	-	-	33.3	-	33.3	-	-
Brazil	478	25.7	61.5	12.8	5.2	2.9	12.8	7.1	15.5	11.5	29.3	15.7
Chile	3,046	27.2	49.1	23.7	2.2	0.8	12.6	3.2	26.5	11.0	33.7	10.0
Colombia	84	36.9	48.8	14.3	10.7	13.1	6.0	9.5	17.9	22.6	8.3	11.9
Costa Rica	20	20.0	65.0	15.0	5.0	0.0	5.0	0.0	10.0	0.0	75.0	5.0
Spain	6,532	11.1	59.9	29.0	11.0	4.4	15.2	4.6	19.9	15.0	19.2	10.6
France	66	57.6	40.9	1.5	10.6	3.0	6.1	7.6	28.8	31.8	3.0	9.1
Netherlands	7	28.6	71.4	-	14.3	-	14.3	-	28.6	28.6	14.3	-
Ireland	40	50.0	45.0	5.0	12.5	2.5	12.5	5.0	32.5	27.5	7.5	-
Israel	15	73.3	26.7	-	-	-	13.3	6.7	53.3	26.7	-	-
Morocco	93	7.5	43.0	49.5	3.2	1.1	39.8	2.2	11.8	2.2	29.0	10.8
Mexico	989	37.1	54.5	8.4	5.8	1.3	16.5	4.0	23.7	10.5	27.2	11.0
Panama	362	37.0	36.2	26.8	5.0	2.5	21.3	9.9	12.7	11.6	25.4	11.6
Peru	21	52.4	42.9	4.8	-	4.8	14.3	4.8	33.3	14.3	9.5	19.0
Portugal	18	38.9	61.1	-	-	11.1	-	-	16.7	44.4	5.6	22.2
Puerto Rico	5	20.0	20.0	60.0	40.0	-	40.0	-	-	-	-	20.0
Dominican Republic	84	19.0	66.7	14.3	1.2	2.4	23.8	9.5	3.6	7.1	50.0	2.4
Singapore	4	75.0	25.0	-	25.0	-	-	-	75.0	-	-	-
Uganda	51	66.7	29.4	3.9	2.0	-	39.2	5.9	-	2.0	43.1	7.8

Total number and distribution of employment contract types, annual average of indefinite, temporary and part-time contracts by age, gender and professional category¹.

¹ The number of permanent and temporary contracts is calculated using the fixed/temporary classification obtained from the HR master file extracted from the HRM software tool on the last day of each month. The calculation of the average is done by taking all the personnel master files of each month and calculating the annual average.

In the Naturgy Group there are no part-time contracts, all contracts are full-time.

Number of contracts by gender and type at 31 December				2019
	Men	Women	Total employees	
Indefinite full-time	7,751	3,701	11,452	
Indefinite part-time	-	-	-	
Total Indefinite	7,751	3,701	11,452	
Temporary full-time	122	80	202	
Temporary part-time	-	-	-	
Total temporary	122	80	202	
Total full-time	7,873	3,781	11,654	
Total part-time	-	-	-	

Annual average of contracts by gender and type				2019
	Men	Women	Total employees	
Indefinite full-time	8,050.2	3,666.7	11,716.8	
Indefinite part-time	-	-	-	
Total Indefinite	8,050.2	3,666.7	11,716.8	
Temporary full-time	134.9	92.9	227.8	
Temporary part-time	-	-	-	
Total temporary	134.9	92.9	227.8	
Total full-time	8,185.1	3,759.6	11,944.7	
Total part-time	-	-	-	

Number of contracts by age and type at 31 December					2019
	18-35 years	36-50 years	>50 years	Total employees	
Indefinite full-time	1,896	6,336	3,220	11,452	
Indefinite part-time	-	-	-	-	
Total Indefinite	1,896	6,336	3,220	11,452	
Temporary full-time	113	84	5	202	
Temporary part-time	-	-	-	-	
Total temporary	113	84	5	202	
Total full-time	2,009	6,420	3,225	11,654	
Total part-time	-	-	-	-	

Annual average of contracts by age and type					2019
	18-35 years	36-50 years	>50 years	Total employees	
Indefinite full-time	2,092.5	6,485.5	3,138.8	11,716.8	
Indefinite part-time	-	-	-	-	
Total Indefinite	2,092.5	6,485.5	3,138.8	11,716.8	
Temporary full-time	139.9	82.4	5.5	227.8	
Temporary part-time	-	-	-	-	
Total temporary	139.9	82.4	5.5	227.8	
Total full-time	2,232.5	6,567.9	3,144.3	11,944.7	
Total part-time	-	-	-	-	

Number of contracts by professional category and type at 31 December					2019
	Executive	Technicians	Administrative/Operators	Total employees	
Indefinite full-time	1.223	6.340	3.889	11.452	
Indefinite part-time	-	-	-	-	
Total Indefinite	1.223	6.340	3.889	11.452	
Temporary full-time	3	124	75	202	
Temporary part-time	-	-	-	-	
Total temporary	3	124	75	202	
Total full-time	1.226	6.464	3.964	11.654	
Total part-time	-	-	-	-	

Annual average of contracts by professional category and type				2019
	Executive	Technicians	Administrative/Operators	Total employees
Indefinite full-time	1,243.8	6,366.8	4,106.2	11,716.8
Indefinite part-time	-	-	-	-
Total Indefinite	1,243.8	6,366.8	4,106.2	11,716.8
Temporary full-time	2.2	129.4	96.2	227.8
Temporary part-time	-	-	-	-
Total temporary	2.2	129.4	96.2	227.8
Total full-time	1,246.1	6,496.2	4,202.4	11,944.7
Total part-time	-	-	-	-

The information published in 2018 does not allow for comparisons with the data for 2019, when the calculation of this indicator was further developed. However, the data for 2018 are provided:

% plantilla por tipo de contrato	2018	Annual average of temporary contract staff by professional category		2018		Annual average of temporary contract staff by age	2018	
		Men	Women	Men	Women		Men	Women
Permanent contracts	Men	67.7	Executive	2	-	18-35	137	92
	Women	30.1	Technicians	102	70	36-50	68	38
Temporary contracts	Men	1.2	Administrative	-	-	>50	9	2
	Women	1	Operators	110	62	Total	214	132
Total	100.0	Total	214	132				

Voluntary rotation index

		2019	2018
Rotation index	Rotation (%)	11.7	17.4
	Voluntary rotation (%)	2.7	2.5

Number of dismissals by age group, gender, and professional category

Number of dismissals by age group, gender, and professional category						2019
	Professional category			Age		
	Executive	Technicians	Administrative/Operators	18-35	36-50	>50
Men	8	113	219	105	163	72
Women	2	20	27	21	21	7
Total	10	133	246	126	184	79

Number of dismissals by age group, gender, and professional category						2018
	Professional category			Age		
	Executive	Technicians	Administrative/Operators	18-35	36-50	>50
Men	9	111	70	60	72	58
Women	2	32	55	23	44	22
Total	11	143	125	83	116	80

Salary gap

The salary gap measure, according to which a percentage greater than zero represents the percentage that women earn less than men, is detailed below.

Salary gap (fixed) ¹	2019			
	Executive	Technicians	Administrative	Operators
Argentina	22.9%	6.3%	8.9%	15.3%
Brazil	3.8%	14.7%	42.9%	23.8%
Chile	46.2%	8.1%	18.8%	34.4%
Colombia	(4.8%)	5.5%	(3.8%)	-
Spain	11.5%	6.3%	7.9%	23.1%
France	34.6%	13.2%	(0.6%)	-
Ireland	-	18.7%	-	-
Morocco	3.2%	(5.4%)	1.5%	-
Mexico	(13.8%)	1.3%	(32.0%)	9.3%
Panama	(18.1%)	(12.7%)	0.5%	-
Portugal	-	16.8%	-	-
Dominican Republic	-	(3.9%)	23.4%	-

¹ Includes only fixed remuneration.

Salary Gap (fixed) ¹	2018			
	Executive	Technicians	Administrative	Operators
Argentina	21.41%	12.76%	11.58%	17.78%
Brazil	22.71%	14.70%	-	24.05%
Chile	38.14%	6.07%	17.95%	19.47%
Colombia	10.24%	28.01%	(2.42%)	-
Spain	13.09%	4.57%	6.23%	13.23%
France	23.68%	18.06%	8.21%	-
Ireland	38.89%	19.64%	-	-
Morocco	4.47%	6.74%	7.14%	-
Mexico	4.50%	(2.11%)	(26.63%)	(30.11%)
Panama	(20.45%)	(16.11%)	15.86%	-
Portugal	-	(10.03%)	22.69%	-
Dominican Republic	21.41%	12.76%	11.58%	17.78%

¹ Includes only fixed remuneration.

Salary Gap (fixed and variable) ¹	2019			
	Executive	Technicians	Administrative	Operators
Argentina	28.3%	0.9%	8.4%	14.0%
Brazil	1.9%	15.5%	42.5%	23.6%
Chile	49.6%	7.4%	25.5%	34.4%
Colombia	29.7%	5.9%	(1.6%)	-
Spain	13.1%	6.1%	7.9%	23.1%
France	37.5%	15.2%	11.8%	-
Ireland	-	25.1%	-	-
Morocco	2.4%	1.2%	(2.2%)	-
Mexico	1.4%	0.9%	(30.7%)	2.9%
Panama	(18.1%)	(12.7%)	0.5%	-
Portugal	-	18.5%	-	-
Dominican Republic	-	1.2%	24.4%	-

¹ Includes fixed remuneration and variable remuneration

Average remuneration by age group, gender, and professional category ¹.

¹ In the case of average remuneration, the category Administrative has been considered, since it corresponds to the professional group "management/support" of the salary tables included in the collective agreement. In addition, in the tables in the previous section, which refer to the types of contract and number of employees, among other data, these Administrative staff are included in the Operators and Technicians groups, as none of the work they perform is considered administrative.

Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

Fixed Remuneration								2019	
	Executive		Technicians		Administrative		Operators		
	Men	Women	Men	Women	Men	Women	Men	Women	
Argentina	66,367	51,175	22,190	20,786	16,260	14,816	17,634	14,932	
Brazil	45,942	44,187	21,369	18,236	29,378	16,781	14,631	11,154	
Chile	138,027	74,262	34,226	31,453	19,211	15,598	15,711	10,308	
Colombia	76,374	80,023	13,092	12,368	6,632	6,882	-	-	
Spain	88,872	78,672	49,835	46,700	39,094	36,020	37,981	29,207	
France	108,274	70,856	51,926	45,066	31,815	32,020	-	-	
Ireland	118,086	-	59,266	48,212	-	-	-	-	
Morocco	82,528	79,917	28,072	29,591	11,169	11,000	12,610	-	
Mexico	39,430	44,889	18,050	17,808	7,524	9,931	7,457	6,761	
Panama	42,099	49,719	18,764	21,143	19,675	19,577	15,458	-	
Portugal	-	80,882	39,344	32,719	-	24,768	-	-	
Dominican Republic	-	72,209	23,692	24,628	12,670	9,703	12,560	-	

Includes only fixed remuneration.

Fixed Remuneration								2018	
	Executive		Technicians		Administrative		Operators		
	Men	Women	Men	Women	Men	Women	Men	Women	
Argentina	59,279	46,587	22,995	20,060	17,868	15,799	20,135	16,555	
Brazil	51,148	39,534	21,571	18,399	-	18,494	14,887	11,306	
Chile	156,804	96,992	46,327	43,515	28,184	23,125	17,951	14,456	
Colombia	83,685	75,116	15,804	11,377	6,156	6,305	-	-	
Spain	102,177	88,797	45,203	43,135	33,346	31,269	31,691	27,498	
France	100,743	76,888	52,909	43,353	35,231	32,339	-	-	
Ireland	99,000	60,500	56,000	45,000	-	-	-	-	
Morocco	93,061	88,902	34,577	32,248	13,090	12,155	17,532	-	
Mexico	33,186	31,693	14,442	14,747	6,828	8,646	6,567	8,544	
Panama	38,576	46,463	17,256	20,036	18,896	15,899	14,128	-	
Dominican Republic	-	73,110	23,216	25,545	12,210	9,439	11,946	-	

Includes only fixed remuneration.

Fixed and variable Remuneration								2019	
	Executive		Technicians		Administrative		Operators		
	Men	Women	Men	Women	Men	Women	Men	Women	
Argentina	85,380	61,258	23,382	23,161	16,508	15,119	17,709	15,221	
Brazil	52,054	51,074	24,187	20,435	31,043	17,862	15,663	11,965	
Chile	164,176	82,754	36,704	34,000	22,134	16,480	16,219	10,646	
Colombia	148,985	104,717	15,643	14,719	8,508	8,648	-	-	
Spain	114,090	99,173	51,887	48,705	39,094	36,020	37,982	29,207	
France	132,735	82,902	59,679	50,637	37,917	33,444	-	-	
Ireland	168,869	-	80,309	60,122	-	-	-	-	
Morocco	98,152	95,782	34,924	34,504	13,443	13,743	18,196	-	
Mexico	53,594	52,856	21,445	21,247	8,400	10,983	7,612	7,387	
Panama	42,081	49,698	18,757	21,135	19,668	19,570	15,451	-	
Portugal	-	97,882	51,556	42,023	-	27,493	-	-	
Dominican Republic	-	88,337	26,246	25,920	13,438	10,159	12,998	-	

Includes fixed remuneration and variable remuneration

Fixed and variable Remuneration	2019		
	18-35 years	36-50 years	> 50 years
Argentina	14,443	18,924	21,958
Brazil	6,652	10,444	12,065
Chile	20,698	31,131	30,695
Colombia	9,661	34,222	110,120
Spain	34,879	49,140	61,252
France	42,475	62,876	63,319
Ireland	35,191	68,708	75,868
Morocco	15,259	35,529	39,935
Mexico	15,638	18,944	18,434
Panama	19,251	27,066	30,559
Portugal	41,691	46,361	-
Dominican Republic	11,604	19,690	22,190

Includes fixed remuneration and variable remuneration

Fixed and variable Remuneration	2018		
	18-35 years	36-50 years	> 50 years
Spain	34,446	48,698	56,566

Includes fixed remuneration and variable remuneration Data on average pay by age group are only available for Spain for 2018.

Average remuneration of executives

The remuneration of the executives of Naturgy is detailed in an individual basis in Note 36 of the Consolidated annual accounts.

The average remuneration of executives detailed by gender and tipology during 2019 and 2018 exercises are as follows:

Thousand euros	2019		2018	
	Men	Women	Men	Women
Executive ¹	1,100	-	1,056	-
Independent/Dominical	262	235	288	229

¹ It does not include remuneration for executive functions.

Employees with disabilities

	2019	2018
	Percentage	Percentage
Germany	-	-
Argentina	0.5	0.8
Australia	-	-
Belgium	-	-
Brazil	2.9	-
Chile	0.5	0.2
Colombia	-	-
Costa Rica	-	-
Spain	2.3	2.4
France	-	1.5
Netherlands	-	-
Ireland	-	-
Israel	-	-
Morocco	1.1	1.1
Mexico	0.6	-
Panama	1.4	1.7
Peru	-	-
Portugal	-	-
Puerto Rico	-	-
Dominican Republic	-	-
Singapore	-	-
Uganda	-	-

Percentage of employees covered by collective bargaining agreements

The II Naturgy Collective Bargaining Agreement applies to all active workers in all Naturgy Group companies in Spain, except for Exempt and Excluded Personnel.

The following are considered exempt personnel: Directors, Deputy Directors and Department Heads of the company's structure, whose employment relationship is regulated by the provisions of their individual employment contracts.

Those workers who are not exempt from the agreement and who occupy positions of special dedication are considered to be exempt personnel. Excluded personnel have their employment relationship regulated by means of an individual employment contract in which their desire to be excluded from the agreement is reflected.

	2019		2018	
	Not covered by collective bargaining agreements (%)	Covered by collective bargaining agreements (%)	Not covered by collective bargaining agreements (%)	Covered by collective bargaining agreements (%)
Germany	-	-	-	100.0
Argentina	28.6	71.4	19.3	80.7
Australia	-	100.0	-	100.0
Belgium	-	100.0	33.3	66.7
Brazil	27.0	73.0	25.5	74.5
Chile	5.0	95.0	4.6	95.4
Colombia	46.5	53.5	47.6	52.4
Costa Rica	-	100.0	-	100.0
Spain	32.8	67.2	32.0	68.0
France	71.7	28.3	72.7	27.3
Netherlands	-	100.0	-	100.0
Ireland	100.0	-	100.0	-
Israel	-	100.0	-	100.0
Morocco	35.5	64.5	34.4	65.6
Mexico	20.8	79.2	19.0	81.0
Panama	57.3	42.7	61.9	38.1
Peru	-	100.0	-	100.0
Portugal	-	100.0	-	100.0
Puerto Rico	75.0	25.0	-	100.0
Dominican Republic	4.0	96.0	3.6	96.4
Singapore	-	100.0	100.0	-
Uganda	-	100.0	-	100.0
Total	26.0	74.0	24.1	75.9

Training

	2019	2018
Training hours	276,365.6	645,311.0
% of trained staff	85.8	91.0

	2019	2019
	Training hours	% of trained staff
Management team	34,846.5	88.0
Middle managers	75,496.8	90.3
Technicians	81,600.2	85.8
Operators	84,422.1	82.5
Total	276,365.6	85.8

What are our main milestones in 2019?

- Application of the new People Model.
- DigitalTEAM. New ways of working project.
- IMAGINAT. New work spaces project.
- Launch of the Transformational Leadership Academy.
- In-house Communication Plan focused on: corporate priorities, the executive role in communication, and fostering participation.

What are our goals for 2020?

- Development of programmes for profile assessment, development and transformation of talent.
- Comprehensive diversity programme: Gender, training, capabilities and geography.
- Measuring employee commitment.
- Development of new ways of working: transversal, multidisciplinary and light structures.

Analysis of the 2019 results

People management model

In 2019 the transformation and creation of value remain as the company's strategic pillars, advancing in the adoption of the new People Model, conceived as a dynamic ecosystem, which synchronises with coherence processes and management elements to better connect its employees with the strategic targets of Naturgy, in which the empowerment and responsibility of its employees are key pieces.

The value proposition of this model revolves around three key pieces:

1. Talent, retaining such talent, loyalty, training and development.
2. The reward and work environment model that the company offers its employees.
3. Culture and internal communication as evolutionary processes that accompany the transformation.

Specifically, the 2019 management meant advancing the Job Assessment and Compensation Model for the entire company. Likewise, the connection of the Talent and Leadership Model with Naturgy's strategic vision is produced, through simplification of the skills map, updating of the map of succession of management positions and the 360° evaluation, among others. Each of these elements is managed together with the company's different businesses, allowing the monitoring and evolution of its professionals.

With the same transformational vision, a new Training Model was launched to guarantee the adequacy of the position/person, the acquisition of knowledge linked to current needs of the organisation and the development of skills and abilities related to Naturgy's leadership model and culture.

Measures to foster employment

Naturgy has a pool of young professionals with sound technical and management training, through the annual programmes of work experience and the agreements for Dual VT. A pool that enables us to respond to the company's needs and to attract the best talent in those spheres of knowledge in which Naturgy is the leader. The company has the following programmes to promote the employability and incorporation of young talent:

- Professional practices programme: Naturgy has partnerships with the main universities and higher education centres in those countries where it operates, through which it selects young people for work experience each year.
- The Dual VT offers Naturgy the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment.
- Management staff: A further programme that the company has been running since 2012 and through which it incorporates external young professionals, ensuring the attraction of high potential professionals and high performance requirements, specifically designed to accelerate young talent.

Equality, diversity and non-discrimination

For Naturgy it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on gender diversity targets, on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

Naturgy's Corporate Equality Plan, approved together with the Trade Union Representative, published in the Official State Gazette (BOE) under Registration No. 90100073112013. It is based on 14 strengths to be maintained and 14 weaknesses to be corrected identified by outsourced experts, giving rise to 32 actions in issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and life/work balance, selection, prevention of harassment, measurement and monitoring.

Naturgy's commitment to equality has been recognised with the "Equality in the Workplace" seal (DIE) from the Ministry of the Presidency, Parliamentary Relations and Equality in November 2018, by virtue of the implementation of equal opportunity policies, through comprehensive, measurable and result-oriented equality plans. This certification is granted following a thorough process of verification of the activities related to equality, with the aim of confirming the level of excellence and mainstreaming in management.

The creation and activation of a specific protocol against harassment; the best practices protocol in the selection processes, or the communication guide for business professionals that need to intervene for some reason in the selection process, are just some of the measures introduced and which, together with the Integrated Diversity Plan, have propitiated major advances in diversity and equal opportunities.

The protocol against sexual harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire staff in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

The protocol offers a series of guarantees, inter alia the complete anonymity of the informant; the process will be completed as expeditiously as possible; the intervention of the workers' representatives may be requested and an impartial hearing guaranteed, along with fair treatment for all of the affected parties. No reprisals will be allowed and the identity of the informers will be protected.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- Informal procedure: through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- Formal procedure: through which the harassment situation is reported, following these steps:
 - Notification to the Ethics and Compliance Committee or reporting to their superior or to the people management department, who will decide whether to accept it for processing.
 - Investigation, gathering information and conducting interviews with the affected parties and witnesses, if there are any.
 - Possibility of introducing precautionary measures.

Once either procedure has been followed, a report will be drawn up on the conclusions and resolution of the procedure, which will include the corrective measures and the adoption of one of the following solutions: either the complaint will be closed or disciplinary proceedings will be initiated depending on the seriousness of the offence.

In 2019, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan which brings together specific initiatives, in all geographies and territories, for people management, classified into three areas: gender, disabilities and age.

The inclusion of people with different capabilities at Naturgy is promoted by Management itself through specific initiatives and programmes, the most relevant of which are:

- Family Plan: this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability.
- Capacitas Plan: this aims to promote the employment of people at risk of social exclusion on grounds of disability.

- Aflora Plan: this encourages those employees of Naturgy with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity.
- Bequal Plus certificate: Naturgy has been certified until 2020, duly substantiating the level of commitment to Corporate Social Responsibility and Disability.

The Naturgy Equality Plan sets out a best practices protocol to avoid discrimination in the selection processes, and which includes the following measures:

- Open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- In the publication of job offers:
 - No discriminatory terminology is used.
 - Put the feminine gender first followed by the masculine.
 - Gender separation will always be carried out with slashes.
 - Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind.
 - Only specify the need for a driving licence when the job requires this.
 - Do not use possession of own vehicle as a requirement.
 - Do not use the need to reside near the place of work as a requirement.
- In the selection process:
 - In the case of disabled candidates, make sure we have the accessibility required so that they can attend the interview with us.
 - Avoid prejudices and stereotypes associated to gender, appearance, disability, age, religion, religious beliefs of any kind.
 - Transmit the corporate image.
 - Avoid personal questions and, if necessary, justify them.
 - Avoid preferential treatment.
- In the finalisation of the process:
 - Explain the result of the process.
 - Explain the next steps if they have passed the process.
- On joining the company:
 - Inform them about the equal opportunity policies.
 - Transmit values.
 - Non-discriminatory social benefits.
- Career plans based on merits and capabilities.

In addition to these specific programmes, regular awareness-raising activities are held for employees and their families, such as the camp for employees' children with disabilities, and an inclusive calendar, among others.

Training and development

In-company training is a strategic lever for transformation, contributing to continuous learning, development and empowerment of professionals to make Naturgy's business vision a reality.

In this context, the Corporate University (CU) is a representative and backbone element of the training experience, guaranteeing the adequacy between the position and the person through the delivery of key knowledge, the connection with the latest trends, technologies and with the development of skills and abilities linked to Naturgy's leadership models and culture.

The CU training model is deployed through three academies which, in a supplementary and synergistic way, allow the company to face the training challenges of the present and future:

- The Transformational Leadership Academy (TLA): training environment focused on the Naturgy executive, directive, managerial and high potential team, the aim of which is to promote

transformational leadership, thus strengthening the role of natural accelerators of organisational and cultural change, driving the evolution of Naturgy.

- The Tech Academy (TA) guarantees the transfer of specific technical knowledge in each business, thus permitting its efficient development and at the same time ensures quality and uniformity in all countries. It offers learning programmes on new methodologies and technologies, preparing professionals to carry out their work in a digital and technologically advanced environment.
- The Extended Academy: aimed at offering training content to collaborating companies in technical matters, safety and risk prevention, legal concepts and customer orientation.

Likewise, the training offer of the CU is adapted to the demand of employees and the different businesses through the Evolution platform (Success Factor), in which all Naturgy professionals have access to online training from the company's catalogue, as well as to a set of channels and platforms for the dissemination of contents.

The guarantee of connection between the company's strategy and training is provided by the CU's Advisory Council, made up of representatives of the company's senior management and external advisors from prestigious academic institutions.

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2019. Since 2003, it has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period.

Flexibility

Naturgy is a committed company that encourages and promotes the reconciliation of work and family life of its employees. Reconciliation and joint responsibility are permanent objectives.

The group's Collective Bargaining Agreement contains a broad chapter on Social Responsibility, Equality and Reconciliation of work and family life, including measures aimed at achieving actual and effective equality between men and women. These measures, which go beyond what is legally established, allow a greater and better reconciliation of employees.

During 2019, progress has continued to be made in the implementation of policies that promote reconciliation and joint responsibility, obtaining an important achievement in this area. The agreements reached regarding the possibility of benefiting from greater flexibility in working hours, both in terms of adaptation and duration, as well as the implementation of remote work, are improving the possibilities of reconciliation and joint responsibility of our employees.

Global FRC Certification

Naturgy is the first and only company in the world to have the Global FRC Certification (Family Responsible Company) granted in 2013 by the "Masfamilia" Foundation, with the endorsement of the Ministry of Health, Consumer Affairs and Social Welfare, and audited each year by AENOR.

This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of the company with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2019, the management of the model has been deployed through 472 local measures, distributed among the different countries where it operates, and also 21 global measures, all of them integrated in the six action groups defined by the Global FRC Standard 1000/23: quality in employment, time and space flexibility, support for the employees' families, support for the personal and professional environment, equal opportunities and leadership and management style.

Time bank

Naturgy provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on other aspects of their personal life.

The wide range of services offered by the Time Bank is structured into:

- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantages club: an exclusive virtual space with more than 500 offers.
- Easylife space: outreach services and acquisition of products.
- Services available on a quotation basis.

The Naturgy Time Bank also has an Easybox that allows for management of more than 20 different services through an interactive ticketing system and a website, with the advantage of delivering and collecting at the time that suits the employee. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

New reconciliation measures

In 2019, progress has been made in the implementation of new measures to reconcile work and family life, such as greater flexibility in the working day, the possibility of adapting its duration, and the implementation of remote working, which, together with the existing measures, promote reconciliation and are a clear example of the Company's commitment to its employees.

Some of the measures implemented in Naturgy, in Spain, are:

- Paid leave that goes beyond the legal regulation, in cases of marriage, separation or divorce, marriage of parents or children, in cases of death or serious illness of relatives, in cases of moving home, cases of assisted fertilisation. Increase in the duration of breastfeeding leave or paid leave from the 38th week of pregnancy.
- Unpaid leave: in cases of assisted fertilisation, international adoptions, the repeated need to accompany relatives for medical care.
- Flexibility: in arrival and departure, in the lunch period, continuous uninterrupted working day every Friday of the year, flexible working times.
- Possibility of reduced working hours in cases other than those regulated by law.

Compensation and remuneration

The remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two remuneration models, one for employees included in the collective bargaining agreement and another for employees not included.

The management by objectives for managers and employees not included in the agreement, and variable remuneration for salespersons, are methods in place at Naturgy as incentives for employee involvement in achieving the company's targets and direct share in results.

The remuneration package of Naturgy employees is supplemented with a social benefits system, which includes a pension plan and other social benefits.

In 2019, the Total Compensation Plan was consolidated, allowing employees to personalise the composition and compensation package offered by the company. This plan, which is compatible with the flexible remuneration system, allows the employee to decide on the composition of their remuneration package, and they may choose to monetise the benefits, maintain the corresponding benefit or allocate the amount to other benefits.

The Joint Pension Plan for Employees of the Naturgy Group is a defined contribution pension plan for the contingency of retirement and a defined benefit plan for the contingencies of death and disability in service. At year end, it has assets in excess of Euros 500 million, distributed among more than 6,000 active employees, and about 2,800 suspended participants and beneficiaries.

In the international arena, the group's policy is based on the provision of retirement savings instruments and death and disability coverage whilst an active worker, taking into account the particularities and social welfare needs of each country.

By the same token, the company provides a series of social benefits that supplement employee remuneration packages, irrespective of their type of workday.

Labour relations

Respect for the freedom to join a union; fundamental rights; collective bargaining, and the agreement culture represent the key principles of what we do. Furthermore, we respect workers' representatives freely elected in all countries where the company operates, and we have also introduced communication channels with these representatives as a major part of our corporate action principles.

The collective bargaining agreements include several communications channels with representatives, under the form of committees to deal with the many and varied aspects of general interest.

One of the mechanisms for consultation and employee participation are the regular health and safety meetings held in all areas of the company. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the staff is represented at meetings.

It should be noted that the holding of these meetings is to not replace the various health and safety committees required under labour legislation and which correspond to each country. The main issues, formerly dealt with during 2018 of these kinds of meetings with the workers' representatives, were:

- Health and safety commitment.
- Analysis of the accident rate.
- Launch of new regulations.
- Comprehensive health.
- Quarterly monitoring of measures.

The consultation and participation of workers is a vital element in the management of health and safety at Naturgy, which establishes, implements and maintains specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in them.

Mainstreaming and collaborative work that promotes the commitment of the entire organisation in matters of health, safety and the environment is a key lever for the development of projects and actions aimed at transformation, innovation and improvement of activities and processes and the achievement of optimal results.

7.6 Health and safety

What does it mean for Naturgy? Risks and management approach

Naturgy plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being of people. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This not only involves people who work for Naturgy, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damage to health, providing a safe and healthy environment as well as promoting health and well-being.

The implemented health and safety management system has established mechanisms to identify and control the risks associated with our activities. The 2019 safety plan has included several relevant lines of action aimed at controlling the six most critical risk factors for accident frequency and severity. For each of these six risk factors (confined spaces, work at height, electrical risk, tree felling and pruning, cargo handling and road safety), "red lines" have been defined, non-compliance with which has been the subject of special supervision and the application of a disciplinary regime.

What is our commitment?

- Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.
- Ensure that any potential risk situations that may affect employees, suppliers, customers, the general public and the safety of facilities are brought to attention, assessed and managed in the appropriate manner.
- Work to maintain a risk-free working environment by integrating prevention of occupational risks, and the protection and promotion of health and well-being into business management.
- Establish learning as the driver of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.
- Incorporate health and safety criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Invest in new strategies of health education and health promotion, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.
- Implement measures targeted at improving the quality of life, well-being and health of people within the communities where the company operates.
- Provide the resources and necessary means to enable compliance with established safety standards at all times.

How do we measure our performance?

Accident indicators¹

	2019			2018		
	Total	Men	Women	Total	Men	Women
No. of lost time accidents (No. of employees)	14	14	-	16	15	1
Days lost of lost time accidents	704	704	-	956	932	24
Fatality	-	-	-	-	-	-
Lost time accidents frequency rate	0.12	0.18	-	0.12	0.16	0.02
Lost time accidents severity rate	6.04	8.94	-	7.13	10.05	0.58

¹ Calculated according to the OHSAs standards (indicators for every 200,000 worked hours).

Occupational illness

There have been no occupational illnesses registered in 2019 and 2018.

Absenteeism

Absenteeism data is shown for those countries that have an organisational structure or health team, or Human Resources team with people managers and that apply the Master Health Plan.

	Total Lost Hours¹	
	2019	2018
Spain	315,410	382,146
Chile	186,882	250,980
Argentina	36,184	33,912
Brazil	15,726	15,749
Colombia	1,369	3,160
Costa Rica	252	813
France	3,136	3,836
Kenya	-	1,072
Morocco	1,180	2,899
Mexico	14,424	9,840
Moldova	-	33,415
Panama	4,666	8,790
Peru	104	152
Dominican Republic	1,432	3,184
South Africa	-	54,720
Uganda	493	313
Total	581,258	804,981

¹ We have considered the hours of absenteeism for occupational illness and non-occupational illness, and the total number of hours worked in 2019 was 23,462,341.

What are our main milestones in 2019?,

- Health and safety action plan 2019.
- Horus: multi-factor analytical preventive analysis.
- Integra: exchange of best practices and learning through collaboration with collaborating companies.
- Kepler: innovation project applied to prevention.

What are our main targets for 2020?

- Migration from OHS 18001 to ISO 45001 standard.
- Maintenance of health and safety certification in all businesses and countries.
- Consolidation of the Safety Plan.
- Consolidation of the Comprehensive Health Plan for the improvement of the well-being of its employees and families.

Analysis of the 2019 results

Health and Safety Strategy

Naturgy's safety strategy, developed in collaboration with the business units, is structured through the following elements:

- A stable health and safety culture throughout the organisation.
- A relational and governance model, integrated at the highest level and with a structure of Environmental Health and Safety (EHS) committees of a transversal nature and specific to the business units, which guarantees the uniform implementation of criteria.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities, implementation and all elements that support control and monitoring.
- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.
- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.

- Training itineraries and requirements adjusted to the job, and training and awareness to achieve the commitment of the group and its collaborating companies.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.

Five lines of action on which the management system pivots:



Health and safety leadership

2019 saw approval of the Global Health and Safety Policy, which reinforces safety as a key factor of business leadership and ensures compliance with the commitments made in the Naturgy's Corporate Responsibility Policy. It places the focus on governance and links directly to Senior Management, enhancing its leadership in safety to ensure application of the model in all businesses and activities - both in-house and outsourced. In addition, the policy is linked to monitoring the evolution of KPIs and action plans arising from incidents and accidents.

Risk management

For the assessment and control of health and safety risks, Naturgy has technical procedures and standards of a transversal nature that apply to the whole group. The business units guarantee its dissemination and implementation and ensure adequate operational discipline in its application.

The safety management model articulates different tools that have been developed around the company's main health and safety axes:

- Risk assessment and management mechanisms

Instruments for inspection, monitoring and operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

- Risk map and process safety management

The maintenance and verification programmes for regulatory compliance of facilities are supplemented by process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

- Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

Specific management mechanisms aimed at ensuring strict control of the critical factors of accident rates, promoting ongoing improvement and significantly reducing accident rates at collaborating companies.

- Management and investigation of accidents and incidents

Essential for the identification of actions aimed at minimising risk situations, improving the safety of operations and reducing the associated accident rate. As a new feature of the unified incident investigation

system, the root cause analysis model has been optimised, based on existing best practices and the HFACS (Human Factor Analysis Classification Scheme) methodology.

Communication to employees and action plans

In addition to the annual publication of performance, the company regularly carries out communication actions aimed at the entire organisation, taking into account diversity aspects and the points of view of stakeholders, including suppliers and visitors.

Based on the specific channel of the intranet, this year's communication plan has focused mainly on dissemination of the 2019 action plan.

- Consultation and participation

Naturgy establishes, implements and maintains specific two-way processes and bodies with employees: Health and Safety Committees, channels of participation and consultation, regular meetings between unit and team leaders, individual tools and reporting channel.

- Dissemination

The company promotes actions aimed at improving the safety of the environment in which it carries out its activity: participation in forums, collaboration with administrations and companies or sponsorship of best practices.

Training and awareness

Naturgy has a variety of consolidated learning tools and relies on the Occupational Risk Prevention Classroom, -a tool of the Corporate University- to meet the established objectives.

- Training of collaborating companies

We work to extend the culture of health and safety to suppliers, collaborating companies and their employees through dissemination and awareness. In 2019, the content of the leadership and awareness courses has been updated and global internal regulations have been introduced to coordinate operational units and collaborating companies.

- Safety among customers and society

Naturgy ensures that communication channels are established and maintained with customers and society regarding product/service information and the safety of these, incident management and protocols for action in emergency situations and contingency actions.

Certifications, safety audits and process diagnostics

Naturgy has an occupational health and safety management system, audited and certified by a third party in accordance with the OHSAS 18001 specification and whose scope is global, including all businesses and countries.

In 2019 the annual safety audit and diagnostic plan concluded with a positive assessment of the level of implementation and integration of the management system, which is effectively maintained and complies with the obligations established under prevailing legislation. One new item in 2019 has been that the transition to the new ISO 45001 standard has started.

Health

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, collaborating companies, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and health care, in a

customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of healthcare, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisers for the development, monitoring and control of the plan in each of the areas.

Master Health Plan targets	
Standardised actions	Ensuring the health of workers, developing standardised actions respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in the field of healthcare.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establish monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Standardised actions	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

7.7 Responsible supply chain

What does it mean for Naturgy? Risks and management approach

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Naturgy establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Supplier Code of Ethics, to which all suppliers have to adhere and the content of which comes from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as the internationally acknowledged good governance principles.

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the supply chain management model, which the company has implemented globally and which is detailed below.

What is our commitment?

- Extending the culture of Naturgy to the supply chain, passing on the target of excellence in service, efficient use of resources and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

How do we measure our performance?

	2019	2018
Total number of suppliers	7,896	10,376
Total purchase volume awarded (euros million)	2,510	3,147,02
Number of ESG suppliers assessed	7,407	8,376
Number of critical suppliers	2,135	1,852
Official-approval suspended suppliers	-	1

What are our main milestones in 2019?,

- Implementation of quarterly monitoring of suppliers based on reputational, economic-financial and CSR ratings of external data sources.
- Implementation of the updated risk matrix in the whole group.

What are our goals for 2020?

- Inclusion in the contracts of suppliers (current and future) of an integrity clause strengthening the contractual obligation to observe ethical behaviour based on not perpetrating fraudulent or anti-competitive acts.
- Implementation of online monitoring of reputational risks on potential suppliers.
- Development of the supplier selection and approval model according to ESG criteria.

Analysis of the 2019 results

The supply chain of Naturgy

Naturgy performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in the company's policies, rules and procedures, as well as internationally recognised principles of good governance, ensuring a uniform, efficient and sustainable model that goes beyond compliance with legislation.

In 2019, Naturgy set up trade relations with a total of 7,896 suppliers which accounted for a total expenditure of Euros 2.510 billion.

Purchasing and supplier management policy

The purchasing and supplier management policy sets out the criteria that constitute the general framework of action for contracting, assessment, monitoring and developing suppliers. It guarantees sustainable

management of the supply chain, relying on assessed suppliers and ensuring fulfilment of Naturgy's Corporate Social Responsibility commitments.

Among its general principles, it seeks to promote participation in the bidding processes of suppliers of the country or region where the group performs its activities, generating a positive impact through the creation of wealth and investment in the local community, generating economic inclusion in the company's areas of influence.

Transparency in purchasing

In terms of procurement, Naturgy is committed to ensure free competition, objectivity, impartiality, transparency and traceability throughout the procurement process through:

- The use of secure electronic means for the management of all tenders.
- The establishment of communication channels with its suppliers.

Human rights at suppliers

Naturgy has a Human Rights Policy that extends to the supplier's Code of Ethics, thus transferring to the supply chain the commitment to protect Human Rights within their sphere of influence, especially since international growth has led us to operate in some environments where their protection takes on special relevance.

Supplier Code of Ethics

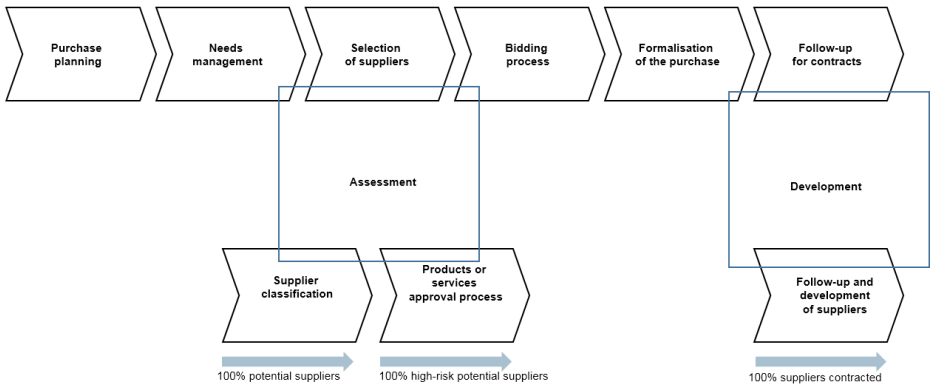
Naturgy is keen to extend the corporate culture to the supply chain, ensuring that collaborating companies comply with the principles set out in the Supplier Code of Ethics, which all group suppliers have to adhere since 2016.

Reporting Channel

All suppliers, contractors and outsourced collaborating companies of Naturgy that wish to report a violation of the Code of Ethics that they may have observed in the exercise of their functions may contact the Ethics and Compliance Committee through the email address published in the Naturgy Supplier's Code of Ethics.

Supply chain management process

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement from identification of the need for a good or service to the follow-up of the management of contracts or orders. Procurement will be based on unified and universal contractual conditions for the entire scope of the group's activities, which include, among others, social and environmental clauses. The general terms and conditions of contracting and the country specific conditions are published on the relevant group websites.



Risk management of the supply chain

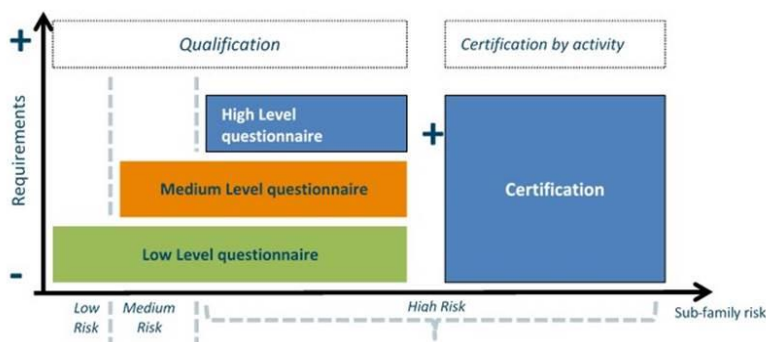
The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals.

Risk factors assessed:

- Health and safety: this measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.
- Quality: the impact that breach by the supplier with regard to the expected or agreed quality levels would have at Naturgy.
- Environmental, social and corporate governance (ESG): this measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Naturgy performs “responsible purchasing” through a management process that encourages the acquisition of products and services that are environmentally friendly and which are manufactured under socially fair conditions.
- Legal risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them.
- Reputational risk (Compliance): it refers to the potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier of the Naturgy Group, contravening the ethical standard of compliance established in the Supplier Code of Ethics.
- Financial risk: assesses the potential impact on operations incurred by the group as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.
- Cybersecurity risk: assessment of the risk inherent in the processing of information assets, knowledge or data that have value for the group, with particular relevance to the risk of processing personal data in accordance with Regulation (EU) 2019/679.

Assessment of suppliers

Assessment of suppliers is introduced in the processes of Business Classification of suppliers and Approval of suppliers and products.



With the risk assessment of the purchase categories that are managed worldwide, and assessing the risks of the countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers.

Naturgy also identifies the “Suppliers with high risk in sustainability”, considering those that reveal a high risk level in the Health and Safety and ESG factors.

Supplier classification

This process is based on the assessment of compliance at business level of what is required by Naturgy in the different risk factors, in order to participate in the procurement process of goods and services. All suppliers must pass this process before maintaining commercial relations with Naturgy.

The classification is conducted using self-assessment questionnaires that take into consideration legal, economic-financial, criminal, solvency, experience, business organisation, quality, safety, human rights, environmental, social and employment practices criteria.

Official approval and management of supplier quality

Naturgy has introduced the goal whereby all suppliers that perform critical activities through being defined with a high risk in any of the ESG, Quality and Health and Safety risk factors must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any non-compliances detected during the audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the Non Tier 1 Suppliers corresponding to categories of purchase of critical products, over which in situ audits are conducted based fundamentally on quality-related aspects.

Products corresponding to critical categories may be subjected to inspections, technical acceptances or FAT at the production centres before the material is shipped.

The homologation process may bring out anomalies that result in a corrective action plan that identifies the development and corrective actions to be introduced to achieve fulfilment of the requirements and standards established by the company, or in the non-approval of the supplier, which would disqualify them from performing that activity for Naturgy.

During 2019 no supplier was suspended or disqualified from holding a contractual relationship with Naturgy for significant breaches related to security, quality and other aspects.

Monitoring of suppliers

In 2019, the online monitoring of reputational risks of the supplier portfolio with business relations with Naturgy was initiated through use of a screening tool to detect exposure to counterparty reputational risk and make decisions based on the risk detected in coordination with Compliance. Of the 6,230 suppliers analysed in 2019, no supplier was disqualified for fraud or unethical practices.

The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers. In addition, in the assessment process the supplier's economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier's global scoring that can be used in the supplier's valuation during the contract award strategy.

Monitoring of suppliers

To ensure correct performance of approved suppliers, performance assessments are carried out on the most relevant suppliers to measure the degree of satisfaction of the operating units and assess detailed aspects of the quality, health and safety, operational and ESG dimensions. Within the company's "Health and Safety Commitment", objective metrics and the method established in the Naturgy "Health and Safety Standard" are used to measure performance of health and safety aspects: "Assessment of performance of collaborating companies in health and safety issues". Corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company.

In 2019, the assessment of aspects of criminal regulatory compliance, privacy and cybersecurity has also been included for high-risk suppliers in Spain by means of an assessment questionnaire and guidance on regulatory risks and the corresponding benchmarking and compliance rating report for each supplier.

In addition, ESG audits are performed on site for those suppliers classified as having a high ESG risk with the highest purchase volume.

Naturgy has developed environmental specifications for suppliers and contractors that are attached to the corresponding contracts and which include minimum environmental management requirements for application during procurement.

Development of suppliers

The Corporate University, through its Extended Academy, offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

From 2013 to 31 December 2019, Naturgy was a member of Bettercoal, an initiative managed by the main European utilities which aims to purchase coal from mines that comply with a series of social, environmental and ethical standards. Over the year, Bettercoal continued to assess mines and to develop action plans from those assessments, with working groups driving improvements, specifically in mining areas in Colombia and Russia.

7.8 Social commitment

What does it mean for Naturgy? Risks and management approach.

Naturgy is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity, as well as spending part of its profits on social investment. Fluid and ongoing dialogue with society enables to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development.

Inadequate management in access to energy can cause significant costs through non-payments and theft of electricity. By the same token, depriving vulnerable groups from receiving energy could have an impact on the company’s reputation.

The lack of involvement and participation with local communities and their needs in those territories where the company operates could result in rejection and unease in the community, which could lead to lobbying for the company to cease its operation in these territories.

What is our commitment?

- Guarantee fluid and two-way dialogue and to encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the social impact that the company’s activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives to create shared value and to have a positive social impact in energy projects.
- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- Transfer knowledge and values to society through partnership agreements with the academic community and the supply chain.

How do we measure our performance?

Sponsorship and social action investment

	2019	2018
Sponsorship and social action investment (euros million)	8	11

It also includes the “Contributions to foundations and non-profit organizations”.

What are our main milestones in 2019?

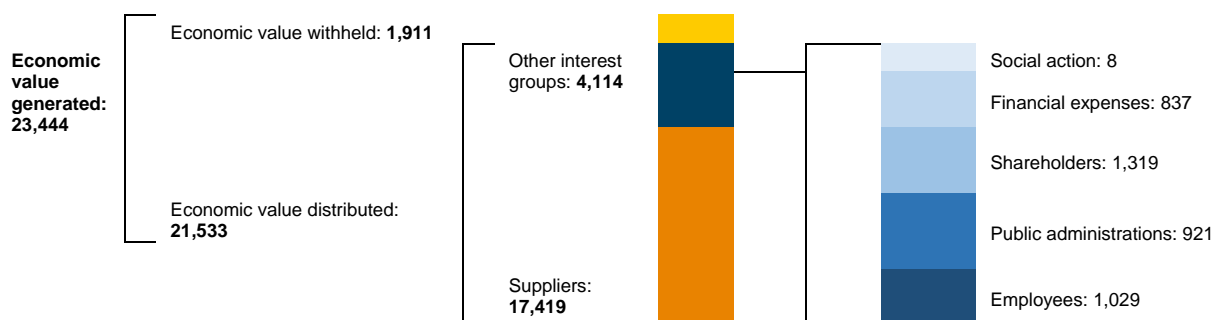
- Launch of the 1st Award for the best social initiative in the energy field.
- Development of new energy volunteer actions with young people and children.
- Development of the Sustainability Plan 2019-2022.
- Launching of the General Procedure of Sponsorship and Donations and its introduction in all countries and companies.

What are our goals for 2020?

- Implementation of the Sustainability Plan 2019-2022.
- Development of action plans for housing rehabilitation, energy school and energy volunteering.
- Launch of a global volunteer campaign (volunteer survey).
- Establishment of a methodology for measuring the impact of the Foundation's activities.
- Search for synergies with other Foundations.
- Preparation of a policy on management and use of social networks.

Analysis of the 2019 results

Economic Value Distributed. Detail by group of interest (euros million)



Sponsorship and social action investment

Economic contributions to social investment and sponsorship programmes are another important part of the Naturgy commitment. In 2019, they totalled Euros 8.16 million.

The aim of the company is to generate a higher corporate commitment to society of which it forms a part. The programmes to which these resources are therefore allocated form part of the business development strategy.

Creation of wealth and well-being where the company operates

Naturgy develops its commitment to society through different lines of action that are aligned with the company's core activities:

1. Energy vulnerability

Naturgy performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

The company has extensive experience in this regard. Accordingly, the project carried out at Cuartel V in Argentina or the CGE Group agreement in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people.

Energy Vulnerability Plan in Spain

During 2019, Naturgy, through its Foundation, continued the development of the Energy Vulnerability Plan throughout Spain to collaborate in alleviating the situation of energy vulnerability in Spain. The plan has been consolidated as the core of the activities developed by the Foundation, with actions to alleviate energy poverty being one of its priorities.

The objectives of the plan are:

- Improving management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of energy vulnerability.
- Implementing activities with entities that work to alleviate energy poverty cases and to detect vulnerabilities.

The following activities have been introduced during this year:

- Consolidation of the Energy Rehabilitation Solidarity Fund.
- Corporate energy volunteer work to give workshops on energy efficiency, advice and visits to the homes of families in vulnerable situations.
- Launch of volunteer work with Children and Young People, with a pilot in Madrid and Barcelona for children and young people in vulnerable situations and with the “Managing my energy” programme taught in schools.
- The Energy School continues to give energy efficiency workshops to support Public Administrations and the Third Sector, both to technicians and to vulnerable families.
- Launch of the 1st Award for the best social initiative in the energy field.
- Participation in two European projects (Social Watt and EPIU), financed by the EU, aimed at identifying energy poverty, defining indicators and developing and implementing measures against energy vulnerability.
- Presentation of the paper “Energy poverty in Spain. An income-based approach”.

2. Relationship with communities

Naturgy, under its Human Rights Policy, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that the company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Naturgy has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company bases its relationship with communities on the following principles:

- Identifying communities affected by the company's activity, and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.
- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in those locations where the company is looking to carry out new investment projects. These assessments serve to measure numerous impacts (positive and negative) that the company may produce as a consequence of its activity, both in local communities as well as in the territory. These include:

- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

The most prominent projects in this sphere are:

- In Australia, in the surroundings of the Crookwell and Berrybank wind farms, citizen participation programmes are being introduced to involve the community (agreements to attend to the needs of the local community, planting of trees, academic visits, strengthening of the productive fabric, etc.).
- In Brazil, around the Sobral photovoltaic plant, the development of the Quilombola Basic Environmental Project has continued, as detailed below. Environmental education actions have been developed around the Guimarania photovoltaic plant.
- In Costa Rica, around the Torito and La Joya hydroelectric plants, we have collaborated in the educational programme “Books for All” promoted by the Ministry of Education, and we have collaborated in the improvement of educational and sports infrastructures in the area.
- In Mexico, both in the surroundings of the Bií-Hioxo wind farm, and in the environs of the Tuxpan, Hermosillo and Naco-Nogales combined-cycle power stations, environmental and health education programmes have been implemented, as well as improvements to community infrastructures (schools, roads, wells, health centre, etc.), and actions to strengthen local culture.
- In the Dominican Republic, around the Palamara-La Vega thermal power stations we have collaborated with the fire brigade in the area, and have conducted actions to improve community infrastructures for the supply of drinking water, as well as to strengthen local culture and traditions.
- In Uganda, around the Bujagali hydroelectric power station, programmes have been carried out to strengthen local suppliers, train and employ young people and women, promote health, prevent road accidents, and encourage cultural activities.

During 2019 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has four main lines of action, which include a series of specific actions of which the following have been implemented during 2019:

- Characterisation of wells in the region that could be improved with the set-up of a solar pump kit.
- Territorial study for the implementation of a teaching centre for community use.
- Provision of integral scholarships (studies and subsistence costs) for the training of professionals at university level.

3. Social action, corporate volunteers and employee participation

Through corporate volunteering, Naturgy seeks to promote social cohesion, values and a spirit of solidarity, while carrying out social action programmes with a clear purpose of contributing to the socio-economic development of the areas in which it operates. Some of the projects carried out by the company within the framework of social action are:

- Energy of Flavour: this programme aims to provide scholarships to young people between 18 and 25 at risk of exclusion, so that they can receive vocational training in the gastronomy sector and

thus acquire a trade. During 2019, a special module has been developed for female victims of gender violence.

- Learn a trade workshop: the aim of the programme is to train people in a vulnerable situation in the trade of ceramics; whether they are adults, young people or people with a slight mental disability.
- Planning your future: in order to encourage the children of employees to achieve their dreams and professional aspirations, we provide them with a scholarship to start their university studies.
- Summer internship: this is a scholarship for family members of employees who are in the last two years of their university course.

With regard to corporate volunteer, during 2019, the company has promoted environmental, social and energy volunteer actions, in which employees contributed their time and their personal and professional skills.

Since 1997, a group of employees has created the Solidarity Day Association, with the aim of developing projects to promote the education and training of children and young people without resources, in the countries where the company operates. This association is managed by the company's own employees and consists of the voluntary donation of one day's salary per year. The company contributes the same amount donated by all employees and covers the association's management expenses, so that all the money donated goes entirely to project development.

4. Sponsorship, patronage and donations

The sponsorship and donation collaborations are aimed at increasing the knowledge of Naturgy, supporting its growth and consolidating the relationship with the different stakeholders.

Naturgy's sponsorship and donation activity, as well as the definition of the processes that regulate and control its development, is the purpose of the company's General Procedure of Sponsorship and Donations. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The procedure also provide priorities, which can be summarised in social action, culture and energy, and the environment:

- Environment: Naturgy carries out and collaborates with educational activities aimed at young people on energy, energy efficiency and new technologies. Technical, educational, informative and social activities that contribute to a more environmentally friendly society are promoted.
- People: the company drives and support projects targeted at vulnerable social groups and to mitigate problems stemming from social exclusion. To this end, it collaborates financially with foundations and associations to improve, for example, facilities and to refurbish spaces or to provide guidance and information on energy issues.
- Culture: in the field of cultural sponsorship, Naturgy targets its efforts at encouraging and promoting music, art and university activity. The company's commitment can be seen in the extensive sponsorship work on initiatives that generate high value for the area where they are carried out. In 2019, the company continued with its support to the Gran Teatre del Liceu and the Teatro Real with twin celebrations declared to be "events of exceptional public interest".

Naturgy Foundation

The Naturgy Foundation, created in 1992 by Naturgy, and with a presence in those countries where the company is active, is tasked with the dissemination, training, information and raising society's awareness in issues of energy and the environment, as well as the development of business and academic programmes. It also develops social action programmes in the national and international arenas, with a particular focus on actions targeted at relieving energy vulnerability.

During 2019, the foundation continued to provide seminars on energy and the environment in Spain, Belgium, Ireland, Brazil and Mexico, as well as presentations of books related to this topic. A new development in this line of work, with the participation of IESE, is the so-called "Energy Perspectives", a

series of conversations between speakers of the highest global level on the economic, technical and scientific conditions that are emerging for the future of the energy sector.

In the line of education and heritage, the Naturgy Foundation has launched several programmes:

- “Efigy education”: an educational programme aimed at students of all ages, which explores new energy technologies with the aim of transmitting specialised knowledge about the transition to a new energy model, the preservation of the environment and responsible energy consumption. This programme is complemented by online resources aimed at training students, teacher training, mentoring programmes and initiatives to encourage technological vocations.
- Our own touring projects, which aim to pass on and disseminate knowledge on issues related to energy and the environment through actions and presence at trade fairs in the sector, mobile educational resources and travelling exhibitions, such as the “Energy Challenge” eco-efficient truck.
- Educational activities have been promoted in the power stations, with the aim of supporting the group's different businesses.
- Finally, in 2019 the Dual VT programme has been consolidated in the sectors of maintenance of vehicles powered by natural gas.

On the international stage, different social initiatives have been developed in Argentina, Chile, Brazil, Mexico and Morocco.

7.9 Integrity and transparency

What does it mean for Naturgy? Risks and management approach

Naturgy believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

To respond to the risks related to integrity and transparency, Naturgy has developed a series of mechanisms that introduce the guidelines that are to cover ethical and transparent behaviour of the directors and employees of the company and their daily performance, as set out in the Code of Ethics, the Supplier Code of Ethics, the Crime Prevention Model, the Anti-corruption Policy, fiscal policies and the Human Rights Policy of the company.

Corruption, fraud and bribery can have a major impact for the company, leading to sanctions imposed by the administrations, loss of contracts, loss of customers and loss of reputation that could also see investors disappear or the non-purchase of shares by investors that consider these aspects in their investment decisions.

The company would improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Naturgy. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

What is our commitment?

- Reject corruption, fraud and bribery in business dealings and establishing measures to prevent and combat them, developing internal channels allowing communication of irregularities while preserving anonymity.
- Comply with national and international laws and standards in force in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the United Nations Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- Act with responsibility in management and complying with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.

- Compete fairly on the market and prevent misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's activities.
- Maintain, at all times, permanent dialogue with stakeholders through adequate and accessible channels.

How do we measure our performance?

Queries and notifications to the Code of Ethics

	2019	2018
Queries	45	76
Notifications	149	123
Total	194	199
No. of messages received per 200 employees	3.32	3.18

What are our main milestones in 2019?

- Certification of the crime prevention model by AENOR in accordance with the UNE 19601 and ISO 37001 standards.
- Approval by the Ethics and Compliance Committee of a new Code of Ethics Channel Operating Regulation that provides a procedure for investigating complaints received through the channel.
- Management and use of SAP GRC Process Control for the comprehensive management of documentation, assessment and supervision of the Crime Prevention Model.
- Review of the Human Rights Policy.
- Publication of the non-financial statement (NFS), in accordance with Law 11/2018 on non-financial information and diversity.

What are our main targets for 2020?

- Specific training on harassment for all company employees.
- Renewal of the crime prevention model certification by AENOR pursuant to the UNE 19601 and ISO 37001 standards.
- Ongoing training and awareness of employees in human rights.

Analysis of the 2019 results

Compliance Policy and Code of Ethics

The Code of Ethics of Naturgy, approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Naturgy, in their daily work, with regard to relationships and interactions with all its stakeholders. The principles for the company's employees are related to corruption and bribery, respect for people, professional development, equal opportunities, relation with collaborating companies, occupational health and safety, and caring for the environment, among others.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

In addition, Naturgy has an Anti-Corruption Policy, which establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

The company also has a Compliance Policy that structures the Code of Ethics and Anti-corruption Policy management taken on by the Compliance Unit, whose targets are to ensure the dissemination, knowledge, application and fulfilment of the code.

This management model provides that the Audit Committee must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy.

During 2019, the Ethics and Compliance Committee has continued its work to disseminate the Code of Ethics, as well as its role as interpreter and advisor in the event of any doubt or conflict concerning the same. The Ethics and Compliance Committee Regulations were also approved, setting out its organisation, functions and obligations within the framework of best practices in the area of compliance. In 2019, the Committee held four work meetings. The Ethics and Compliance Committee supervise the execution of the policy by the Compliance Unit.

In 2019, 31% of the notifications were related to the principle of respect for people, and they were all solved appropriately.

In 2019, no notifications were reported related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights. Therefore, in 2019, it was not necessary to repair damages relating to impacts caused by human rights cases.

Code of Ethics chapter to which notifications refers

	Queries	Notifications	Total
Respect for the individual	7	46	53
Corruption and bribery	3	50	53
Loyalty to the company and conflict of interest	34	16	50
Occupational health and safety	-	10	10
Environment and asset protection	1	12	13
Others	-	15	15
Total	45	149	194

The implementation of a new communications management tool does not allow comparisons with 2018, so no breakdown is given for 2018.

Crime Prevention Model

The company has a Crime Prevention Model which is updated annually. Thus, in 2019, the model has continued to be adapted to the new organisational structure operated within Naturgy. Likewise, the model, in a process of continuous improvement, has incorporated the legal modifications that have taken place in 2019 on criminal risks.

From an organisational standpoint, the Board of Directors has assigned the functions of autonomous body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and supervision of the working and compliance with the Crime Prevention Model, which execution corresponds to the Compliance Unit.

Each year, this model is assessed by an independent third party. In 2019, this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2019, the model has been subject to the certification process in accordance with the AENOR UNE 19601 standards (criminal compliance management systems) and ISO 37001 (Anti-bribery management systems), obtaining both certifications in October 2019. Worldwide, Naturgy also deploys crime prevention models gradually in countries with laws governing the civil liability of legal persons.

Anti-fraud and anti-corruption policies and plans

Although fraud and corruption are covered in the crime prevention system, the company works continuously to improve and update its internal regulations and define specific protocols and mechanisms in this area.

The Anti-corruption Policy establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

Naturgy has a range of mechanisms to ensure the proper implementation of the Anti-Corruption Policy, as well as to prevent, detect, investigate and punish cases of corruption, including:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.
- A communication channel for employees and third parties to make, in good faith, confidential and without fear of reprisal, inquiries or notifications of breaches of the Code of Ethics and the Anti-Corruption Policy (www.naturgy.ethicspoint.com, or postal and internal mail).
- Counterparty Due Diligence Procedure, to know and analyse the counterparties with whom Naturgy operates and thus evaluate the associated corruption and reputation risks.
- Regular declaration by all employees, in which it is formally stated that they know and comply with the principles established in the Anti-Corruption Policy.
- Dissemination and training sessions on the content of the Anti-Corruption Policy for all employees through the Anti-Corruption Programme.

The focus of the Naturgy anti-corruption programme covers three key areas:

- Establishment of an anti-fraud and anti-corruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- Development of measures and response plans in the event of situations that constitute fraud and corruption.

These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Naturgy organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- Update of the NaturalNet space which concerns the Code of Ethics and the Anti-Corruption Policy.
- Publication of information about the Ethics and Compliance Committee activities (notifications received, activities carried out, etc.).
- Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.
- Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy for new employees and administrators.
- Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.
- Regular declaration of compliance with the Code of Ethics and Anti-Corruption Policy.

During 2019, specific training courses have been held on international sanctions, procedures for payments to third parties, privileged information and market abuse, aimed at specific groups within the company. In addition, work has been done on a specific training on harassment that will be given during the first quarter of 2020 to all company employees. Also in 2019, a mandatory training programme for executives has been carried out, which has included, among other points, the Crime Prevention Model, the Code of Ethics and Anti-Corruption Policy, and the Counterparty Due Diligence Procedure.

Likewise, Naturgy has implemented a Corporate Hospitality Policy, within the framework of the Code of Ethics and Anti-corruption Policy, whose purpose is to regulate the conditions in which Naturgy administrators and employees can accept or offer courtesies to business counterparts within the framework of the performance of their professional functions. This is to ensure effective compliance with the principles set out in the Code of Ethics and Anti-corruption Policy of Naturgy and thus avoid improperly influencing

their commercial, professional or administrative relationships, both with public and private entities. In 2019, a reminder has been made on the occasion of the Christmas campaign of the Corporate Hospitality Policy for all employees.

In addition, the company has a Counterparty Due Diligence Procedure that is applied systematically, to ensure that the analyses and assessments of reputational risk and corruption are carried out in an efficient and uniform way whenever when third parties intervene in the business relationships of the companies that make up Naturgy.

Prevention of money laundering

The Naturgy Crime Prevention Model is based on an analysis of criminal risks, including the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.

Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

Exist three control levels that seek to prevent, detect and, if appropriate, react to money laundering:

- Prevention: both the Naturgy Code of Ethics as well as its Anti-Corruption Policy have specific sections that expressly establish the prevention of money laundering as one of the principles that presides over the operations of the company and all of its employees. All Naturgy employees receive training on the content of the Code of Ethics, the Anti-Corruption Policy and the conduct guidelines that they must heed.

In addition, Naturgy has other policies and procedures more specific that establish a full series of controls in its day-to-day work and in the operations it performs, which encompass the prevention of money laundering. Key among these are the Counterparty Due Diligence Procedure; the General External Procurement Standard; the Procedure on granting the Signing Level, or the Internal Control Procedure for the processing of payments and cash movements, among others.

- Detection: some of the foregoing policies and procedures also allow the risk of money laundering to be detected.

Every year, those in charge of controls at Naturgy are subject to a self-assessment in the Crime Prevention Model on compliance with the same, including those where there is a risk of potential money laundering. In addition, to ensure efficiency of this model, it is reviewed regularly and audited every year by an independent expert.

Internal Auditing Unit periodically reviews the different processes of Naturgy to detect possible breaches that may have occurred in the different operational risks. These reviews include checks of revenue and payments that may be subject to the risk of money laundering.

Naturgy also has an Internal Control System on Financial Reporting that is audited every year by an independent expert.

In addition, Naturgy provides both its employees as well as stakeholders with channels so they can report to the Ethics and Compliance Committee concerning any breach or irregular or suspicious conduct in this area. They can perform these communications through the Website Channel of the Naturgy Code of Ethics or through ordinary or internal mail. In addition, in accordance with what is permitted under new data protection legislation, these communications may be carried out anonymously.

- Reaction and response: during 2019, the Ethics and Compliance Committee approved new regulations for the operation of the Code of Ethics channel, which includes a procedure for investigating complaints received through the channel. The company also has an investigation and response protocol as well as a disciplinary system so that, if it becomes aware of any denouncement or irregularity it can introduce all measures within its reach to rectify this and, if appropriate, adopt the measures required to prevent future repetition.

Finally, Naturgy collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

Tax policy

Tax strategy and tax risks control and management policy

At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks.

The basic principles governing Naturgy's tax strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Cooperation with the tax authorities.

The main lines of the Tax Risks Control and Management Policy are as follows:

- Clearly defined tax governance.
- Procedures for controlling the tax risk referred by Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

- the Naturgy Corporate Social Responsibility Policy, in which one of the commitments and principles of action is to "adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies."
- Naturgy's Code of Ethics, which establishes that "All employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions".
- the Code of Good Tax Practices (CGTP), approved on 20 July 2010 by the Plenary session of the Large Business Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Naturgy Energy Group, S.A. The CGTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual cooperation based on good faith and legitimate trust, and the application of responsible tax policies.

To align Naturgy's tax policies with these principles, the group has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Naturgy also has a Risk Map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 22 "Tax situation" in the notes to the consolidated annual accounts.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2019 year-end, the Naturgy Group did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January).

Buenergía Gas & Power, Ltd. (a company that indirectly owns a single industrial holding that engages in power generation using a combined cycle gas turbine in Puerto Rico (Ecoeléctrica, L.P.)), which was

domiciled in the Cayman Islands and in which Naturgy holds a 95% stake, changed its domicile to Puerto Rico on 2 February 2018.

Gasoducto del Pacífico (Cayman), Ltd. (a dormant company acquired by the group as part of the CGE acquisition), which was domiciled in the Cayman Islands and in which Naturgy held a 52.2% stake, was liquidated on 12 January 2018 and dissolved and deregistered on 12 April 2018.

Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory's rules.

Naturgy's tax contribution in 2019 amounted to Euros 2,955 million (Euros 3,268 million in 2018). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for the group ("own taxes"), and those that it withholds or that it passes on to the final taxpayer ("third-party taxes"):

Country	Own taxes						Third-party taxes								Total	
	Income tax ⁽¹⁾		Other ⁽²⁾		Total		VAT		Hydrocarbon tax		Other ⁽³⁾		Total		2019	2018
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018		
Spain	230	62	432	621	662	683	997	1,056	362	409	253	270	1,612	1,735	2,274	2,418
Argentina	22	10	26	17	48	27	8	9	-	-	21	39	29	48	77	75
Brazil	57	52	46	46	103	98	70	73	-	-	11	13	81	86	183	184
Chile	9	31	10	13	19	44	93	60	-	-	10	47	103	107	122	151
Mexico	36	71	1	2	36	73	63	39	-	-	12	13	75	52	111	125
Panama	13	6	7	7	20	13	-	-	-	-	3	4	3	4	23	17
Rest of LatAm	15	7	-	2	15	9	-	5	-	-	1	8	1	13	17	22
Total LatAm	152	177	90	87	241	264	234	186	-	-	58	124	292	310	533	574
Europe	11	24	7	8	18	32	80	161	46	80	3	3	130	244	148	276
Total	393	263	528	716	921	979	1,312	1,403	408	489	314	397	2,034	2,289	2,955	3,268

⁽¹⁾ Refers to income tax actually paid in the year per the Consolidated Cash Flow Statement. Does not include accrued amounts. Set out below is the reconciliation between income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes", as detailed in Note 22 "Tax situation" to the consolidated annual accounts.

⁽²⁾ Includes energy taxes amounting to Euros 169 million in Spain in 2019 (Euros 306 million in 2018), local taxes, employer social security and other specific taxes in each country.

⁽³⁾ Basically includes tax withholdings from employees and employee social security contributions.

Profit by country

Euros million	2019	2018
Spain	502	(3,297)
Argentina	46	41
Brazil	74	37
Chile	202	106
Mexico	164	104
Panama	14	13
Rest of LatAm	56	(63)
Total LatAm	556	238
Europe	343	237
Total	1,401	(2,822)

Subsidies received

The changes in capital subsidies received are detailed in Note 16 to the Consolidated annual accounts. The amount received was Euros 14 million in 2019 (Euros 1 million in 2018). Operating subsidies received are detailed in Note 25 to the Consolidated annual accounts; Euros 1 million were received in 2019 (Euros 1 million in 2018).

Human Rights Policy

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. Since 2011, Naturgy has a Human Rights Policy, that has been updated and approved by the Board of Directors in 2019, defines and establishes precisely how the company believes it has to include these principles in its business management. The policy is consistent with the UN Guiding Principles on Business and Human Rights.

The Human Rights Policy acquires its full meaning in those locations where local legislation does not afford a suitable level of protection of human rights, and its compliance is horizontally integrated within the company and is the responsibility of each business area.

The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the United Nations Guiding Principles on Business and Human Rights. It is also focused on the most important principles which have the greatest impact on the company's business.

Human Rights Policy Principles:

1. Avoiding any practices which are discriminatory or which might compromise people's dignity.
 2. Eradicate labour or child exploitation.
 3. Ensure freedom of association and collective negotiation.
 4. Protect employee's health.
 5. Ensure adequate employment and salary.
 6. Commitment towards people linked to suppliers, contractors, collaborating companies and business partners.
 7. Respecting for indigenous communities and traditional ways of life.
 8. Protecting facilities and people on the basis of respect for human rights.
 9. Supporting and promoting respect for human rights in the surrounding communities.
 10. Helping to fight corruption and protect privacy.
-

The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this Human Rights Policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

During the initial stages of investment projects, and in the analyses of the social and environmental impact, the company will consider their impact on the protection and promotion of human rights and will define indicators in this regard. Similarly, the company will introduce specific measures for management of potential impacts and risks to human rights from the projects and investments, and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the Policy.

Any breaches, whether of the policy or any other aspect related to the respect of human rights will be studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. Those people who, without being company employees, witness potential malpractice in this area may also report this.

7.10 Table of contents required by Law 11/2018, of 28 December 2018, amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015, as regards non-financial information and diversity.

Contents	Pages	Reporting criteria
Business model		
– Description of the business model	48 - 54	GRI 102-2
▪ Business environment		GRI 102-3
▪ Organisation and structure		GRI 102-4
▪ Markets where the company operates		GRI 102-6
▪ Its objectives and strategies		GRI 102-7
▪ Main factors and trends that may affect future performance		GRI 102-15
		GRI 102-15
Reporting framework used for non-financial disclosures	47, 113	GRI 102-54
Policies		
A description of the policies applied by the group in connection with these issues	51, 54, 56,	GRI 103-2
1. Due diligence procedures used to identify, assess, prevent and mitigate material risks and impacts and for verification and control, including any measures that have been taken	57, 61, 62, 63, 75,76,77,78,	
2. Key performance indicators in connection with the implementation of policies that enable progress to be tracked and assessed	79, 85,89,90,93-100	
Risks		
The main risks in connection with these issues related to the group's activities, including, where relevant and proportionate, its business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, detailing the procedures used to detect and evaluate them in accordance with national, European or international reference frameworks for each issue.	54, 55, 60-65,69, 77, 78, 84-89,90, 93, 95-98, 100.	GRI 102-15
Materiality analysis	47-48,114-115	GRI 102-46 GRI 102-47
Social and personnel issues		
– Employment		
▪ Number and distribution of employees by country, gender, age and professional category	69	GRI 102-8
▪ Total number and breakdown of forms of employment contract, and average in the year, of:		GRI 102-8
○ Indefinite contracts, by gender, age and professional category		
○ Temporary contracts, by gender, age and professional category	70-71	
○ Part-time contracts, by gender, age and professional category		
▪ Number of terminations, by gender, age and professional category	71	GRI 401-1
▪ Average remuneration, by gender, professional category and age	72-74	GRI 405-2
▪ Wage gap	72	<i>ARM – ARW</i>
		<u>100</u>
		<i>ARM</i>
▪ Average remuneration of directors and executives, including variable remuneration, per diems, indemnities, payments into long-term savings systems and any other emoluments, disaggregated by gender.	69,74	GRI 102-38 GRI 201-3
▪ Implementation of policies on disconnecting from work	80-81	GRI 401-2 GRI 401-3
▪ Percentage of employees with disabilities	74	GRI 405-1
– Work organisation		
▪ Organisation of work time	80-81	GRI 401-2
▪ Absenteeism (hours)	83	GRI 403-2
▪ Measures to facilitate work-life balance and encourage the shared use of them by both parents	80-81	GRI 401-3
– Health and safety		
▪ Health and safety conditions in the workplace	81-86	GRI 403-1 GRI 403-2 GRI 403-3
▪ Number of workplace accidents, by gender	82	GRI 403-2 GRI 403-9
▪ Occupational illnesses, by gender	82	GRI 403-2
– Labour relations		
▪ Organisation of social dialogue, including procedures for informing and consulting employees and negotiating with them	80-81	GRI 402-1 GRI 403-1 GRI 403-4
▪ Percentage of employees covered by collective bargaining	75	GRI 102-41
▪ Collective agreements, particularly in the area of occupational health and safety.	80-81,84-85	GRI 403-4
– Training		

<ul style="list-style-type: none"> <ul style="list-style-type: none"> ▪ Training policies in place 	78-79,85	GRI 404-2 GRI 403-5
<ul style="list-style-type: none"> <ul style="list-style-type: none"> <ul style="list-style-type: none"> ▪ Total number of training hours, by professional category 	75	GRI 404-1
<ul style="list-style-type: none"> – Universal access for persons with disabilities 	76-78	GRI 405-1
<ul style="list-style-type: none"> – Equality <ul style="list-style-type: none"> ▪ Measures taken to promote equal treatment and opportunities between women and men ▪ Equality plans ▪ Measures adopted to promote employment ▪ Protocols against sexual harassment and gender harassment ▪ Integrity and universal access for persons with disabilities ▪ Policy against all types of discrimination and policy on diversity, if any. 	76-78	GRI 405-1 GRI 405-2
<hr/>		
Environmental issues		
<ul style="list-style-type: none"> – Management approach <ul style="list-style-type: none"> ▪ Detailed information on the current and foreseeable effects of the company's activities on the environment and, as appropriate, on health and safety ▪ Procedures for environmental assessment or certification ▪ Resources allocated to preventing environmental risks ▪ Application of the precautionary principle ▪ Number of provisions and guarantees in connection with environmental risks – Pollution <ul style="list-style-type: none"> ▪ Measures to prevent, reduce or remedy carbon emissions that seriously affect the environment (also includes noise and light pollution) – Circular economy, sustainable resource use and waste abatement <ul style="list-style-type: none"> ▪ Measures for abatement, recycling, reuse, and other forms of waste recovery and disposal ▪ Actions to reduce food waste – Sustainable use of resources <ul style="list-style-type: none"> ▪ Water consumption and supply of water in accordance with local limitations ▪ Consumption of raw materials and measures adopted to enhance the efficiency of their use ▪ Direct and indirect energy consumption ▪ Measures taken to enhance energy efficiency ▪ Use of renewable energy – Climate change <ul style="list-style-type: none"> ▪ Greenhouse gas emissions ▪ Measures to adapt to climate change ▪ Greenhouse gas emission reduction objectives – Biodiversity <ul style="list-style-type: none"> ▪ Measures to preserve or restore biodiversity ▪ Impacts of activities 	60-61, 63 64-65 62 63-65,67 62 61-62,67-68 66-67 67 62, 66-67 62 62 65-67 66-67 62 61, 65-66 61 67-68 67-68	GRI 102-15 GRI 103-2 GRI 307-1 GRI 201-2 GRI 102-11 N/A GRI 305-1 GRI 305-2 GRI 305- 3 GRI 306-2 N/A GRI 303-1 GRI 303-2 GRI 303-3 GRI 306-1 GRI 301 GRI 302-1 GRI 302-4 GRI 302-2 GRI 302-4 GRI 302-5 GRI 302-1 GRI 305-1 GRI 305-2 GRI 305- 3 GRI 305-4 GRI 305-5 GRI 201-2 GRI 302-4 GRI 305-5 GRI 102-11 GRI 304-3 GRI 304-2
<hr/>		
Information on respect for human rights		
<ul style="list-style-type: none"> – Due diligence – Measures to avoid the risk of human rights violations and any measures to mitigate, manage and repair possible abuses committed – Complaints about human rights violations – Promotion of, and compliance with, the ILO's fundamental conventions related to freedom of association and the right to collective bargaining – Elimination of forced or compulsory labour – Effective abolition of child labour 	103 103 97 96 103 103	GRI 102-16 GRI 102-17 GRI 412-2 GRI 102-16 GRI 102-17 GRI 412-2 GRI 102-34 GRI 102-17 GRI 102-33 GRI 412-1 GRI 102-16 GRI 407-1 GRI 408-1 GRI 409-1
<hr/>		
Information on the fight against corruption and bribery		
<ul style="list-style-type: none"> – Measures to prevent corruption and bribery 	97-98	GRI 102-16

		GRI 102-17 GRI 205-3 GRI 102-16 GRI 102-17 GRI 201-1 GRI 413-1	
-	Anti-money laundering measures	100	
-	Contributions to foundations and not-for-profit institutions	91	
<hr/>			
Information about society			
-	Companies' commitment to sustainable development	93-95	GRI 413-1 GRI 203-1 GRI 203-2
	▪ Impact of the company's activities on employment and local development		
	▪ Impact of the company's activities on local populations and on the territory		
	▪ Relations with actors in the local communities and forms of engagement with them		
	▪ Partnership or sponsorship actions		
-	Responsible management of the supply chain	86-91	GRI 308-1 GRI 414-1 GRI 414-2 GRI 102-9
	▪ Inclusion of social, gender equality and environmental issues in the procurement policy.		
	▪ Consideration of suppliers' and subcontractors' social and environmental responsibility in relations with them		
	▪ Supervision and audit systems		
-	Management of customer relations	55-60	GRI 416-1 GRI 417-1 GRI 417-2
	▪ Measures to support consumer health and safety		
	▪ Complaint systems		
	▪ Complaints received and their outcome		
-	Tax information and transparency	101-102	Accounting policies
	▪ Profits, by country		
	▪ Corporate income tax paid		
	▪ Government subsidies received		

Annex I. Additional information

1. Own shares

The General Meeting of Shareholders of 5 March 2019 authorized the Board of Directors so that, within a term not exceeding five years, it may acquire, on a one-time basis, one or several times, shares of the company that are fully paid up, without ever having the nominal value of the shares acquired directly or indirectly, in addition to those already owned by the Company and its subsidiaries, exceeds 10% of the subscribed capital, or any other legally established. The consideration price or value may not be less than the nominal value of the shares or exceed the value of the stock exchange.

Movements during 2019 and 2018 involving own shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (Euros million)	% Capital
At 1 January 2018	-	-	-
Purchases	10,782,040	227	1.0
Purchases for long-term incentives	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	-
Disposals	(5,029,881)	(99)	(0.5)
At 31 December 2018	14,037,332	321	1.4
Share ownership plan	332,382	7	-
Delivered to employees	(310,812)	(7)	-
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
Acquisitions	5,162,320	121	0.5
Disposals	-	-	-
At 31 December 2019	13,823,485	321	1.4

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

In 2019, no profit or loss was recognised on transactions involving Naturgy's own shares (profit of Euros 0.4 million in 2018 recognised under "Other reserves").

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 20 April 2017, within the Share Acquisition Plan 2017-2018-2019, those relating to 2017 and 2018 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan were set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 have been delivered, leaving a surplus of 21,570 treasury shares.
- 2018 buyback programme: Within the Strategic Plan 2018-2022, The Board of Directors of Naturgy Energy Group, S.A. approved a treasury shares buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of 24.13 euros per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of 22.42 euros per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.
- Capital reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:
 - a) Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

- b) the aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million
- Long-term Variable Incentive Plan: In 2018 Naturgy acquired 8,639,595 treasury shares the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan (see paragraph on Share-based payments in this Note).

Note 15 of the Notes to the Consolidated Annual Accounts contains full information on own shares.

2. Disclosure of delays in payment to suppliers. Additional Provision 3 "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of July 5, which laid down measures against late payment, is as follows:

	2019	2018
Total payments (Euros million)	11,027	13,457
Total outstanding payments (Euros million)	314	450
Average supplier payment period (days) ⁽¹⁾	23	22
Transactions paid ratio (days) ⁽²⁾	23	22
Transactions pending payment ratio (days) ⁽³⁾	24	23

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

3. Subsequent events

Events subsequent to the end of the period are described in Note 40 of the Notes to the Consolidated Annual Accounts.

Annex II. Alternative performance metrics

Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or notes to the annual accounts of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2019	Reconciliation of values at 31.12.2018	Relevance
EBITDA	EBITDA = Revenue ⁽²⁾ – Procurements ⁽²⁾ + Other operating income ⁽⁴⁾ – Personnel expenses ⁽⁴⁾ – Other operating expenses ⁽⁴⁾ + Own work capitalised ⁽⁴⁾	Euros 4,562 million	Euros 4,019 million	Measure of operating income before interest, taxes, depreciation and amortisation and impairment
Ordinary EBITDA	EBITDA - Non-ordinary items ⁽⁷⁾	Euros 4,668 million = 4,562 + 106	4,413 = Euros 4,019 million + 394	EBITDA corrected for impacts related to restructuring costs and other non-ordinary items considered material for a better understanding of the Group's underlying results
OPEX	Personnel expenses ⁽²⁾ + Own work capitalised ⁽⁴⁾ + Other operating expenses (excl. taxes) ⁽⁴⁾ . Expenses for construction services or enhancement of concessions IFRIC 12 that are recognised as revenue ⁽⁴⁾	Euros 2,078 million = 924 + 105 + 1,476 – 360 – 67	Euros 2,436 million = 1,010 + 115 + 1,816 – 437 – 68	Operating expenses recognises in profit or loss, excluding those offset by revenue for the same amount, and taxes
Ordinary profit	Attributable income for the year ⁽²⁾ - Non-ordinary items ⁽¹⁾	Euros 1,432 million = 1,401 + 31	Euros 1,245 million = -2,822 + 4,067	Attributable income corrected for impacts of impairment, divestments and discontinued operations and other non-ordinary items that are considered to be material for a better understanding of the Group's underlying results
CAPEX	Investment in intangible assets ⁽⁴⁾ + Investment in property, plant and equipment ⁽⁴⁾	Euros 1,685 million = 222 + 1,463	Euros 2,321 million = 281 + 2,040	Investment in intangible assets and property, plant and equipment
Net capital expenditure	CAPEX ⁽⁵⁾ + Financial assets ⁽⁶⁾ - Receipts from divestment of intangible assets and property, plant and equipment ⁽⁶⁾ - Other investment receipts/(payments) ⁽⁶⁾	Euros 1,303 million = 1,685 – 303 – 79	Euros -284 million = 2,321 – 2,548 – 57	Total investments net of the cash received from divestments and other investing receipts
Gross borrowings	"Non-current financial liabilities" ⁽¹⁾ + "Current financial liabilities" ⁽¹⁾	Euros 17,987 million = 15,701 + 2,286	Euros 17,073 million = 13,352 + 2,079 + 1,642	Current and non-current borrowings
Net borrowings	Gross borrowings ⁽⁵⁾ – "Cash and cash equivalents" ⁽¹⁾ – "Derivative financial assets" ⁽⁴⁾ (Note 19)	Euros 15,268 million = 17,987 - 2,685 – 34	Euros 15,309 million = 17,073 - 1,716 – 48	Current and non-current borrowings less cash and cash equivalents and derivative financial assets
Leverage (%)	Net borrowings ⁽⁵⁾ / (Net borrowings ⁽⁵⁾ + "Net equity" ⁽¹⁾)	52.2% = 15,268 / (15,268 + 13,976)	48.4% = 15,309 / (15,309 + 14,595)	The ratio of external funds over total funds
Cost of net borrowings	"Cost of borrowings" ⁽⁴⁾ (Note 31) – "Interest" ⁽⁴⁾ (Note 31)	Euros 626 million = 652 - 26	Euros 538 million = 557 - 19	Amount of expense relative to the cost of borrowings less interest revenue
EBITDA/Cost of net borrowings	EBITDA ⁽⁵⁾ / Cost of net borrowings ⁽⁵⁾	7.3x = 4,562 /626	7.5x = 4,019 /538	Ratio between EBITDA and net borrowings
Net borrowings/EBITDA	Net borrowings ⁽⁵⁾ / EBITDA ⁽⁵⁾	3.3x = 15,268 / 4.562	3.8x = 15,309 / 4,019	Ratio between net borrowings and EBITDA
Net borrowings / Ordinary EBITDA	Net borrowings ⁽⁵⁾ / Ordinary EBITDA ⁽⁵⁾	3.3x = 15,268 / 4.668	3.5x = 15,309 / 4,413	Ratio between net borrowings and Ordinary EBITDA.
Market capitalisation	No. of shares ('000) outstanding at end of period ⁽⁶⁾ * Market price at end of period ⁽⁶⁾	Euros 22,044 million = 984,122 * Euros 22.40	Euros 22,275 million = 1,000,689 * Euros 22.26	Measure of the company's total value based on its share price
Free cash flow after non-controlling interests	Free cash flow ⁽⁵⁾ + Parent company dividends ⁽⁴⁾ + Purchase of own shares ⁽⁴⁾ + Inorganic investment payments ⁽⁴⁾	Euros 1,958 million = 238 + 1,307 + 405 + 8	Euros 3,054 million = 1,318 + 1,400 + 309 + 27	Net cash generated by the company that is available for distribution to shareholders (via

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2019	Reconciliation of values at 31.12.2018	Relevance
				dividends or buybacks), inorganic investment payments and debt payments
Net free cash flow	Cash flow generated from operating activities ⁽³⁾ + Cash flows from investing activities ⁽³⁾ + Cash flows from financing activities ⁽³⁾ – Receipts/payments from financial liability instruments ⁽³⁾	Euros 238 million = 4.021 – 1.456 – 1.599 - 728	Euros 1,318 million = 2,881 – 617 – 3,759 + 2,813	Net cash generated by the company that is available for payment of debt

- (1) Consolidated balance sheet line item.
(2) Consolidated income statement line item.
(3) Consolidated statement of cash flows line item.
(4) Figure detailed in the Notes to the consolidated annual accounts.
(5) Figure detailed in the APMs.
(6) Figure detailed in the Directors' Report.
(7) Proforma net borrowings at 31 december 2018 including the first implementation of NIIF 16 adjustment of Euros 1,642 million.

(8) The detail of non-ordinary items is as follows:

Euros million	EBITDA		Net profit	
	2019	2018	2019	2018
Gas transportation and supply	-	(50)	-	(38)
Non-ordinary expenses - Chile	-	(44)	-	(28)
Restructuring expenses	(168)	(180)	(126)	(137)
Asset impairment	-	-	(23)	(3,824)
Discontinued operations and non-controlling interests	-	-	-	49
Tax effect of mergers - Chile	-	-	-	42
CNMC fine	(20)	-	(20)	-
Release of provisions	49	-	33	-
Sale of land and buildings	24	18	23	11
Income from sale of equity holdings	-	-	65	-
Liability management costs	-	-	(73)	-
Revaluation of Medgaz	-	-	101	-
Other	9	(138)	(11)	(142)
Total	(106)	(394)	(31)	(4,067)

Annex III. Glossary of non-financial indicators

Indicator	Definition
Investment in innovation	Amount earmarked for innovation activities (Euros).
Satisfaction with overall service quality	Customer satisfaction with overall service quality on a scale of 1 to 10 (1 to 7 in Chile), broken down by country or region.
Direct greenhouse gas (GHG) emissions	Greenhouse gas (GHG) emissions from sources owned or controlled by the company.
Power generation emission factor (tCO ₂ /GWh)	Rate of emissions as a result of electricity generation, obtained as the ratio between the amounts of pollutant emitted (tonnes of carbon dioxide) and the power produced (GWh).
Emissions-free installed capacity (%)	Installed hydroelectric, small hydro, wind, nuclear and solar capacity as a percentage of total installed capacity at year-end.
Emissions-free net production (%)	Net production using hydroelectric, small hydro, wind, nuclear and solar technologies as a percentage of total net production.
Activity with ISO 14001 environmental certification (%)	Percentage of EBITDA from companies with an environmental management system certified to ISO 14001(*) as a percentage of total EBITDA from activities that have an environmental impact. (*) Includes companies deemed to be certified in accordance with the following definition: - Controlling companies practically all of whose subsidiaries (in which they own over 50%) are certified. - Companies that concentrated corporate services solely of certified companies. - Companies whose controlling company concentrates corporate services and is certified.
Water consumption	Volume of water used in the company's activities.
Consumption of raw materials	Thousand tons of raw materials used in the company's main processes.
Direct energy consumption	Represents the consumption of non-renewable fuels, electricity acquired for consumption and renewable electricity generated, less electricity and steam sold.
Indirect energy consumption	Final consumption of natural gas that is distributed or supplied.
Resources allocated to preventing environmental risks	Environmental investment and expenditure.
Distribution of employees by age, country, gender and professional category	Distribution of employees by age, country, gender and professional category at year-end.
Annual average of indefinite and temporary contracts, by age, gender and professional category	Percentage of employees by contract type at year-end, and annual average of temporary contracts by age, gender and professional category.
Turnover rate	Employee turnover/Average workforce.
Voluntary turnover rate	Voluntary turnover/Average workforce.
No. of terminations by age, gender and professional category	Number of persons terminated, for just cause or otherwise, classified by age, gender and professional category.
Salary gap	Gap between men's and women's wages, calculated as the difference between men's and women's wages divided by men's wage. A result greater than zero represents the percentage by which women's salaries are lower than men's. A result lower than zero represents the percentage by which women's wages are higher than men's.

Average compensation by age, gender and professional category. Average remuneration of directors and executives	Average compensation of the workforce, classified by country, age, gender and professional category. Remuneration of directors (excluding indemnities) and executives weighted by the number of directors and executives.
Percentage of employees covered by a collective agreement	Percentage of employees per country whose contract is covered by a collective agreement.
Trained workforce (%)	Percentage of workforce that has received training.
Total training hours	Total training hours received by employees in the workforce.
Disabled persons integration rate	Percentage of employees with disability on the payroll in Spain
No. of lost time accidents	Number of workplace accidents (with fatality or not) with lost time.
Days lost	Number of days lost due to workplace accidents. Counted in calendar days from the first day after receiving medical leave.
Fatalities	Number of employees killed as a result of workplace accidents.
Number of worked hours	Total number of real hours worked in the Company.
Number of lost hours	Total number of days of medical leave caused by registered workplace accidents.
Lost time accidents frequency rate	Number of lost time accidents at the workplace per 200,000 hours worked. AFR = No. accidents / No. worked hours x 200,000
Lost time accidents severity rate	Number of days lost as a result of workplace accidents per 200,000 hours worked. ASR = No. lost hours / No. worked hours x 200,000
Occupational illnesses	Illnesses that arise from work-related causes.
Absenteeism	Hours lost due to occupational illness and non-occupational illness.
Total number of suppliers	Total number of suppliers that were active (registered in the supplier database) during the year and from which purchases were made in the year; total and breakdown by country.
Total volume of purchases allocated	Total monetary amount of outsourcing in the year, considering 100% of all outsourcing contracts lasting less than 365 days and the annualised amounts for 2018 of contracts lasting more than 365 days.
Supplier ESG assessment (<i>Environmental, Social and Governance</i>)	Total number of suppliers that were active (registered in the supplier database) during the year and were assessed in accordance with ESG criteria, regardless of whether or not they were awarded a contract or whether or not Naturgy acquired a service or product from them in the year.
Number of critical suppliers	Number of suppliers classified as "High" risk that were active (registered in the supplier database) during the year and that provided products/services to Naturgy in the year.
Disqualified suppliers	Suppliers that failed to pass the supplier approval process.
Expenditure on sponsorship and social action	Monetary contribution to social action and social investing programmes, sponsorship and patronage.
Ethics queries and whistleblower reports	Number of notifications received by the Ethics Committee in relation to the Code of Ethics and Anti-Corruption Policy.
Tax contribution	Amount of taxes actually paid, by country, distinguishing between those that represent an actual expense for the group and those that are withheld from or charged to the final taxpayer.

Annex IV. About this report

This Directors' Report was prepared in accordance with the integrated reporting (IR) framework published by the International Integrated Reporting Council (IIRC). Furthermore, in relation to non-financial aspects, the Global Reporting Initiative (GRI) Standards were taken into account.

In accordance with the provisions of Act 11/2018, of 28 December, which amends the Commercial Code, the consolidated text of the Capital Companies Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial diversity reporting, the Consolidated Non-Financial Information Statement refers to environmental and social issues, as well as personnel, respect for human rights and the fight against corruption and bribery, as set out in section 7 of this Directors' Report.

Additionally, this report is also based on the recommendations set out in the "Guide for the preparation of management reports of listed companies" published by the Spanish National Securities Market Commission (CNMV) in 2013.

Each year, Naturgy performs a materiality analysis to identify the main priorities for the company in connection with environmental, social and governance (ESG) issues.

Material aspects identified at corporate level are those that:

- Are material in terms of corporate responsibility and reporting.
- Can result in a more material change.
- Are considered to be most relevant for the company's stakeholders.

The purpose of the materiality analysis is to:

- Identify material issues that must be disclosed.
- Ascertain the internal and external relevance of the identified issues.
- Explain the significance of each of the identified issues for Naturgy and why they are material.
- Identify the stakeholders that are affected by it.
- Identify the stage of the value chain that is affected by each issue.
- Link material issues with the requirements of Law 11/2018 and the Global Reporting Initiative (GRI) Standards.
- Identify the indicators and objectives that were reported in connection with each issue in the previous year.
- Identify the main events that occurred in the last 12 months that are related to Naturgy and to each of the identified issues.

The materiality analysis was updated in 2019 to align it with the company's commitments and strategy.

The materiality of the identified key issues was assessed and the main content for inclusion in the Directors' Report was prioritised, as detailed below.

Identification of significant aspects	<p>Based on internal and external analyses, a list was drawn up of aspects that may substantially affect Naturgy's capacity to create value in the short, medium and long term. The following were taken into account:</p> <ul style="list-style-type: none"> – Stakeholders' expectations: the main aspects defined by the GRI Standards and the GRI sector supplements for Electric Utilities and Oil&Gas, on the basis of the materiality study conducted by Naturgy. The <i>34 GRI Standards</i> were used as a basis. – Investors' expectations: feedback received from investors and ESG analysts during the roadshows held in 2019. – Internal opinions and external perspectives are considered: interviews were conducted with separate areas of the company and with external stakeholders. – Other external opinion-makers.
Assessment of the materiality of the identified issues	<p>Classification of the various identified issues on the basis of their significance for Naturgy according to their potential impact (positive or negative) on its capacity to generate value.</p> <p>According to the degree of significance, those aspects to be considered as part of the contents of the Directors' Report are obtained.</p>
Prioritising contents	<p>Once determined, the contents of the report are prioritised based on their materiality so as to focus the report on the most significant aspects.</p>

Naturgy identified eleven material aspects of maximum significance. It also identified the other matters of interest:

	Matters identified	Nature of the matter
Matters of maximum significance	1 Emissions and climate change	Environmental
	2 Workplace health and safety	Social
	3 Access to energy	Social
	4 Talent retention and development	Social
	5 Customer service and satisfaction	Social
	6 Energy efficiency and energy consumption	Environmental
	7 Diversity and equality	Social
	8 Assessment of the supply chain	Social and environmental
	9 Innovation and sustainable technology	Economic and social
	10 Local community development and social action	Social
	11 Biodiversity	Environmental

For each of the most material issues, the company compiled, identified and analysed the following information as part of the analysis of non-financial issues:

- Definition and description of the issue.
- Sub-issues into which the issue is divided.
- Principle of the corporate responsibility policy associated with the issue.
- Materiality of the issue for the company and its business.
- What point of the value chain is affected by the issue.
- What stakeholders are affected by the issue.
- Risks and opportunities related to the issue.
- How Naturgy manages the issue.
- Sustainable Development Goals (SDG) directly associated with the issue.
- Material events related to Naturgy that are connected with the issue.

Scope

The financial and non-financial information on Naturgy presented in this report is consolidated and refers to all the activities undertaken in 2019 as a global gas and power operator, although there are certain specific aspects.

In order to clarify the scope used in the non-financial indicators and provide the greatest possible transparency, in each chapter of the non-financial information statement a footnote will specify the indicators for which it was not possible to obtain any data from any of these countries.

Those indicators that plot progress throughout the year must reflect information on companies held for sale except where indicated otherwise in a footnote, while the indicators that represent information at year-end will not include information in connection with such companies.

In the sphere of human resources, the information reported corresponds to the countries in which Naturgy is present and has companies incorporated with their own staff and in which the company manages its human resources policies centrally¹, except for the number of employees and the percentage of men and women, which take account of all group employees as determined by the consolidation scope.

With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management and have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Accounts, entitled "Naturgy Companies", contains a complete list of the companies belonging to Naturgy at 31 December 2019.

Changes in the consolidation scope are described in Appendix II of the Consolidated Annual Accounts.

Verification

The non-financial information in the Directors' Report was subject to an independent external verification process. The independent verification report, setting out the objectives and scope of the process, the review procedures used and the conclusions, is attached as an appendix to this report.

¹ Germany, Argentina, Australia, Belgium, Brazil, Chile, Colombia, Costa Rica, Spain, France, Netherlands, Ireland, Israel, Morocco, Mexico, Panama, Peru, Portugal, Puerto Rico, Dominican Republic, Singapore and Uganda.

Appendix V. Report on independent review of non-financial information statement

Independent Limited Assurance Report of the Consolidated Non-Financial Statement for the year ended December 31, 2019

Naturgy Energy Group, S.A. and Subsidiaries

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

INDEPENDENT LIMITED ASSURANCE REPORT OF THE CONSOLIDATED NON-FINANCIAL STATEMENT

To the Shareholders of Naturgy Energy Group, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2019, of Naturgy Energy Group, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Director's Report of the Group.

The content of the NFS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section 7.10 of the accompanying NFS.

Responsibility of the Board of Directors and Management

The Directors of the Group are responsible for the approval and content of the NFS included in the Consolidated Director's Report of Naturgy Energy Group, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected Sustainability Reporting Standards of Global Reporting Initiative (GRI standards), as well as other criteria described in accordance with that indicated for each subject in section 7.10 of the NFS.

This responsibility also includes the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

The Directors of Naturgy Energy Group, S.A. are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professionalism.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 Revised “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines on assurance engagements on the Non-Financial Statement issued by the Spanish Institute of Chartered Accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance obtained is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- Analyzing the scope, relevance and integrity of the content included in the 2019 NFS based on the materiality analysis made by the Group and described at the beginning of the accompanying NFS and in Annex IV of the Consolidated Director’s Report, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2019 NFS.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFS and its correct compilation from the data provided by the information sources.
- Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the NFS of the Group for the year ended December 31, 2019 has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section 7.10 of the NFS.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

Antonio Capella Elizalde

February 6, 2020

Appendix VI. Annual corporate governance report

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD

2019

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de San Luis, 77 – 28033 Madrid

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
23/07/2019	984,122,146	984,122,146	984,122,146

Please indicate if there are different types of shares with different rights associated:

YES NO **X**

Class	Number of shares	Face value	Number of voting rights	Different rights

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors* :

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20.336%			20.336%
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	4.1%				4.1%
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS I PENSIONS DE BARCELONA (LA CAIXA)		24.424%			24.424%
CVC Capital Partners SICAV-FIS S.A.		20.410%			20.410%
CAPITAL RESEARCH AND MANAGEMENT COMPANY		3.030%			3.030%

* According to information on significant shareholdings reported to the CNMV (Spanish Securities Market Authority) by the reporting parties.

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
GLOBAL INFRASTRUCTURE PARTNERS III	GIP III CANARY 1, S.À R.L.	20.336%		20.336%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U	24.424%		24.424%
CVC Capital Partners SICAV-FIS S.A.	RIOJA ACQUISITION S.À R.L.	20.410%		20.410%
CAPITAL RESEARCH AND MANAGEMENT COMPANY *	AMERICAN FUNDS FAMILY OF MUTUAL FUNDS	3.030%		3.030%

* According to information on significant shareholdings reported to the CNMV by the reporting parties.

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
ENERGIA BOREAL 2018 S.A.	December 17 th 2019	All the stakes in Energía Boreal held by CRITERIA CAIXA S.A.U. were taken over by the latter directly after the merger by absorption

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights <u>that can be transferred</u> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. FRANCISCO REYNES MASSANET		0.008			0.008		
RIOJA S.Á.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
MR. SCOTT STANLEY	0				0		
MR. PEDRO SAINZ DE BARANDA RIVA		0.002			0.002		
MR. RAMÓN ADELL RAMÓN	0.002				0.002		
MR. ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	0.003				0.003		
MR. CLAUDIO SANTIAGO PONSÀ	0				0		
MR. MARCELINO ARMENTER VIDAL	0.001				0.001		
MR. FRANCISCO BELIL CREIXELL	0.001				0.001		
MRS. HELENA HERRERO STARKIE	0				0		
MR. RAJARAM RAO	0				0		

% total voting rights held by the Board of Directors	0.017%
--	--------

Detail of the indirect holding

Name or company name of Director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights <u>that can be transferred</u> through financial instruments
Mr. Francisco Reynés Massanet	FRINVYCO, SL	0.008			
Mr. Pedro Sainz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0.002			

Observations:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A. 7

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
CRITERIA CAIXA S.A.U	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
MR. MARCELINO	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Proprietary/Managing Director

ARMENTER VIDAL		Caixa Capital Risc, S.G.E.I.C. S.A.	Vice-President – Managing Director
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman and Managing Director
		Saba Infraestructuras, S.A.	Director
		Caixa Invierte Industria, S.C.R., S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Industrial Ventures, S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Venture Capital, S.I.C.C. S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
MR. ENRIQUE ALCANTARA GARCIA-IRAZOQUI	CRITERIA CAIXA S.A.U		Proprietary
MR. SCOTT STANLEY	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary
MR. RAJARAM RAO.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Shareholder
MR. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Proprietary
MR. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES NO

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one
CRITERIA CAIXA S.A.U GIP III CANARY 1, S.À R.L.	44.76%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L.,	20.410%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact N° 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO **X**

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

1.-Through Relevant Fact N° 281047 on 1 August 2019, Corporación Alba reported that, on said date, all the parties to the Parallel Shareholders Agreement agreed the modification of the same, as of 1 August 2019, in order to adapt it to the merger by absorption of Rioja Bidco by its sole member, namely, Rioja Acquisition, S.à.r.l., with termination date, as reported in the Relevant Fact, in September 2019 and, for that purpose, only the Parallel Shareholder Agreement was modified.

2.- Through Relevant Fact N° 283453, of 8 November 2019, Criteria Caixa reported that on 5 November 2019 it was resolved, separately, both Parallel Shareholder Agreements signed on 28 September 2018 with the companies G3T, S.L. and BCN Godia, S.L.U., respectively, in regards to shares in Naturgy Energy Group, S.A.

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES NO **X**

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
5,183,890	8,639,595	1,40%

OBSERVATIONS

Explain the significant changes over the year:

Details of significant changes
<p>Naturgy holds 8,639,595 shares in a separate corporate vehicle that were purchased I 2018 to generate a yield that will finance the long-term incentive of certain executives if they fulfil the established conditions (see Relevant Facts dated 3 August, 1 October and 6 December 2018 and section B.7. of the Annual Remuneration Report).</p> <p>In addition, at 31 December 2019, the company has 5,183,890 shares available for the purpose of repurchasing shares for possible redemption, with the intention of acquiring shares in volume of up to 400M euros in the period ending on 30 June 2020.</p>

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders on 5 March 2019, in item 9 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2019 through redemption of a maximum of 18,998,662 own shares by implementing a Share Buy-Back programme.

Ninth.- Reduce the share capital of NATURGY ENERGY GROUP, S.A. (hereinafter the “Company”) by the amount resulting from the sum of:

1. 2,998,622 euros, through redemption of the 2,998,622 Own Shares, each with a nominal value of one euro, on close of the Market on 6 December 2018, having been acquired under the authorisation conferred by the General Meeting of Shareholders held on 14 May 2015 under item fourteen (14) on the Agenda and within the limits of that set forth in Articles 144 to 148 and 509 of the consolidated text of the Spanish Corporate Enterprises Act, approved by the Royal Legislative Decree 1/2010, of 2 July of the Spanish Corporate Enterprises Act and intended for the purposes of repurchasing own shares (buy-back), contemplated in the Strategic Plan, and possible redemption, as detailed in the Relevant Facts on 6 December 2018 (Registry Number 272,238 and 18 January 2019 (Registry Number 273,935); and

2. The aggregate nominal value, up to a maximum of 16,000,000 euros, corresponding to the additional 16,000,000 shares, each with a nominal value of one euro. Said shares shall be ordinarily purchased for their redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter, the “Buy-Back Programme”), approved by the Company under the EU Regulation N° 596/2014 on market abuse and published as Relevant Fact on 6 December 2018 (Registry Number 272,237), whose closing acquisition date expires on 30 June 2019, inclusive.

As a result, the maximum amount of the reduction in share capital (the “Share Capital Reduction”) is 18,998,622 euros, through the redemption of up to a maximum of 18,998,622 own shares with a nominal value of one euro each, proportional, approximately 1.90% of the share capital of the Company at the time of the adoption of the agreement. In view of the foregoing, on the 31 January 2019 the Company held, in accordance with the two previous points, 9,438,556 Own Shares for possible redemption.

The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section. However, in the case that the resolution contained in item eleven (11) of the Agenda of the General Meeting of Shareholders, the total amount of 8,639,595 shares acquired with respect to the Long-Term Incentive Plan, as detailed in the Relevant Fact on 6 December 2018 (Registry Number 272,238), for purposes of redemption, reducing by the same amount the needs of the Buy-Back Programme, to the extent that the underscored maximum share capital reduction amount shall not be changed”.

3.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

*“**FOURTEEN.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights,*

with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.

- 1) *Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.*
- 2) *The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.*
- 3) *As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:*

“TRANSITORY ARTICLE.- DELEGATION TO THE BOARD OF DIRECTORS.

The company's Board of Directors, with the powers of replacing this delegation with the Executive Committee, has been authorised to increase the share capital by FIVE HUNDRED MILLION THREE HUNDRED AND FORTY FOUR THOUSAND AND SIX HUNDRED AND SEVENTY EUROS (Euros 599,344,670), within five (5) years from this date (20/04/2017), through a cash contribution, in one or more payments and as and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right vote, with or without a premium, without the need for new authorisation from the General Meeting of Shareholders, up to the limit of 20% of the share capital at the time of this authorisation, as well as to amend the Articles of Association required for the share capital increase carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Spanish Corporate Enterprises Act”.

A.11 Estimated floating capital:

	%
Estimated floating capital	27.7

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES NO

Description of the restrictions
<p>As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition.</p> <p>Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.</p>

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act (“LSC” in Spanish).

YES NO X

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company’s system of adopting corporate agreements and the framework established in the Corporate Enterprises Act (“LSC” in Spanish):

YES NO X

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company’s Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders’ rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting

of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

- 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
- 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
- 3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.
- 4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

Date of General Meeting of Shareholders	Attendance data				Total
	% physical presence	% represented	% remote voting		
			Electronic Vote	Other	
20/04/2017	68.66%	13.34%	0%	0%	82%
Of the floating capital 2017	0.1%	13.3%	0%	0%	13.4%
27/06/2018	68.69%	15.13%	0%	0%	83.82%

Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%
05/03/2019	72.12%	13.06%	0%	0%	85.18%
Of the floating capital 2019	2.55%	13.06%	0%	0%	15.61%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes No

Agenda items that have not been approved	% of votes against (*)

(*)If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES NO

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES NO

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:

https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Independent	Coordinating Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09-01-1958
Mr. Enrique Alcántara-García Irazoqui		Proprietary	Director	27/06/1991	20/04/2017	Agreement General Meeting of Shareholders	21-10-1944
Mr. Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	02-06-1957

Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of Shareholders	24-05-1946
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	04/05/2016	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	03-04-1971
RIOJA S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	01/08/2019	Board Co-opted	26-11-1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
D. Pedro Sainz De Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 6-07-2018)	Agreement General Meeting of Shareholders	23-03-1963
Mr. Scott Stanley		Proprietary	Director	29/01/2019	05/03/2019	Agreement General Meeting of Shareholders	07-02-1957
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-71

Total number of directors	12
----------------------------------	-----------

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the mandate
William Alan Woodburn	Proprietary	20/04/2017	29/01/2019	ARC	YES
Rioja Bidco Shareholdings, S.L.U.	Proprietary	27/06/2018	01/08/2019	ARC	YES

Reason for the resignation and other observations
<p>Proprietary Director Mr. Woodburn resigned due to his new responsibilities in Group GIP.</p> <p>Rioja Bidco Shareholdings, SLU was replaced on the decision of the Shareholder due to a company restructuring of its business group.</p>

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mr. Enrique Alcántara-García Irazoqui	CRITERIA CAIXA S.A.U	Legal profile: Former Public Prosecutor. He is Secretary of the Board of Directors and of the Trusts of multiple Societies and Foundations.
Mr. Marcelino Armenter Vidal	CRITERIA CAIXA S.A.U	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l..	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Rioja S.à.r.l. (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions Sarl, S.L.U	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Mr. Scott Stanley	GIP III Canary 1 S.à r.l.	Economics and international business profile: Degree in Ceramic Engineering from the Ohio State University.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (Mr. Jose Antonio Torre de Silva López de Letona).	Rioja Acquisitions S.a.r.l	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).

Total number of proprietary directors	6
% of the entire board	50.00%

OBSERVATIONS

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Graduate in Law. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudio Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director may perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

OBSERVATIONS

Throughout 2019 there has not been any significant renewal processes of the Board of Directors. The only renewal circumstance that occurred was the replacement of a natural person representative Proprietary Director, Mr. William Woodburn, who resigned from his position in the light of the new responsibilities that he had to assume in the business group to which he provides services. Mr. Scott Stanley, candidate who was replaced through the co-option system, representing a significant shareholder, was proposed by said shareholder, and certified by the General Meeting of Shareholders held on 5 March 2019.

The replacement of a legal entity proprietary director also took place, albeit due to the company restructuring of the group of the significant shareholder but did not affect the appointment of the natural person representative of the same.

Within the framework of this process of renewal of proprietary directors, the Company has first of all been respectful of the right to proportional representation that lawfully corresponds to shareholders. The detail of the assessment made by the Appointments and Remuneration Committee of the different candidates proposed by the shareholders is included in the corresponding report of the Committee that was published with the call to Meeting.

In any case, in line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in extension of term of office. Said process, concluding with the proposal to the General Meeting of Shareholders was made by the Appointments and Remuneration Committee in the aforementioned meeting in October 2019, after approval of the Competency Matrix.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:

Explication of the measures
The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune

reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought.

On the same lines, the Board meeting held in October 2019 approved, according to the recommendations of the CNMV (Spanish Securities Market Authority) 1/2019 Technical Guide, a Competency Matrix that has already been used in the process for selecting candidates to cover the position of Independent Director that is in extension of term of office and that is planned in financial year 2020, to be incorporated in the Policy for selecting Directors once the corresponding modification of said policy is approved by the Board.

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons

The Company's Appointments and Remuneration Committee fully respects the legally recognised right to proportional representation of its significant shareholders. To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director that is in extension of term of office.

C.1.7 Explain the Appointments Committee's conclusions on the checks carried out to ensure that the Director Selection Policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020 comes to an end.

The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

In line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in

extension of term of office. Said process, concluding with the ensuing proposal to the General Meeting of Shareholders to be held in 2020, was made by the Appointments and Remuneration Committee in the said meeting in October 2019, after approval of the Competency Matrix.

The percentage of female profiles among independent directors represents 20% of the total, although it is expected to increase when it is appropriate to make new proposals.

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES NO X

Name or company name of shareholder	Explanation

C.1.9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11 Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director

Mr. Marcelino Armenter Vidal	Caixabank S.A.	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automocion, S.A.	Director

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES NO **X**

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	7.803
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	5.232(*)
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	0

OBSERVATIONS
(*) It includes the amount corresponding to the variable remuneration 2018 and 2019 that are settled as a contribution to the Executive Chairman's Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr. Antonio Gallart Gabás	Director of Business Infrastructures Latin America South Zone
Mr. José García Sanleandro	Director of Business Infrastructures Latin America North Zone
Mr. Antonio Basolas Tena	Manager Corporate Strategy & Development
Mr. Manuel Fernández Álvarez	Business Director Gas & Electricity
Mr. Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Taberner	Communication & Institutional Relations Managing Director

Mrs. Rosa M ^a Sanz García	España & Empl – Medgaz Infrastructure Business Managing Director
Mr. Miguel Angel Aller Blanco	Lean Project Manager
Mr. Steven Fernández	Capitals Market Director
Mr. Jon Ganuza Fernandez De Arroyabe	Controlling
Mr. Carlos Ayuso Salinas	Director of Internal Audit

Total remuneration of senior management (in thousands of euros)	16.366
--	--------

OBSERVATIONS
Messrs. Egea Krauel and Peris Mingot stopped working for the company in 8 april 2019 and 31 December 2019, respectively.

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES x NO

Description of modifications
At the meeting of 29 October 2019 Article 6 of the Board Regulations was amended to (i) extend from six (6) to eight (8) the minimum yearly meetings that the Board should meet and (ii) to facilitate any Director requesting the inclusion of matters in the Agenda.

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

<p>The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act (“LSC” in Spanish).</p> <p>1.- Appointment:</p> <p>The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.</p> <p>If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.</p> <p>The status of Shareholder is not required to be appointed Director.</p>
--

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a previous report/proposal from the Appointments and Remuneration Committee.

In particular, the proposals for the appointment of Directors which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date have a term of three (3) years). The Directors appointed by co-option will exercise their position under the terms established in prevailing legislation.

The Appointments and Remuneration Committee is also entrusted with evaluating the quality of the work and the dedication of the Directors proposed during the preceding mandate. It will make suggestions regarding Independent Directors and report on the remaining Directors, on a compulsory basis, on the proposals for the re-election of Directors which the Board of Directors chooses to submit to the General Meeting of Shareholders.

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

According to the foregoing, the new Competency Matrix approved by the Board is also to be used in the process for re-electing Directors.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Executive Directors step down from their executive positions.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, a Competency Matrix has been used in the process for covering the position of Independent Director whose re-election/appointment must be put forward to the General Meeting of Shareholders, since the term of office has expired of the Director currently in this position and it is planned modify in financial year 2020 the Policy for selecting Directors to include this Matrix in all processes to cover vacancies or re-election of Directors.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
<p>The evaluation of the Board of Directors for 2017 included the participation of an independent expert as consultant, which implemented throughout 2018 of an Action Plan on the subject of corporate governance which led to the approval in the General Meeting of Shareholders in 2018 of some new Company's Articles of Association, the reduction of the number of Directors, the removal of the Executive Committee, and the attribution to the Appointments and Remuneration Committee of new powers in matters of corporate governance.</p> <p>Since a there has been in-depth renewal with respect to corporate governance in financial year 2018, the assessment of the board relating to financial year 2018 has not identified the need to make any significant changes to internal organisation or in the procedures applicable to the activities during financial year 2019.</p> <p>Nonetheless, the publication by the CNMV of the Technical Guide for Appointments and Remuneration Committees led to both the Committee and the Board as a whole to examine the processes to which said Guide makes reference. The most significant outcome of the same is that the Board approved a Competency Matrix in October 2019 and the</p>

modification to the Directors Selection Policy to include the need to take said Matrix into account in the processes for selecting Directors was approved in the meeting held in February 2020.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
<p>The Board was advised by an external consultant for the self-assessment of its operation during 2017, which allowed it to have a base with which to address the process of simplification and the broad renewal of the Board in June 2018. For this reason, the Board has not resorted to such external consultation in 2018, on the understanding that it is appropriate to let a certain period of time pass in order to adequately analyse the effectiveness of the agreed measures, since they have been implemented progressively throughout 2018.</p> <p>Notwithstanding, the experience gained in said evaluation process has served to improve the internal self-assessment process. Likewise, similar to that done in 2018, some detailed questionnaires were prepared on which the Appointments and Remuneration Committee have worked, and that were sent to all Members of the Board and the Committees so that they could express their opinions relating to the functioning of the Board. This meant that the questionnaires could be submitted anonymously if the Director so deemed to do so. The conclusions of said questionnaires have been analysed in detail when preparing the corresponding self-assessment reports.</p> <p>The Assessment of the Board assisted by an external consultant shall most likely be carried out in financial year 2020.</p>

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NOT APPLICABLE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

- a. When Executive Directors step down from their executive positions.
- b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES NO

Where appropriate, describe the differences.

Description of the differences
<p>Article 7.4 of the Regulations of the Board of Directors states the following:</p> <p>“4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority.</p> <p>In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable:</p> <ol style="list-style-type: none"> a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one.

- d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000.
- e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts.
- f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros.
- i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO X

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES NO X

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES NO **X**

Additional requirements and/or maximum number of years of in office	
---	--

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association “Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary.”

In addition, Article 7.3 of the Regulations of the Board states: “Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors’ representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman’s Office or the Board Secretary before the beginning of the session”.

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	16
Number of board meetings without the Chairman attending	0

Observations

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0
--------------------	---

Observations
Since the Coordinating Director is also the Chairman of the Appointments and Remuneration Committee and had held this position on the Audit Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit Committee	6
Number of meetings of the Appointments and Remuneration Committee	6
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the _____ Committee	

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	16
% of attendance over the total number of votes during the year	97%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	12
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	96%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

YES X NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, the Audit Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well as supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that no accounting qualifications have been made.

C.1.29 Is the Secretary of the Board also a Director?

YES NO **X**

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for

examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective. In order to increase transparency, this area has been enhanced by differentiating it from the Financial Department.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO **X**

Outgoing auditor	Incoming auditor
------------------	------------------

--	--

Observations

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES NO

	Company:	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	17	168	185
Amount of tasks other than auditing/Amount billed by the audit company (%)	1,90%	4,5%	4,0%

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to

YES NO

Explication of the reasons

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated
--	------------	--------------

Number of years without interruption	2	2
--------------------------------------	---	---

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	6,90%	6,90%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES NO

Details of the procedure
<p>Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: “2- Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held”.</p> <p>The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting.</p> <p>To this end, the Board’s documentation is made available to the directors through a computer platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the</p>

exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.

Furthermore, during the meeting, those Directors whose issues are being dealt with at the meeting are available to be called -and they frequently are called -so that the Directors in attendance can ask them directly for any clarifications, details or opinions in relation to the items discussed in the session and can directly appreciate their suitability for the position.

Finally, the Directors may request additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the Company's credit and reputation:

YES NO

Explain the rules
<p>In accordance with Article 11.3 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.3, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.</p> <p>Also, Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:</p> <ul style="list-style-type: none">a) When Executive Directors step down from their executive positions.b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Indicate whether or not any Member of the Board of Directors has informed the Company that he/she has been prosecuted or hearings against him/her have been opened for any difference laid down in Article 213 of the Spanish Corporate Enterprises Act:

YES NO X

Director's name	Criminal Case	Observations

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

YES NO X

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 9.7 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change

of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases

C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	17
Beneficiary type	Description of the agreement
Executive Chairman	<p>The Chairman’s contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan.</p> <p>The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year’s fixed remuneration has been established.</p> <p>The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.</p>

Executives	<p>The contracts signed with 11 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.</p> <p>In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute.</p> <p>Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.</p>
------------	--

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting of Shareholders
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Meeting of Shareholders informed of the clauses?	X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE OR DELEGATED COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

NOT APPLICABLE.

Indicate whether the composition of the Delegated or Executive Committee reflects the participation in the board by the various directors depending on their category:

YES NO

If the answer is negative, explain the composition of your Delegated or Executive Committee
NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mr. Enrique Alcántara-García Irazoqui	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mr. Rajaram Rao	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

In response to different resolutions of the Board of Directors of 27 November 2015, 29 January 2016 and 6 March 2018, it exercises the following functions:

- Prepare the report on auditor independence.
- Prepare the Report on the performance of the Audit Committee.
- Prepare the Report on related operations.

- Strive to ensure that the Board of Directors can present the company’s accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor’s report. In the exceptional case that qualifications exist, both the Chairman of the Committee and the Auditors should give a clear account to shareholders of their scope and content of said limitations.
- With respect to control and reporting systems:
 - (a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
 - (b) Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.
 - (c) Setting up and supervising a mechanism whereby employees can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
- With regard to the External Auditor.
 - (a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.
 - (b) Ensuring that the remuneration of the external auditor does not compromise its quality or independence.
 - (c) Supervising that the company notifies any change of external auditor to the National Securities Market Commission as a relevant event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - (d) Ensuring that the external auditor has a yearly plenary session of the board to inform them of the work undertaken and developments in the company’s risk and accounting positions.

- (e) Ensuring that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
- Call any of the Company's employees or managers, and also have them appear without the presence of any other executive.
- Analyse and report to the Board of Directors on the economic conditions and the accounting impact and, especially, where applicable on the exchange ratio, in relation to the operations of structural and corporate modifications that, due to their nature or amount, are of special relevance. Transactions whose net value exceeds the value of 25% of the assets that appear on the last approved balance sheet of the Company will be deemed relevant.
- In addition:
 - (a) Supervision of compliance with the internal codes of conduct.
 - (b) Overseeing the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
 - (c) The regular evaluation of the adequacy of the company's governance system
 - (d) Monitoring and assessing the processes of liaising with different stakeholders.
 - (e) The evaluation of the company's non-financial risks

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

The Audit Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2019.

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- Quality and efficiency of its operation.
- External audit of individual and consolidated Annual Accounts.
- Supervision of the process of preparation of financial reporting.
- Tax situation.
- Independence of the Auditor.
- Related-party transactions.
- Verification of the crime prevention system.
- Supervision of risk control systems and specific risk analysis.
- Supervision of internal control and internal audit systems.
- Monitoring of own-share operations
- Action Plan in terms of Compliance
- Internal Audit Supervision

Identify the Directors who are Members of the Audit Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	MR. RAMÓN ADELL RAMÓN
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr. Ramon Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudio Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Scott Stanley	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee’s duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments and Remuneration Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

- Prepare the report on performance of the Appointments and Remuneration Committee.
- Verify the selection policy for Directors and report on this in the Annual Corporate Governance Report.
- Through delegation that must be granted by the Chairman of the Board, to organise and coordinate the regular assessment of the Board and that of the Chief Executive of the Company.
- Prepare the report on the operation of the Board of Directors.
- Propose to the Board of Directors the standard conditions for Senior Executive contracts.
- Monitor compliance with the remuneration policy set by the Company.
- Regularly review the remuneration policy for Directors and Senior Executives.
- Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- Verify information on remuneration of Directors and Senior Executives contained in the various corporate documents.

- Through a resolution of the Board of Directors on 29 January 2016, it was entrusted with the exercise of all the corporate social responsibility powers that hitherto had been exercised by the Audit Committee.
- Through a resolution of the Board of Directors on 6 March 2018, it was agreed to entrust the Appointments and Remuneration Committee with the following tasks previously entrusted to the Audit Committee:
 - i) Monitor of the most relevant incidents in terms of health, safety and the environment.
 - ii) Raise proposals and report on initiatives in corporate governance.

b) Procedures, and organisational and operational rules

in accordance with Article 25 of the Regulations of the Board:

The Appointments and Remuneration Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2019:

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

- i) Corporate Governance: i) the Technical Guide of CNMV for Appointments and Remuneration Committees has been analysed and, to adapt to its recommendations, measures have been adopted. As part of the same of note is the proposal to the Board of Directors for their approval of a Competency Matrix for which external assessment was sought, ii) a modification to the Policy for selecting Directors to include the need for preparing said Competency Matrix was proposed, iii) the Committee has worked hard on the self-assessment process of the Board in which some specific questionnaires have been designed that must be completed by the Directors, iv) different measures for modifying the Articles of Association and the Board of Directors Regulation have been proposed to progress in the alignment to the best corporate governance practices (minimum number of meetings of the Board and right to any Director to include items on the Agenda of the Board Meeting) Proposal for new Directors: given that the Independent Director Mrs. Herrero is in extension of term of office, the coverage of this position has been analysed with the help of the aforementioned Competency Matrix. As a result of the same, the Committee proposed to the Board the renewal of Mrs. Herrero in her position.
- ii) Health and Safety: the Committee has followed the indicators on Health and Security of the Group and have been informed of the accidents reported and the proposals for corrective and preventative measures. Likewise, the integrated model of the Group for managing safety has been analysed in detail.
- iii) Remuneration: the Committee has been engaged in applying the new Director Remuneration Policy by the General

iv)	Meeting of Shareholders of 2019, as well as supervising the remuneration policy of the Management Team. Corporate Social Responsibility: the Committee have analysed and submitted to the Board for their approval a new Strategic Sustainability Plan for 2019-2022.
-----	--

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors
% of independent directors
% of other external directors

Observations

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

_____ **COMMITTEE**

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	Financial Year 2019		Financial Year 2018		Financial Year 2017		Financial Year 2016	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	1	10%	1	10%
Audit Committee	1	14.28%	1	14.28%	2	28.57%	2	28.57%
Appointments and Remuneration Committee	0	0%	0	0%	1	20%	1	20%
Appointments Committee	-	-	-	-	-	-		
Remuneration Committee	-	-	-	-	-	-		
Committee	-	-	-	-	-	-		

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) → Shareholders and investors → Corporate governance → Corporate governance standards.

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions
<p>In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit Committee, of the operations that the Company or its group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.</p> <p>In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit Committee every year.</p>

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or Company Name of Significant Shareholder	Name or Company Name of the Company or Entity of the Group	Nature of the Relationship	Type of Operation	Amount (thousands of euros)
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Provision of Services	10
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	13.368
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	1.217
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	27.028
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	333,486

CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	268,548
Gip III Canary 1, S.A R.L.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	267,584

Observations

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousands of euros)

Observations

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)

Observations

D.5 Indicate the amount from related party transactions.

0 (thousands of euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

- The Director must refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.

- Also, the director shall adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the Company.

- In his/her capacity as loyal representative of the Company, the director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in NATURGY ENERGY GROUP S.A. and investee companies.

- The director must notify the Company of significant changes to their professional circumstances and changes which affect the nature or capacity by which he/she was categorised.

- The director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent proprietary directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

The Director must abstain from conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the Company or which, in any other manner, place them in permanent conflict with the Company's interests. Particularly, the director, may not hold, himself or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with NATURGY ENERGY GROUP S.A. or any other company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of NATURGY ENERGY GROUP S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of NATURGY ENERGY GROUP S.A.

The Director Selection Policy establishes that candidates are to be asked if they may have any possible conflicts of interests.

2.- Directors and executives:

Indicate whether or not their respective activity area and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group:

YES

NO

Define the possible business relationships between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group
--

Indicate the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:

Mechanisms for solving possible conflicts of interests
--

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the Group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

Audit Committee

A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

Risk Committee

Is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks.

Risk Control Units

Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include: Risks and Insurance, Gas&Power Risks and Internal Auditing.

Business, Corporate and Project Units

They are responsible for the application of the main principles of the Control and Risk Management Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its business targets.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of hydraulic production	Optimisation of commercialisation/generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.

Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Collection process.
Operational risks		
Operational: image and reputation	Deterioration in perception of Naturgy by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable.	Accidents, damages or non-availabilities in assets of Naturgy.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational:	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Corporate positioning with regard to climate change. Active participation on influence forums.
Operational: cybersecurity	Attacks on computer systems.	Implementation of security measures. Analysis of events and application of remedies Training
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NTGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.

Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure
------------------	--	-------------------------------------

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Unit's responsibility to assess the risks identified, based on:

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Identify any risks, including tax risks, which have occurred during the year.

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

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.

Subsequent to the approval of the new Strategic Plan 2018-2022, asset impairment or write-offs of Euros 4,851 million have been recorded, caused by the reassessment of future cash flow estimates based on the aforementioned plan, as well as other factors that have occurred during the period.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity’s internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company’s control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter “ICFR”) in the “Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy”.

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit Committee.

The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- Audit Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit Committee will have the function of supervising the effectiveness of the company’s internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation

to the reporting and control systems, the Audit Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit Committee is supported by the Internal Auditing Unit.

- Corporate Financial Department: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the Internal Control of Financial Reporting team.
- Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.
- Internal Auditing Unit: In general, it is responsible for assisting the Audit Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.
- Compliance Unit, responsible of the Crime Prevention Model at NTGY, provides information and support to the Audit Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information..
- Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control, the responsibilities, previously centralized in the Corporate Finance Department, have been decentralized to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Corporate Finance Department is responsible for establishing the criteria and principles for the design and organization of the operation of the SCIIF (with the Internal Financial Information

Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.)

In this process, the Administration and Operational Monitoring units are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single NTGY Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the existing critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business and additionally the Financial Management prepares the Interrelationship Maps of the transversal and corporate processes

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

- (i) the information required to prepare the financial reporting;
- (ii) the parties in charge that are either the source or recipient of the financial reporting and
- (iii) the distribution of tasks among the different organizational units
- (iv) the scope of this distribution to all group companies
- (v) the frequency of information transfer
- (vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter “Code of Ethics”), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of NATURGY ENERGY GROUP S.A. and for all investee companies in which Naturgy holds

management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of NATURGY ENERGY GROUP, S.A.

Since it was approved, it has been amended four times, on the last occasion on 27 June 2014, with the purpose of updating it and including new commitments acquired by Naturgy in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anti-Corruption Policy of Naturgy and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose; (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1)
“Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)”

- Processing of information and knowledge (Section 4.11):
“All employees that enter any kind of information in the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts”.

Naturgy has also established an Anti-Corruption Policy, which was approved by the Management Committee in a meeting held on 3 March 2014, amended in the meeting held on 24 November 2015, and which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of Chapter 4.7. “Corruption and Bribery” of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the

prevention, detection, investigation and remedy of any corrupt practice within the organisation.

The Code of Ethics Committee of NTGY has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy have been developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anti-Corruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential.**

NTGY has a Whistleblowing Channel, accessible to all its employees and third parties.

The aforementioned Whistleblowing Channel corresponds to an open channel (internal web platform accessible from any device), accessible to all NTGY employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code. All this outside the hierarchy of the usual operations of the employees.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this sense, the president of the Ethics and Compliance Committee (Compliance Director) has access, in the first instance, to know all the information of all the queries and notifications received from the group through the consultation and notification procedure. Likewise, notices related to fraud, audit or failures in accounting processes or internal control are reported directly to the Audit Committee.

More detailed information on the Code of Ethics, the Anti-Corruption Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel is given in the 2019 Corporate Responsibility report of NTGY.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2019 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

The relevant programmes performed in 2019 included the roll-out of the digital Teams tool. The purpose of this programme is to promote agile and flexible work habits, creating collaborative and mobile environments that facilitate new ways of working, taking advantage of the opportunities that this new technology offers. The global scope of Teams intends to be a transformation leverage for Naturgy.

Complimenting this programme training actions on Agile, SCRUM, Power BI, Big Data and SQL have been given that support the new ways of working in the Company.

Another of the relevant programmes carried out is the development of the online Cybersecurity course for all employees, with a focus on technical knowledge and on the duties and obligations in this area.

The specific knowledge for the economic-financial area covers several objectives, including normalising the economic-financial processes developed in any area of the organisation: updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2019 more than 1,600 professionals from the economic-financial area devoted nearly 1,600 hours to training in specific content, highlighting, among other matters, auditing, financial risks, renewable financing, functioning of the markets, internal control criteria for international bank payments, compliance, unbundling and activity separation and international tax planning.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled “Matrix for defining scope of financial reporting of Naturgy”.

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the “Risks matrix of financial reporting of Naturgy”.

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation of the SAP GRC Process Control tool was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to other countries of the group, such as Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support. .

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.
- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.
- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests have been performed in the following years according to the established schedules, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called “Consolidated closing cycle of Naturgy”. Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

The Audit Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit Committee uses the Internal Audit Unit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

- F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.**

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Naturgy is regularly reviewed by the head of the Corporate Financial Department, identifying possible deviations.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated annual accounts of NATURGY ENERGY GROUP, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the “Global Policy for the Internal Control System of Financial Reporting (ICFR)” of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group’s processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy’s ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
 - General control activities.
 - Processes control activities.

- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1).

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location...), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change.

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.

- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation.

In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.

- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.
-

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “Global Policy for External Contracting”, Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy has subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain customer service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In 2019, monitoring of online reputational risks of the supplier portfolio was introduced with respect to their commercial relationship with Naturgy through the use of a Screening tool for identifying exposure to the reputational risk of the counterparties and decision-taking depending on the risk identified in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the Corporate Financial Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the “Naturgy Accounting Plan”, which includes the group’s accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The “Naturgy Accounting Plan” is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group’s accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group’s subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (CSCs) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy's consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

- F.5.1. The supervision activities of the ICFR carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the**

possible corrective measures, and if its impact on financial information has been taken into account.

The Audit Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit Committee has the information and documentation provided by the Internal Audit and the Corporate Financial Department.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit

Unit, reports to the Audit Committee of NATURGY ENERGY GROUP S.A.

It has the task of guaranteeing the continuous review and improvement of the Group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the Group operates, in particular the operational, corruption, fraud and legal risks. Likewise, it is responsible for the report of the internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the Group's processes in all areas, and also assesses the operational risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the effectiveness and efficiency of operations and mitigate the main risks in each sphere of Naturgy, in particular the operational, corruption, fraud and legal risks.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk areas included in the Corporate Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit Committee and from top-tier management.

In accordance with the Strategic Audit Plan for processes, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

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

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

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

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).

- Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).
- Within the scope defined, inform the Audit Committee of the results and the weaknesses identified in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2019 were as follows:

- Gas networks: outages, disconnection/reconnection, energy control, network construction, training and commissioning, network maintenance,
- Electricity grids: grid development, grid maintenance, service provision, logistics.
- Generation: operation and generation assets maintenance, storage management, development and implementation of new projects, fuel purchases.
- Commercialisation (gas, electricity and services): contracts administration and access, access management, maintenance of power installations.
- Gas supply: management and monitoring of contracts.
- LNG: LNG invoicing, collection and payments.
- Customer Service: invoicing, debt management.
- Physical resources management: management of purchases and service contracting
- Management of internal control: monitoring of corrective actions, ICFR
- Management of information systems: information security and cybersecurity, guarantee of continuity and availability of the Information Systems (IS)
- Economic and financial resources management: treasury stock, economic-administrative management operations.
- Legal advice and support: powers of attorney.
- Review of the Group’s regulatory system
- Code of Ethics channel
- Crime Prevention Model.
- Continuous auditing

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been

entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6 of the Regulation of the Board:

The Board shall meet eight (8) times a year and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the Company or when requested by at least one-third (1/3) of the Directors.

The Members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the effectiveness of the internal control system.

In accordance with the Articles of Association and Regulations of the Board of Directors and its Committees, the Audit Committee shall comprise of a minimum of three (3) and a maximum of seven (7) directors appointed by the Board of Directors from among the non-executive directors, and at least one (1) of them will be assigned with taking into account their knowledge and experience in issues of accountancy and auditing or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors. The majority of the Committee Members will be Independent Directors. At 31 December 2019, the Committee was made up of seven (7) Directors, three (3) Proprietary Directors and four (4) Independent Directors with one (1) being, in turn, the Chairman.

The Board of Directors shall elect the Chairman from among the Members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of the Board of Directors.

The Committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his/her own initiative or upon prior request of two (2) of its Members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

The sphere of activity of the Audit Committee extends to:

- NATURGY ENERGY GROUP, S.A.
- Companies that are majority-owned by NATURGY ENERGY GROUP, S.A.
- Other entities and companies for which NATURGY ENERGY GROUP S.A. has in some form the effective control or responsibility for management or operation.

The Internal Audit Unit regularly reports to the Audit Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the Group.

They also present:

- The Annual Internal Audit Plan for the committee's approval.

- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment and the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including corresponding to Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit Committee.

The External Auditor informs the Audit Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2019 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business and corporate units	178	183	361
Processes identified	59	176	235
Controls certified	906	1,485	2,391

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 33, out of which four (4) were in Spain. During 2019, 34% of the action plans identified in 2018 were resolved, and new plans arose during 2019. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

Compliant **X** Explain

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;**
- b) The mechanisms in place to solve possible conflict of interest that may occur.**

Compliant Partially compliant Explain Not applicable **X**

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous annual general meeting.**
- b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant **X** Partially compliant Explain

4. The Company should draw up and implement a policy of communication and contracts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant **X** Partially compliant Explain

- 5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.**

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **X** Partially compliant Explain

- 6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.**
- b) Reports on the operation of the Audit Committee and the Appointments and Remuneration Committee.**
- c) Audit Committee report on related party transactions.**
- D) Report on corporate social responsibility policy.**

Compliant **X** Partially compliant Explain

- 7. The company should broadcast its general meetings on the corporate website.**

Compliant **X** Partially compliant Explain

- 8. The Audit Committee should strive to ensure that the Board of Directors can present the Company's accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor's report. In the exception case that qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to Shareholders of their scope and content.**

Compliant **X** Partially compliant Explain

- 9. The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant **X** Partially compliant Explain

- 10. When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

- a) Immediately circulate the supplementary items and new proposals.**
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals**

can be voted on in the same terms as those submitted by the Board of Directors.

- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.
- d) After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant Partially compliant Explain Not applicable **X**

- 11. In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

- 12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **X** Partially compliant Explain

- 13. The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant **X** Partially compliant Explain

- 14. The Board of Directors should approve a Director Selection Policy that:**

- a) Is specific and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of the Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Meeting of Shareholders is convened that will ratify the appointment and re-election of each director.

The Director Selection Policy should pursue the goal of having at least 30% of total Board places occupied by female directors in 2020.

The Appointments Committee should run an annual check on compliance with the Director Selection Policy and set out its findings in annual corporate governance report.

Compliant Partially compliant **X** Explain

The policy for the selection of Directors ensures that the selection procedures do not suffer from implicit biases that may imply any discrimination, within the framework of full respect for the right of proportional representation of the shareholders recognised in Law. The policy for the selection of directors is aimed at ensuring adequate diversity in the composition of the Board of Directors, which has led to Board members responding to professional profiles and different and complementary career paths among themselves, based on the conviction that said diversity results in better performance of the Board. Within this framework, the Board pays attention to issues of gender diversity. Although the goal of having females represent one third (1/3) of the Board in 2020 has not been made explicit, the Board is firmly committed to the principle of diversity in its composition in all its manifestations, and has made proposals for the incorporation of new directors following the recommendations of profiles resulting from the self-assessment exercise assisted by the independent External Consultant, as well as those resulting from the Competency Matrix approved by the Board of Directors.

Although the Company shares the willingness to increase the presence of females on the Board up to at least 30%

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant **X** Partially compliant Explain

16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the Board but not otherwise related.**

Compliant **X** Explain

17. Independent directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant Explain **X**

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater

share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation. Out of respect for prevailing legislation and the special shareholder configuration of the Company means that, for legal reasons, this recommendation cannot be complied with if shareholders with more than 8.33% of the share capital wish to exercise their right to proportional representation, which is the case. Current legislation establishes the principle of proportional representation, for which reason the Company is obliged to guarantee respect for the legitimate exercise of that right by its shareholders.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 65.62% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date.

- a) **Background and professional experience.**
- b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) **Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) **Dates of their first appointment as Board member and subsequent re-elections.**
- e) **Shares held in the company, and any options on the same.**

Compliant Partially compliant Explain

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the

director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant **X** Explain

22. Companies are to stipulate rules obliging directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant **X** Partially compliant Explain

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant **X** Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all Members of the Board. Whether or not such resignation is disclosed as a Relative Fact, the motivating factors should be explained in the annual corporate governance report.

Compliant **X** Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

Compliant Partially compliant **X** Explain

Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

- 26. The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

Compliant Partially compliant Explain

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

Compliant Partially compliant Explain

- 28. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

Compliant Partially compliant Explain Not applicable

- 29. The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant Partially compliant Explain

- 30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant Partially compliant Explain Not applicable

- 31. The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

Compliant Partially compliant Explain

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

Compliant Partially compliant Explain

- 33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is**

given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.

Compliant Partially compliant Explain Not applicable

- 34. When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant Partially compliant Explain Not applicable

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

- 35. The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant Explain Not applicable

- 36. The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.

f) The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

37. When an executive committee exists, its membership mix by type of director reassembles that of the Board and the Secretary acts as such to the same.

Compliant Partially compliant Explain Not applicable

38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.

Compliant Partially compliant Explain Not applicable

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters and that the majority of said Members be Independent Directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit Committee.

Compliant Partially compliant Explain

The Internal Audit Department ensures, amongst others, the proper functioning and internal control reporting to the Financial Department.

Supervision of the performance of the Internal Audit Department corresponds to the Audit Committee, so that it reports its activities to said Committee, which also authorises its annual budget and proposes its work plan and remuneration targets of the internal Audit Director. Likewise, the Audit Committee, together with the Appointments and Remuneration Committee, is responsible for the annual performance of the Internal Audit Director, for remuneration purposes.

41. The head of the unit in their internal auditing role submits to the Audit Committee their Work Plan for the year, informing the same in-person of any incidents arising during its development and submit an activities report at the end of each financial year.

Compliant Partially compliant Explain Not applicable

42. The Audit Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Supervise the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the

regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct application of the accounting criteria.

- b) **Ensure the independence of the unit in charge of the internal audit function; propose the selection, appointment, re-election and termination of the party responsible for the internal auditing service; propose the budget for this service; approve the approach and work plans of the same, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management is acting on the findings and recommendations of its reports.**
- c) **Establish and supervise a mechanism whereby employees can report, confidentially and, if possible and if considered appropriate, anonymously, any potentially significant irregularities that they detect in the course of their duties, in particular of a financial and accounting nature within the company.**

2. With regard to the External Auditor:

- a) **In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.**
- b) **Ensure that the remuneration of the external auditor does not compromise its quality or independence.**
- c) **Supervise that the company notifies any change of external auditor to the National Securities Market Commission as a Relevant Event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**
- d) **Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.**
- e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant **X** Partially compliant Explain

43. The Audit Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant **X** Partially compliant Explain

44. The Audit Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant **X** Partially compliant Explain Not applicable

45. The risk control and management policies should identify at least:

- a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**
- b) **The level of risk considered acceptable by the Company.**

- c) **The measures laid down to reduce the impact of the risks that are identified should they occur.**
- d) **Internal control and reporting systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.**

Compliant **X** Partially compliant Explain

46. That, under the direct supervision of the Audit Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

- a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**
- b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant **X** Partially compliant Explain

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant **X** Partially compliant Explain

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant Explain **X** Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, one of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant **X** Partially compliant Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

- a) Propose to the Board of Directors the standard conditions for Senior Executive contracts.**
- b) Monitor compliance with the remuneration policy set by the Company.**
- c) Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant **X** Partially compliant Explain

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant **X** Partially compliant Explain

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.**
- b) Committees should be chaired by an Independent Director.**
- c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant Partially compliant Explain Not applicable **X**

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) Review the company's corporate responsibility policy, ensuring that it is geared towards value creation.**
- e) Monitor the corporate responsibility strategy and practices and assess their degree of compliance.**
- f) Monitor and assess the processes of liaising with different stakeholders.**
- g) Evaluate all aspects of non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant X Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) The corporate strategy with regard to sustainability, the environment and social issues.**
- c) Specific practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.**
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) Channels for stakeholder communication, participation and dialogue.**
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant X Partially compliant Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant **X** Partially compliant Explain

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **X** Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **X** Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant **X** Explain Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. A major part of variable remuneration components should be deferred for a long enough period that predetermined performance criteria have effectively been met.

Compliant Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Compliant partially Explain Not applicable

The variable remuneration of the Executive Chairman does not explicitly take into account the qualifications that may appear in the external auditor's report and which reduce the profits, nor is it a situation that has previously arisen in the Company. However, the Appointments and Remuneration Committee only sets the degree to which targets are met for the variable remuneration once the company's accounts have been audited, so it is in a position to take into account the aforementioned qualifications, if any, when determining the degree to which targets have been achieved.

Accordingly, the degree of compliance with the targets established by the Board of Directors, mainly associated with the audited annual accounts, is reviewed and validated by the Internal Audit Department prior to approval of its favourable report by the Appointments and Remuneration Committee and the Company and is made at the time the annual accounts are formulated.

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three (3) years after the award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Compliant partially Explain Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable

- 64. Termination payments should not exceed a fixed amount equivalent to two (2) years of the director's total annual remuneration and should not be paid until the company confirms that said director has met the predetermined performance criteria.**

Compliant Partially compliant **X** Explain Not applicable

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

D OTHER INFORMATION OF INTEREST

- 1. If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**
- 2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

- 3. The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

At its meeting on 17 September 2010, the Board of Directors agreed that Naturgy would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Naturgy has effectively complied with the content of this code and, more specifically, at the meeting held on 4 February 2020, the Board was notified, through the Audit Committee about the tax policies adhered to by the group in 2019.

Furthermore, at its session on 9 January 2018, and with the favourable report from the Audit Committee, the Board of Directors approved the Fiscal Strategy and the Fiscal Risks Control and Management Policy, which regulated the basic principles that must

guide the fiscal function of Naturgy, as well as the key action lines to mitigate and guide proper control of fiscal risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on XX January 2020.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

YES

NO

Name and Company Name of the Members of the Board that have voted against approving this report.	Reasons (against, abstention, non-attendance)	Explain the reasons

Appendix VII. Report on independent review of ICFR

Auditor's report on information relating to the Internal
Control for Financial Reporting (ICFR) of
Naturgy Energy Group, S.A. for 2019

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 FOR FINANCIAL REPORTING (ICFR)

To the Directors of Naturgy Energy Group, S.A.

At the request of the Board of Directors of Naturgy Energy Group, S.A. (hereinafter, the Entity) and in accordance with our proposal dated August 2, 2019, we have applied certain procedures to the accompanying "ICFR-related information" of the Entity for 2019, which summarizes the Entity's internal control procedures regarding annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information.

It should be noted that irrespective of the quality of the design and effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our assessment of the Entity's internal control system was to establish the scope, nature, and timing of the audit procedures to be applied to the Entity's 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 regulated annual financial reporting.

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 (CNMV) 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 or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2019 described in the accompanying ICFR-related 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 regulated annual financial reporting, other matters might have been detected which would have been reported to you.

Additionally, since this special engagement neither constitutes an audit of the financial statements nor is it subject to prevailing audit regulations in Spain, we do not express an audit opinion in the terms provided for therein.

The procedures performed were as follows:

1. Reading and understanding the information prepared by the Entity regarding ICFR – disclosures included in the management report – and assessing whether this information meets all the minimum reporting requirements needed to fill out section F on the ICFR described in the Annual Corporate Governance Report template established in CNMV Circular 5/2013 of June 12, 2013, subsequently amended by CNMV Circular 7/2015 of June 22, 2015 and CNMV Circular 2/2018 of June 12 (hereinafter the CNMV Circulars).
2. Making inquiries of personnel responsible for preparing the information detailed in point 1 above: (i) to obtain an understanding of the process that goes into preparing the information; (ii) to obtain information that allows us to assess whether the terminology used complies with the framework definitions; and (iii) to obtain information on whether the control procedures described are in place and functioning.
3. Reviewing the explanatory documents supporting the information detailed in point 1 above, which will mainly include documents directly made available to those responsible for describing the ICFR. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the Audit Committee.
4. Comparing the information detailed in point 1 above with our knowledge of the Entity's ICFR obtained through the procedures applied during our audit of the financial statements.
5. Reading the minutes of the meetings of the Board of Directors, the Audit Committee, and other Entity committees in order to evaluate the consistency between matters related to the ICFR and the information detailed in point 1 above.
6. Obtaining a representation letter in connection with the work performed, duly signed by those responsible for preparing and approving the information detailed in point 1 above.

As a result of the procedures applied to 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 stipulated in article 540 of the consolidated text of the Corporate Enterprises Act and CNMV Circulars on ICFR description in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alfredo Eguiagaray

February 6, 2020

Audit Report on Financial Statements
issued by an Independent Auditor

Naturgy Energy Group, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2019

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of Naturgy Energy Group, S.A.:

Audit report on the financial statements

Opinion

We have audited the financial statements of Naturgy Energy Group, S.A. (the Company), which comprise the balance sheet at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for Opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of the recovery of the book value of long-term investments in group companies and associates

Description As detailed in Note 7 to the accompanying financial statements, the Company shows long-term investments in group companies and associates amounting to 16,552 million euros.

The determination of the recoverable amounts of the long-term investments in group companies and associates is based on estimates that require Management to use cash flow projections based on current results. These cash flows are calculated based on the 2018-2022 Strategic Plan approved by the Board of Directors updated by the most recent budgets possible, whose key assumptions are detailed in Note 4 to the accompanying financial statements. Additionally, Management have made a sensitivity analysis of the most significant assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, Company Management have recorded a net impairment loss amounting to 320 million euros (Note 7).

Given the significance of the balance of the 'Long-term investments in group companies and associates' heading and the existence of significant estimates regarding the key assumptions used in the calculations made by Management, we consider this area a key audit matter.

Our response

Our audit procedures for this area consisted, among others, in:

- ▶ Understanding the processes established by Company Management in the determination of the impairment of long-term investments in group companies and associates, including the assessment of the design and implementation of relevant controls.
- ▶ Reviewing whether any indications of impairment exist and, where appropriate, reviewing the model used by Company Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Company Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Company Management.
- ▶ Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

Transfer of UFD Distribución Electricidad, S.A.

Description As indicated in Note 7 to the accompanying financial statements, on November 27, 2019 the Company sold 100% of the shares it held in UFD Distribución Electricidad, S.A. for an amount of 5,170 million euros, in accordance with their fair value. The shares were sold to Holding Negocios de Electricidad, S.A., a wholly-owned subsidiary of the Company that was incorporated in the current year and became the parent of the electricity distribution activities in Spain. Additionally, in accordance with section 1 of Recognition and Measurement Standard 21 of the Spanish General Accounting Plan, the transaction carried out was recorded at fair value and generated profit of 3,539 million euros.

Given the significance of the amounts involved in this transaction, we have considered this area a key audit matter.

Our
response

Our audit procedures for this area consisted, among others, in:

- ▶ Reviewing the sale agreement reached for the transfer of a 100% ownership interest in the electricity distribution business in Spain.
- ▶ Reviewing, by involving our transaction experts, the valuation report prepared by the financial advisor on the fair value established for this transaction in the sale agreement.
- ▶ Reviewing the intra-group agreements associated with this transaction.
- ▶ Verifying the accounting treatment followed by the Company for recording the transaction.
- ▶ Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: Management Report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information included in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which solely requires us to verify that said information has been included in the management report and, if not, that the reference corresponding to the separate report on non-financial information as provided for by the regulations has been included therein, and if not, disclose this fact.
- b. A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on the knowledge of the entity we obtained while auditing the financial statements, not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the information referred to in paragraph a) above is provided in the management report, and that the remaining information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibility of the Directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and communicate to them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Company on February 6, 2020.

Term of engagement

The ordinary general shareholders' meeting held on April 20, 2017 appointed us as auditors for 3 years, commencing on December 31, 2018.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alfredo Eguiagaray

February 6, 2020



Naturgy Energy Group, S.A.

Annual Report 2019

ANNUAL ACCOUNTS

Balance sheet
Income statement
Statement of recognised income and expense
Statement of changes in equity
Cash flow statement
Notes to the annual accounts

Naturgy Energy Group, S.A.
Balance sheet

(million euro)

	31.12.19	31.12.18
NON-CURRENT ASSETS	33,257	31,317
Intangible assets <i>(Note 5)</i>	3	32
Goodwill	--	27
Other intangible assets	3	5
Property, plant and equipment <i>(Note 6)</i>	124	141
Land and buildings	112	127
Other property, plant and equipment	12	14
Long-term investments in Group companies and associates <i>(Note 7)</i>	32,754	30,894
Equity instruments	16,552	15,237
Loans to companies	16,202	15,657
Long-term investments <i>(Note 8)</i>	10	17
Equity instruments	5	5
Other financial assets	5	12
Other non-current assets <i>(Note 14)</i>	189	81
Deferred tax assets <i>(Note 17)</i>	177	152
CURRENT ASSETS	2,708	2,225
Trade and other receivables <i>(Note 9)</i>	843	661
Trade receivables for sales and services	54	101
Trade receivables, group companies and associates	255	366
Sundry receivables	350	129
Current tax assets	183	65
Other amounts receivable to Public Administrations	1	--
Short-term investments in Group companies and associates <i>(Note 7)</i>	666	797
Loans to companies	527	740
Other financial assets	139	57
Short-term investments <i>(Note 8)</i>	24	44
Derivatives	1	8
Other financial assets	23	36
Short-term prepayments and accrued expenses	1	1
Cash and cash equivalents <i>(Note 10)</i>	1,174	722
Cash at banks and in hand	474	722
Other cash equivalents	700	--
TOTAL ASSETS	35,965	33,542

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Balance sheet

(million euro)

	31.12.19	31.12.18
EQUITY (Note 11)	19,853	17,226
SHAREHOLDERS' FUNDS	19,914	17,253
Capital	984	1,001
Authorised capital	984	1,001
Share premium	3,808	3,808
Reserves	11,573	8,009
Legal and statutory	300	300
Other reserves	11,273	7,709
Treasury shares	(121)	(121)
Profit/(loss) for the year	4,415	5,282
Interim dividend	(754)	(730)
Other equity instruments	9	4
VALUE CHANGE ADJUSTMENTS	(61)	(27)
Hedging operations	(61)	(27)
NON-CURRENT LIABILITIES	11,892	13,085
Long-term provisions (Note 12)	459	478
Long-term post-employment obligations	272	256
Other provisions	187	222
Long-term borrowings (Note 13)	1,835	2,040
Bank borrowings	1,744	1,985
Derivatives	90	54
Other financial liabilities	1	1
Amounts owing to group companies and associates falling due in more than one year (Note 15)	9,197	10,273
Deferred tax liabilities (Note 17)	211	212
Other liabilities	189	81
Long-term accruals and deferred income	1	1
CURRENT LIABILITIES	4,220	3,231
Short-term borrowings (Note 13)	271	246
Bank borrowings	253	233
Derivatives	16	9
Other financial liabilities	2	4
Amounts owing to group companies and associates falling due in less than one year (Note 15)	3,168	2,283
Trade and other payables (Note 16)	780	701
Trade payables	237	249
Trade payables, Group companies and associates	131	267
Sundry payables	355	129
Personnel (outstanding remuneration)	36	29
Other amounts payable to Public Administrations	21	27
Short-term prepayments and accrued expenses	1	1
TOTAL EQUITY AND LIABILITIES	35,965	33,542

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Income statement

(million euro)

	2019	2018
Revenue (Note 18)	3,496	4,527
Sales	1,745	3,464
Income from equity instruments of Group companies and associates (Note 7)	1,361	547
Income from marketable securities and other financial instruments of Group companies and associates	390	516
Raw materials and consumables (Note 19)	(1,743)	(3,470)
Consumption of goods	(1,738)	(3,464)
Raw materials and other consumables	(5)	(6)
Other operating income (Note 22)	255	380
Supplementary income and other operating income	255	379
Operating grants released to the income statement	--	1
Personnel expenses (Note 20)	(173)	(262)
Wages, salaries and related expenses	(148)	(215)
Social Security	(17)	(33)
Provisions	(8)	(14)
Other operating expenses (Note 21)	(202)	(315)
External services	(200)	(304)
Taxes	(1)	(2)
Impairment losses and variation in trade provisions	(1)	(9)
Fixed asset depreciation/amortisation (Notes 5 and 6)	(48)	(98)
Impairment and results on disposals of fixed assets	3,241	5,025
Gain/(loss) on disposals of tangible fixed assets (Note 6)	1	1
Impairment of and losses from equity instruments of Group companies and associates (Note 7)	(320)	(4,565)
Gain/(loss) on disposals of equity interests in Group companies and associates (Note 7)	3,560	9,589
OPERATING PROFIT/(LOSS)	4,826	5,787
Financial income	11	30
Negotiable securities and other financial instruments	11	30
- In third parties	11	30
Financial expenses	(483)	(536)
Borrowings from group companies and associates	(444)	(464)
Borrowings from third parties	(39)	(72)
Variation in fair value of financial instruments	(5)	8
Investments	(5)	8
Exchange differences	(2)	(8)
Impairment and gains/(losses) on disposals of financial instruments	--	1
Impairment due to disposals of financial instruments	--	1
NET FINANCIAL INCOME (Note 23)	(479)	(505)
PROFIT/(LOSS) BEFORE TAXES	4,347	5,282
Income tax (Note 17)	68	--
PROFIT FOR THE YEAR	4,415	5,282
Basic and diluted earnings per share in euro	4.52	5.29

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE	(million euro)	
	2019	2018
PROFIT FOR THE YEAR	4,415	5,282
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	(75)	(2)
Cash flow hedges	(54)	(28)
Actuarial gains and losses and other adjustments <i>(Note 12)</i>	(48)	24
Tax effect <i>(Note 17)</i>	27	2
RELEASES TO INCOME STATEMENT	6	1
Cash flow hedges	8	1
Tax effect <i>(Note 17)</i>	(2)	--
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY	4,346	5,281

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

B) TOTAL STATEMENT OF CHANGES IN EQUITY

(million euro)

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Profit for the year	Interim dividend	Other instruments	Value change adjustments	Total
Balance at 1.1.2018	1,001	3,808	7,971	--	--	1,023	(330)	--	(7)	13,466
Total recognised income and expense	--	--	15	--	--	5,282	--	4	(20)	5,281
Operations with shareholders or owners										
- Dividend distribution (Note 11)	--	--	--	--	(670)	--	(730)	--	--	(1,400)
- Trading in treasury shares (Note 11)	--	--	--	(121)	--	--	--	--	--	(121)
Other changes in equity (Note 11)	--	--	23	--	670	(1,023)	330	--	--	--
Balance at 31.12.2018	1,001	3,808	8,009	(121)	--	5,282	(730)	4	(27)	17,226
Total recognised income and expense	--	--	(40)	--	--	4,415	--	5	(34)	4,346
Operations with shareholders or owners										
-Capital reduction (Note 11)	(17)	--	(383)	400	--	--	--	--	--	--
- Dividend distribution (Note 11)	--	--	--	--	(565)	--	(754)	--	--	(1,319)
- Trading in treasury shares (Note 11)	--	--	--	(400)	--	--	--	--	--	(400)
Other changes in equity (Note 11)	--	--	3,987	--	565	(5,282)	730	--	--	--
Balance at 31.12.2019	984	3,808	11,573	(121)	--	4,415	(754)	9	(61)	19,853

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Cash flow statement

(million euro)

	2019	2018
Profit for the year before tax	4,347	5,282
Adjustments to results	(4,500)	(5,461)
Fixed asset depreciation/amortisation (Notes 5 and 6)	48	98
Impairment adjustments	320	4,574
Change in provisions	(35)	11
Profit/(loss) on write-offs and disposals of fixed assets	(1)	(2)
Profit/(loss) on write-offs and disposals of financial instruments	(3,560)	(9,589)
Financial income	(1,762)	(1,093)
Financial expenses	483	536
Exchange differences	--	8
Variation in fair value of financial instruments	5	(8)
Other income and expenses	2	4
Changes in working capital	(279)	(180)
Debtors and other receivables	(380)	(110)
Creditors and other payables	101	(70)
Other cash flows from operating activities	2,206	1,292
Interest paid	(395)	(523)
Dividends received	1,967	1,172
Interest collected	402	539
Income tax collections/(payments)	232	104
Cash flows from operating activities	1,774	933
Amounts paid on investments	(7,568)	(14,894)
Group companies and associates	(7,452)	(14,883)
Intangible assets	--	(1)
Property, plant and equipment	(4)	(10)
Other financial assets	(112)	--
Amounts collected from divestments	8,383	17,709
Group companies and associates	8,372	17,675
Property, plant and equipment	2	5
Other financial assets	9	29
Cash flows from investing activities	815	2,815
Collections and payments on equity instruments	(406)	(110)
Acquisition of own equity instruments	(406)	(416)
Disposal of own equity instruments	--	306
Collections and payments financial liability instruments	(412)	(3,069)
Issuance	6,639	8,431
Bank borrowings	3	178
Payables to Group companies and associates	6,528	8,252
Other payables	108	1
Repayment/redemption of	(7,051)	(11,500)
Bank borrowings	(226)	(2,083)
Payables to Group companies and associates	(6,807)	(9,381)
Other payables	(18)	(36)
Dividend payments	(1,319)	(1,400)
Cash flow from financing activities	(2,137)	(4,579)
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	452	(831)
Cash and cash equivalents at the beginning of the year	722	1,553
Cash and cash equivalents at the year end	1,174	722

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Contents of the notes to the annual accounts for 2019

Nota 1.	General information	8
Nota 2.	Basis of presentation	8
Nota 3.	Accounting policies.....	9
Nota 4.	Asset impairment.....	20
Nota 5.	Intangible assets.....	25
Nota 6.	Property, plant and equipment	26
Nota 7.	Investments in Group companies and associates.....	27
Nota 8.	Investments	33
Nota 9.	Trade and other receivables.....	34
Nota 10.	Cash and cash equivalents	34
Nota 11.	Equity.....	35
Nota 12.	Provisions	41
Nota 13.	Borrowings.....	45
Nota 14.	Risk management and derivative financial instruments	47
Nota 15.	Payables to Group companies and associates	53
Nota 16.	Trade and other payables	54
Nota 17.	Tax situation	55
Nota 18.	Revenue	59
Nota 19.	Raw materials and consumables	60
Nota 20.	Personnel expenses	60
Nota 21.	Other operating expenses	61
Nota 22.	Other operating income	61
Nota 23.	Net financial income/(expense)	61
Nota 24.	Foreign currency transactions	62
Nota 25.	Information on transactions with related parties.....	62
Nota 26.	Information on members of the Board of Directors & senior management personnel	63
Nota 27.	Contingent liabilities and commitments	66
Nota 28.	Auditors' fees.....	68
Nota 29.	Environment	68
Nota 30.	Events after the reporting date	69
APPENDIX I.	NATURGY TAX GROUP COMPANIES.....	70

Notes to the annual accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2019

Nota 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Avda. de San Luis 77, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

The company's corporate objects, as per its articles of association, comprise the following activities:

- a) All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.
- b) Acting as a holding company, incorporating companies or holding shares as a member or shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's most relevant ordinary activity is the administration and management of its shareholdings in subsidiaries. It also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

The Company's shares are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

Nota 2. Basis of presentation

The Company's annual accounts for 2018 were approved at the annual general meeting of shareholders on 5 March 2019.

The annual accounts for 2019, which were drawn up and signed by the Company's Board of Directors on 4 February 2020, will be submitted to the general shareholders' meeting for approval; they are expected to be approved without any changes.

The accompanying annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) and Royal Decree 602/2016 (2 December), so as to present fairly the Company's equity and financial position at 31 December 2019, and the results, changes in equity and cash flows of Gas Natural SDG, S.A. for the year then ended.

At 31 December 2019, the Company recorded goodwill which was negative by Euros 1,512 million. In this respect, the Company's liquidity statements envisaged for the coming year together with the amounts available under credit lines will ensure coverage of the goodwill.

The figures set out these annual accounts are expressed in million euros, unless otherwise stated.

The consolidated annual accounts of Naturgy for 2019 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the consolidated annual accounts, which have been audited, are as follows:

Total assets	41,138
Equity attributed to the parent company	10,551
Non-controlling interests	3,425
Revenue	23,035
Profit after tax attributed to the parent Company	1,401

Nota 3. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below.

3.1. Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

Goodwill is amortised over ten years using the straight-line method. Goodwill is tested annually to analyse possible impairment losses. It is recognised in the balance sheet at cost value less amortisation and any cumulative impairment adjustments.

The impairment of goodwill cannot be reversed.

b) Other intangible assets

Costs associated directly with the production of computer software programs that are likely to generate economic benefits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs of the employees involved in developing the programs.

Computer software development costs recognised as assets are amortised on a straight-line basis over a period of five years as from the time the assets are ready to be brought into use.

Research expenditure is recognised in the income statement when incurred.

The Company has no intangible assets with an indefinite useful life.

3.2. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

a) Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income statement.

b) Depreciation

Assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33 – 50
Computer hardware	4
Vehicles	6
Other	3 - 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 3.3).

3.3. Asset impairment

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies, goodwill and intangible assets that are not in use are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised in the income statement for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discounted cash flow method. The Company considers value in use as the recoverable amount, calculated as described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs).

For investments in group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), which have required an analysis of potential impairment losses, the cash flows employed are based on the Strategic Plan approved by the Company, updated where appropriate by the most recently approved budgets and extended to a maximum total of five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash flows after the five-year projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from estimated inflation for the period 2021 to 2045 according to the Economist Intelligence Unit (EIU).

The parameters taken into account for the composition of the discount rates before taxes are as follows:

- Risk-free rate: Taking into account the 10-year bond in the CGU reference market and studies by the European Central Bank and the Bank of Spain, among others.
- Market risk premium: Premium based on studies by the European Central Bank and the Bank of Spain, among others.
- Deleveraged Beta: According to average of each sector in each case, obtained from Bloomberg.
- Local current interest rate swaps: 10-year swap, obtained from Bloomberg.
- Debt-equity ratio: Sector average.

Impairment adjustments to values recognised in previous periods for investments in Group companies and associates may be reversed if and only if there is a change in the estimates used to determine their recoverable amount since the latest impairment loss was recognised.

3.4. Financial assets and liabilities

The Company classifies its financial assets and liabilities based on their valuation which is determined on the basis of the business model and the characteristics of the contractual cash flow.

Purchases and sales of investments are recognised on the trade date, which is the date on which Naturgy undertakes to purchase or sell the asset, classifying the acquisition under the following categories:

Investments in the equity of Group companies, jointly-controlled entities and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the higher of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recorded on the income statement in which it takes place.

In non-cash contributions of a business to a group company, the investment is measured at the carrying amount of the assets and liabilities contributed, as per the consolidated annual accounts on the transaction date.

The consolidated annual accounts of the largest group or subgroup into which the assets and liabilities are integrated, where the parent is a Spanish company, are used.

In mergers and spin-offs between group companies that involve the group's parent, directly or indirectly, the assets and liabilities acquired are measured at the amount that would be reflected in the group's consolidated annual accounts following the transaction. The difference between the cost of the shares handed over and the carrying amount of the assets and liabilities acquired, in the group's consolidated annual accounts, is recognised under "Reserves" in the balance sheet.

Investments

Purchases and sales of investments are recognised on trade-date, which is the date on which the Company commits to purchase or sell the asset, and are classified under the following categories:

a) Loans and receivables

These are non-derivative financial assets, with fixed or determinable payments that are not quoted on an active market and with respect to which there is no intention to trade in the short term. They include current assets, except for those maturing after twelve months as from the balance sheet date that are classified as non-current assets.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method.

The necessary value adjustments due to impairment are made if there is objective evidence that the entire amount owed will not be collected. The provision is the difference between the carrying value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are debt securities with fixed or determinable payments and fixed maturity which the Company plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Fair value financial assets through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for the year.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognised at fair value. Unrealised gains and losses that arise from changes in fair value are recorded in equity. When these assets are sold or impaired over a lengthy period of time, the accumulated adjustments to the reserves due to valuation adjustments are included in the income statement as gains and losses.

The fair values of quoted investments are based on current bid prices. In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent

transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows. If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

Financial assets are written off when the contractual rights to the asset's cash flows have expired or they have been transferred; in the latter case, the risks and rewards of ownership must have been substantially transferred. Financial assets are not written off, and a liability is recognised in the same amount as the payment received, in asset assignments where the risks and rewards of ownership are retained.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions and other short-term highly liquid investments with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by the Company.

Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than twelve months are considered non-current payables.

3.5. Financial derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

The Company aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description of the risk management objective pursued is carried out.

In order for each hedging operation to be considered effective, the Company documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives.

The market value of the various financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end quoted price.
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of forward price curves for those items.

The fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable credit risk in negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

Amounts accumulated in equity are reclassified to the Income statement in the periods when the hedged item will affect profit or loss.

c) Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in group and multi-group companies and associates made in the same functional currency.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3. Energy purchase and sale agreements

In the normal course of its business the Company enters into energy purchase and sale agreements which in most cases include “take or pay” clauses. by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs of receipt or physical delivery of energy expected by the Company in accordance with regular energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and therefore fall outside the scope of the standard on the valuation of financial instruments.

3.6. Non-current assets held for sale and discontinued operations

The Company classifies as held-for-sale assets those assets for which, at the year end, active measures have been initiated for their sale, which is estimated to take place within the next twelve months.

Additionally, the Company considers discontinued activities the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations, which are significant and which can be considered separately from the rest, and which have been sold or disposed by other means or which meet the conditions to be classified as held-for-sale. Entities acquired solely for resale are also classed as discontinued operations.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation from the date on which they are classified as non-current assets held for sale.

In the event of delays caused by events or circumstances beyond Naturgy's control and if there is sufficient evidence that the commitment to the plan to sell those classified as held for sale is maintained, the classification is maintained even though the period to complete the sale is extended beyond one year.

3.7. Share capital

Share capital is represented by ordinary shares.

Issuance costs of new shares or options, net of taxes, are deducted from equity as a reduction in reserves or the share premium account in the case of issuances with a share premium.

Dividends on ordinary shares are recognised as a deduction from equity in the period they are approved.

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The gains and losses on disposals of treasury shares are recognised under "Reserves" in the balance sheet.

3.8. Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date.

The resulting cost is recognised under Personnel expenses in the income statement as the services are rendered by the employees during relevant vesting period, with a balancing entry in Other equity instruments in the balance sheet.

The amounts recognised in equity are not subject to a subsequent reassessment due to trends in external market conditions.

3.9. Borrowings and equity instruments

Borrowings and equity instruments issued by the Company are classified based on the nature of the issue.

The Company treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.10. Provisions for employee obligations

a) Post-employment pension obligations and similar

- Defined contribution plans

The Company, together with other Naturgy companies, is the promoter of a joint occupational pension plan, which is a defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are insured.

Additionally, there is a defined contribution plan for a group of executives, in which the Company undertakes to make certain contributions to an insurance policy, guaranteeing this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The contributions made have been recognised under Personnel expenses in the income statement.

- Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been externalised through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which approved the Regulations on the arrangement of companies' pension commitments.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The current value of the liability is determined discounting the estimated future cash flows at interest rates on bonds denominated in the currency in which the benefits will be paid and having similar maturities to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and the actual situation are recognised in full in the period in which they arise, directly under Equity in Reserves.

Past service costs are recognised immediately in the Income statement under Personnel expenses.

b) Other post-employment benefit obligations

The Company provides post-employment benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to Reserves.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which the Company has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.11. Provisions

Provisions are recognised when the Company has a legal or implicit present obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the best estimate of the present value of the amount required to settle the obligation at the balance sheet date.

When it is expected that part of the disbursement needed to settle the provision will be paid by a third party, the payment is recognised as a separate asset, provided that its receipt is practically assured.

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference.

3.12. Leases

a) Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of the finance cost, is recognised under liabilities in the balance sheet. The interest component of the finance cost is charged to the income statement over the lease period so as to obtain a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b) Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

3.13. Corporate income tax

Income tax expense includes the deferred tax expense and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

Deferred tax arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset temporary differences and apply tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

3.14. Recognition of income and expense

a) General

Sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue for the year includes the estimate of the energy supplied that has not yet been invoiced.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts.

b) Other income and expenses

In accounting for revenues from the service provision agreements is used the percentage realisation method in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the Income statement for the year.

Interest incomes and expenses are recognised using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established.

The holding of shares in Group companies and associates is deemed to be the Company's most relevant ordinary activity from which regular revenue is obtained. In accordance with the approach taken by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of revenue in holding companies (ruling request number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as "Revenue". Additionally, the item "Impairment and results on disposal of equity instruments of Group companies and associates" is included in "Operating profit/(loss)".

3.15. Foreign currency transactions

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.16. Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in mergers, de-mergers or non-cash contributions of a business, the assets that make up the acquired business are valued at the amount at which they are recognised after the operation takes place in the consolidated annual accounts of Naturgy.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the acquiring company, is recorded under Reserves in the balance sheet.

3.17. Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of the Company in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

3.18. Cash flow statement

The cash flow statements has been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Company revenues, as well as other activities that cannot be qualified as investing or financing.
- b) Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

3.19. Significant accounting estimates and judgments

The preparation of annual accounts requires the use of estimates and judgments. The measurement standards that require a large number of estimates are set out below:

a) Property, plant and equipment (Note 3.2)

The determination of useful life of property, plant and equipment requires estimates of their degree of use, as well as expected technological developments. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

b) Impairment of assets (Note 3.3)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the projections approved by the Company, which have historically been substantially met.

Note 4 details the main assumptions used to determine the recoverable value of non-financial assets.

c) Derivatives or other financial instruments (Note 3.5)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

d) Provisions for employee benefits (Note 3.11)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. The Company estimates at each year end the provision necessary to meet its pension commitments and similar obligations, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e) Provisions (Note 3.12)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, outstanding litigation or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) Corporate income tax (Note 3.14)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which the Company operates. The determination if the tax authority will accept an uncertain tax treatment and the expected outcome of litigation requires the preparation of significant estimates and judgment. The Company evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

Nota 4. Asset impairment

Definition of Cash Generating Unit

Following the approval on 27 June 2018 of the Strategic Plan 2018-2022 which introduce a new industrial and business unit model, Cash Generating Units (CGU) are defined as follows:

- Gas and Electricity:
 - Supply of gas, electricity and services: The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers with high potential for growth in services and solutions, for which there is a single CGU.
 - International LNG sales: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
 - Electricity Generation Europe: It is considered that there is a CGU for conventional electricity generation (hydro, coal, nuclear, combined cycle and other plants) and another CGU for renewable electricity generation (wind, mini-hydro, solar and cogeneration) taking into account the new strategic vision of the Spanish electricity market, with a greater presence in renewables and greater volatility in hourly prices, which requires specialisation in the management of conventional and renewable generation focused, respectively, on cost adjustment and an increase in the installed capacity, in line with the reorganisation carried out.
 - International Electricity Generation: A CGU is understood to exist in each country in which there

are operations (Brazil, Costa Rica, Mexico, Panama, Dominican Republic, Puerto Rico, Australia and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.

- EMEA Infrastructures:
 - Gas distribution in Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
 - Electricity Distribution Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.
 - Maghreb Infrastructures: Is a single CGU which manages the Maghreb - Europe gas pipeline.
- Latin America South Infrastructures: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the regulated electricity distribution business in Argentina and Chile.
- Latin America North Infrastructures: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.
- Remainder: Basically includes the Unión Fenosa Gas CGU and the gas storage business.

Information on recognised impairments (Note 7)

In 2019 and 2018 impairments of shareholdings in Group companies and associates amounting to Euros 320 million (Euros 4,565 million in 2018) have been recognised under "Impairment of and losses from equity instruments of Group companies and associates" in the income statement, and break down as follows:

- Euros 272 million (Euros 3,401 million in 2018) for the shareholding in Naturgy Generación, S.L.U.

The assumptions taken into consideration are the following:

	2018	2019	2020	2021	2022
Evolution of Spanish GNP	2.7%	2.2%	1.8%	1.9%	1.8%
Pool price €/MWh	58.5	52.7	55.8	52.8	49.7
Brent (USD/bbl)	75.3	62.9	56.5	55.5	60.6
Gas Henry Hub (USD/MMBtu)	2.9	2.7	2.4	2.4	2.7
Coal (API2 CIF ARA) (USD/t)	89.6	59.8	68.0	71.0	79.5
CO ₂ €/t	14.0	24.4	25.0	25.4	25.7

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

- Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market, assuming an average year for hydro generation purposes. The main variation with respect to past projections is a decrease in conventional production in line with the expected future evolution of the conventional generation mix.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts. That analysis produced price paths

which, as a consequence of the high uncertainty surrounding energy policy in Spain, have been adjusted on the basis of the average futures curves and analysts' forecasts.

- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience. The main variation with respect to past projections corresponds to an increase in the cost of emission allowances based on the evolution of futures curves.
- Operation and maintenance costs have been estimated from historical costs of managed park.
- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 6.6% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows. In 2018, the long-term growth rate was 1.9% and the pre-tax discount rate was 7.0%.

In 2018, due to the existence of impairment evidence, following the approval of the Strategic Plan and taking into account external reports by analysts that indicate a value for the electricity business in Spain which is lower than the relevant carrying value, an impairment analysis was carried out.

The assumptions and projections were based on the Strategic Plan 2018-2022, approved by the Board of Directors following the last General Shareholders' Meeting which updated those that had been used to date, and were determined: i) in the light of the new sector variables for the next five-year period, ii) taking into account the uncertainty regarding the role of certain generation assets in the energy transition policy (coal, nuclear and combined cycles) and consequently the development of the associated risks, iii) considering the greater presence forecast in renewables, iv) considering the increasing volatility of prices in the electricity wholesale market and emission allowances and v) assessing the references provided by very recently announced transactions in conventional electricity generation assets in Spain.

The accumulated impairment at 31 December 2019 relating to the holding in Naturgy Generation, S.L.U. amounts to Euros 3,673 million (Euros 3,401 million at 31 December 2018).

- Euros 32 million (Euros 729 million in 2018) relates to the impairment of the 50% interest in Unión Fenosa Gas.

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas and stopped paying the utilisation fee for the Damietta liquefaction plant in Egypt. This led to the filing of various arbitration claims, the resolution of which is described in Note 27.

The most sensitive matters included in the impairment test are as follows:

- Gas volumes to be supplied from each supply source. The main causes of the differences between the past and current cash flow projections are the decrease in the volumes of gas to be supplied from Egypt and to be liquefied at the plant during the Strategic Plan 2018-2022 due to the delays in coming to an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence. Naturgy continues to be confident that the resolution of the arbitration processes will enable a commercial agreement to be reached, enabling the recommencement of gas supplies to the plant as swiftly as possible.
- Gas supply costs. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets based on the change in the composition of gas volumes affected by the situation in Egypt.
- Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Unión Fenosa Gas operates.

A long-term growth rate of 1.9% (1.9% in 2018) and a pre-tax discount rate of 13.5% (15.1% in 2018) have been used. Due to the trend in the carrying value of Unión Fenosa Gas, an impairment of Euros 32 million has been recognised during the year.

The accumulated impairment at 31 December 2019 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 2,132 million (Euros 2,100 million at 31 December 2018). At 31 December 2019, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 309 million (Euros 340 million at 31 December 2018) (Note 7). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 17 million (Euros 16 million at 31 December 2018).

- Euros 3 million relating to the decrease in the impairment of the shareholding in Naturgy Informática, S.A. (Euros 140 million in 2018). The impairment recognised in 2018 related to the impairment of computer software resulting from the review thereof under the Strategic Plan 2018-2022 and taking obsolescence into account.

The accumulated impairment at 31 December 2019 relating to the holding in Naturgy Informática, S.A. amounts to Euros 137 million (Euros 140 million at 31 December 2018).

- Euros 70 million in 2018 for the impairment of the 32.3% holding in Petroleum Oil & Gas España, S.A. due to the lack of feasibility of this company's projects.

The accumulated impairment at 31 December 2019 and 2018 recognised for the holding in Petroleum Oil & Gas España, S.A. amounts to Euros 70 million.

Impairment has also been recognised with respect to the following:

- Euros 2 million (Euros 207 million in 2018) impairment of the holding in Unión Fenosa Minería, S.A. The impairment recorded in 2018 was due to the difference between the carrying value of the interest in the coalfield in South Africa (Kangra Coal (Propietary) LTD) and its fair value less costs to sell, taking into account the price and conditions agreed to for its sale.

The accumulated impairment at 31 December 2019 relating to the holding in Unión Fenosa Minería, S.A. amounts to Euros 244 million (Euros 242 million at 31 December 2019).

- Other impairment of shareholdings in Naturgy companies amounting to Euros 17 million (Euros 18 million in 2018) recorded under equity evolution.

Information on other impairment tests performed

As regards the remaining CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment, in 2019 and 2018 the recoverable amounts, calculated according to the methodology described in Note 3.3, have been higher than the carrying values recorded in these annual accounts. The most sensitive aspects that are included in the projections used and which are based on industry forecasts and historical experience are as follows:

- Supply of gas, electricity and services:
 - Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.
 - In addition, a long-term growth rate of 0.5% and a pre-tax discount rate of 6.7% have been used for this CGU. The discount rate has been determined specifically for the new CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2018 the long-term growth rate for this CGU was 1.9%, while the tax discount rate applied for said CGU was 6.8%.

- Renewable electricity generation:
 - Electricity generated. Projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data.
 - Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts. That analysis produced price paths which, as a consequence of the high uncertainty surrounding energy policy in Spain, have been adjusted on the basis of the average futures curves and analysts' forecasts.
 - Remuneration. For facilities with a right to specific remuneration, this has been estimated based on the remuneration parameters for the established regulated income period.
 - Operation and maintenance costs. Estimated from historical costs of managed park.
 - Taxes established by Law 15/2012.
 - In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 5.9% have been used for this CGU. The discount rate has been determined specifically for the new CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2018 the long-term growth rate for this CGU was 1.9%, while the pre-tax discount rate applied for said CGU was 6.1%.
- International Electricity Generation:
 - Operation and maintenance costs. Estimated on the basis of historical costs.
 - International electricity generation is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.
 - In addition, long-term growth rates of 1.9% - 3.5% (2.1% - 4.0 % in 2018) and pre-tax discount rates of 7.1% - 16.6 % (7.9% - 14.8% in 2018) have been used for these CGUs.
- Electricity and gas distribution in Spain:
 - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.
 - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
 - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
 - In addition, long-term growth rates of 0.5% - 1.5% (1.2% in 2018) and pre-tax discount rates of 5.4% - 5.8% (6.0% - 6.5% in 2018) have been used for these CGUs.
- Latin America North and South Infrastructures:
 - Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
 - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
 - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
- In addition, long-term growth rates of 0.6% - 3.5% (1.3% - 3.8 % in 2018) and pre-tax discount rates of 8.5% - 13.9% (9.9% - 17.6%) have been used for these CGUs.

The Company has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact the aforementioned sensitive parameters on which the recoverable amounts of these remaining CGUs have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

	Increase	Decrease
Discount rate	50 basis points	-
Growth rate	-	50 basis points
Electricity generated	-	5%
Electricity price	-	5%
Fuel supply costs	5%	-
Tariff/remuneration performance	-	5%
Operating and maintenance costs	5%	-
Investments	5%	-

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for the holdings in Group companies and associates.

Nota 5. Intangible assets

This heading breaks down as follows:

	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost	6	1	7	815	822
Accumulated amortisation	(2)	--	(2)	(706)	(708)
Carrying value at 1.1.2018	4	1	5	109	114
Investment	1	--	1	--	1
Amortisation charge	(1)	(1)	(2)	(82)	(84)
Other	1	--	1	--	1
Carrying value at 31.12.2018	5	--	5	27	32
Cost	6	--	6	815	821
Accumulated amortisation	(1)	--	(1)	(788)	(789)
Carrying value at 1.1.2019	5	--	5	27	32
Amortisation charge	(2)	--	(2)	(27)	(29)
Carrying value at 31.12.2019	3	--	3	--	3
Cost	6	--	6	815	821
Accumulated amortisation	(3)	--	(3)	(815)	(818)
Carrying value at 31.12.2019	3	--	3	--	3

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with Naturgy. It has been fully amortised at 31 December 2019.

At 31 December 2019, intangible assets includes fully amortised goodwill and does not include other fully amortised assets in use (zero at 31 December 2018).

In 2019 there have been no disposals of fully-depreciated assets (Euros 2 million at 31 December 2018).

Nota 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2019 and 2018:

	Land and buildings	Other property, plant and equipment	Total
Cost	197	40	237
Accumulated depreciation	(63)	(23)	(86)
Carrying value at 1.1.2018	134	17	151
Investment	7	1	8
Divestment	(4)	--	(4)
Depreciation charge	(11)	(3)	(14)
Other	1	(1)	--
Carrying value at 31.12.2018	127	14	141
Cost	197	37	234
Accumulated depreciation	(70)	(23)	(93)
Carrying value at 1.1.2019	127	14	141
Investment	3	1	4
Divestment	(2)	--	(2)
Depreciation charge	(16)	(3)	(19)
Carrying value at 31.12.2019	112	12	124
Cost	184	35	219
Accumulated depreciation	(72)	(23)	(95)
Carrying value at 31.12.2019	112	12	124

In May 2018 the Company sold the building located in la Avenida Balears, Valencia, for Euros 5 million, generating a capital gain before income tax of Euros 1 million.

In 2019 there have been disposals of fully-depreciated assets totalling Euros 18 million (Euros 4 million at 31 December 2018).

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 19 million at 31 December 2019 (Euros 13 million in 2018).

It is the Company's policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2019 and 31 December 2018, the Company had no investment commitments.

Nota 7. Investments in Group companies and associates

A breakdown of the investments in group companies and associates is as follows:

	At 31.12.19	At 31.12.18
Equity instruments	16,552	15,237
Loans	16,202	15,657
Non-current	32,754	30,894
Loans	527	740
Other financial assets	139	57
Current	666	797
TOTAL	33,420	31,691

Movements during the year in non-current investments in group companies and associates are as follows:

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 1.1.2018	13,390	15,615	10	29,015
Additions	11,437	6,743	--	18,180
Divestments	(5,035)	(1,475)	--	(6,510)
Reclassification	--	(5,218)	--	(5,218)
Charge/reversal provisions	(4,565)	--	--	(4,565)
Exchange differences	--	(8)	--	(8)
Balance at 31.12.2018	15,227	15,657	10	30,894
Additions	3,962	3,364	--	7,326
Divestments	(2,321)	(2,415)	(6)	(4,742)
Reclassification	--	(403)	--	(403)
Charge/reversal provisions	(320)	--	--	(320)
Exchange differences	--	(1)	--	(1)
Balance at 31.12.2019	16,548	16,202	4	32,754

2019

- Incorporation of Holding Negocios de Electricidad, S.A., wholly owned by the Company, which has become the head of the electricity distribution business in Spain, carrying out the following operations:
 - In November 2019, Holding Negocios de Electricidad, S.A. increased capital through the issue of 10 new shares with a par value of 100 euros each and a share premium of Euros 393,612,443 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 3,936 million.
 - On the same date, the Company granted an intragroup loan of Euros 3,362 million to Holding Negocios de Electricidad, S.A. This loan matures in five years and bears interest at a market rate.
 - On 27 November 2019, using the funds received, Holding Negocios de Electricidad, S.A. acquired from the Company 100% of the shares in UFD Distribución Electricidad, S.A. for Euros 5,170 million, which has been determined as fair value. In accordance with the provisions of paragraph 1 of Recognition and Measurement Standard 21 of the Spanish Chart of Accounts,

the transaction has been accounted for at fair value and has generated a profit of Euros 3,539 million.

- The Company has also cancelled the loans it had granted to UFD Distribución Electricidad, S.A. for Euros 2,129 million. Holding Negocios de Electricidad, S.A has granted said financing for the same amount to the acquired company.
- Cash contribution to Naturgy LNG, S.L for Euros 13 million.
- Cash contribution to offset losses to Comercializadora Regulada, Gas & Power, S.A. for Euros 9 million.
- The distribution of the share premium has been recorded as a decrease in the carrying value of the holding in the Group company Global Power Generation, S.A., in the amount of Euros 690 million.
- Sale of 45% of the holding in Compañía Española de Torremarenostrum, S.L. for Euros 28 million, generating a capital gain before taxes of Euros 20 million.
- Liquidation of P.H. La Perla, S.A. without any impact on income as the interest was fully impaired.
- Constitution of new societies and other movements for Euros 4 million.

2018

- On 3 August 2017 the Company entered into an agreement with a consortium formed by Allianz Capital Partners and Canada Pension Plan Investment Board to sell a 20% interest in the natural gas distribution business in Spain for an amount of Euros 1,500 million, after increasing the level of debt through long-term intra-group financing on Naturgy's part amounting to Euros 6,000 million. The completion of the operation was subject to the obtainment of the relevant regulatory and competition authorisations.

To carry out the operation, Holding de Negocios de Gas, S.A., a company wholly owned by the Company, has become the head of the natural gas distribution and transport activity and the liquefied petroleum natural gas distribution activity in Spain, carrying out the following operations:

- On 7 February 2018, Holding de Negocios de Gas, S.A. increased capital through the issue of 15,000 new shares with a par value of 1 euro each and a share premium of Euros 499,999 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 7,500 million.
- On 7 February 2018 the Company granted an intragroup loan of Euros 6,000 million to Holding de Negocios de Gas, S.A. This loan matures between 7 and 12 years and bears interest at a market rate.
- On 7 February 2018, using the funds received, Holding de Negocios de Gas, S.A. acquired 100% of the shares in Nedgia, S.A. (formerly Holding Negocios Regulados Gas Natural, S.A. and which is the holding company of the Spanish gas distribution companies) from the Company for Euros 11,518 million, an amount that has been determined as the fair value based on the same price per share set in said sale agreement with the Consortium and which has been confirmed by the fairness opinion of the investment banks J.P. Morgan and Morgan Stanley which have acted as financial advisors in this operation and which have concluded that the value is reasonable from a financial viewpoint. In accordance with the provisions of paragraph 1 of Recognition and Valuation Standard 21 of the Spanish Chart of Accounts, the transaction has been accounted for at fair value and has generated a profit of Euros 9,537 million. The Company has also cancelled the loans it had granted to the Spanish gas distribution companies amounting to Euros 1,981 million, while the company Holding de Negocios de Gas, S.A. has granted said financing for the same amount to the Spanish gas distribution companies.

- On 14 February 2018 Holding Negocios de Gas, S.A. acquired from Nedgia, S.A. 100% of the shares in Gas Natural Transporte SDG, S.L. and in Gas Natural Redes GLP, S.A. for Euros 165 million. This figure was determined as the fair value based on the price set in the above-mentioned sale agreement with the Consortium, following the payment by Nedgia, S.A. of dividends amounting to Euros 165 million by charge to the share premium.

On 19 March 2018 the Company, after obtaining the necessary regulatory and competition approvals, transferred 20% of the interest in Holding de Negocios de Gas, S.A. to said Consortium for an amount of Euros 1,500 million in cash, without any significant impact on the income statement as the shareholding was recorded at fair value.

- Capital reduction through the reimbursement of contributions in Clover Financial and Treasury Services, D.A.C. in the amount of USD 667 million (Euros 609 million). The reduction in the shareholding has generated a Euros 73 million profit due to the exchange rate effect.
- Subscription of a capital increase through a monetary contribution in Naturgy Participaciones, S.A.U. for Euros 100 million.
- Subscription of a capital increase in Naturgy Infraestructuras EMEA, S.L. in the amount of Euros 88 million.
- The distributions of reserves by Global Power Generation, S.A. and Holding de Negocios de Gas, S.A. amounting to Euros 110 million and Euros 885 million, respectively, were recorded as a decrease in the carrying value of the shareholdings.
- Sale of 98.48% of the holding in Compañía Española de Industrias Electroquímicas, S.A. for Euros 8 million, generating a capital gain before tax of Euros 3 million.
- Sale of the holding in La Propagadora del Gas, S.A. to the group company Naturgy Generación, S.L.U. for Euros 11 million, generating a capital gain before tax of Euros 1 million.
- Euros 14 million monetary contribution to offset losses to Comercializadora Regulada Gas & Power, S.A.
- Euros 136 million monetary contribution to offset losses to Naturgy Informática, S.A.
- Euros 67 million monetary contribution to offset losses to Naturgy Aprovisionamientos, S.A.
- Euros 32 million monetary contribution to offset losses to Petroleum Oil & Gas España, S.A.
- Subscription of a capital increase by Naturgy Generación, S.L.U. of Euros 3,500 million through the capitalisation of a loan.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 6,505 million at 31 December 2019 (Euros 6,185 million at 31 December 2018), relating basically to the following companies (Note 4):

	2019	2018	Variation
Naturgy Generación, S.L.U.	3,673	3,401	272
Unión Fenosa Gas, S.A.	2,132	2,100	32
Unión Fenosa Minería, S.A.	244	242	2
Gas Natural Exploración, S.L.	213	213	--
Naturgy Informática, S.A.	137	140	(3)
Petroleum, Oil & Gas España, S.A.	70	70	--
General de Edificios y Solares, S.L.	18	--	18
Other	18	19	(1)
Total	6,505	6,185	320

Financial income for dividends received from investments in equity instruments of group companies and associates during 2019 and 2018, correspond to the following companies:

	2019	2018
Sagane, S.A.	375	2
UFD Distribución Electricidad, S.A.	308	238
Naturgy Distribución Latinoamérica S.A.	243	23
Holding Negocios Gas, S.A.	151	173
Naturgy Inversiones Internacionales, S.A.	108	--
Global Power Generation, S.A.U.	105	30
Naturgy Iberia, S.A.	59	--
Naturgy Finance, B.V.	7	3
Naturgy Capital Markets, S.A.	4	6
Naturgy Engineering, S.L.	1	--
Clover Financial and Treasury Services, D.A.C.	--	32
Naturgy Aprovisionamientos S.A	--	24
General de Edificios y Solares, S.L.	--	11
Unión Fenosa Minería, S.A.	--	2
Naturgy Almacенamientos Andalucía, S.A.	--	1
Compañía Española de Industrias Electroquímicas, S.A.	--	1
Other	--	1
Total	1,361	547

The breakdown of shareholdings in Naturgy companies is set out below:

Data at 31 December 2019													
Company	Registered Office	Activity	Carrying value 2019	Carrying value 2018	% interest			Equity					
					Direct	Indirect	Total	Capital	Reserves (1)	Profit/(loss)	Interim dividend	Other (2)	EQUITY
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	85	100.0	--	100.0	1	20	162	--	(4)	179
Naturgy LNG, S.L.	Spain	Gas supply	14	2	100.0	--	100.0	2	12	(2)	--	2	14
Sagane, S.A.	Spain	Gas supply	42	42	100.0	--	100.0	95	22	210	(135)	(1)	191
Unión Fenosa Gas, S.A.	Spain	Gas supply	309	341	50.0	--	50.0	33	582	(56)	--	(4)	555
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	121	121	100.0	--	100.0	3	80	13	--	3	99
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	93	84	100.0	--	100.0	2	15	(16)	--	--	1
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11	100.0	--	100.0	11	4	--	--	--	15
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	107	106	100.0	--	100.0	3	49	210	--	(25)	237
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,936	--	100.0	--	100.0	--	3,936	(2)	--	--	3,934
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	--	1,630	100.0	--	100.0	--	--	--	--	--	--
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	5,115	5,115	80.0	--	80.0	--	6,716	142	--	--	6,858
Naturgy Generación, S.L.U.	Spain	Electricity generation	3,723	3,996	100.0	--	100.0	1,052	1,742	(243)	--	40	2,591
Naturgy Renovables, S.L.U.	Spain	Electricity generation	397	397	100.0	--	100.0	90	168	43	--	18	319
Global Power Generation, S.A.	Spain	Electricity generation	711	1,401	75.0	--	75.0	20	698	151	(51)	26	844
Toledo PV A.I.E.	Spain	Electricity generation	--	--	33.3	--	33.3	--	--	1	--	--	1
Naturgy Almacенamientos Andalucía S.A.	Spain	Gas infrastructures	8	8	100.0	--	100.0	--	8	--	--	--	8
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	9	100.0	--	100.0	8	11	--	--	(11)	8
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	3	4	32.3	67.7	100.0	4	7	(3)	--	--	8
Natural Re, S.A.	Luxembourg	Insurance	9	9	100.0	--	100.0	5	53	3	--	--	61
General de Edificios y Solares, S.L.	Spain	Services	45	63	100.0	--	100.0	34	30	(19)	--	--	45
Lean Corporate Services, S.L.	Spain	Services	--	--	100.0	--	100.0	--	--	--	--	--	--
Lean Customer Services, S.L.	Spain	Services	--	--	100.0	--	100.0	--	--	--	--	--	--
Lean Grids Services, S.L.	Spain	Services	--	--	100.0	--	100.0	--	(1)	--	--	--	(1)
Clover Financial and Treasury Services, D.A.C.	Ireland	Financial services	--	--	100.0	--	100.0	--	--	--	--	--	--
Naturgy Capital Markets, S.A.	Spain	Financial services	--	--	100.0	--	100.0	--	--	3	--	--	3
Naturgy Finance, B.V.	Netherlands	Financial services	7	7	100.0	--	100.0	--	1	3	--	--	4
Naturgy Participaciones, S.A.	Spain	Financial services	98	96	100.0	--	100.0	--	96	3	--	(1)	98
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	--	--	100.0	--	100.0	--	1	1	(1)	110	111
Naturgy Informática, S.A.	Spain	IT services	18	16	100.0	--	100.0	20	(6)	5	--	--	19
Naturgy IT, S.L.U.	Spain	IT services	--	--	75.0	--	75.0	--	--	--	--	--	--
Naturgy Engineering, S.L.	Spain	Engineering services	23	20	100.0	--	100.0	--	17	--	--	--	17
Naturgy Ingeniería Nuclear, S.L.	Spain	Engineering services	1	--	100.0	--	100.0	--	1	--	--	--	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	558	558	100.0	--	100.0	402	238	211	(70)	--	781
Naturgy Gas and Power, S.L.U.	Spain	Holding company	--	--	100.0	--	100.0	--	--	--	--	--	--
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	88	100.0	--	100.0	--	88	116	--	--	204
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	944	100.0	--	100.0	250	346	25	--	(230)	391
Unión Fenosa Minería, S.A.	Spain	Holding company	72	74	100.0	--	100.0	11	64	(3)	--	--	72
TOTAL			16,548	15,227									

Appendix I to Naturgy's consolidated annual accounts provides a breakdown of other indirect shareholdings.

- (1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.
- (2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

The non-current loans to Group companies as at 31 December 2019 amounts to Euros 16,202 million with a maturation date in 2020 (at 31 December 2018, Euros 15,657 million maturing in 2019).

Set out below are movements during 2019 and 2018 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 01.01.2018	1,480	743	2,223
Additions	261	53	314
Divestments	(5,031)	(739)	(5,770)
Reclassifications and transfers	4,024	--	4,024
Exchange differences	6	--	6
Balance at 31.12.2018	740	57	797
Additions	342	135	477
Divestments	(959)	(53)	(1,012)
Reclassifications and transfers	405	--	405
Exchange differences	(1)	--	(1)
Balance at 31.12.2019	527	139	666

There are no significant differences between carrying values and fair values in the balances under Loans to Group companies and other receivables.

The heading Loans to Group companies includes loans to Group companies amounting to Euros 298 million (Euros 313 million in 2018) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 175 million (Euros 371 million in 2018). It also includes accrued unmatured interest of Euros 54 million (Euros 56 million in 2018).

At 31 December 2019, loans to Group companies and associates have borne interest at a rate of 2.46% (2.81% in 2018) in the case of non-current loans and 1% (1% in 2018) in the case of current loans.

Dividends pending collection at 31 December 2019 amounted to Euros 135 million, recorded under "Other current financial assets" (Euros 53 million at 31 December 2018).

Nota 8. Investments

The breakdown of investments by category is as follows:

At 31 December 2019	Available-for-sale financial assets	Loans and receivables	Assets at fair value through profit or loss	Hedging derivatives	Total
Equity instruments	5	--	--	--	5
Other financial assets	--	5	--	--	5
Non-current investments	5	5	--	--	10
Derivatives (Note 14)	--	--	--	1	1
Other financial assets	--	23	--	--	23
Current investments	--	23	--	1	24
Total	5	28	--	1	34
At 31 December 2018	Available-for-sale financial assets	Loans and receivables	Assets at fair value through profit or loss	Hedging derivatives	Total
Equity instruments	5	--	--	--	5
Other financial assets	--	12	--	--	12
Non-current investments	5	12	--	--	17
Derivatives (Note 14)	--	--	6	2	8
Other financial assets	--	36	--	--	36
Current investments	--	36	6	2	44
Total	5	48	6	2	61

Available-for-sale financial assets

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2019 and 31 December 2018.

Loans and receivables

The breakdown of Loans and other receivables is as follows:

	At 31.12.19	At 31.12.18
Gas system income deficit financing	--	7
Deposits and guarantee deposits	5	5
Non-current	5	12
Gas system income deficit financing	--	2
Deposits and guarantee deposits	23	34
Current	23	36
Total	28	48

Other financial assets

The heading "Gas system revenue deficit financing" included temporary mismatches between gas system revenues and costs accumulated in 2017, funded by Naturgy pursuant to Law 18/2014 of 17 October. This amount was acquired by the Company in 2017 from the distribution companies of Naturgy and was expected to be recovered through gas system settlements as the right to the recovery of this amount is generated in the following five years, recognising a market interest rate. The amount of this financing was recognised based on the estimated recovery period.

Following successive settlements in 2017, the final settlement for 2017 was received on 28 November 2018. The deficit in the gas sector evolved favourably and the amount of the acquisition made from the distribution companies corresponding to the mismatch in 2017 was adjusted by Euros 9 million at 31 December 2018.

In December 2019, Naturgy received settlement 15/2018 referring to the surplus for 2018, amortising the imbalances relating to 2017 and 2015 and, partially, those for 2016 in the amount of Euros 9 million. The 2015 and 2016 mismatches had previously been externalised and therefore do not represent any impact on the Company's financial statements.

At 31 December 2019, the balance in the heading "Gas system revenue deficit financing" was zero.

Nota 9. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.19	At 31.12.18
Trade receivables	84	130
Trade receivables, Group companies and associates	255	366
Sundry receivables	6	23
Provision	(30)	(29)
Derivatives (Note 14)	344	106
Current income tax asset	183	65
Other amounts receivable from Public Administrations	1	--
Total	843	661

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 21 days.

Movements in the bad debt provision are as follows:

	2019	2018
At 1 January	(29)	(24)
Net charge for the year (Note 21)	(1)	(5)
At 31 December	(30)	(29)

Nota 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.19	At 31.12.18
Cash at banks and in hand	474	722
Other cash equivalents	700	--
Total	1,174	722

"Other cash equivalents" relates to short-term investments maturing in January 2020.

Nota 11. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during 2019 and 2018 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2018	1,000,689,341	1,001	3,808	4,809
Changes:	--	--	--	--
At 31 December 2018	1,000,689,341	1,001	3,808	4,809
Capital reduction	(16,567,195)	(17)	--	(17)
At 31 December 2019	984,122,146	984	3,808	4,792

All issued shares are fully paid up and carry equal voting and dividend rights.

On 5 August 2019, capital was reduced through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in Note 11). Following the capital reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

The Company's Board of Directors, which for these purposes may be substituted by the Executive Committee, for a maximum term of five years as from 20 April 2017, is empowered to increase share capital by Euros 500,344,670 through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act.

The Spanish Companies Act specifically allows the use of the Share premium balance to increase capital and imposes no specific restrictions on its use.

The most relevant holdings in the Company's share capital at 31 December 2019 and 2018, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	% interest in share capital	
	2019 ⁽⁵⁾	2018 ⁽⁴⁾
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ⁽¹⁾	24.4	25.6
- Global Infrastructure Partners III ⁽²⁾	20.3	20.0
- CVC Capital Partners SICAV-FIS, S.A. ⁽³⁾	20.4	20.1
- Sonatrach	4.1	3.9

(1) In 2019, direct holding through Criteria Caixa, S.A.U. In 2018, 20.4% direct holding through Criteria Caixa S.A.U. and 5.2% indirect holding (5.0% through Energia Boreal 2018, S.A. and 0.2% through others).

(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l. The company Rioja Acquisition S.à.r.l. was absorbed by Rioja Bidco Shareholdings, S.L.U. in 2019.

(4) On 22 February 2018 Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of the society. On 18 May 2018 the transaction was completed and Repsol, S.A. ceased to be the owner of said company.

(5) Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

All the Company's shares are traded on the four official Spanish Stock Exchanges and the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The Company's share price at 31 December 2019 was Euros 22.40 (Euros 22.26 at 31 December 2018).

Reserves

"Reserves" includes the following reserves:

	2019	2018
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	27	109
Voluntary reserves	10,973	7,305
Capital redemption reserve	17	--
Other reserves	256	295
Total	11,573	8,009

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the Company's Articles of Association, 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

Law 22/2015 on Auditing eliminated the requirement to record annually the restricted reserve for at least 5% of the goodwill figuring under assets on the balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the balance sheet.

At the annual general meeting held on 5 March 2019, the shareholders agreed to the transfer to Voluntary reserves of Euros 82 million from the Goodwill reserve.

Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 5 March 2019, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 17 million and 383 million in voluntary reserves.

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares.

Voluntary reserve and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Naturgy's consolidated annual accounts.

Share-based payments

On 31 July 2018, within the framework of the new Strategic Plan 2018-2022 the Board of Directors approved a long term variable incentive plan (ILP) involving the Executive Chairman and 25 other executives. The characteristics of the plan approved by the General Shareholders meeting on 5 de march 2019 are as follows:

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the Company's shareholders in the period concerned.

It is arranged through the acquisition of shares in Naturgy Energy Group S.A. through an investee company that can generate a surplus. This surplus, if any, is the incentive that will be given to the participants. At the expiration of the plan, this company will obtain a profit derived from the collection of dividends on its shares, changes in the share price and other income and expenses, mainly financial in character. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling its obligations it will distribute any surplus among its members in the form of shares.

The surplus will be received only if a minimum profitability threshold has been surpassed, which implies a share price of Euros 19.15 when the LTI expires and assuming that all the dividends provided for in the Strategic Plan 2018-2022 are paid.

If they leave the Company, the beneficiaries will only be entitled, in certain cases, to receive a part of the final incentive calculated in proportion to their length of service in the Company with respect to the duration of the plan.

The fair value of the equity instruments granted has been determined at the grant date using a Monte Carlo simulation valuation model based on share Price at the date of the concession with the following assumptions:

Forecast share price volatility (1)	17,73%
Plan duration (years)	5
Expected dividends	6.26%
Risk-free interest rate	0.34%

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 3 million (Euros 4 million in 2018) has been recorded in the income statement for 2019 under Personnel expenses, credited to "Other equity instruments" in the balance sheet.

Treasury shares

Movements during 2019 and 2018 involving the Company's treasury shares are as follows:

	Number of shares	In million euro	% Capital
At 31 December 2017	--	--	--
Acquisitions	10,782,040	227	1.0
Acquisitions LTI coverage	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	--
Disposals	(13,669,476)	(299)	(1.4)
At 31 December 2018	5,397,737	121	0.5
Share Acquisition Plan	332,382	7	--
Delivered to employees	(310,812)	(7)	--
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
Acquisitions	5,162,320	121	0.5
Disposals	--	--	--
At 31 December 2019	5,183,890	121	0.5

In 2019 there has been no profit or loss on transactions involving treasury shares of the Society (profit of Euros 0.4 million in 2018 recorded in "Other reserves").

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the Company's treasury shares relate to:

- Share acquisition plan: In accordance with the resolutions adopted by the Company's shareholders at the General Meeting held on 20 April 2017, the Share Acquisition Plans 2017-2018-2019 relating to the periods 2019, 2018 and 2017, aimed at Naturgy employees in Spain who decide voluntarily to take part in the them, were set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in the Company, subject to an annual limit of Euros 12,000.
- During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 shares have been delivered, leaving a surplus of 21,570 treasury shares. Share buyback programme 2018: Within the Strategic Plan 2018-2022, the Company's Board of Directors approved a treasury share buyback programme which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, and that would be redeemed if it is ratified by the shareholders at the annual general meeting to be held on first half year of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of 24.13 euros per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of 22.42 euros per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.
- Capital Reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the Company's share capital by the amount resulting from the sum of:

-Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

-the aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as the Company had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

- 2019 buyback programme: The Board of Directors approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 2.1% of share capital at the date of communication, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.
- Long-term Variable Incentive Plan: During 2018 the Company acquired 8,639,595 treasury shares at an average price of 23.15 euro/share for a total of Euros 200 million, the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan. These shares were sold to a company 100% owned by Naturgy.

Dividends

Set out below is a breakdown of the payments of dividends made in 2019 and 2018:

	2019			2018		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	134%	1.34	1,319	140%	1.40	1,400
Other shares (without voting rights, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	134%	1.34	1,319	140%	1.40	1,400
a) Dividends charged to income statement	134%	1.34	1,319	140%	1.40	1,400
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

2019

The annual general meeting of shareholders held on 5 March 2019 approved a supplementary dividend of 0.570 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 20 March 2019.

On 23 July 2019, the Company's Board of Directors resolved to pay an interim dividend of 0.294 euros per share out of 2019 results, paid on 31 July 2019 to the outstanding shares on this date for an amount of Euros 289 million.

The Company had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 23 July 2019 was as follows:

Profit after tax	838
Reserves to be replenished	--
Maximum amount distributable	838
Forecast maximum interim dividend payment (1)	294
Cash resources	1,395
Undrawn credit facilities	5,035
Total liquidity	6,430

(1) Amount considering total shares issued

On 29 October 2019, the Company's Board of Directors resolved to pay a second interim dividend of Euros 0.473 per share out of 2019 results for a total of Euros 465 million, which was paid on 12 November 2019 with respect to the outstanding shares at that date.

The Company had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 29 October 2019 is as follows:

Profit after tax	1,095
Reserves to be replenished	--
Maximum amount distributable	1,095
Interim dividend 2019 profits	289
Forecast interim dividend payment (1)	465
Cash resources	1,238
Undrawn credit facilities	4,982
Total liquidity	6,220

(1) Amount considering total shares issued

On 4 February 2020, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2019, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Available for distribution 4,415

DISTRIBUTION:

TO DIVIDENDS: the gross aggregate amount will be equal to the sum of the following quantities (the "Dividend"):

- (i) Euros 754 million relating to the two interim dividends for 2019 paid by the Company, equivalent jointly to Euros 0.767 per share by the number of shares that were not direct treasury shares on the relevant dates; and
- (ii) The amount obtained by multiplying 0.603 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined ("Complementary dividend").

The supplementary dividend will be paid through entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), and the Board of Directors is expressly empowered to delegate its powers to

the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may (i) set the date on which the shareholders entitled to receive the dividend are determined and the date of payment; (ii) determine the definitive amount of the supplementary dividend, and (ii) designate the entity that is to act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

Total distributed 4,415

This proposal for the distribution of profits prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.603 per share for each qualifying share outstanding at the proposed date of payment, 4 February 2020. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2019 dividend (Euros 0.603 per share) the same number of treasury shares is maintained as at the 2019 year end (5,183,890 treasury shares, see section on Treasury shares), the amount applied to voluntary reserves would be Euros 3,071 million.

2018

The General Shareholders Meeting held on 27 June 2018 approved payment of a complementary dividend of Euros 0.670 per share for a total of Euros 670 million, paid in full in cash on 5 July 2018.

On 24 July 2018, the Company's Board of Directors resolved to pay an interim dividend of Euros 0.28 per share out of 2018 results, for a total of Euros 280 million, which was paid on 31 July 2018.

On 31 October 2018, the Company's Board of Directors resolved to pay an interim dividend of Euros 0.45 per share out of 2018 results for a total of Euros 450 million, which was paid on 27 November 2018 with respect to the outstanding shares at that date.

Nota 12. Provisions

The breakdown of provisions at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Provisions for employee obligations	272	256
Other provisions	187	222
Non-current provisions	459	478

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2019			2018		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	250	6	256	262	10	272
Appropriations/reversals charged to income statement	6	3	9	7	(1)	6
Payments during the year	(13)	--	(13)	(16)	--	(16)
Changes recognised directly in equity	54	--	54	(21)	--	(21)
Transfers and other applications	(30)	(4)	(34)	18	(3)	15
At 31 December	267	5	272	250	6	256

Pensions and other similar liabilities

Most of the Company's post-employment obligations consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2019 and 31 December 2018, the Company held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of obligations	2019	2018
At 1 January	927	995
Service cost for the year	1	2
Interest cost	16	16
Changes recognised directly in equity	97	(42)
Benefits paid	(61)	(66)
Transfers and other	(11)	22
At 31 December	969	927
Fair value of plan assets		
At 1 January	677	733
Expected yield	11	11
Contributions	1	4
Changes recognised directly in equity	43	(21)
Benefits paid	(49)	(54)
Transfers and other	19	4
At 31 December	702	677
Provisions for pensions and similar obligations	267	250

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2019	2018
Service cost for the year	1	2
Interest cost	5	5
Expected return on plan assets	--	--
Total charge to the income statement	6	7

Benefits to be paid in the coming years for the above-mentioned commitments are as follows:

	2019	2018
1 to 5 years	1	1
5 to 10 years	23	16
More than 10 years	243	233
Provisions for pensions and similar obligations	267	250

The plan assets expressed as a percentage of total assets are as follows:

% of total	2019	2018
Bonds	100%	100 %

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are negative in the amount of Euros 22 million at 31 December 2019 (positive in the amount of Euros 18 million at 31 December 2018).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2019	2018
Financial assumptions	48	3
Experience	6	(24)
At 31 December	54	(21)

Actuarial assumptions applied are as follows:

	At 31.12.19	At 31.12.18
Discount rate (p.a.)	0.0 a 1.33%	0.3 a 2.39%
Expected return on plan assets (p.a.)	0.0 a 1.33%	0.3 a 2.39%
Future salary increases (p.a.)	2.0%	2.0%
Future pension increases (p.a.)	2.0%	2.0%
Inflation rate (annual)	2.0%	2.0%
Mortality table	PERMF 2000	PERMF 2000
Life expectancy:		
Men		
Retired during the year	23.0	22.9
Retiring within 20 years	43.0	42.9
Women		
Retired during the year	27.5	27.4
Retiring within 20 years	48.9	48.8

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2019 and 31 December 2018, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2019 and 2018.

Other obligations with personnel

Within the framework of the new Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 11, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2019 totals Euros 5 million (Euros 3 million in 2018).

At 31 December 2019 a provision was included relating to the remuneration programmes 2017 - 2019 amounting to Euros 2 million, all of which was classified as current.

At 31 December 2018 a provision was included relating to the remuneration programmes 2016 - 2018 and 2017-2019 amounting to Euros 6 million, of which Euros 3 million was classified as non-current in 2018.

Other non-current provisions

The movement in other non-current provisions is as follows:

	2019	2018
At 1 January	222	193
– Appropriations (1)	3	16
– Reversals	(46)	--
Transfers and other	8	13
At 31 December	187	222

(1) Includes Euros 3 million and Euros 3 million in 2019 and 2018, respectively, relating to the financial update of provisions.

“Non-current provisions” mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17), litigation and arbitration, and other liabilities.

No provision for business contracts was deemed necessary at 31 December 2019 or 2018.

At 31 December 2019, the estimated payment dates for these obligations are between one and five years (Euros 11 million), between five and 10 years (Euros 161 million) and more than 10 years (Euros 15 million) (2018: Euros 21 million at between one and five years, Euros 45 million at between five and 10 years and Euros 156 million at more than 10 years).

Nota 13. Borrowings

The breakdown of borrowings at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Borrowings from financial institutions	1,744	1,985
Derivatives (Note 14)	90	54
Other financial liabilities	1	1
Non-current borrowings	1,835	2,040
Borrowings from financial institutions	253	233
Derivatives (Note 14)	16	9
Other financial liabilities	2	4
Current borrowings	271	246
Total	2,106	2,286

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	At 31.12.19	At 31.12.18	At 31.12.19	At 31.12.18
Bank borrowings, derivatives and other financial liabilities	1,835	2,040	1,835	2,040

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2019 and 31 December 2018 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2019	2018
At 1 January	2,286	4,240
Increase	49	135
Decrease	(229)	(2,089)
At 31 December	2,106	2,286

The following tables describe borrowings and maturities at 31 December 2019 and 2018, taking into account the impact of derivatives.

	2020	2021	2022	2023	2024	2025 and beyond	Total
A 31 December 2019:							
Fixed	115	158	125	91	91	1,052	1,632
Floating	156	181	69	36	15	17	474
Total	271	339	194	127	106	1,069	2,106

	2019	2020	2021	2022	2023	2024 and beyond	Total
At 31 December 2018:							
Fixed	95	115	158	125	91	1,143	1,727
Floating	151	184	90	69	36	29	559
Total	246	299	248	194	127	1,172	2,286

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 0 million of total borrowings at 31 December 2019 (Euros 95 million at 31 December 2018) and variable-rate debt would amount to Euros 2,000 million at 31 December 2019 (Euros 2,128 million at 31 December 2018).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2019 and 31 December 2018 and their maturities, taking into account the impact of the derivative hedges:

	2020	2021	2022	2023	2024	2025 and beyond	Total
A 31 December 2019:							
Euro debt	271	339	194	127	106	1,069	2,106
Total	271	339	194	127	106	1,069	2,106

	2019	2020	2021	2022	2023	2024 and beyond	Total
At 31 December 2018:							
Euro debt	246	299	248	194	127	1,172	2,286
Total	246	299	248	194	127	1,172	2,286

Borrowings bore an average effective interest rate in 2019 of 0.82% (0.87% in 2018) including the derivatives assigned to each transaction.

At 31 December 2019, Bank borrowings includes Euros 6 million in interest pending payment (Euros 7 million at 31 December 2018).

Most of the drawn-down borrowings include a clause relating to a change in control, the activation of which depends on the simultaneity of some of the following events: the non-permanence of any of the current reference shareholders in a significant percentage; the loss of investment grade status from the

Rating Agencies, or the incapacity to meet the financial obligations under the contract.

At the preparation date of these annual accounts, the Company is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

The most relevant financial instruments are as follows:

Other bank borrowings

At 31 December 2019 and 2018 there are no bilateral bank loans and there are no drawn-down credit facilities.

Institutional financing

The Company maintains a loan with the Official Credit Institute (ICO) relating to instruments for a total amount of Euros 200 million (Euros 200 million in 2018).

Additionally, financing granted by the European Investment Bank (BEI) to Naturgy has been drawn down in the amount of Euros 1,791 million with maturities between 2020 and 2037 (2018: Euros 2,011 million). This loan could be subject to early repayment, in case of a change of control, also requiring a reduction of the rating and having special debt repayment terms that are longer than those in the event of early termination. Likewise, Euros 1,459 million (Euros 1,555 million at 31 December 2018) are subject to compliance with certain financial ratios.

Nota 14. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

On June 23, 2016, UK voters supported their country's exit from the European Union in a national referendum ("Brexit"). The date originally scheduled for departure from the United Kingdom was March 29, 2019, which was subsequently delayed until October 31, 2019 and recently until January 31, 2020. Significant insecurity is maintained about the future of relations between the United Kingdom and the European Union, including the laws and regulations that will apply since the United Kingdom will determine which European laws it will replicate or replace in case of departure. The evolution of the negotiation has had and may continue to have adverse effects on the economic and political situation of the European Union and the stability of the international financial markets. Without considering the aforementioned international impact, Naturgy's exposure to the risk arising from "Brexit" is not considered significant.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

The Company employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2019 and 2018 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.19	At 31.12.18
Fixed interest rate	1,632	1,727
Floating interest rate	474	559
Total	2,106	2,286

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor. The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2019	+50	(2)	50
	-50	2	(50)
2018	+50	(3)	51
	-50	3	(51)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks the Company finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.

The non-Euro currency with which the Company operates most is the US Dollar. The sensitivity of the Company's profits and equity ("Adjustments for changes in value") to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		2019	2018
Effect on profit before tax	+5%	--	--
	- 5%	--	--
Effect on equity before tax	+5%	--	--
	- 5%	--	--

Commodity price risk

The Company purchases gas to be supplied to other Naturgy companies.

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants. Therefore, Naturgy is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products and the prices of natural gas hubs.

The exposure to these risks is managed and mitigated by natural hedging through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

In electricity and CO2 emission allowances trading by the Company, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

There are no impacts to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes

Naturgy has no relevant investments in upstream businesses or commodities production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.
- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Additionally to that policy, a large portion of Naturgy's supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy's markets and prices of the supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which Naturgy does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

Credit risk relating to trade receivables is reflected in the balance sheet net of provisions for bad debts (Note 9), estimated by the Company on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2019 or 2018.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2019 and 2018.

The impaired financial assets are broken down in Note 9.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2019 and 2018 the Company did not have significant concentrations of credit risk.

Liquidity risk

The Company has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

At 31 December 2019, available cash totalled Euros 6,132 million (Euros 5,756 million in 2018), considering cash and cash equivalents of Euros 1,174 million (Euros 722 million in 2018) together with bank borrowings and undrawn credit facilities amounting to Euros 4,958 million (Euros 5,034 million in 2018).

Capital management

The main purpose of the Company's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers a long-term leverage level of approximately 50% as an indicator of the capital management objectives.

The Company's long-term credit rating is as follows:

	2019	2018
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.19		At 31.12.18	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	--	90	--	54
Cash flow hedge				
- Interest rate	--	64	--	26
- Interest rate and foreign exchange rate	--	26	--	28
Other financial instruments	189	189	81	81
- Price of commodities	189	189	81	81
Derivative financial instruments – non current	189	279	81	135
Hedging derivative financial instruments	1	15	2	10
Cash flow hedge				
- Interest rate	--	15	--	10
- Interest rate and foreign exchange rate	--	--	2	--
- Exchange rate	1	--	--	--
Other financial instruments	344	345	112	117
- Price of commodities	344	344	106	117
- Exchange rate	--	1	6	--
Derivative financial instruments - current	345	360	114	127
Total	534	639	195	262

Other financial instruments include the derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	2019		2018	
	Operating profit	Net financial income/(expense)	Operating profit	Net financial income/(expense)
Cash flow hedge	--	(8)	--	(6)
Other financial instruments	2	4	(1)	(2)
Total	2	(4)	(1)	(8)

The breakdown of derivatives at 31 December 2019 and 2018, their fair value and maturities of their notional values is as follows:

At 31.12.19								
	Fair value	Notional value						
		2020	2021	2022	2023	2024	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(79)	844	63	91	91	70	1,074	2,233
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(26)	--	--	--	101	--	--	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	1	119	--	--	--	--	--	119
Fair value hedges:								
Foreign exchange insurance (USD)	--	5	--	--	--	--	--	5
OTHER:								
Foreign exchange insurance (USD)	(1)	18	--	--	--	--	--	18
	(105)	986	63	91	192	70	1,074	2,476

At 31.12.18								
	Fair value	Notional value						
		2019	2020	2021	2022	2023	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(36)	95	844	63	91	91	1,392	2,576
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(26)	--	--	--	--	101	--	101
OTHER:								
Foreign exchange insurance (USD)	6	439	--	--	--	--	--	439
Commodities price derivatives (EUR)	(11)	7	--	--	--	--	--	7
Commodities price derivatives (USD)	--	1	--	--	--	--	--	1
	(67)	542	844	63	91	192	1,392	3,124

Nota 15. Payables to Group companies and associates

The breakdown by maturity of payables to Group companies is as follows:

Maturity	At 31.12.19	At 31.12.18
2019	--	2,283
2020	3,168	932
2021	828	1,181
2022	1,451	1,486
2023	627	736
2024	1,590	1,897
2025	1,195	--
Subsequent years	3,506	4,041
Total	12,365	12,556

Payables to Group companies mainly relate to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,500 million 2018) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million in 2018) are also included.

It also includes accrued unmatured interest of Euros 179 million (Euros 217 million in 2018) and cash-pooling balances with Group companies amounting to Euros 1,637 million are also included (Euros 962 million in 2018).

A breakdown of amounts owed to Group companies due to bond issues of Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

At 31 December 2019								
Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year	
Euro Commercial Paper (ECP) programme								
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	--	1,000	4,444	
European Medium Term Notes (EMTN) programme								
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/Spain	1999	Euro	8,725	8,725	--	750	
At 31 December 2018								
Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year	
Euro Commercial Paper (ECP) programme								
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	6,478	
European Medium Term Notes (EMTN) programme								
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/Spain	1999	Euro	15,000	9,707	5,293	--	

The main movements for the years 2019 and 2018 are:

2019

In November 2019 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 750 million maturing in 10 years and with a 0.75% coupon, the proceeds of which were used in a bond buy-back offer for Euros 635 million of debentures maturing between 2021 and 2025.

In addition, in December 2019 an offer was made for the repurchase of a bond amounting to Euros 300 million, maturing in 2021 with a coupon of 0.515%. These two operations involved a net disbursement of Euros 203 million and have had a negative impact on the “Net financial income” of the Income statement of Euros 84 million (Note 23).

In 2019 bonds have matured for a total amount of Euros 780 million with an average coupon of 5.28%.

2018

In January 2018 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 850 million maturing in 10 years and with a 1.5% coupon, the proceeds of which were used in a bond buy-back offer for Euros 916 million of debentures maturing between 2019 and 2023, which entailed a net disbursement of Euros 66 million. In the first half of 2018 two bonds have matured for a total amount of Euros 1,099 million and an average coupon of 4.59%.

On 22 October 2018, the company successfully repurchased bonds under its European Medium Term Notes (EMTN) programme amounting to Euros 314 million with maturities between 2019 and 2021. Additionally, on 18 December 2018 the repurchase of Euros 19 million of the bond maturing in January 2020 with a coupon of 4.50% was completed.

Borrowings from group companies and associates accrued an average interest rate of 2.46% in 2019 (2.81% in 2018).

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Nota 16. Trade and other payables

The breakdown at 31 December 2019 and 2018 is as follows:

	At 31.12.19	At 31.12.18
Trade payables	237	249
Trade payables, Group companies and associates	131	267
Derivatives (Note 14)	344	117
Other payables	11	12
Personnel (outstanding remuneration)	36	29
Public Administrations	21	27
Total	780	701

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Information on average supplier payment period. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The average payment period is in accordance with Law 15/2010 on measures to combat late payment in business operations.

Information disclosed under the Resolution of 29 January 2016 of the Institute of Accountants and Auditors concerning the details to be included in the notes to the annual accounts concerning the average supplier payment period is as follows:

	2019	2018
	Amount	Amount
Total payments (thousand euro)	1,947,320	4,663,208
Total outstanding payments (thousand euro)	18,540	52,844
Average supplier payment period (days) (1)	18	17
Transactions paid ratio (days) (2)	17	17
Transactions pending payment ratio (days) (3)	30	34

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

The accompanying ratios do not include situations that could distort calculations, such as Trade payables, Group companies and associates.

Nota 17. Tax situation

The Company is the parent of tax group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The tax group for 2019 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for 2019 and 2018 to taxable income is as follows:

	At 31.12.19	At 31.12.18
Accounting profit before tax	4,347	5,282
Permanent differences	(4,616)	(5,544)
Temporary differences:		
Arising during current year	40	150
Arising in prior years	(23)	(70)
Taxable income	(252)	(182)

Permanent differences mainly relate to the application of the tax consolidation system and the double taxation exemption for dividends and income derived from the transfer of shares under Article 21 of Law 27/2014 on Corporate Income Tax, which has led to negative permanent differences of Euros 1,361 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 547 million in 2018), the impairment of shareholdings in Group companies and associates amounting to Euros 275 million (Euros 4,565 million in 2018) and intragroup sales of shareholdings in Group companies and associates for an negative amount of Euros 3,560 million (Euros 9,590 million in 2018).

In 2019 the Company posted a tax loss of Euros 252 million (Euros 182 million in 2018), which is recovered from the tax group companies due to the taxable income generated by them during the year.

Income tax expense is as follows:

	2019	2018
Current-year tax	64	(53)
Deferred tax	4	53
Total	68	--

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied in 2019 amounted to Euros 4 million (Euros 8 million in 2018) and no tax losses were offset. In 2019 there were no adjustments for tax differences from the previous year (Euros 2 million decrease in the expense 2018).

On 3 December 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances, which introduced relevant changes in the corporate income tax area. Among other matters, with effect from 1 January 2016 the obligation is laid down to reverse provisions for the impairment of shareholdings that would have been deductible before 2013 in a maximum term of five years, the offsetting of tax losses for large companies is limited to 25% of the preliminary tax base and the application of the tax credit for domestic or international double taxation generated or pending application is restricted to 50% of preliminary gross tax payable. Additionally, effective from 1 January 2017, losses on the transfer of shares will not be deductible. In 2019 and 2018 these measures did not have a significant impact on the Company's financial statements.

Incomes that qualify to the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Legislative Royal Decree-Law 4/2004 (Revised CIT Act) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. The relevant breakdown is as follows:

Year of sale	Amount obtained from sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	2	2	1	2011
2014	412	412	209	2014
Total	414	414	210	

The reinvestment was in fixed assets used in business activities, made by the Company itself or any other company included in the tax group by virtue of the provisions of Article 75 of the Revised CIT Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the Revised CIT Act) is explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	39	39	20	--	20
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	309	309	226	--	226
2009	161	161	87	--	87
2010	752	752	551	--	551
2011	450	450	394	1	393
2012	38	38	32	--	32
Total	3,390	3,390	2,249	31	2,218

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies in the tax group, pursuant to Article 75 of the Revised CIT Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31.12.19			At 31.12.18		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Cash flow hedges	46	(12)	34	27	(7)	20
Actuarial gains and losses and other adjustments	53	(13)	40	(24)	5	(19)
	99	(25)	74	3	(2)	1

A breakdown of deferred taxes is as follows:

	At 31.12.19	At 31.12.18
Deferred tax assets:	177	152
- Non-current	162	140
- Current	15	12
Deferred tax liabilities:	(211)	(212)
- Non-current	(211)	(212)
Net deferred tax	(34)	(60)

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Provisions	Tax credits	Valuation of assets and financial instruments	Goodwill	Other	Total
At 1.1.2018	111	2	6	11	3	133
Creation (reversal)	3	--	--	1	16	20
Movements linked to equity adjustments	(5)	--	4	--	--	(1)
At 31.12.2018	109	2	10	12	19	152
Creation (reversal)	4	--	--	--	--	4
Movements linked to equity adjustments	13	--	12	--	--	25
Transfers and other	(5)	2	(1)	--	--	(4)
At 31.12.2019	121	4	21	12	19	177

Deferred tax liabilities	Differences Depreciation	Deferred gains	Other	Total
At 1.1.2018	3	197	27	227
Creation (reversal)	(1)	--	(32)	(33)
Movements linked to equity adjustments	--	--	(2)	(2)
Transfers and other	--	10	10	20
At 31.12.2018	2	207	3	212
Transfers and other	--	--	(1)	(1)
At 31.12.2019	2	207	2	211

In 2015, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this operation was defined as a non-cash contribution of a line of business and was thus subject to the special scheme provided by Title VII, Chapter VIII of that law. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2015 annual accounts.

In 2014, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided for in Title VII, Chapter VIII of said Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2014 annual accounts.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into the Company under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII of the Revised CIT Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2009 annual accounts.

In July 2018 tax inspection proceedings were instigated against the Company as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT. The periods under inspection for CIT purposes (tax consolidation regime) are from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT group for VAT purposes.

The inspection proceedings are not expected to significantly impact the Naturgy companies.

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Company's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

On 3 July 2019, the Central Economic-Administrative Court ruling of 14 May 2019 was received in relation to the administrative appeals filed against the assessments arising from the inspection of Naturgy's corporate income tax for 2009-2010, which had been contested and which regularised the tax credit for export activities and the exemption for international double taxation applied. This ruling partially upheld the appeal filed and its implementation has resulted in a refund in Naturgy's favour of Euros 5 million.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy has recorded provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant (Note 12).

Nota 18. Revenue

Revenue breaks down as follows:

	2019	2018
Electricity sales	655	1,845
Natural gas sales	1,085	1,614
Other sales	5	5
Income from equity instruments of Group companies and associates (Note 7)	1,361	547
Income from marketable securities and other financial instruments of Group companies and associates	390	516
Total	3,496	4,527
	2019	2018
Domestic market	2,974	4,130
Export market:	522	397
- European Union	510	385
- OECD countries	--	--
- Other countries	12	12
Total	3,496	4,527

Electricity and gas sales are made basically in the domestic market and relate to gas and electricity sales to other Naturgy companies.

The Company also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

Nota 19. Raw materials and consumables

Includes purchases of gas and electricity related to the activity of selling gas and electricity to other Naturgy companies.

Nota 20. Personnel expenses

A breakdown of this heading in the income statement for 2019 and 2018 is as follows:

	2019	2018
Wages and salaries	91	150
Termination benefits	57	65
Social security costs	13	24
Defined contribution plans	5	12
Defined benefit plans (Note 12)	1	2
Share-based payments (Note 11)	3	4
Other	3	5
Total	173	262

The average number of Company employees in 2019 and 2018 is as follows:

	2019	2018
Executives	291	488
Middle management	138	202
Specialists	328	723
Operational staff	180	293
Total	937	1,706

The average number of Company employees during 2019 and 2018 with a disability equal to or greater than 33% is as follows:

	2019		2018	
	Men	Women	Men	Women
Executives	2	1	3	1
Middle management	1	1	2	1
Specialists	7	3	11	12
Operational staff	5	6	5	7
Total	15	11	21	21

The number of Company employees at the end of 2019 and 2018 broken down by category and gender is as follows:

	2019		2018	
	Men	Women	Men	Women
Executives	163	94	276	167
Middle management	62	65	93	93
Specialists	95	173	260	384
Operational staff	32	134	53	190
Total	352	466	682	834

Nota 21. Other operating expenses

A breakdown of this heading in the income statement for 2019 and 2018 is as follows:

	2019	2018
Leases, royalties, operation and maintenance	35	71
Professional services and insurance	23	35
Advertising and other commercial services	15	22
Contribution Naturgy Foundation	6	7
Banking services	6	6
Supplies	26	35
Taxes	1	2
Impairment losses and changes in trade provisions (Note 9)	1	9
Other	89	128
Total	202	315

The Company makes contributions to the Naturgy Foundation to enable it to carry out its energy and environmental projects, basically in the community area, as well to fund international initiatives.

In the community area, the Naturgy Foundation has broadened its activities to place greater emphasis on its community initiatives, defining new strategic lines for actions aimed at palliating energy vulnerability.

Nota 22. Other operating income

This account includes Euros 206 million in transactions with group companies and associates in 2019 (Euros 353 million in 2018).

Nota 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2019 and 2018 is as follows:

	2019	2018
Income from marketable securities and other financial instruments	11	30
Total financial income	11	30
Cost of borrowings	(402)	(451)
Interest expense on pensions (Note 12)	(5)	(5)
Other financial expense	(76)	(80)
Total financial expense	(483)	(536)
Variation in fair value of financial instruments	(5)	8
Trading portfolio and other available-for-sale assets	(5)	8
Net exchange differences	(2)	(8)
Impairment and gains/(losses) on disposals of financial instruments	--	1
Net financial income/(expense)	(479)	(505)

Nota 24. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2019	2018
Sales	629	1,009
Income from equity instruments of Group companies and associates	24	--
Income from marketable securities and other financial instruments of Group companies and associates	12	12
Purchases	(628)	(1,006)
Services received	(8)	(9)
Total	29	6

Nota 25. Information on transactions with related parties

The following are related parties for the purposes of this Note:

- Significant Company shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

Based on this definition, the significant shareholders of Naturgy are Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and subsidiaries, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.) since 18 May 2018 and Repsol, S.A. (Repsol) until 17 May 2018.

- Directors and executives of the Company and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and senior management personnel are disclosed in Note 26.
- Transactions between Naturgy companies form part of ordinary activities and are effected at arm's length. Group companies includes the amount that reflects the Company's share of the balances and transactions with companies consolidated under the equity method.

The aggregated amounts of operations with significant shareholders are as follows (in thousand Euros):

Income and expense (in thousand Euros)	2019				2018		
	"la Caixa" group	CVC group	GIP group	"la Caixa" group (*)	Repsol group (**)	CVC group (***)	GIP group
Receipt of services	1	--	--	1	801	--	--
Total expenses	1	--	--	1	801	--	--
Provision of services	--	--	--	--	38	--	--
Sale of goods	--	--	--	--	293	--	--
Total income	--	--	--	--	331	--	--

Other transactions (thousand euro)	2019			2018		
	"la Caixa" group	CVC group	GIP group	"la Caixa" group (*)	CVC group (***)	GIP group
Dividends and other profits distributed (****)	273,280	268,548	267,584	346,808	281,202	280,193

(*) Since 1 January 2018 only transactions with Fundació la Caixa and Criteria Caixa are reported.

(**) Until 17 May 2018.

(***) Since 18 May 2018.

(****) At 31 December 2019 the "la Caixa" dividend includes Euros 60,257 thousand which corresponds to the 100% payable to Energía Boreal 2018, S.A. (Euros 43,230 thousand attributable). At 31 December 2018 included Euros 22,516 thousand.

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

Expenses, income and other transactions	2019		2018	
	Group companies	Jointly-controlled entities and associates	Group companies	Jointly-controlled entities and associates
Financial expenses	(444)	--	(464)	--
Lease expenses	(1)	(2)	(33)	(6)
Receipt of services	(12)	--	(28)	--
Purchases of goods	(340)		(171)	--
Total expenses	(797)	(2)	(696)	(6)
Financial income	390	--	516	--
Dividends received	2,050	1	1,541	1
Sale of goods	1,651	--	1,839	--
Other income	205	1	351	2
Total income	4,296	2	4,247	3

The heading "Purchases of goods" relates basically to electricity purchased from the other Group companies, the Company is their market representative until 1 June 2019.

Under the heading "Dividends received" are included the dividend payments from voluntary reserves, registered as a lower value on investments in group companies amounting to Euros 690 million (Euros 995 million in 2018) (Note 7).

"Sales of goods" includes sales of natural gas derived from supply and electricity contracts, as it acts as the representative of the Group companies vis-à-vis the market.

The heading "Other income" includes income from services rendered in accordance with the nature and extent thereof (Note 22).

Costs shared between the Company and other Naturgy companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Nota 26. Information on members of the Board of Directors and senior management personnel

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 27 June 2018 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the Bylaws.

The amount accrued by the members of the Company's Board of Directors for belonging to the Board of Directors, Audit Committee (CA) and Appointments and Remuneration Committee (ARM), totalled Euros 3,955 thousand (Euros 4,412 thousand in 2018), broken down in euros as follows:

	Office	Board	AC	ARC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	-	-	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	60,000	90,000	355,000
Mr. Enrique Alcántara-García Irazoqui	Director	175,000	60,000	-	235,000
Mr. Marcelino Armenter Vidal	Director	175,000	-	60,000	235,000
Mr. Francisco Bellil Creixell	Director	175,000	90,000	60,000	325,000
Ms. Helena Herrero Starkie	Director	175,000	60,000	-	235,000
Mr. Rajaram Rao	Director	175,000	60,000	-	235,000
Rioja Bidco Shareholdings, S.L.U., Mr. Javier de Jaime Guijarro ⁽¹⁾	Director	102,083	-	35,000	137,083
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro ⁽¹⁾	Director	72,917	-	25,000	97,917
Mr. Pedro Sainz de Baranda	Director	175,000	60,000	60,000	295,000
Mr. Claudi Santiago Ponsa	Director	175,000	-	60,000	235,000
Mr. Scott Stanley ⁽²⁾	Director	160,417	-	55,000	215,417
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	60,000	-	235,000
Mr. William Alan Woodburn ⁽³⁾	Director	14,583	-	5,000	19,583
		3,055,000	450,000	450,000	3,955,000

(1) Rioja S.à.r.l. replaced Rioja Bidco Shareholdings, S.L.U. as Director in August 2019.

(2) Since 29 January 2019.

(3) Until 29 January 2019.

In 2019, as in 2018, no amounts were received for other items.

At 31 December 2019, the Board of Directors consisted of 12 members.

In 2018, there were significant changes in the structure of the Board of Directors. On 6 February 2018, the Board of Directors agreed to appoint a new Executive Chairman due to the departure of the former CEO and Chairman. As a result, the number of Board members was reduced to 16 persons. Subsequently, on 27 June 2018, the shareholders in general meeting approved the reduction in the number of members of the Board of Directors to 12 members. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at seven persons and the number of Appointments and Remuneration Committee members was set at seven persons.

For the executive functions carried out in the year 2019, the Chief Executive Officer has earned Euros 3,371 thousand corresponding to fixed compensation (Euros 930 thousand), annual variable (Euros 2,369 thousand) and other items (Euros 72 thousand), although the amount corresponding to the annual variable remuneration will be settled as a contribution to the pension plan of which the Chief Executive Officer is a beneficiary, in accordance with the contractually established (Euros 809 thousand, Euros 2,097 thousand and Euros 11 thousand in the year 2018; also, in the year 2018, the annual variable remuneration was settled as a contribution to the pension plan).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed to the social welfare plan mentioned above, totalled Euros 477 thousand in 2019 (Euros 490 thousand in 2018). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 5,232 thousand at 31 December 2019 (Euros 2,457 thousand in 2018).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and 25 other executives take part. It is arranged through the acquisitions of shares the main characteristics of which are described in Note 11. This incentive entailed

the adaptation of the Remuneration Policy and the Executive Chairman's contract, which were approved at the annual general meeting of shareholders on 5 March 2019.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total fixed remuneration, annual variable remuneration and 1.25 times total fixed remuneration (as long-term variable remuneration subject to having achieved the minimum profitability target under the LTI). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

Except as mentioned for the Chairman, the members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2019 by Naturgy, S.A. for the entire policy amounted to Euros 140 thousand (Euros 121 thousand in 2018).

Transactions with Directors

The Directors have a duty to avoid conflicts of interest as established by the Company's Board Regulations and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest involving directors must be reported in the annual accounts.

The Company's Directors have not reported any conflict of interest to the Board of Directors that has to be notified.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During 2019 and 2018, the members of the Board have not carried out related-party transactions outside the ordinary course of business or transactions that are not conducted under normal market conditions with the company or Group companies.

Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Manager.

At 31 December 2019, 11 people made up this group, without taking into account the Internal Audit Manager (13 persons at 31 December 2018), one of whom is a woman. During 2019, there was one departure in April 2019 and another on departure 31 December 2019.

Amounts accrued to senior management personnel in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 6,217 thousand, Euros 3,452 thousand, Euros 1,081 thousand and Euros 362 thousand, respectively, in 2019 (Euros 6,769 thousand, Euros 3,853 thousand, Euros 595 thousand and Euros 230 thousand, respectively, in 2018). The long-term variable incentive plan (LTI) in which 25 executives participate, is described in Note 11.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,422 thousand in 2019 (Euros 1,599 thousand in 2018). Funds accumulated due to these contributions amount to Euros 17,967 thousand at 31 December 2019 (Euros 23,309 thousand at 31 December 2018).

Advances amounting to Euros 45 thousand had been granted to management personnel at 31 December 2019 (Euros 30 thousand at 31 December 2018). In 2019, as in 2018, Naturgy has not provided any new guarantees for loans to senior management personnel. Termination benefits received by senior management personnel leaving Naturgy amounted to Euros 3,832 thousand in 2019 (Euros 6,493 thousand in 2018).

The contracts signed with the 11 managers contain a clause providing for compensation ranging from two years' fixed remuneration in some cases to three and a half years' remuneration in others relating to certain employment termination events, including certain situations involving a change of control, unfair dismissal or the cases referred to in Articles 40, 41 or 50 of the Workers' Statute. In addition, the 11 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting two years.

Nota 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2019 and 2018 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 57 million (Euros 55 million at 31 December 2018).
- Guarantees relating to the economic obligations resulting from its participation in the Spanish electricity system (MEFF and OMIE) for Euros 19 million (Euros 160 million at 31 December 2018).
- Guarantees for compliance with obligations by the administrative concession granted for USD 7 million (Euros 6 million). In addition, there are guarantees for compliance with obligations of loans by investee companies for USD 78 million (Euros 69 million).
- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for debt issuances carried out by them totalling Euros 10,335 million (Euros 11,531 million at 31 December 2018).
- Guarantees to group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S for obligations under the gas purchase and transport contracts and gas tanker chartering agreements.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that the liabilities not foreseen at 31 December 2019 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

At 31 December 2019, the Company is party to several gas supply contracts with "take or pay" clauses negotiated for "own use" (Note 3.5), by virtue of which it has gas purchase rights for the period 2020 - 2025 in the amount of Euros 799 million, calculated on the basis of natural gas prices at 31 December 2019 (2018: Euros 3,489 million based on natural gas prices at 31 December 2018).

Operating lease commitments break down as follows:

	2019	2018
Up to one year	19	17
Between 1 and 5 years	61	76
Between 5 and 10 years	43	32
	123	125

Includes the rent on the "Torre del Gas" building, owned by Inmobiliaria Colonial, Socimi, S.A. (formerly Torremarenostrum, S.L.), with an operating lease without a purchase option until 2020.

It also includes the operating leases without a purchase option for four properties in Madrid (Avenida San Luis, 77, Acanto, 11-13 and Calle L rida) for a period of seven years, extendable for five years, and other property in Madrid (Avenida Am rica, 38), for a period of eleven years, extendable for two five-year terms, and a property in Sant Cugat del Vall s (Barcelona) located in the Can Atmetller Industrial Estate, for a period of five years extendable by another five years.

Contingent liabilities for litigation and arbitration

The Company is involved in certain judicial and extrajudicial disputes within the ordinary course of its activities. At the date of preparation of these annual accounts, the main litigation or arbitration in which the Company is involved are the following:

Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy has requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contains various provisions that require negotiations between the parties, which have given rise to a second arbitration process.

Uni n Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Uni n Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Uni n Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Uni n Fenosa Gas concerning the nonfulfillment of the relevant obligations. The decisions on the arbitration under way in Madrid have yet to be delivered. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. On 19 December 2018 Uni n Fenosa Gas obtained confirmation of the award in the United Kingdom and expects to obtain confirmation in the United States. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last, as has been done. In January 2020, since Egypt had not provided the guarantees established by the ICSID, the temporary suspension was lifted and, consequently, enforcement actions resumed.

Social Bond

The Supreme Court has ordered the reimbursement of the amounts contributed by the Company to the social bond for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. That Court revoked the Supreme Court decision and returned the proceeding to the point prior to the issuance of judgement. The Constitutional Court questioned why the Supreme Court had not applied for a preliminary ruling from the Court of Justice of the European Union and it applied for a preliminary ruling.

At 31 December 2019, the balance sheet includes provisions for litigation based on the best estimate made using the information available at the date of preparation of these annual accounts on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Nota 28. Auditors' fees

The fees accrued in thousand euro by the company Ernst & Young, S.L. are as follows:

	Thousand Euros	
	2019	2018
Auditing services	693	681
Assurance services and services related to the audit (1)	179	42
Other services (1)	17	181
Total fees	889	904

(1) These headings include verification reports on non-financial information, comfort letters and advice on sustainability.

Nota 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy, approved in the first half of 2019 and which applies to all geographical areas and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy.

To this end, four strategic environmental axes have been established:

- Environmental governance and management
- Climate change and energy transition
- Circular economy and eco-efficiency
- Natural capital and biodiversity

The most important milestones for 2019 in environmental governance and management are the approval of the Global Environmental Policy and the 2018-2022 Environmental Plan, which include actions, monitoring indicators and global objectives to improve environmental performance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital. The objectives of this Environmental Plan include a 21% reduction in Scope 1 and Scope 2 greenhouse gas emissions in absolute terms by 2022 with respect to the figures for 2018, which is in line with the global objective of keeping global warming below 1.5°C.

Environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to ensure continuous improvement.

Concerning climate change and the energy transition, the main lines of action carried out in 2019 are growth in low or zero emission renewable capacity, the replacement of carbon-intensive fuels by more sustainable fuels, the promotion of sustainable mobility and the reduction of leak emissions in gas distribution networks. Likewise, a new, more precise methodology has been implemented in the gas distribution network in Spain for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

During 2019 there has been a reduction in direct CO₂ emissions compared to 2018 as a result of the reduction in coal generation.

In the circular economy, the lines of work are different. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were developed to reduce the consumption of various materials and consumables. Actions have also been taken to enhance waste recovery and reduce waste generation. Concerning water, there was a decrease in 2019 compared to 2018, mainly due to lower demand for coal-fired power plants. It should finally be noted that innovation projects have been carried out in new energy models that are fully aligned with the circular economy. An example of this is the pilot plant for generating renewable gas from urban wastewater at the Butarque treatment plant (Madrid).

In 2019, Naturgy has conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with the prevention, reduction in and compensation for our impacts, and the enhancement of the value of the natural surroundings.

The environmental activities undertaken by the Company in 2019 totalled Euros 3.8 million (Euros 11 million in 2018), comprising Euros 0.3 million relating to environmental investment and Euros 3.5 million relating to the costs of environmental management at facilities (Euros 1 million for environmental investments and Euros 10 million related to expenses incurred in environmental management at facilities in 2018).

Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2019, total consolidated CO₂ emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 6.2 million tonnes of CO₂ (9.1 million tonnes of CO₂ in 2018). This three million tonne decrease is due to the reduced operation of coal-fired plants.

Naturgy devises a strategy each year for managing transfers to its CO₂ emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Nota 30. Events after the reporting date

There were no significant events between 31 December 2019 and the date of preparation of these financial statements.

APPENDIX I. NATURGY TAX GROUP COMPANIES

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Generación, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Iberia, S.A.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Informática, S.A.
Energías Ambientales de Somozas, S.A.	Naturgy Infraestructuras Emea, S.L.
Energías Especiales Alcohólicas, S.A.	Naturgy Ingeniería Nuclear, S.L.
Europe Mahgreb Pipeline Ltd.	Naturgy Inversiones Internacionales, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy IT, S.L.U.
Fenosa, S.L.U.	Naturgy LNG, S.L.
Gas Natural Comercializadora, S.A.	Naturgy Participaciones, S.A.
Gas Natural Exploración, S.L.	Naturgy Renovables Ruralia, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Renovables, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Wind 4, S.L.U.
General de Edificios y Solares, S.L.	Naturgy Wind, S.L.
Global Power Generation, S.A.	Nedgia Andalucía, S.A.
GPG Ingeniería y desarrollo de Generación, S.L.U.	Nedgia Aragón, S.A.
GPG México, S.L.U.	Nedgia Balears, S.A.
GPG México Wind, S.L.U.	Nedgia Castilla La Mancha, S.A.
Holding de Negocios de Gas, S.A.	Nedgia Catalunya, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Cegas, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Madrid, S.A.
La Propagadora del Gas, S.A.	Nedgia Navarra, S.A.
Lean Corporate Services, S.L.U.	Nedgia, S.A.
Lean Customer Services, S.L.U.	Operación y Mantenimiento Energy, S.A.
Lean Grids Services, S.L.U.	P.E. El Hierro, S.L.
Lignitos de Meirama, S.A.	P.E. Montamarta, S.L.
Medina Partnership, S.A.U.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñaroldana, S.L.
Naturgy Alfa Investments, S.A.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Sociedad de Tratamiento la Andaya, S.L.
Naturgy Capital Markets, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Commodities Trading, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Distribución Latinoamérica, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Minería, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.U.
Naturgy Gas and Power, S.L.U.	--

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2019

Contents

1. Business performance and results	3
2. Market trends, risks and opportunities	6
3. Corporate governance	10
4. Forecast Naturgy performance	14
5. Sustainable innovation	21
6. Non-financial information statement	24
7. Additional information	83
8. Annual Corporate Governance Report	85

1. Business performance and results

The main financial aggregates of Naturgy Energy Group, S.A. and their performance are as follows:

	2019	2018	%
Net turnover	3.496	4.527	(22,8)
Operating profit	4.826	5.787	(16,6)
Profit for the year	4.415	5.282	(16,4)
Shareholders' equity	19.914	17.253	15,4
Net equity	19.853	17.226	15,3
Current liabilities	2.106	2.286	(7,9)

Naturgy Energy Group, S.A., is a company that develops its activity basically through the tendency of other group and associated companies shares, so information bellow refers to Consolidated group of Naturgy (hereinafter, Naturgy).

1.1. Main milestones and key figures

1.1.1. Main milestones in 2019

January to March

- In January 2019, the Board of Directors approved a revised version of the Corporate Responsibility Policy in accordance with the Code of Good Governance issued by the Spanish National Securities Market Commission.
- Naturgy was recognised by Carbon Disclosure Project (CDP) as a world leader in combating climate change, as the only Spanish energy company to be included in CDP's A 2018 List.
- The company was granted European funding (ERDF and Horizon 2020) to implement the European Social Watt project, to investigate and implement innovative measures in connection with energy poverty.
- In January 2019, Naturgy announced the closure of La Robla, Narcea and Meirama coal-fired power plants by mid-2020.
- The Shareholders' Meeting on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share out of 2018 income, which was paid in cash on 20 March 2019.

April to June

- The Board of Directors approved the revised Human Rights Policy, in accordance with the United Nations Guiding Principles on Business and Human Rights.
- In April 2019, Naturgy reached an agreement to sell 100% of its electricity distribution subsidiaries in Moldova to Duet Private Equity Limited for Euros 141 million. The sale was completed in June 2019.
- The company was the world leader in the multiutilities sector of FTSE4Good for the second consecutive year.

July to September

- On 23 July 2019, the Company's Board of Directors declared an interim dividend of Euros 0.294 per share out of 2019 income, paid in cash on 31 July 2019.
- On 27 July 2019, an agreement was reached to sell of 100% of Chilean electricity transmission company Transemel, S.A. to Redes Energéticas Nacionais (REN), the Portuguese grid operator, for Euros 155 million.
- On 5 August 2019, capital was reduced through the cancellation of 16,567,195 own shares with a par value of Euros 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution (the shares had been acquired under the Naturgy Energy Group, S.A. share buyback programme). Following the capital reduction, share capital stood at Euros 984 million, made up of 984,122,146 shares with a par value of Euros 1 each.

- The company was granted European funding (ERDF and Horizon 2020) for the European Energy Poverty Intelligence Unit project in Getafe (EPIU Getafe), with the aim of reducing energy poverty, developing new services and applying custom solutions adapted to vulnerable groups.
- Naturgy was the leader of the gas utilities sector of the Dow Jones Sustainability Index (DJSI).

October to December

- On 15 October 2019, Naturgy and Sonatrach reached an agreement to acquire 42.09% of Medgaz, S.A. from Mubadala. Following closure of the transaction, Medgaz will be owned by Sonatrach (51.0%) and Naturgy (49.0%). The transaction is expected to be completed by the end of March 2020, subject to certain conditions and approvals.
- On 29 October 2019, the Board of Directors of Naturgy Energy Group, S.A. declared a second interim dividend of Euros 0.473 per share out of 2019 income, paid in cash on 12 November 2019.
- On 19 November 2019, Naturgy completed its first bond issue under the new Business Plan: Euros 750 million which were used for a bond tender offer.
- Naturgy obtained the highest sustainability rating (AAA) from MSCI.
- It was ranked among the top 5 in the Utilities sector by Sustainalytics, whose rating is used to set the interest rate on a credit line with ING.
- The Naturgy Foundation's energy refurbishment solidarity fund refurbished its 1,000th home under agreements with third-sector institutions.
- The Environment Plan 2018-2022 was approved, which sets out actions, tracking indicators and overall objectives so as to enhance governance in the area of the environment and climate change, reduce greenhouse gas emissions, promote the use of renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Renewable gas, produced by the Butarque wastewater treatment plant in Madrid, was injected into the Spanish gas distribution grid for the first time.
- A total of 799 MW of renewable energy capacity were commissioned and 116 MW were in the final stages of construction, corresponding to 21 wind farms and 5 solar photovoltaic farms, which cost a total of Euros 860 million and were allotted to Naturgy in auctions held by the government in 2017.

Financial performance (Euros million)

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

Main financial aggregates

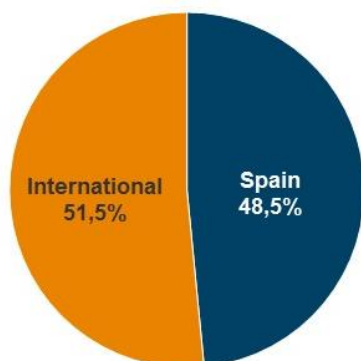
	2019	2018	%
Net sales	23,035	24,339	(5.4)
EBITDA	4,562	4,019	13.5
Income attributable to equity holders of the parent	1,401	(2,822)	-
Capital expenditure	1,685	2,321 ¹	(27.4)
Net borrowings (at 31/12) ¹	15,268	15,309 ²	(0.3)
Free cash flow after non-controlling interests	1,958	3,054 ³	(35.9)

¹ Including Euros 380 million related to two LNG tankers in time-charter regime incorporated during 1H18 (non-cash investments).

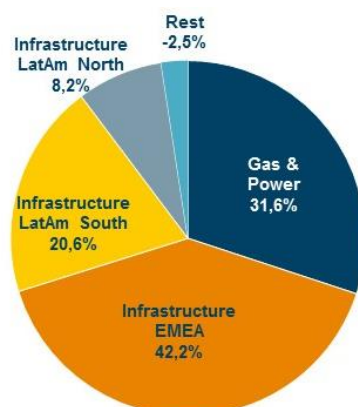
² Net borrowings IFRS 16 adjusted.

³ Including almost Euros 2,600 million of divestments.

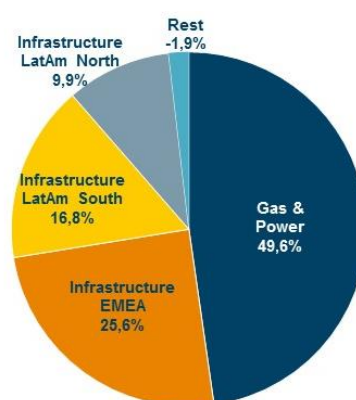
EBITDA by geography in 2019 (%)



EBITDA by business in 2019 (%)



Capital expenditure by business in 2019 (%)



Key financials & metrics

	2019	2018
Leverage ¹	52.2%	51.2%
EBITDA/Cost of net borrowings	7.3x	7.5x
Net borrowings ¹ /EBITDA	3.3x	3.8x

¹ 2018 Proforma applying IFRS 16.

Main stock market ratios and shareholder remuneration

	2019	2018
Total no. of shares ('000)	984,122	1,000,689
Average no. of shares ('000) ¹	977,636	998,966
Share price at 31/12 (Euros)	22.40	22.26
Market capitalisation at 31/12 (Euros million)	22,044	22,275
Earnings per share (Euros) ¹	1.43	(2.83)
Dividend paid	1,319	1,400

¹ Calculated using the weighted average number of own shares in the year.

1.1.2. Operational performance

Distribution	2019	2018
Gas distribution (GWh)	465,844	449,259
Electricity distribution (GWh)	53,519	54,920
Gas supply points ('000)	11,075	10,605
Electricity supply points ('000)	7,691	7,569
Gas distribution network (km)	133,917	119,998
Length of electricity transmission and distribution network (km)	218,831	215,532

Gas	2019	2018
Supply (GWh)	214,975	237,379
International LNG (GWh)	124,277	140,669
Total gas supply (GWh)	339,252	378,048

Electricity	2019	2018
Installed capacity in Spain (MW)	13,724	12,504
Installed capacity in rest of world (MW)	3,169	3,093
Total installed capacity (MW)	16,893	15,597
Net production in Spain (GWh)	25,771	28,307
Net production in rest of world (GWh)	18,933	18,351
Total net production (GWh)	44,704	46,658

1.1.3. Environmental and social performance

Environment	2019	2018
Power generation emission factor (t CO ₂ /GWh)	301	342
Greenhouse gas (GHG) emissions (M tCO ₂ eq) ¹	15.4	18.3
Emissions-free installed capacity (%)	30.1	27.5
Emissions-free net production (%)	27.0	24.9

Interest in people	2019	2018
No. of employees at year-end ²	11,847	12,700
Training hours per employee	25.2	49.9
Men/women (%)	68/32	69/31

Health and safety	2019	2018
No. of accidents leading to days lost	28	28
Frequency	1.2	1.0

Commitment to society and integrity	2019	2018
Economic value distributed (Euros million)	21,533	23,413
No. of notifications received by the Ethics Committee	194	199

¹ GHG: greenhouse gases, measured as tCO₂ equivalent (scope 1).

² Does not include the number of employees at discontinued operations (78 persons in 2019 and 786 persons in 2018).

2. Market trends, risks and opportunities

2.1. Market trends

Reduction of CO₂ emissions and expansion of renewable energy, with natural gas as a key contributor.

The Paris Agreement (XXI United Nations Climate Change Conference - COP 21) seeks to minimise the impact of climate change, entailing a reduction in emissions that is only possible if there is a long-term energy transformation. The energy transformation may be an opportunity, since it will require increased investment, but it will also reshape the appeal of businesses and investments alike.

Although there is no single path to achieving the climate goals, the most ambitious scenarios pose significant challenges for fossil fuels.

Due to falling capital costs, renewables are consolidating their leadership and will be the fastest-growing primary energy source in the medium and long term. Renewables are expected to expand from 2% of primary energy demand in 2018 to 7% by 2040.

Natural gas is expected to account for 25% of the primary energy mix in 2040, as it is the main energy source that is compatible with the climate commitments.

Growing electricity demand and energy efficiency

In terms of final energy consumption, electricity will expand by 58%, from total worldwide demand of 23,000 TWh in 2018 to 36,500 TWh in 2040. Development of the emerging economies will require increased use of electrical applications (motors, cooling systems, information technology, etc.), while greater electrification of homes and transportation, coupled with digitalisation, will drive growth of electricity as a final energy source.

Electricity's share of total energy demand is expected to rise from 19% in 2018 to 24% in 2040.

Big data and data analytics

Digitalisation in the energy sector, such as the development of applications and services that transform the relationship with customers due to greater connectivity, will enable demand management to be optimised (smart devices) and the portfolio of products and services to be expanded.

2.2. Risks

2.2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders. This requires establishing the risk tolerance by setting limits for the main risk categories. In this way, the company can anticipate the consequences of certain risks and be perceived in the market as sound and stable, with all the benefits that entails.

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360° view of the group's processes, existing controls and the associated risks.

Risk management bodies

Guaranteeing the predictability and sustainability of the company's operational and financial performance is a key aspects of risk management at Naturgy, and is supported by a number of bodies with clearly identified areas of responsibility.



Audit Committee

Supervises the company's internal control and risk management systems. Its function is to identify the various types of risk and the measures implemented to mitigate them, and to address them in the event that they materialise in the form of actual damage.

Risk Committee

Entrusted with determining and reviewing the company's target risk profile. It ensures that the risk profile is aligned with the company's strategic position and it also safeguards stakeholders' interests. It also exercises oversight to ensure that the entire organisation understands and accepts its responsibility for identifying, assessing and managing the main risks.

Risk Control Units

In charge of monitoring and reporting risks and ensuring that they fall within the limits defined in the target risk profile established by the Risks Committee. Three units in particular stand out:

- Risks and Insurance: Identifies, monitors and tracks the Naturgy's overall risk profile based on a definition of policies and metrics in coordination with the business units. Supports the Risk Committee in determining and monitoring the overall risk profile.
- Gas & Power Risks: Oversees and proposes measures to mitigate risks on the basis of Naturgy policy, reducing volatility to achieve the target rate of return.
- Internal audit: Reviews and tracks the internal control system established by Senior Management and evaluates the operational risks linked to the processes. Supports the Audit Committee in its supervisory functions.

Business, Corporate and Project units

Responsible for applying the general principles established in the Risk Control and Management Policy and for risk management in their areas of responsibility, observing, reporting, managing and mitigating risks.

Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

The system addresses basically three categories of risk:

- **Market risk**, understood as the uncertainty related to commodity prices, exchange rates and interest rates, which may impact the company's balance sheet, its procurement costs or its ability to raise funding in the capital markets. It is measured using two yardsticks: in the short term, focused on the income statement, and in the long term, focused on enterprise value, including the capacity to generate cash flow and its stability, variations in the funding structure, and volatility in the applicable discount rates.
- **Credit risk**, i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.
- **Operating risk**, i.e. the possibility of financial losses as a result of failures in processes, internal systems or other factors. It enables risk to be measured objectively, which is decisive for raising awareness within the company and for improving management of exposure, all of which have an essential impact on the reinsurance market's perception of Naturgy's operational excellence.

2.2.2. Main Risks

Risk type	Description	Management approach	Metric	Trend	
Market risks					
Commodity prices	Gas	Volatility in the international markets that set gas prices.	Physical and financial hedges. Portfolio management	Stochastic	↑ Decoupling of long-term contracts from hub prices.
	Electricity	Volatility in the Spanish and Portuguese electricity markets	Physical and financial hedges. Optimisation of the power generating fleet.	Stochastic	↑ Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	← → Aggregate demand pressure in Spain in a context of energy efficiency.
	Electricity	Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output.	Optimisation of the balance between supply and generation.	Stochastic	↑ Aggregate demand pressure in Spain in a context of energy efficiency.
Regulatory	Exposure to regulatory review of the criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑ Different business units at different stages of maturity.	
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	← → Uncertainty about growth prospects in Latin America.	
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	← → Uncertainty about the interest rate scenario.	
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or due to	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Best Tax Practices.	Scenarios	← → Different business units are affected by different taxes.	

Risk type	Description	Management approach	Metric	Trend
	a material amendment of same.	Recognition of provisions on a prudential basis.		
Credit risk				
Credit	Uncertainty about performance of bad debt ratios as a result of the economic cycle.	Analysis of customer solvency to define specific contractual conditions. Debt collection process.	Stochastic	← → Pursues efficiency in debt collection.
Operational risk				
Operational: Insurable risks	Accidents, damage and non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	↑ Growing tension in the insurance market in the face of natural catastrophes.
Operational: Image and reputation	Impaired perception of Naturgy by stakeholders.	Identification and tracking of potential reputational events. Transparency.	Scenarios	← → Stabilisation of MERCO index score.
Operational: Environment	Harm to the natural and/or social environment.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	↓ Implementation of an Integrated Management System that is audited and certified each year by AENOR.
Operational: climate change	Business impact of measures to combat climate change. Effect of climate management on the company's valuation. Growing exposure of facilities to natural catastrophes in an increasingly restrictive reinsurance market.	Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios	↑ Uncertainty about policy developments to encourage energy efficiency.
Operational: Cybersecurity	Cyberattacks	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios	↑ The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact

Metrics used:

- **Stochastic:** production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- **Scenarios:** analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks (interest rate, exchange rate, commodities prices, credit risk and liquidity risk) are discussed in Note 14 to the Annual Accounts.

2.3. Opportunities

Naturgy's main opportunities are as follows:

- **Renewable generation:** Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Generation mix:** Naturgy's generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity markets.
- **Portfolio of natural gas and LNG procurements:** Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Naturgy's various businesses in a flexible, diversified way by optimising for different energy scenarios. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.
- **A balanced structural position** in businesses and regions, many of them with stable flows that are independent of commodity prices, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.
- **Technological development and innovation:** Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.

3. Corporate governance

Attached as an annex and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2019, as required by article 526 of the Capital Companies Act.

3.1. Corporate Governance Model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main recommendations and standards in this area, and it adopts advanced corporate governance practices for this purpose.

The corporate governance terms of reference comprise basically:

- Articles of Association (updated in 2018)
- Regulations of the Board of Directors and its committees (updated in 2019)
- Regulations of the General Meeting of Shareholders (updated in 2018)
- Human Rights Policy
- Code of Ethics (updated in 2015)

The main shareholders of Naturgy as of 31 December 2019 and 2018 are as follows:

	Stake (%)	
	2019 ⁽⁵⁾	2018 ⁽⁴⁾
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ⁽¹⁾	24.4	25.6
- Global Infrastructure Partners III ⁽²⁾	20.3	20.0
- CVC Capital Partners SICAV-FIS, S.A. ⁽³⁾	20.4	20.1
- Sonatrach	4.1	3.9

(1) In 2019, participation through Criteria Caixa S.A.U. In 2018, 20.4% of participation through Criteria Caixa S.A.U. and 5.2% indirect participation (5.0% through Energía Boreal 2018, S.A. and 0.2% of others).

(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l. The company Rioja Acquisition S.à.r.l. was absorbed by Rioja Bidco Shareholdings, S.L.U. in 2019.

(4) On 22 February 2018, Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol, S.A. ceased to be a shareholder of that company.

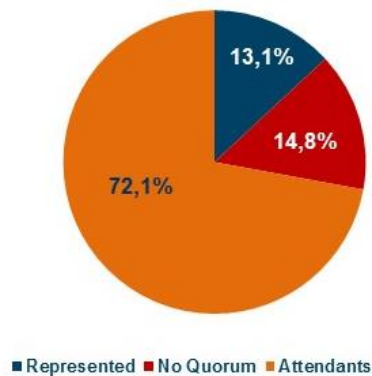
(5) Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Following the changes in ownership structure, on 27 June 2018 the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at seven persons and the number of Appointments and Remuneration Committee members was set at seven persons.

3.2. Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Attendance at the 2019 Shareholders' Meeting (%): 85.2%



3.3. Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee and an Appointments and Remuneration Committee, whose functions are as set out in the Act; a majority of members of both committees are independent directors.

The main issues addressed by the Board of Directors in 2019 are as follows:

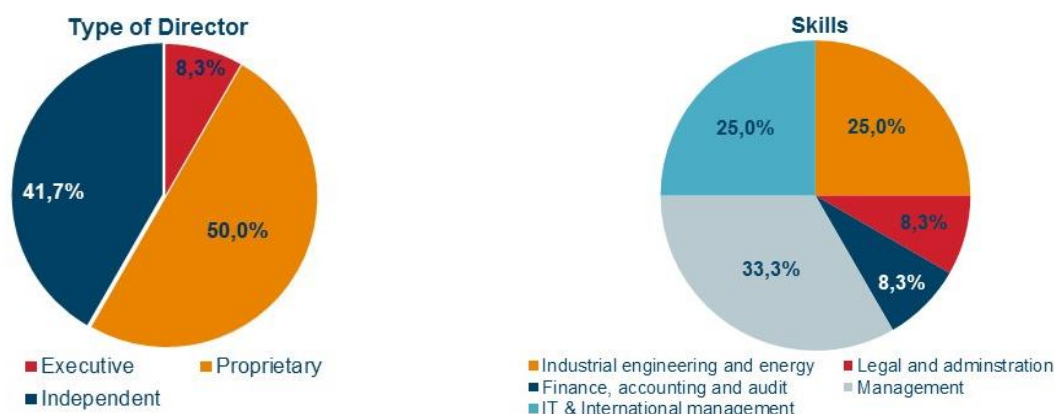
- Reflection on strategy
- 2019 Budget and continuous operational oversight
- Health and safety issues
- Financial and accounting information
- Proposal for the distribution of 2019 income and shareholder remuneration.
- Corporate governance: improvements in aspects of corporate governance in order to adapt to the recommendations of the CNMV, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports.
- Notice of the Shareholders' Meeting: motions proposed by the Board, reports and supplementary documentation.
- Selection and proposals for appointments in the governing bodies.
- Employee remuneration
- Funding strategy
- Analysis of the main projects
- Main regulatory decisions
- Cybersecurity

Composition of the Board of Directors and its committees (at 31 December 2019)

Board of Directors		Audit Committee	Appointments and Remuneration Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet			Executive	6/02/2018
Lead director	Mr. Ramón Adell Ramón	Director	Chairman	Independent	18/06/2010
Director	Mr. Enrique Alcántara-García Irazoqui	Director		Proprietary	27/06/1991
Director	Mr. Marcelino Armenter Vidal		Director	Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Director	Independent	14/05/2015
Director	Ms. Helena Herrero Starkie	Director		Independent	04/05/2016
Director	Mr. Rajaram Rao	Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l.†, Mr. Javier de Jaime Guijarro		Director	Proprietary	01/08/2019
Director	Mr. Pedro Sainz de Baranda Riva	Director	Director	Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Director	Independent	27/06/2018
Director	Mr. Scott Stanley		Director	Proprietary	29/01/2019
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director		Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

† Rioja S.à.r.l. substituted Rioja Bidco Shareholdings, S.L.U. as Director in August 2019.

Board of Directors profile (%)



Board of Directors activities and performance

Number of meetings of the Board of Directors and its committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
2019	16	N/A	6	6
2018	14	2	7	11

3.4. Management structure

Naturgy's management structure consists of four business units (Gas and Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2019, it comprised the following executives:

Business Units

Gas and Power, managed by Mr. Manuel Fernández Álvarez
 Infrastructure EMEA, managed by Ms. Rosa María Sanz García
 Infrastructure South LatAm, managed by Mr. Antonio Gallart Gabás
 Infrastructure North LatAm, managed by Mr. José García Sanleandro

Corporate Units

Finance, managed by Mr. Carlos J. Álvarez Fernández
Strategy and Development, managed by Mr. Antonio Basolas Tena
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Communication and Institutional Relations, managed by Mr. Jordi García Tabernero
Resources, up to 31 December 2019, managed by Mr. Antoni Peris Mingot
Controlling, managed by Mr. Jon Ganuza Fernández de Arroyabe
Capital Markets, managed by Mr. Steven Fernández Fernández

Projects

LEAN project, managed by Mr. Miguel Aller Blanco

3.5. Remuneration policy

Board of Directors

The annual report on director remuneration was presented as a separate item for a consultative vote at the Shareholders' Meeting in 2019.

Directors' remuneration for their membership of the Board and its committees consists solely of fixed amounts determined on the basis of the positions they hold.

Remuneration for membership of the Board of Directors and its committees (Euros/year):

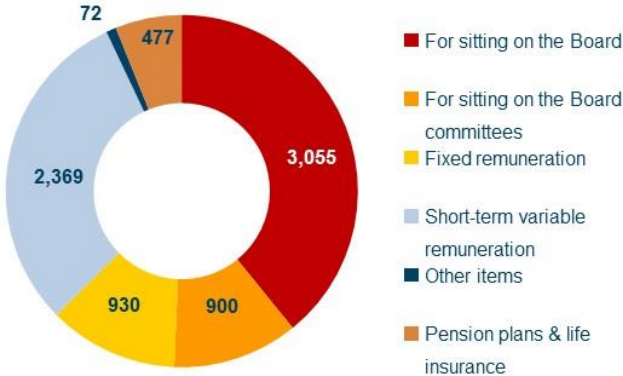
	Euro/year
Chairman of the Board of Directors	1,100,000
Director	175,000
Lead director	30,000
Committee chairman	90,000
Committee member	60,000

The Executive Chairman's remuneration for his executive functions is based on the following:

Item	Objective	Criteria
Basic fixed annual remuneration	Remunerate the level of responsibility attached to these functions.	Ensure that the remuneration is competitive vis-à-vis comparable companies. Based on 100% of the total fixed annual remuneration, multiplied by the degree to which the goals were actually achieved in the year. Achievement is capped at 150%. No remuneration is payable if goal achievement is less than 80%. It can be will be settled (fully or partially) as a contribution to the pension plan instead of cash annually if agreed by the parts.
Annual variable remuneration	Tie remuneration to the company's performance in the short term.	The goals and weightings for 2019 were as follows: 20% organic growth capex (1/3 maximization maintenance capex, 1/3 improvement growth capex IRR and 1/3 improvement growth investments), 25% operational efficiency, 30% free cash flow before capex, 15% comparable consolidated profit, and 10% other qualitative aspects.
Long-term incentive plan	Strengthen the commitment to achieving the goals set out in the strategic plans.	Related to the return obtained by shareholders in the period of reference, which coincides substantially with that of the Business Plan 2018-2022.
Other items	Safeguard the company's benefits.	Health, death benefit and disability insurance. Energy subsidy, company car, housing assistance.

The remuneration is supplemented by contributions to a group health insurance policy.

Total remuneration earned by the Board of Directors in 2019, by type (Euros '000):



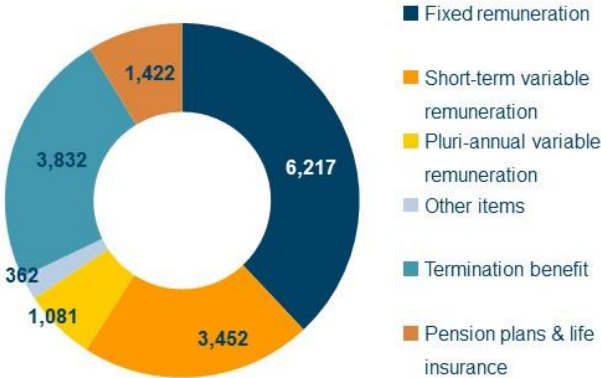
Total remuneration: Euros 7,803 million

Executives

The general remuneration policy for executives is determined by the Board of Directors on the basis of a proposal by the Appointments and Remuneration Committee.

The remuneration model contains the same components as above for the Executive Chairman's executive functions.

Total remuneration earned by the Management Committee and head of Internal Audit¹ in 2019, by type (Euros '000)



Total remuneration: Euros 16,366 million

¹ In accordance with CNMV Circular 5/2013, for the purposes of remuneration, senior management includes executives who report directly to the company's chief executive and also the head of internal audit.

4. Forecast Naturgy performance

4.1. Foundations of strategy

The Business Plan 2018-2022, unveiled in London on 28 June 2018, established the Naturgy's business model, which is focused on value creation.

Naturgy is focused on responding to its own industrial model, based on:

- Treating the energy transition as an opportunity.
- Being a flexible, competitive company.
- Transforming via digitalisation.
- Placing the customer at the centre of the model.

Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO₂ emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

As a result, the following lines of action have been established:

- triple renewable installed capacity by 2022.
- leverage Naturgy's lead in combined cycle plants and in the global LNG market.
- develop the use of natural gas in transportation.
- develop renewable gas.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and improvement of energy efficiency, supporting greater electrification and greater penetration by gas in countries where the company already operates.

Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Business Plan:

- Organisation: the businesses will be autonomous units with full responsibility for their results, while seeking to optimise company personnel. To this end, a number of changes have been implemented at the organisational level in both corporate governance and the organisational structure in order to facilitate decision-making and the business units' autonomy and responsibility, while always guaranteeing control by the parent company.
- Process re-engineering: reviewing service contracts with suppliers, establishing new cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
- Asset management: search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

Naturgy presented an efficiency plan and undertook to cut annual operating expenses by Euros 500 million by 2022.

Transforming via digitalisation

The following key levers for digitalisation have been defined for 2022:

- Customer relations: 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).
- Processes and operations: Over 80% automation of internal processes and operations.
- Remote control of assets: Achieve 80% coverage of assets with sensors and remote control by 2022, from 56% in 2017.
- Advanced analysis techniques: Data-driven management to be implemented in over 90% of processes Naturgy-wide. The main projects to be undertaken in this connection will be in the following areas: develop predictive models for asset maintenance; use models to pursue customer segmentation, predict churn and apply advanced pricing approaches.

These projects will drive the Naturgy's transformation via digitalisation.

Placing the customer at the centre of the model

Enhance our commitment to the customer by placing them at the centre of Naturgy's strategy based on:

- A single customer experience model
- Defining services and solutions that provide added value to the customer.
- Improve customer segmentation.
- Innovation and digitalisation

Key factors in this connection are technological innovations such as smart apps, smart meters, remote control, autoproduction of electricity, energy storage, etc.

4.2. Value creation

The main objective of the Business Plan 2018-2022 is to guide the company towards value creation and lay the foundations for the Naturgy's new industrial model. Naturgy's commitment to value creation is underpinned by four basic pillars: simplicity and accountability, optimisation, discipline in investment, and shareholder remuneration.

Simplicity and Accountability

1. Corporate governance and organisation structure

In terms of corporate governance, major changes were made in 2018, such as reducing the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents).

A new and simplified organisational structure was defined comprising four business units (Gas and Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm) and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility for their bottom line, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

A new Opex & Capex Committee was created with the task of ensuring the execution of the company's efficiency plan and for fulfilling the discipline in capital expenditure envisaged in the Business Plan.

With these changes, Naturgy simplified its corporate governance to streamline decision-making and redesigned its organisational structure to attribute greater autonomy and responsibility to the individual businesses.

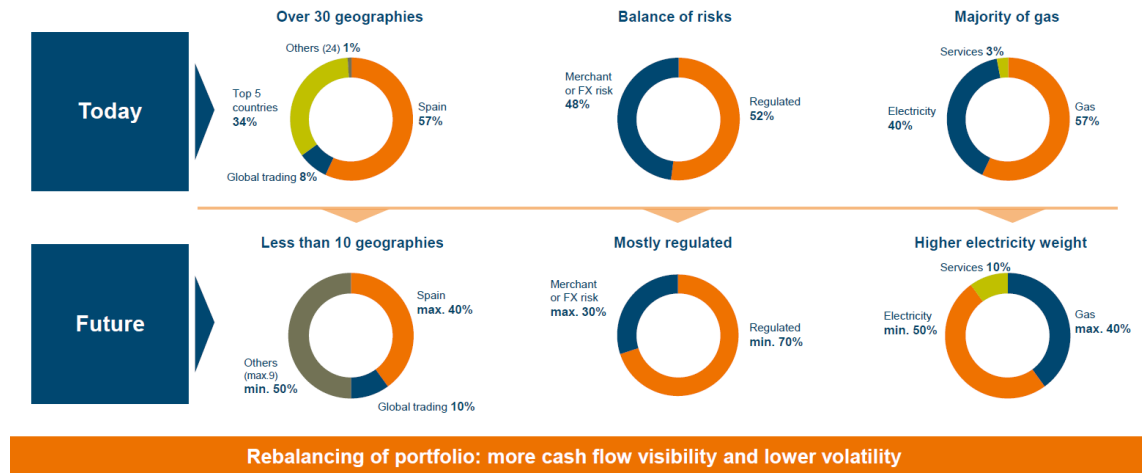
2. Strategic positioning

Naturgy defines its strategic positioning on the basis of the following criteria:

	Where to invest	Where to divest
Markets	Big markets with strong growth potential. - Where Naturgy has a significant market share or critical mass. - That offer legal certainty. - Stable macroeconomic environments (e.g. the EU, North America, OECD).	- Markets that are small and/or offer little growth potential. - High regulatory risk. - Highly concentrated. - Volatile macroeconomic environments.
Businesses	- Electricity or gas grids. - Sale of electricity under contract. - Customer services. - Controlling stakes.	- Low level of integration or synergy with the rest of Naturgy. - Unhedged volatility. - Non-controlling stakes.
Profitability	- Above hurdle rate.	- Below hurdle rate.

A total of Euros 5.3 billion of expenditure in growth capex have been identified and Euros 300 million are expected to be realised through divestments.

Naturgy is also working to balance the weight of its businesses in its mix of activities and will be more ambitious to increase the contribution by regulated activities and by electricity. In the future, the company expects that at least 70% of its business will be linked to regulated activities (currently 52%), with half related to electricity (currently 40%). It also expects to increase exposure to services to about 10%, reinforcing its commitment to the customer.



Additionally, on the basis of developments in the markets where it operates and in line with the assumptions and foundations of the new Business Plan, Naturgy reviewed the value of its assets in 2018, which resulted in a one-time impairment in the amount of Euros 4.851 billion before taxes, booked in 2018. This impairment had no impact on shareholder remuneration and it is proving to be accretive from 2019 because of the lower depreciation charge.

Optimisation

Financial strategy focuses on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. All optimisation measures will be supervised by the new Opex & Capex Committee.

Under the Business Plan 2018-2022, the company continues to optimise the businesses through additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022. These efficiencies are focused on an analysis of the company's non-core activities and on the assignment of operational functions within each of the business units, all supported by the ongoing digitalisation processes.

Naturgy plans to cut Naturgy-level capex by Euros 200 million per year with respect to the average in 2015-2017, while increasing the percentage of investment allocated to organic growth in comparison with previous years. In average terms, the goal is for 63% of capital expenditure to be allocated to growth in 2018-2022 vs. an average of 54% in 2015-2017.

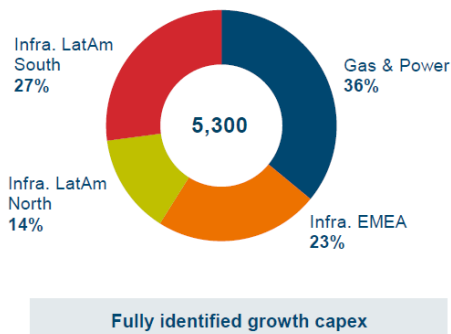
Disciplined investment

Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

1. Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.
2. A clear positioning focused on target markets and businesses.
3. Industrial leadership via controlled subsidiaries.
4. Risk management, minimising the volatility of commodity prices and exchange rates.

Applying these rules, Naturgy plans to invest Euros 8.4 billion over the next five years, of which Euros 5.3 billion will be allocated to growth, increasing the proportion of growth capex to 63% of the total in the period:

Growth capex by business (€M)



Financial discipline will enhance free cash flow so as to sustain attractive shareholder remuneration.

Shareholder remuneration

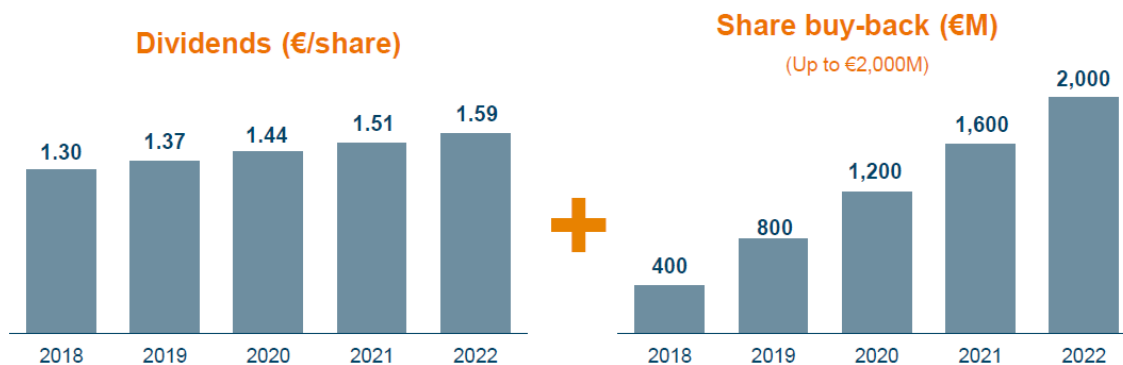
The company increased the dividend charged to 2018 earnings by 30% to Euros 1.30 per share.

Under the Business Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

1. at the end of the first half of the year (20% of the total dividend)
2. at the end of the third quarter (35%)
3. after the Shareholders' Meeting (the remaining 45%)

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it can allocate a maximum of Euros 2 billion to buying back own shares, capped at Euros 400 million per year.

The calendar change was implemented in 2019: a first interim dividend amounting to Euros 0.294 per share was paid in July 2019 and a second interim dividend amounting to Euros 0.473 per share was paid in November 2019. Also, the planned Euros 400 million share buyback was completed in 2019, as a result of which 16,567,195 shares were cancelled in a capital reduction.



Accumulated amounts





4.3. Business prospects

Naturgy's key financial targets for 2022 are as follows:

Key financial targets for 2022

EBITDA 2017: 3,915	~5,000	Annual avg. FCF 2017: ~1,300	~1,800
Net income 2017: 1,360	~1,800	Net debt 2017: ~16,400	~16,400

The business goals set in the Business Plan are summarised below:

	 Gas & Power	 Infra. EMEA	 Infra. LatAm South	 Infra. LatAm North
Asset base 2018	~9,200	~9,800	~7,300	~1,500
EBITDA 2022	~1,700	~1,600	~1,200	~400
Total capex 18-22	~2,700	~2,300	~2,300	~1,000

The growth prospects for the individual businesses, as defined in the Business Plan 2018-2022, are as follows:

Gas & Power

The Business Plan 2018-2022 targets EBITDA of Euros 1.7 billion per year, with capex amounting to Euros 2.7 billion in the period 2018-2022. This will be driven by organic growth and higher efficiency in exploiting assets. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Supply of gas, electricity and services	<ul style="list-style-type: none"> Define a new integrated commercial model Maximise value by focusing on customers. Exploit the strong growth potential of the services and solutions business. 	EBITDA 2022 = 549 Capex 18-22 = 452 74% growth capex
International LNG	<ul style="list-style-type: none"> Diversified, flexible portfolio of procurement contracts. Sales secured under contracts with end customers. Entry into attractive new markets, such as the Floating Storage Regasification Unit (FSRU), small-scale solutions and bunkering. 	EBITDA 2022 = 422 Capex 18-22 = 392 100% growth capex
Generation Europe	<ul style="list-style-type: none"> Double the volume of renewable energy while cutting total costs. Increase CCGT load factor. Adjust cost of conventional generating fleet. 	EBITDA 2022 = 507 Capex 18-22 = 1,296 64% Growth capex
International generation	<ul style="list-style-type: none"> Expand in renewables. Generate recurring cash flow. 	EBITDA 2022 = 270 Capex 18-22 = 568 68% growth capex

Infrastructure EMEA

The EBITDA target for this business is around Euros 1.645 billion, with capex in the period 2018-2022 totalling about Euros 2.310 billion. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities
Gas Networks Spain	<ul style="list-style-type: none"> – Pursue organic growth by exploiting the scope for expanding gas penetration. – Limit the business's regulatory risk. – Increase efficiency via digital transformation.
Electricity networks Spain	<ul style="list-style-type: none"> – Work towards a more flexible, digitalised distribution system. – Future capex to offset regulatory risks. – Pursue efficiency via digitalisation.
EMPL	<ul style="list-style-type: none"> – Revenues guaranteed until the concession expires (2021). – Negotiations advancing to renew Maghreb-Europe gas pipeline concession.

Infrastructure LatAm South

The EBITDA target for this business is around Euros 1.2 billion, with total capex of about Euros 2.3 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Chile Electricity	<ul style="list-style-type: none"> – Distribution: the regulatory model is expected to improve in 2020 to capture updates in technology and service quality. – Transmission: improvements expected due to grid upgrades and new regulations to address the bottleneck produced by the growth of renewable energy. 	EBITDA 2022 = 436 Capex 18-22 = 1,105 60% growth capex
Chile Gas	<ul style="list-style-type: none"> – Organic growth via greater penetration and higher demand for heating. – Drive gas exchanges between Argentina and Chile via existing pipelines. 	EBITDA 2022 = 245 Capex 18-22 = 497 85% growth capex
Brazil Gas	<ul style="list-style-type: none"> – Organic growth through increasing penetration in the gas market as well as seeking new concessions. – Leverage the huge growth potential of the services business. 	EBITDA 2022 = 322 Capex 18-22 = 399 57% growth capex
Argentina Gas	<ul style="list-style-type: none"> – Organic growth underpinned by grid upgrades and implementation of new networks, expanding the grid in the territory. – Leverage the huge growth potential of the services business. 	EBITDA 2022 = 159 Capex 18-22 = 323 41% growth capex

Infrastructure LatAm North

The EBITDA target for this business is around Euros 400 million, with capex totalling about Euros 1 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

	Opportunities	Goals (Euros million)
Mexico Gas	<ul style="list-style-type: none"> - Organic growth through greater penetration in the gas market and new concessions - Strong growth potential in services via new customers and the existing customer base. 	EBITDA 2022 = 247 Capex 18-22 = 616 22% growth capex
Panama Electricity	<ul style="list-style-type: none"> - Strong growth is projected against a backdrop of moderate risk to the country's economy, with remuneration stable in USD. - The tariff review for 2019-2022 is expected to be positive. - Significant improvement in operational efficiency and lower power losses. - Capture competitive advantages in services and solutions. 	EBITDA 2022 = 146 Capex 18-22 = 341 30% growth capex

4.4. Financial strategy

To support the business strategy, the finance strategy targets net debt at end-2022 at the same level as end-2017 (Euros 16.4 billion, per IFRS 16) as strong cash flow will make it possible to distribute dividends (Euros 6.9 billion) and allocate Euros 2 billion to share buybacks or inorganic growth opportunities.

Finance policy focuses on maintaining the rating and leverage while managing the debt structure to make it more effective. The debt structure will be diversified, prioritising access to capital markets and institutional funds, with at least 70% of debt at fixed cost while seeking "natural" hedges by ensuring that subsidiaries are funded in the currency in which they generate cash flows.

At business level, each business unit would be provided with the necessary liquidity and the necessary level of indebtedness to operate autonomously.

5. Sustainable innovation

Risks and management approach

Naturgy sees innovation as vital to the company's transformation. It provides efficiency, by imagining disruptive new business models and discovering new ways to be more customer-centric, taking advantage of new technologies or following the latest market trends.

The approach to managing innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation. It enables us to anticipate the impact of the profound changes that are taking place in society, such as the digital transformation, which affect our customers' way of life and needs, or the energy transition towards a decarbonised economy.

With this goal of transformation and considering innovation to be indispensable to achieving the objectives established in the Business Plan, the corporate innovation policy is a framework for action for all Naturgy employees.

Analysis of 2019 results

Investment in innovation (Euros million)

In 2019, a total of Euros 36 million were spent on innovation (Euros 63 million in 2018), as indicated below:

	2019	2018
Investment in innovation	36	63

Innovation vision

Naturgy's Innovation Model is structured around priority lines of innovation that are aligned with the Business Plan and are sponsored and supported by the business lines. To implement the plan, Naturgy uses a two-pronged innovation model:

- *Push*: focused on developing in-house technology solutions that respond to challenges identified in the strategic vision.
- *Pull*: draws on the open innovation ecosystem to find business opportunities, ideas and talent.

Innovation is governed by the Strategic Innovation Committee, which is composed of the Chairman and his direct reports; the committee's main mission is to ensure that all innovation initiatives are aligned with the strategic lines of innovation.

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets both in the time period of the business plan and in the longer term, which contributes to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

- Renewable generation and storage
- Advanced management of distribution assets
- Renewable gas and hydrogen
- Distributed generation and storage
- Sustainable mobility
- Customer solutions

Renewable generation and storage

To fulfil the commitment to combating climate change, Naturgy must evolve steadily towards an emissions-free energy mix while always guaranteeing security and quality of supply. Renewable energies will play a very important role in this new model; to ensure continuity of supply, they must be supported by reliable storage systems, which is why the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2019 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the *project to hybridise the La Vega I & II wind farm with storage facilities*; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid.

Advanced management of distribution assets

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

In the area of electricity distribution, the *SPIDER* project commenced in 2019 with the aim of developing and integrating low-cost sensors capable of measuring the position and vibrations of power line conductors so as to have advance warning of vegetation impacts on the conductors before they cause faults.

In the field of gas networks, and on a more global scale, *Ris3CAT* encompasses 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

Renewable gas and hydrogen

Renewable natural gas is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of CO₂ emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the “circular economy” since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the *Public-Private Renewable Gas Unit*, developed with EnergyLab and the sewage treatment company in the municipal of Bens (A Coruña, Spain), which involves the creation of a plant for producing biomethane from the organic sludge produced by a municipal wastewater treatment plant; an experimental programme enabled the process to be optimised successfully. At the same site, a highly innovative experimental biological methanation plant has been set up that uses hydrogenotrophic micro-organisms (archaea) that are capable of transforming a feedstock consisting of CO₂ and H₂ into biomethane or renewable gas.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility offered by that Royal Decree of joint ownership of autoproduction facilities. There are now smart infrastructures and systems that make it possible to decentralise electricity distribution, which is revolutionising the current models and opening up new business opportunities.

The distributed generation and autoproduction initiatives that were under way in 2018 continued in 2019. One of these initiatives is the Manhattan project, which seeks to develop new products and services to leverage the energy produced by customers, in which Naturgy offers storage facilities.

Sustainable mobility

The company continues to work on the nationwide deployment of natural gas filling stations that are open to the public, and it is participating in technology projects for filling vehicles with this type of fuel at the user level. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, and it has researched solutions for storing energy in flywheels in pursuit of greater energy efficiency.

During 2019, Naturgy not only continued to promote improvements in natural gas-fired mobility but it also undertook important projects in the area of electric mobility. The NEAR (New Electricity Assets for Recharging) project (2019-2020) attempts to define the distributor's role in the deployment of public recharging infrastructure. During 2019, the efficiencies arising from the use of the existing network infrastructure to deploy electric recharging points were examined.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tankers trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). A *pilot energy assistant for residential customers* project was launched in 2019 with the aim of testing how a solution based on Artificial Intelligence can provide advice to customers with home photovoltaic installations on the most appropriate schedules for energy consumption by certain equipment.

In the field of sustainable building, the KIC COFAST project gave rise in 2019 to a patent application consisting of the development and market launch of a new standardised integrated solution for fast charging stations for electric vehicles based on a small-scale natural gas-fired cogeneration plant.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. In 2019, work was carried out to development a virtual assistant that uses AI-driven natural language processing to automate the customer care process.

Planning and technology monitoring

Monitoring takes place through Observatories, involving over 200 people from the various business units and corporate areas. These groups share and analyse information from an end-to-end perspective: technology, commercial, regulatory, social and market aspects. The Observatories' conclusions are reflected in roadmaps that define the high-level planning of Innovation in each of the six priority lines.

In 2019, a digital management system was implemented for monitoring technology with the goal of acquiring, processing, analysing and reporting information in a more agile and flexible way so as to encourage horizontal collaboration initiatives. A number of think tanks were established to examine trends in the energy industry and detect new business opportunities.

Naturgy continued to operate its two innovaHubs, in Madrid and Barcelona, which are conceived as open spaces that are freely available for innovative activities and in which forms of collaborative agile work can be explored. The numerous activities in the area of Innovation included MeetUps and Techbreakfasts, both with a similar informal, dynamic and collaborative format, where companies and startups are able to exhibit their products, technology or services and gain first-hand knowledge of innovations in a given thematic area.

6. Non-financial information statement

This disclosure of non-financial information was drawn up in line with the requirements of Act 11/2018, of 28 December, on non-financial disclosures and diversity, approved by the Spanish Congress on 13 December 2018, which amends the Commercial Code, the consolidated text of the Capital Companies Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial disclosures and diversity (from Royal Decree-Act 18/2017, of 24 November).

It was drafted on the basis of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), which also serve as a reference for drafting the Corporate Responsibility Report that is published each year and which, this year, complements and elaborates upon these non-financial disclosures.

In this context, through the non-financial disclosures, Naturgy seeks to provide information on environmental, social, personnel and human rights, corruption and bribery and society issues that are germane to the company in the pursuit of its business activities.

The content of this report was selected and drafted on the basis of the outcome of the materiality analysis carried out in 2019.

For each question set out in the Act, the materiality for the company, the policies and risks associated with each one, and the benchmark indicator used for monitoring and evaluating it are set out below.

6.1. Business model and value creation

6.1.1. Business model

Naturgy is an integrated energy group that supplies gas and electricity to over 18 million customers. It focuses on gas distribution and supply and on electricity generation, distribution and supply. It also operates other business lines, such as energy services, which enhance the diversification of activities and revenues, staying at the forefront of new market trends, meeting customers' specific needs and offering them an integrated service not confined to selling energy.

Naturgy's **mission** is to:

Meet the needs of ...	With a vision of ...	Based on our values
Our shareholders	Offering increasing sustainable profitability	<ul style="list-style-type: none"> > Commitment to results > Customer-oriented > Sustainability > Interest in people > Social responsibility > Integrity
Our customers	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment	
Our employees	Offering opportunities for professional and personal development	
Society	Contributing positively through a commitment to global citizenship	

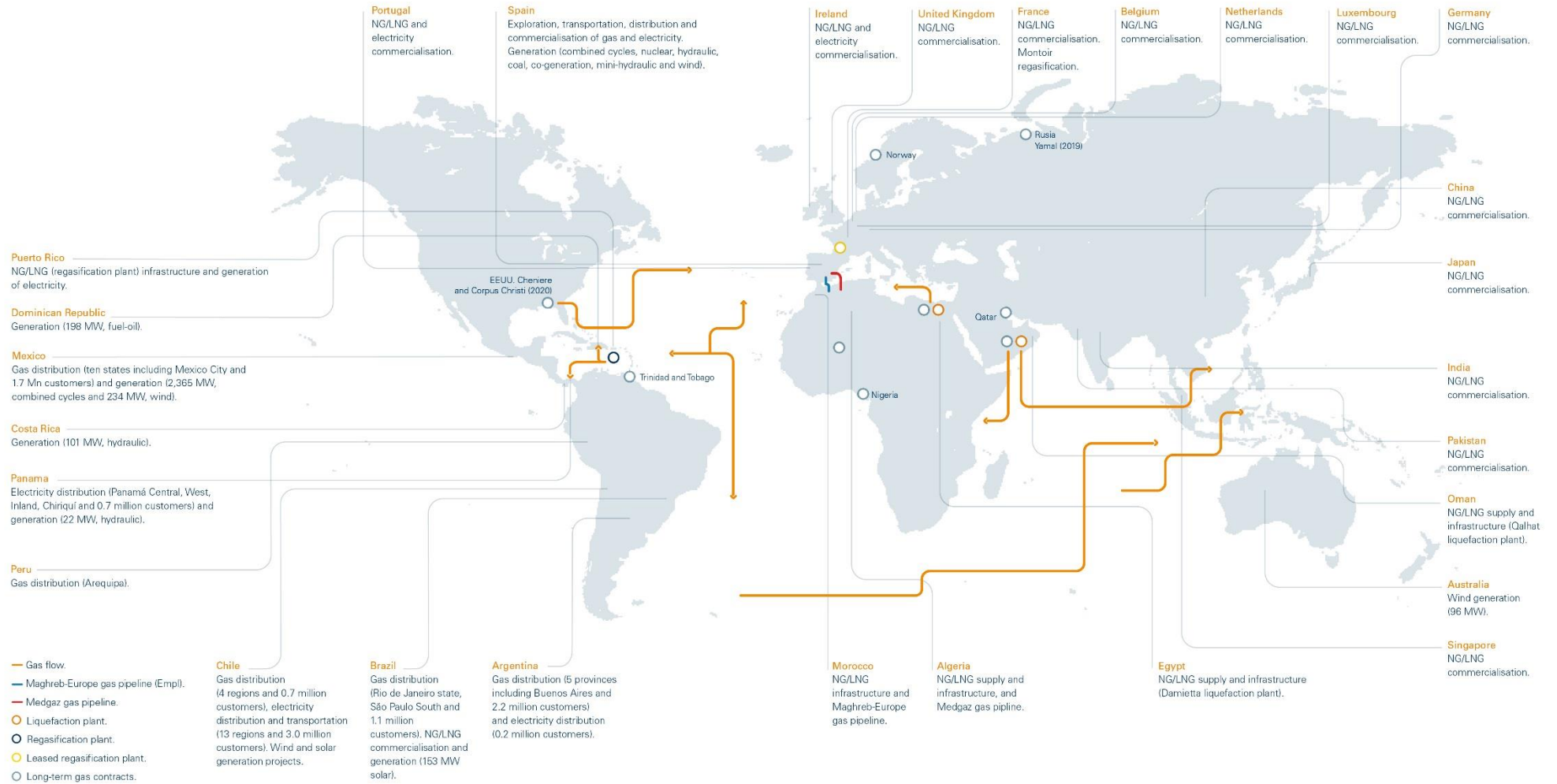
Naturgy's business model is implemented through a number of companies in Spain, elsewhere in Europe, and in Latin America and Africa, and is underpinned by the following main businesses:

Gas & Power	32% EBITDA: Spain, Europe and Latin America
Infrastructure EMEA	42% EBITDA: Spain and Africa
Infrastructure LatAm South	21% EBITDA: Latin America
Infrastructure LatAm North	8% EBITDA: Latin America

Note: -3% other activities

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring a regular supply of gas and electricity, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Worldwide presence



Business lines

Leadership in the gas business

	Networks	Gas		
	Gas distribution	Infrastructure	Procurement	Supply
	11.1 million distribution connections 133,917 km of network	Eight long term LNG carriers Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz	~ a supply portfolio totalling 30 bcm	339 TWh of gas supplied
Our positioning	<p>Spain Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.</p> <p>Latin America Latin America's top distributor, catering for more than 5.7 million customers. Presence in Argentina, Brazil, Chile, Mexico and Peru and in five of the ten largest Latin American cities.</p>	<ul style="list-style-type: none"> - Eight LNG carriers (1.3 Mm³) - Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline¹. - Stake in the Ecoeléctrica regasification plant and two liquefaction plants (Damieta and Qalhat). - 0.5 bcm of company-owned storage capacity and 0.9 bcm of leased capacity. 	<p>Business model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins.</p> <p>26% market share in Spain.</p> <p>Competitive supply to combined cycle plants (CCGT).</p>
Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	<p>Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.</p> <p>Storage capacity enables it to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.</p>	A diversified, flexible portfolio of procurement contracts, enabling it to address value-added markets.	<p>Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally.</p> <p>Its positioning in international markets is aimed at extracting additional margins through appropriate supply business.</p> <p>Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.</p>

¹ An agreement for the purchase of an additional 34.05% subject to certain conditions was reached on 15 October 2019.

A key player in the electricity business

	Networks	Electricity	
	Electricity Distribution	Generation	Supply
	7.7 million supply connections 218,831 km of network	16.9 GW of power generation capacity	25.0 TWh supplied
Our positioning	<p>Spain The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers.</p> <p>Latin America Presence in Argentina, Chile and Panama (3.9 million customers).</p>	<p>Spain Capacity of 13.7 GW, with a significant presence in five technologies: 7.4 GW CCGT, 2 GW hydroelectric, 1.7 GW coal, 2 GW renewable and 0.6 GW nuclear. Naturgy has a market share of 17.4% in non-renewable generation and 2.1% in renewable generation.</p> <p>International Capacity of 3.2 GW: 2.4 GW CCGT (Mexico), 0.2 GW oil-fired (Dominican Republic), 0.1 GW hydroelectric (Costa Rica and Panama) and 0.5 GW renewables (Mexico, Australia and Brazil).</p>	<p>Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain.</p> <p>One of the main traders in the Spanish market.</p> <p>A dual fuel supply and a broad range of value-added services.</p>
Our strength	<p>Naturgy is a leader in the markets where it operates.</p> <p>Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business.</p>	<p>The company has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.</p> <p>Naturgy's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation.</p>	<p>Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.</p>

6.1.2. Value creation and sustainable management

The long-term commitment to value creation and sustainable management is specified in the Corporate Responsibility Policy, which provides the common framework for action that guides the company's socially responsible conduct; it was approved and updated by the Board of Directors in January 2019, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.

This policy undertakes eight commitments to the company's stakeholders:

1. Commitment to results
2. Service excellence
3. Responsible environmental management
4. Interest in people
5. Health and safety
6. Responsible supply chain
7. Social commitment
8. Integrity and transparency

These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

Naturgy has all the essential kinds of capital with which to develop its business model, which is based on the responsible and sustainable management of all the resources it uses.

Our capitals	Financial <ul style="list-style-type: none"> ➤ Sustainable cash generation. Free cash flow= 1,958 M€. ➤ Strict financial discipline. Leverage = 52.2% 	Human <ul style="list-style-type: none"> ➤ Professional development and talent management. ➤ Diversity and equal opportunities. ➤ Extending principles to supplier chain. 	Manufactured <ul style="list-style-type: none"> ➤ Investment and maintenance in gas and electricity distribution networks. ➤ Sustainable innovation. ➤ Operation development of electricity production capacity. 	Environmental <ul style="list-style-type: none"> ➤ Environmentally-friendly products and services. ➤ Energy efficiency. ➤ Undertaking to reduce emissions. 	Social <ul style="list-style-type: none"> ➤ Relations and dialogue with stakeholders. ➤ Guarantee of supply
--------------	--	---	--	--	--

External environment

Economic environment
Regulation
Environmental policies.
Technological developments and new business models.



For further information on the strategic planning cycle, please see the "Forecast group performance" chapter, page 17.



Corporate Governance

Our commitments

- Commitment to results.
- Service excellence.
- Responsible management of the environment.
- Interest in people.
- Health and safety.
- Responsible supply chain.
- Commitment to society.
- Integrity and transparency.

Internal environment

Our results	<ul style="list-style-type: none"> ➤ Dividends policy. Pay-out: 1,319 M€ ➤ Meeting financial targets. Ordinary Ebitda: 4,668 M€ Ordinary net profit: 1,432 M€ 	<ul style="list-style-type: none"> ➤ Corporate University and training plans % Staff trained: 85.8 ➤ Retaining talent. Voluntary rotation : 2.7 ➤ Health and safety. Accident frequency index : 1.2 	<ul style="list-style-type: none"> ➤ Gas distribution: 465.844 GWh ➤ Electricity distribution: 53.519 GWh ➤ Gas supply: 339.252 GWh ➤ Net production: 44.704 GWh 	<ul style="list-style-type: none"> ➤ Direct GHG emissions : 15.2 MtCO₂ eq. ➤ CO₂ emissions / generation: 301 tCO₂/GWh 	<ul style="list-style-type: none"> ➤ Economic value distributed : 21,533 M€ ➤ Social investment: 8 M€ 	
	Shareholders	Employees	Customers	Customers Society	Society	
	Our stakeholders					

In 2019, Naturgy developed a 2019-2022 Sustainability Master Plan to accompany the company's transformation process and which is aligned with the Business Plan 2018-2022, in order to facilitate compliance with the strategy, seize opportunities in terms of sustainability and develop actions, and the objectives for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The 2019-2022 Sustainability Master Plan was based on a materiality analysis that included an internal analysis which considered the Business Plan, the risk map, the annual reports, the corporate responsibility policy, the code of ethics and other internal policies, as well as internal documentation on ESG performance. There was also an external analysis that considered regulatory and industry trends and the requirements of analysts, investors, competitors and the mass media. The analysis identified 33 key issues for the company and its stakeholders.

The Plan focuses on, and is oriented towards, enhancing those facets of the industry transformation where the company is lagging. To this end, four drivers were established that encompass 30 actions: Innovation for the customer, Commitment and talent. The opportunity offered by environmental challenges and renewable energy, and Integrity and transparency.

6.2. Commitment to results

What does this mean for Naturgy? Risks and management approach

In a challenging environment, Naturgy's goal is to maintain a sound financial and business profile. Naturgy's business model pursues a balance between regulated or contracted activities and unregulated ones while applying a strict finance policy.

Shareholders and investors are viewed as being among Naturgy's primary stakeholders. Therefore, properly managing risks and developing a solid business model that guarantees sustainability and long-term value creation are the key business goals.

Our commitment

- To pursue sustained returns that are commensurate with the risks while ensuring that decisions are based on approved risk levels and thresholds.
- To promote efficient resource allocation and management within the framework of continuous process improvement.
- To continue incorporating sustainability features into the relationship with investors.

How do we measure our performance?

EBITDA
Net profit
Investments
Indebtedness
Cash flow after non-controlling interests

Sustainability indices, green bonds and sustainable funding

Presence in socially responsible investing indices and ratings

The company occupies significant positions in the leading sustainability indices on the strength of its environmental, social and governance (ESG) performance metrics. Naturgy has been part of the Dow Jones Sustainability Index uninterruptedly for the last 15 years, and in 2019 it ranked first in the world in the Gas Utilities sector for the third consecutive year. The company has also been a member of FTSE4Good since the index was created in 2001, and ranks as world leader in the Multiutilities sector for the second consecutive year. During 2019, Naturgy was evaluated by rating agencies such as MSCI, from which it again obtained the maximum rating (AAA), and Sustainalytics, which continued to rate it among the top 5 of the 193 utilities it evaluates. The company also maintained the score obtained from Vigeo Eiris in 2018 (the evaluation is performed every two years), and is a member of the three Euronext Vigeo indices: World 120, Europe 120

and Eurozone 120. Naturgy is also a member of the MSCI Global Climate Index and MSCI ESG Leaders Index.

In 2019, Naturgy was recognised as a world leader for its action against climate change through inclusion in CDP's Climate Change 2018 A List. The company obtained the highest possible score in this climate change index in recognition of its action to reduce emissions, mitigate climate risks and develop a low carbon economy.

Green bonds and sustainable funding

In 2017, Naturgy developed a reference framework for the issuance of green bonds to fund renewable energies. Under this framework, on 15 November 2017, Naturgy issued a green bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. As of 31 December 2019, all the funds from the issue had been invested in the planned green projects.

In addition, in order to cover its funding needs and in line with its progress in sustainability, in 2017 Naturgy arranged a sustainable loan with ING Bank NV Sucursal in Spain for a total amount of Euros 330 million for 4 years, with the possibility of a one-year extension, whose spread is indexed to the company's sustainability performance as assessed by independent rating agency Sustainalytics, which issues a report and a rating in this connection.

As a result of a 7.6% improvement in the rating, the spread on that funding was cut by 5% in 2018 and that reduction was maintained in 2019 as the index remained at similar levels.

6.3. Service excellence

What does it mean for Naturgy? Risks and management approach

The customer is the center of operations at Naturgy. Through active dialogue, the company will provide speedy and efficient service which, as well as complying with the legal and profitability requirements, meets the customer's needs.

If the company fails to provide quality products and services, has a customer service that can be improved, and lacks communicative fluidity with the customer, it runs the risk of the customer requesting to finalise the contract or submitting complaints.

The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

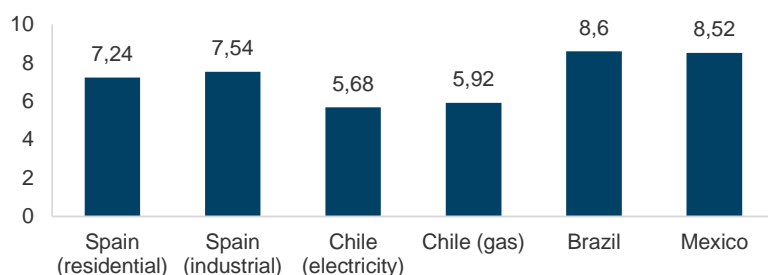
Loss of service quality, as a result of network maintenance, can lead to increased supply cuts, efficiency losses, resulting in financial penalties by the regulator and increased complaints and claims by consumers, while at the same time it can worsen the company's image and reputation in society.

What is our commitment?

- Working towards ongoing improvement of safety, reliability and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.
- Fostering active and two-way communication that allows us to understand the expectations and opinions of customers and to adapt the responses of Naturgy to their needs.
- Facilitating relationships with customers through simple and efficient operations.
- Providing innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.
- Furnishing the customer with a differential value proposition through products and services that adapt to each segment and to their needs.
- Applying technological innovation and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

How do we measure our performance?

2019 Overall satisfaction with service quality



NB: Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale. Argentina and Panama have not measured satisfaction of the global service quality during 2019; this measurement will be carried out in 2020.

What are our main milestones in 2019?

- Digitalisation of the bill and greater self-management by the customer on the website.
- Simplification of the Naturgy Customers digital universe.
- Development of a new in-store customer service model.
- Generation of new products called SuperPacks (fixed monthly price according to consumption and inclusion of Value Added Services) and reduction of the commercial portfolio with a view to simplifying the customer's digital journey.
- Website simplification of portfolio (two tariffs) and subsequent simplification of online contracting, avoiding unnecessary clicks.
- Update of the cybersecurity regulatory body.
- Update of the procedural, technical and operational protection measures established by Naturgy in its Model of Protection of the strategic assets.
- New in-store customer service model.

What are our goals for 2020?

- Develop new solutions for sustainable mobility and recharging points.
- Implementation and monitoring of the Global Customer Experience Policy in business.
- Develop new channels of communication with the client in a more personalised way using Internet of Things (IoT), Artificial Intelligence (AI) and machine learning technologies.
- Designing energy management solutions for the generation, distribution and storage of energy.
- Develop remote operation control models at plants.

Analysis of the 2019 results

The customer as the focal point

In 2019, Naturgy consolidates the new stage started in 2018, with a renewed brand that reflects what we are: flexible, agile, with excellent service, innovative, and more committed to the environment.

Placing the customer at the centre of the activity is an indispensable necessity to achieve the commitment that allows the establishment of long term relationships of trust. To do this, we listen to the customer to evolve through their eyes, their needs and their experience in every interaction with us. Their voice contributes to the development of our value proposition and service excellence.

Customer Experience programme (CeX)

The Customer Experience programme, based on cultural transformation, was born in 2015 at Naturgy level with the purpose of making the company a benchmark at international level in customer satisfaction in the energy sector, measured in terms of recommendation.

With Customer Experience the company introduces a new methodology through which the customer is at the centre the decision-making process, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience within the company.

The evolution of the Customer Experience programme has led Naturgy to place the customer at the centre of its industrial model, to satisfy their expectations and to anticipate their needs. In accordance with the Corporate Responsibility Policy and the commitment to service excellence, the CeX vision is set out in the following CeX Principles for Naturgy:

- “Customers are at the center of everything we do.”
- “We treat our customers the way we would like to be treated.”
- “We like to innovate to make everyday life easier for our customers.”

Consequently, in April 2019 the Global Customer Experience Policy was formalised, defining a framework for action, which must be complied with, on five lines of work considered necessary to guarantee the centrality of the customer:

1. Customer measurement
2. Objectives and annual action plan
3. Clear communication
4. Claims
5. Channel partners

Quality and reliability of the service

Maintenance of the gas and electricity facilities is an essential aspect within Naturgy’s mission to achieve a level of quality and reliability of the service that satisfies customers and enables us to comply with the regulatory requirements of the countries where we operate and with the most demanding standards of the industry. The aim of maintenance is to improve the safety and reliability of gas and electricity networks, and to maintain a high level of service quality.

Naturgy employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures. The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

A set of inspection and assessment actions are carried out, which help to define the corresponding preventive and mitigation measures to ensure a safe and ongoing supply, maximising the useful life of assets, and which are included in the Maintenance Plan for each type of facility.

The preventive and corrective maintenance procedures are frequently subject to reviews by the Technical Quality, Safety, and Internal Auditing, Compliance and Control divisions.

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, *inter alia*, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometers of the grid and facilities inspected, and the number of incidents per kilometer of grid.

To ensure that supply meets demand, Naturgy regularly reviews the operating conditions of its networks, to make sure these are correctly sized or, if appropriate, to determine the potential needs of repowering or enlarging these. Furthermore, in electricity distribution, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the development of smart grids, the application of drones to the maintenance of facilities and the introduction of predictive maintenance techniques for the main grid equipment.

Customer’s satisfaction and experience

Naturgy listens to its customers’ opinions and incorporates them into the decision-making in order to develop innovative products and services that meet their needs and expectations.

The company has a model to measure customers' experience, through which it constantly monitors the satisfaction of its customers and the level of recommendation.

The model is based on three levers:

- Measurement: Naturgy collects the opinion of customers through surveys that are classified into two complementary blocks: general surveys on positioning, and interaction or point-of-contact surveys with the company.
- Analysis: the results are added to the daily management reports, which allows us to include the customer's voice in decision-making.
- Close the loop: process that enables immediate corrective action through the management of alerts that activate whenever the recommendation thresholds established required to maintain the level of quality that the company imposes with its customer relations are not reached.

Products and services adapted to customers' requirements and priorities

Naturgy's commercial offer is targeted at homes, businesses and major customers. The products offered are not restricted solely to the supply of gas and electricity, but encompass other aspects:

Products and services adapted to customers' needs			
Customers type	Homes	Businesses	Major customers
Products and services	Natural gas and electricity		Natural gas, electricity and LNG
	Energy services		
	Equipment		Services with value-added
	Savings and energy efficiency		Efficiency and sustainability
		Energy solutions	
		Customised management and advisory services	

The commercial strategy of Naturgy focuses on customer satisfaction, meeting their expectations with value-added propositions, innovating and incorporating digitalisation, whilst seeking to simplify the portfolio of products and services to facilitate a simpler and more complete experience to customers.

During 2019, all the products in the portfolio have been improved and adapted to the demands of customers, especially the services of self-consumption, equipment and electric mobility.

Customer Service

The Customer Service activity includes all the processes and sub-processes linked to customer service activities through all the channels provided by the Company, as well as invoicing and collection. Naturgy has introduced an innovative Customer Service Model that is adapted to customers' characteristics and needs, offering accessible solutions that allow for greater comfort and flexibility to its customers' requests. Technological innovation reduces language or disability barriers. With regard to transparency in communication of claims or complaints submitted, the model implemented in commercialisation and distribution complies with the obligations set out in circular 2 of 2016 issued by the National Securities Market Commission (CNMC), reporting every quarter with regard to the details on the situation of claims processed in accordance with the formats and deadlines established by the regulator. This model is included in the quality management system certified in accordance with ISO 9001 by AENOR.

The customer service channels that Naturgy makes available to its customers offer personalised and close attention that aims to exceed customer expectations. In the case of commercialisation, customer service is differentiated according to the value of the customer.

In 2019, Naturgy has worked in two areas, the personalisation of customer service, listening to customers, analysing their behaviour, to anticipate their demands, and the digitalisation of channels providing a fast and flexible resolution with management autonomy and simplicity, being environmentally sustainable.

Customer service model

Our model comprises three focal points:

- Operational and training model: the aim is to anticipate customers' needs through predictive and data analysis models.
- Technological model: committed to a technological revolution that encourages greater self-management by customers.
- Procurement and financial model: building a partnership model with suppliers and an alignment of the win-to-win objectives.

Provision of customer service at Naturgy:

- Digital Channel
- Telephone Channel
- Guarantee Office
- Face-to-face Channel - Stores
- Face-to-face Channel - Personal Manager

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers. During 2019, the company managed a total volume of 1,642,935 complaints, and claims (it does not include the data from Panama, as it is not available) representing 3 % of total customer contacts. The average global response time was 8.21 days.

With regard to commercialisation, complaints are periodically analysed by the Indicators Monitoring Committee and, in the event of any non-compliance, the necessary corrective actions are established for their correct resolution. Most claims are related to billing, contracting and collection.

In the area of gas and electricity distribution, any claim or complaint received from customers via the different channels available, whether through their gas or electricity marketer in issues for which the distributor is responsible (meter reading, supply quality, new registrations, etc.), directly with the electricity or gas distributor of Naturgy through the customer service channels of the distributors, via the website contacts, by postal mail or through any competent organisation, is received and processed centrally in our integrated claims management system at the shared services department within the Third Party Access to the Network Unit (TPA) of the distribution companies.

The organisation handles not only customers of the electricity or gas system in its operational area, but also any individual or legal entity that may have a claim or complaint through the action or non-action of our distribution assets (works in progress, technical elements on public thoroughfares, etc.) is dealt with as if they were a customer.

Privacy and security of data

Naturgy, as part of its commitment to privacy and security of employee and customer data, has updated the cybersecurity regulatory body to adapt it to the new structure of the organisation. This update is being carried out using a series of international standards and best practices as a control framework, such as ISO 27001, NIST SP 500-53 or ISA 62441. The documents of the new regulatory body are published on the corporate regulatory site and are accessible to all Naturgy employees. Once the documents have been approved in their final version, they will be adapted for each of the geographical areas in which the Naturgy operates.

Work is underway to include cybersecurity from the design in projects through the Security in Projects initiative, whose medium- and long-term objective is to cover all projects and initiatives that arise within Naturgy.

In relation to personal data protection, work continues in line with the requirements of the General Data Protection Regulation (GDPR), using the results of the Data Protection Impact Assessments (DPIA) to determine the technical measures that need to be applied to the systems (both in production and pre-production environments), establishing a benchmark of different tools to select the most appropriate one.

6.4. Responsible environmental management

What does it mean for Naturgy? Risks and management approach

Naturgy is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand. We go beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and we work with and encourage our stakeholders to use energy responsibly both at our own facilities and at those of our customers.

Inadequate management of climate change and its associated risks can lead to substantial losses for the company, caused by the increase in exposure to natural disasters, the decarbonisation trend of the sector and the loss of affinity on the part of stakeholders. Moreover, improper environmental management can cause environmental impacts and the deterioration of natural conditions and biodiversity in the areas where the company operates. This, in addition to the direct impact on the environment, can cause the company reputational harm, and the risk is greater if the company has infrastructures and/or carries out operations in protected areas.

What is our commitment?

- Contribute to sustainable development through eco-efficiency, rational use of natural and energy resources, minimisation of environmental impact, promotion of innovation and use of the best available technologies and processes.
- Contribute to the mitigation of and adaptation to climate change through low-carbon and renewable energies, promotion of savings and energy efficiency, application of new technologies.
- Integrate environmental criteria in business processes, new projects, activities, products and services, as well as in the selection and evaluation of suppliers.
- Minimise the adverse effects on ecosystems and promote the conservation of biodiversity.
- Promote the efficient and responsible use of energy and natural resources, establishing activities to improve their management in the framework of the circular economy.
- Guarantee the prevention of pollution through continuous improvement and using the best techniques available as well as analysing, controlling and minimising environmental risks.

The previous commitments of the Corporate Responsibility Policy are developed in the Global Environmental Policy approved in the first half of 2019 and which applies to all countries and businesses, where it is established that, from its potential to contribute to environmental protection, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a model of a circular, low-carbon and digital economy. To this end, four strategic environmental axes are established:

1. Governance and environmental management.
2. Climate change and energy transition.
3. Circular economy and eco-efficiency.
4. Natural capital and biodiversity.

Naturgy's basic principles of action in these axes are explained later in the corresponding sections.

As a complement to the Global Environmental Policy, in the second half of 2019 the Environmental Plan was approved, which defines the action lines to be developed within the framework of the Strategic Plan to 2022; the monitoring indicators and objectives are summarised in the table below:

Action	Indicator	Units	Objective
Strengthening governance in environment and climate change	Percentage of industrial Ebitda certified in ISO 14001	%	Have a percentage of industrial Ebitda certified under ISO 14001 of at least 90% by 2022
Reduction of greenhouse gas emissions	Absolute GHG emissions scope 1 and scope 2	million tCO ₂ e	Reduce emissions by 21% in 2022 compared to 2017
	CO ₂ intensity in power generation	tCO ₂ e/GWh	Reduce specific CO ₂ emissions from power generation by 22% in 2022 compared to 2017.
	Percentage of the generation mix from renewable sources measured in installed power over the total of Naturgy.	%	Have, by 2022, a percentage of renewable power in electricity generation higher than 34%.
Renewable gas and boosting the circular economy	Total water consumption	hm ³	Reduce water consumption by 20% in 2022 compared to 2017.
	Total waste production (hazardous + non-hazardous).	kt	Reduce total waste production (hazardous + non-hazardous) by 70% in 2022 compared to 2017.
	Percentage of total waste recycled and recovered (hazardous + non-hazardous).	%	Double the percentage of waste recycled and recovered by 2022 compared to 2017.
Protection of biodiversity and development of natural capital.	Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling).	Nº	Conduct at least 300 biodiversity initiatives per year.

It is important to note that the absolute emissions and GHG intensity targets are aligned with the global objective of keeping the temperature rise below 1.5°C.

In the following section, most of these indicators are monitored and the rest are analysed in the Corporate Responsibility Report, where annual fulfilment of the objectives is assessed.

How do we measure our performance?

	Unidad	2019	2018
Direct greenhouse gas emissions (GHG)	MtCO ₂ eq	15.4	18.3
Emission factor for electricity generation	tCO ₂ /GWh	301	342
Installed capacity free of emissions ¹	%	30.1	27.5
Net production free of emissions ¹	%	27.0	24.9
Activity with environmental certification ²	%	88.7	88.7
Water consumption	hm ³	20.0	26.5
Consumption of raw materials	Kt	5,503	6,718
Natural gas	Kt	4,897	4,736
Coal	Kt	297	1,630
Petroleum derivatives	Kt	309	352
Uranium	Kt	0.01	0.01
Direct energy consumption ³	GWh	58	61
Indirect energy consumption ⁵	GWh	632	641
Natural gas (final use of natural gas distributed/commercialized)	TWh	567	578
Electricity (for generated electricity supplied)	TWh	65	63
Resources targeted at the prevention of environmental risks ⁴	Million Euros	546	494

¹ Includes hydroelectric, wind, nuclear and solar generation.

² Percentage of Ebitda certified with regard to that which is certifiable. The Ebitda used to calculate this percentage corresponds to the end of November.

³ It includes consumption of renewable, non-renewable and electricity resources and separates the electricity and the heat sold.

⁴ All environmental expenditures and investments have been considered. Since 2018 the criterion has been changed and all investment in renewable energy are included.

⁵ In 2019, a new concept that had not been considered in previous years has been included, the indirect consumption of energy by generation of supplied electricity. To be able to compare it, the data has been calculated for the previous years.

Provisions and guarantees for environmental risks

The company makes financial provisions to cover the materialisation of potential environmental risks. In addition, Naturgy has guarantees to cover the occurrence these risks in the insurance policies it has taken out. Specifically, the insurance policies that the company has contracted and in which there is environmental coverage are:

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: Limit of Euros 520 million per loss event.
- Protection and compensation insurance: maximum limit of US dollar 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

What are our main milestones in 2019?

- Approval of the Global Environmental Policy.
- Approval of the Environmental Plan 2018-2022, with actions, monitoring indicators and global objectives to strengthen environmental and climate change governance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Recognition of Naturgy by CDP as a world leader for its action against climate change (A 2018 List), the only Spanish energy company awarded this recognition.
- Application for closure of all coal-fired power stations.
- Growth of renewable power with low or zero emission.
- Development of renewable gas projects.
- Promotion of sustainable mobility.
- Extension of the biodiversity actions and plans.
- Progress in the certification of new environmental management systems pursuant to the ISO 14001.
- Implementation in the gas distribution network in Spain of a new, more precise methodology for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

What are our goals for 2020?

- Growth of renewable energies, in line with the goal of the Strategic Plan 2018-2022 to contribute to the decarbonisation of the electricity generation mix.
- Closure of the coal-fired power stations in the first half of 2020 contributing to the mitigation of climate change and to the energy transition.
- Promote innovation and the development of renewable gas projects as an energy and storage vector that facilitates the transition to a circular and decarbonised energy model.
- Offer sustainable mobility solutions for cities and land and maritime transport that improve air quality.
- Protect biodiversity in operations, applying a preventive approach, implementing best practices and encouraging the creation of natural capital.

Analysis of the 2019 results

1. Governance and environmental management

Environmental governance and management is a strategic pillar for Naturgy, which expresses its commitment in the Corporate Responsibility Policy approved by the Board of Directors and developed in the Global Environmental Policy, which was approved in the first half of 2019. The policy includes the company's action principles, with an emphasis on promoting the sustainable development of society through the supply of competitive, safe energy and with the utmost respect for the environment.

The action principles in governance and environmental management are the follows:

- Ensure compliance with environmental legislation and more stringent voluntary requirements; anticipate, as far as possible, adaptation to new regulations.
- Prevent pollution and reduce environmental impacts along the value chain by encouraging the involvement of employees, collaborating companies and stakeholders.
- Integrate the environment into management of risks and opportunities, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
- Establish targets that drive continuous improvement in environmental performance.
- Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
- Promote transparency, in line with international reporting standards, to facilitate communication with our stakeholders.
- Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive dialogue with Public Administrations, NGOs, universities, customers and other stakeholders.

The most significant current and foreseeable effects of the company's activities on the environment are the following:

- Contribution to climate change.
- Pollution of air, water and land.
- Consumption of non-renewable raw materials.
- Biodiversity loss.

To minimise these effects, Naturgy employs a preventive approach throughout the entire value chain of its business:

- Certified and externally-audited environmental management system aimed at preventing pollution and reducing environmental impacts, involving employees, suppliers and other stakeholders. During the design phase of new facilities and during dismantling, the environmental conditions of the surrounding area are studied and the projects are adapted, including the necessary preventive, corrective and compensatory measures. During the operational phase, strict monitoring is performed to ensure compliance with legislation and to maintain impacts within the limits set.

- Integration of the environment in the management of risks and opportunities and in the decision-making processes, paying special attention to climate change and the energy transition.

To ensure consistency and uniformity in the company's key environmental management processes, there are global methodologies and tools that are used in different businesses and geographies, including the following:

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafety, for recording and management of the findings, nonconformities, observations and opportunities to improve environmental management.
- Enablon, for recording and centralized management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc. The system is also used to monitor environmental targets and action plans.
- Geographical information system of biodiversity, showing the protected natural areas, the Naturgy's facilities and the initiatives carried out to protect and improve natural capital.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of Naturgy activities.
- DAMAS, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and supervised to reduce environmental impact and for continuous improvement.
- Environmental audits, both external and internal, conducted within the scope of the integrated management system.
- Specific tool for climate change management tool.

Integrated Management System

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards. This system is audited externally every year.

In 2019 this audit was carried out by AENOR in all businesses and countries.

The processes certified through this system are:

- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Transportation of electricity.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving customer service, billing and collection and training.
- Building maintenance.

In addition, the energy services activity included in wholesale and retail commercialisation of natural gas and electricity is certified in the energy management system according to ISO 50001.

Environmental risk management

Naturgy identifies, records and analyses all the environmental risks and events that have occurred in order to define, apply and disseminate preventive measures to reduce potential damage to the environment. To do this, facilities with environmental risk are assessed using recognised standards as a reference. The first element for management are self-protection plans and their associated procedures, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations that can cause environmental damage. In addition, there are global and uniform procedures and systems in the

different businesses and geographies for reporting, classifying, monitoring and managing environmental events, including the tool Prosafety.

This methodology allows not only an adequate and uniform monitoring of environmental events, but also the identification, analysis, development, application and exchange of preventive measures and best practices in risk management at a global level.

For management of the climate change risk, Naturgy has a specific tool, developed in Ms Excel and @Risk, which allows us to estimate the Naturgy's exposure to risks at an aggregate level and broken down by business and geography. This tool analyses the impact of climate change on different businesses and technologies, over time periods (short, medium and long term) and geographies. This allows us to estimate the impact of different climate change scenarios (IPCC) through different indicators:

- Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- Environmental: emissions of CO₂.
- Business: market shares and penetration levels.
- Economic: impact forecasts on level of revenue, Ebitda, cash flow and present value of the business, as well as estimates of the value at risk for different confidence levels.

In addition, it means we can simulate new scenarios based on new products or services, the implementation of R&D&I actions, generating different scenarios to assess the impact beforehand in order to take the right decisions.

2. Climate change and energy transition

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less CO₂-intensive energy products and services to help mitigate climate change and the energy transition. . The principles actions in climate change and energy transition are the follows:

- Promote renewable energies, natural gas and energy savings and efficiency as key elements towards a low carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Within the Environmental Plan, Naturgy has a voluntary objective for the reduction of GHGs: to reduce scope 1 and 2 emissions by 21% in 2022 with respect to 2017 values. This target is aligned with science to avoid an increase in temperature above 1.5 °C.

The main strategic lines of action in terms of climate to reduce GHG emissions are:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Close down the coal-fired power stations.
- Promote natural gas as an alternative to the most emitting fossil fuels.
- Promoting energy efficiency at our customers.
- Promote sustainable mobility that reduces GHG emissions and also air pollution, helping to improve air quality.
- Exploring and developing technologies to reduce emissions.

For management of climate change, the following means are available:

- Climate change risk management tool.
- Climate change and energy transition objectives included in the Environmental Plan.
- Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the Naturgy's carbon footprint.
- Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indices on climate change, such as the CDP.

- Participation in the following initiatives related to climate action:
 - Carbon Pricing Leadership Coalition (CPLC).
 - Caring for Climate.
 - Statement on fiduciary duty and climate change disclosure.
 - Corporate commitment with the Science Based Targets climate policy initiative.

3. Circular economy and eco-efficiency

Naturgy promotes the circular economy through the efficient use of resources to reduce environmental impacts. The main action principles for the circular economy and eco-efficiency are as follows:

- Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
- Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and low-carbon economic model.

Within the framework of the integrated management system, Naturgy develops management and control procedures aimed at minimising the consumption of resources and the generation of waste. That is disposed of in landfills, through prevention, reuse, recycling and/or energy recovery.

As far as energy consumption is concerned, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both at its own facilities and at its customers, contribute to reducing the environmental impact of unconsumed energy.

Water is another of the natural resources used, with most of the water collected for the processes being returned to the environment. In order to manage this resource properly, a risk assessment was carried out on water management, where the use of water by the facilities and the characteristics of the environment in which they are located were analysed, categorizing them according to water stress.

Depending on its origin, the main source of supply is the sea, with fresh water accounting for a much smaller contribution. In global terms, most water consumption is due to the operation of the thermal power stations, in particular to the evaporation of water in the cooling towers. It is important to note that Naturgy, aware of the water stress or scarcity of water in the environments of some of its thermal power stations, introduced systems for the reuse of wastewater from cities or other industries in these facilities.

Regarding effluent discharges, at power stations we monitor and analyse not only the effluents, but also of the waters of the environment receiving the effluent discharges. The treatment equipment and systems worked as planned in 2019, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made.

According to the data in the 2018 Corporate Responsibility Report, the trend with regard to waste is positive, as both the production of waste and the amount of waste going to landfill or being incinerated without energy recovery is decreasing. Most of the waste produced in 2018 (441.4 kt), 52% of which was ash and cinders from coal-fired power stations, was non-hazardous. The rest (8.4 kt) was hazardous waste. For operational reasons, data on waste generated in 2019 is not currently available. However, it is expected that in 2019 the trend will continue and the total amount of waste produced will be reduced, mainly due to lower coal generation (82% compared to 2018), as this is the main source of waste. In any case, detailed waste information will be made public in the 2019 Corporate Responsibility Report

Moreover, numerous innovation initiatives are under development in the field of renewable gas, in order to promote this new energy vector. There are two sources of renewable gas. On the one hand, surplus renewable electricity at times of high production and reduced consumption, which are transformed into hydrogen through electrolysis of water. This process does not emit CO₂ and transforms water into hydrogen and oxygen molecules using electricity generated totally by CO₂-free sources. This hydrogen can be used as a direct fuel or converted into synthetic methane. The second source is organic waste from domestic waste or wastewater, farms, agriculture or food industries. This organic waste, which is subjected to a process of anaerobic digestion, is converted into a biogas, with a low concentration of methane, which is then subjected to a concentration process until it reaches the quality required for injection into the gas grids. Although the use of biogas is not new, the main innovation of the process is the second stage of "upgrading", which raises the concentration of methane to the required quality in the gas networks, allowing its injection,

transport and use at points far from those of production, commoditizing it for different uses, such as electricity generation, transport, industry and in the residential and commercial sectors.

The benefits of renewable gas include the reduction of greenhouse gas emissions, which can even be negative, depending on the source of the waste from which it is produced. Thus, the use of renewable gas would be a CO₂ sink, i.e. it would succeed in removing CO₂ from the atmosphere. This happens because organic waste is naturally decomposed by methane-generating bacteria. Since methane has about twenty-five times the global warming potential of CO₂, its use as a fuel reduces the climate impact by the same amount. In addition, the environmental management of such conflicting organic waste as livestock droppings, slurry, manure, chicken droppings, etc., sewage sludge or the organic fraction of domestic waste is improved, also avoiding the undesirable effects that these produce, such as water pollution, odours, etc. In the process, a by-product, the digestate, is also generated, which is an excellent fertilizer and can be introduced into the market, thus completing the logic of the circular economy. From the economic point of view, the advantages are also obvious, as it constitutes a new business model that supports rural development and the establishment of employment and population in agricultural and livestock environments, through the development of new projects and facilities. As far as security of supply is concerned, the impact is clearly positive, reducing the country's external energy dependence and, therefore, its energy bill.

With regard to light and noise pollution and food waste, following the materiality analysis conducted by the company, these issues have not emerged as matters of the utmost importance, nor as other relevant issues for the company, which is why no information is included in this regard.

4. Natural capital and biodiversity

Naturgy is committed to the preservation of natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species. The main action principles for the natural capital and biodiversity are as follows:

- Respect natural capital, biodiversity and cultural heritage in the environments where Naturgy operates.
- Move towards no net loss of biodiversity, with a preventive approach (hierarchy of impact mitigation), implementing best practices and promoting the creation of natural capital.

The key impacts on biodiversity that may arise from the company's operation in the area of the sites and in the areas adjacent to them, are the following:

- Temporary condition affecting the fauna present in the environment, as a consequence of the construction of transportation and distribution infrastructure of gas and electricity.
- Permanent condition affecting bird life and arboreal vegetation, as a result of the operation of transport networks and the distribution of electricity.
- Impact on the abiotic and biotic environment of the environments around the facilities, as a consequence of emissions arising from combustion.
- Condition affecting the populations of species present in the environment, as a consequence of changes in land use and the permanent presence of the facilities in the natural environment.
- Effect on the aquatic environment, as a result of effluent discharges.
- Relevant effect on biodiversity (positive and negative), as a consequence of the creation of reservoirs associated with hydraulic power stations.

The development of Naturgy's activities requires the occupation of land. When the facilities are being designed, environmental impact studies are conducted, in which the protected areas that have a high ecological value are analysed, adapting the project to avoid or minimise the impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced. Introducing additional voluntary measures contributes to the knowledge and mitigation of the impacts arising from the development of new projects and the operation of the facilities once they have been introduced. The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

In addition, in the areas surrounding the facilities, especially in those that are close to protected areas or of high value for biodiversity, studies are carried out to improve the knowledge of the natural spaces and to reduce impacts.

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity measures carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

6.5. Interest in people

What does it mean for Naturgy? Risks and management approach

For Naturgy it is essential to foster a quality working environment, based on respect, diversity and personal and professional development. Naturgy also has a Code of Ethics that establishes the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the group's relations and interactions with its stakeholders.

Persons that suffer any kind of discrimination or do not feel themselves to be fairly rewarded tend to reduce their pride of belonging and lower their productivity.

With regard to attracting and retaining talent, the new profiles of workers do not have an internalised sense of belonging to the company and are looking for a job with which they feel fulfilled, so it is no longer sufficient to offer a suitable salary and development plan, and instead companies must offer a series of social benefits to employees and have values for society with which workers can identify. Companies that do not adapt to this reality may not attract the right talent to their organisations.

The major transformation of the energy sector and digitalisation require new expertise and skills which, if they are not covered in a flexible way, would place the company at a disadvantage with its competitors, with the resulting consequences this could have on the business.

What is our commitment?

- To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, work history, etc.).
- To encourage the professional development of persons as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To promote the effective introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of persons.
- To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

How do we measure our performance?

Distribution of employees by age group, country, gender, and professional category

	2019											
	Nº employees	Age			Management team		Middle managers		Technicians		Operators	
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)
Argentina	1,175	23.8	38.0	38.2	3.7	0.9	12.4	4.2	14.9	6.8	42.1	15.0
Australia	10	33.3	55.6	11.1	--	--	11.1	--	22.2	--	55.6	11.1
Belgium	3	100.0	--	--	33.3	--	--	33.3	--	33.3	--	--
Brazil	456	21.5	63.5	14.9	4.8	3.7	8.4	5.9	21.3	16.3	27.5	12.1
Chile	2,471	21.0	48.9	30.1	2.9	0.8	12.9	3.1	31.8	10.6	25.2	12.7
Colombia	71	32.4	50.7	16.9	8.5	15.5	5.6	9.9	16.9	25.4	8.5	9.9
Costa Rica	20	15.8	63.2	21.1	--	--	5.3	--	10.5	--	78.9	5.3
Spain	6,017	9.2	61.8	29.0	10.9	4.6	15.2	4.9	20.5	16.2	17.5	10.3
France	53	54.7	45.3	--	13.2	3.8	9.4	5.7	24.5	35.8	1.9	5.7
Netherlands	7	50.0	50.0	--	--	--	16.7	16.7	33.3	16.7	16.7	--
Ireland	37	43.8	46.9	9.4	12.5	--	12.5	6.3	40.6	25.0	3.1	--
Israel	16	71.4	21.4	7.1	--	--	21.4	7.1	50.0	7.1	14.3	--
Morocco	93	8.6	36.6	54.8	4.3	1.1	40.9	2.2	11.8	2.2	26.9	10.8
Mexico	874	32.7	58.0	9.2	5.8	2.2	17.9	3.9	26.8	11.0	22.3	10.1
Panama	357	35.3	38.1	26.6	4.8	2.5	23.4	12.4	14.4	9.9	22.3	10.2
Peru	21	42.9	52.4	4.8	--	4.8	14.3	4.8	33.3	14.3	9.5	19.0
Portugal	17	29.4	70.6	--	--	5.9	--	--	23.5	52.9	--	17.6
Puerto Rico	4	25.0	25.0	50.0	50.0	--	--	--	--	--	--	50.0
Dominican Republic	75	14.7	65.3	20.0	--	2.7	25.3	9.3	2.7	8.0	49.3	2.7
Singapore	12	75.0	25.0	--	25.0	--	--	--	50.0	12.5	--	12.5
Uganda	58	66.7	26.3	7.0	1.8	--	35.1	3.5	5.3	--	45.6	8.8

The number of employees column contains the staff at year-end with centralised and non-centralised management by its percentage of participation; the rest of the information refers to the staff managed which are the staff of the companies integrated by the global integration method of consolidation.

The companies consolidated through the equity method and which do not provide a headcount breakdown would total 555 employees, distributed as follows: Spain 361, Egypt 87, Puerto Rico 29 and Kenya 78.

	2018											
	Nº employees	Age			Management team		Middle managers		Technicians		Operators	
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)
Germany	7	14.3	57.1	28.6	--	--	--	--	71.4	28.6	--	--
Argentina	767	21.3	37.4	41.3	3.7	0.8	13.7	3.5	15.1	4.8	45.0	13.4
Australia	8	50.0	37.5	12.5	--	--	--	--	25.0	--	62.5	12.5
Belgium	3	66.7	33.3	--	33.3	--	--	33.3	--	33.3	--	--
Brazil	478	25.7	61.5	12.8	5.2	2.9	12.8	7.1	15.5	11.5	29.3	15.7
Chile	3,046	27.2	49.1	23.7	2.2	0.8	12.6	3.2	26.5	11.0	33.7	10.0
Colombia	84	36.9	48.8	14.3	10.7	13.1	6.0	9.5	17.9	22.6	8.3	11.9
Costa Rica	20	20.0	65.0	15.0	5.0	--	5.0	--	10.0	--	75.0	5.0
Spain	6,532	11.1	59.9	29.0	11.0	4.4	15.2	4.6	19.9	15.0	19.2	10.6
France	66	57.6	40.9	1.5	10.6	3.0	6.1	7.6	28.8	31.8	3.0	9.1
Netherlands	7	28.6	71.4	--	14.3	--	14.3	--	28.6	28.6	14.3	--
Ireland	40	50.0	45.0	5.0	12.5	2.5	12.5	5.0	32.5	27.5	7.5	--
Israel	15	73.3	26.7	--	--	--	13.3	6.7	53.3	26.7	--	--
Morocco	93	7.5	43.0	49.5	3.2	1.1	39.8	2.2	11.8	2.2	29.0	10.8
Mexico	989	37.1	54.5	8.4	5.8	1.3	16.5	4.0	23.7	10.5	27.2	11.0
Panama	362	37.0	36.2	26.8	5.0	2.5	21.3	9.9	12.7	11.6	25.4	11.6
Peru	21	52.4	42.9	4.8	--	4.8	14.3	4.8	33.3	14.3	9.5	19.0
Portugal	18	38.9	61.1	--	--	11.1	--	--	16.7	44.4	5.6	22.2
Puerto Rico	5	20.0	20.0	60.0	40.0	--	40.0	--	--	--	--	20.0
Dominican Republic	84	19.0	66.7	14.3	1.2	2.4	23.8	9.5	3.6	7.1	50.0	2.4
Singapore	4	75.0	25.0	--	25.0	--	--	--	75.0	--	--	--
Uganda	51	66.7	29.4	3.9	2.0	--	39.2	5.9	--	2.0	43.1	7.8

Total number and distribution of employment contract types, annual average of indefinite, temporary and part-time contracts by age, gender and professional category¹

¹ The number of permanent and temporary contracts is calculated using the fixed/temporary classification obtained from the HR master file extracted from the HRM software tool on the last day of each month. The calculation of the average is done by taking all the personnel master files of each month and calculating the annual average.

In Naturgy there are no part-time contracts, all contracts are full-time.

Number of contracts by gender and type at 31 December				2019
	Men	Women	Total employees	
Indefinite full-time	7,751	3,701	11,452	
Indefinite part-time	--	--	--	
Total Indefinite	7,751	3,701	11,452	
Temporary full-time	122	80	202	
Temporary part-time	--	--	--	
Total temporary	122	80	202	
Total full-time	7,873	3,781	11,654	
Total part-time	--	--	--	

Annual average of contracts by gender and type				2019
	Men	Women	Total employees	
Indefinite full-time	8,050.2	3,666.7	11,716.8	
Indefinite part-time	--	--	--	
Total Indefinite	8,050.2	3,666.7	11,716.8	
Temporary full-time	134.9	92.9	227.8	
Temporary part-time	--	--	--	
Total temporary	134.9	92.9	227.8	
Total full-time	8,185.1	3,759.6	11,944.7	
Total part-time	--	--	--	

Number of contracts by age and type at 31 December					2019
	18-35 years	36-50 years	>50 years	Total employees	
Indefinite full-time	1,896	6,336	3,220	11,452	
Indefinite part-time	--	--	--	--	
Total Indefinite	1,896	6,336	3,220	11,452	
Temporary full-time	113	84	5	202	
Temporary part-time	--	--	--	--	
Total temporary	113	84	5	202	
Total full-time	2,009	6,420	3,225	11,654	
Total part-time	--	--	--	--	

Annual average of contracts by age and type					2019
	18-35 years	36-50 years	>50 years	Total employees	
Indefinite full-time	2,092.5	6,485.5	3,138.8	11,716.8	
Indefinite part-time	--	--	--	--	
Total Indefinite	2,092.5	6,485.5	3,138.8	11,716.8	
Temporary full-time	139.9	82.4	5.5	227.8	
Temporary part-time	--	--	--	--	
Total temporary	139.9	82.4	5.5	227.8	
Total full-time	2,232.5	6,567.9	3,144.3	11,944.7	
Total part-time	--	--	--	--	

Number of contracts by professional category and type at 31 December					2019
	Executive	Technicians	Administrative/Operators	Total employees	
Indefinite full-time	1.223	6.340	3.889	11.452	
Indefinite part-time	--	--	--	--	
Total Indefinite	1.223	6.340	3.889	11.452	
Temporary full-time	3	124	75	202	
Temporary part-time	--	--	--	--	
Total temporary	3	124	75	202	
Total full-time	1.226	6.464	3.964	11.654	
Total part-time	--	--	--	--	

Annual average of contracts by professional category and type					2019
	Executive	Technicians	Administrative/Operators	Total employees	
Indefinite full-time	1,243.8	6,366.8	4,106.2	11,716.8	
Indefinite part-time	--	--	--	--	
Total Indefinite	1,243.8	6,366.8	4,106.2	11,716.8	
Temporary full-time	2.2	129.4	96.2	227.8	
Temporary part-time	--	--	--	--	
Total temporary	2.2	129.4	96.2	227.8	
Total full-time	1,246.1	6,496.2	4,202.4	11,944.7	
Total part-time	--	--	--	--	

The information published in 2018 does not allow for comparisons with the data for 2019, when the calculation of this indicator was further developed. However, the data for 2018 are provided:

% plantilla por tipo de contrato	2018	Annual average of 2018		Annual average of 2018				
		temporary contract		Men	Women	Men	Women	
Permanent contracts	Men	67.7	Executive	2	--	18-35	137	92
	Women	30.1	Technicians	102	70	36-50	68	38
Temporary contracts	Men	1.2	Administrative	--	--	>50	9	2
	Women	1	Operators	110	62			
Total	100.0		Total	214	132	Total	214	132

Voluntary rotation index

		2019	2018
Rotation index	Rotation (%)	11.7	17.4
	Voluntary rotation (%)	2.7	2.5

Number of dismissals by age group, gender, and professional category

Number of dismissals by age group, gender, and professional category				2019		
	Professional category			Age		
	Executive	Technicians	Administrative/Operators	18-35	36-50	>50
Men	8	113	219	105	163	72
Women	2	20	27	21	21	7
Total	10	133	246	126	184	79

Number of dismissals by age group, gender, and professional category				2018		
	Professional category			Age		
	Executive	Technicians	Administrative/Operators	18-35	36-50	>50
Men	9	111	70	60	72	58
Women	2	32	55	23	44	22
Total	11	143	125	83	116	80

Salary gap

The salary gap measure, according to which a percentage greater than zero represents the percentage that women earn less than men, is detailed below.

Salary gap (fixed)					2019
	Executive	Technicians	Administrative	Operators	
Argentina	22.9%	6.3%	8.9%	15.3%	
Brazil	3.8%	14.7%	42.9%	23.8%	
Chile	46.2%	8.1%	18.8%	34.4%	
Colombia	(4.8%)	5.5%	(3.8%)	--	
Spain	11.5%	6.3%	7.9%	23.1%	
France	34.6%	13.2%	(0.6%)	--	
Ireland	--	18.7%	--	--	
Morocco	3.2%	(5.4%)	1.5%	--	
Mexico	(13.8%)	1.3%	(32.0%)	9.3%	
Panama	(18.1%)	(12.7%)	0.5%	--	
Portugal	--	16.8%	--	--	
Dominican Republic	--	(3.9%)	23.4%	--	

Salary Gap (fixed)					2018
	Executive	Technicians	Administrative	Operators	
Argentina	21.41%	12.76%	11.58%	17.78%	
Brazil	22.71%	14.70%	--	24.05%	
Chile	38.14%	6.07%	17.95%	19.47%	
Colombia	10.24%	28.01%	(2.42%)	--	
Spain	13.09%	4.57%	6.23%	13.23%	
France	23.68%	18.06%	8.21%	--	
Ireland	38.89%	19.64%	--	--	
Morocco	4.47%	6.74%	7.14%	--	
Mexico	4.50%	(2.11%)	(26.63%)	(30.11%)	
Panama	(20.45%)	(16.11%)	15.86%	--	
Portugal	--	(10.03%)	22.69%	--	
Dominican Republic	21.41%	12.76%	11.58%	17.78%	

Salary Gap (fixed and variable)	2019			
	Executive	Technicians	Administrative	Operators
Argentina	28.3%	0.9%	8.4%	14.0%
Brazil	1.9%	15.5%	42.5%	23.6%
Chile	49.6%	7.4%	25.5%	34.4%
Colombia	29.7%	5.9%	(1.6%)	--
Spain	13.1%	6.1%	7.9%	23.1%
France	37.5%	15.2%	11.8%	--
Ireland	--	25.1%	--	--
Morocco	2.4%	1.2%	(2.2%)	--
Mexico	1.4%	0.9%	(30.7%)	2.9%
Panama	(18.1%)	(12.7%)	0.5%	--
Portugal	--	18.5%	--	--
Dominican Republic	--	1.2%	24.4%	--

Average remuneration by age group, gender, and professional category¹.

¹ In the case of average remuneration, the category Administrative has been considered, since it corresponds to the professional group "management/support" of the salary tables included in the collective agreement. In addition, in the tables in the previous section, which refer to the types of contract and number of employees, among other data, these Administrative staff are included in the Operators and Technicians groups, as none of the work they perform is considered administrative.

Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

Fixed Remuneration	2019							
	Executive		Technicians		Administrative		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	66,367	51,175	22,190	20,786	16,260	14,816	17,634	14,932
Brazil	45,942	44,187	21,369	18,236	29,378	16,781	14,631	11,154
Chile	138,027	74,262	34,226	31,453	19,211	15,598	15,711	10,308
Colombia	76,374	80,023	13,092	12,368	6,632	6,882	-	-
Spain	88,872	78,672	49,835	46,700	39,094	36,020	37,981	29,207
France	108,274	70,856	51,926	45,066	31,815	32,020	-	-
Ireland	118,086	-	59,266	48,212	-	-	-	-
Morocco	82,528	79,917	28,072	29,591	11,169	11,000	12,610	-
Mexico	39,430	44,889	18,050	17,808	7,524	9,931	7,457	6,761
Panama	42,099	49,719	18,764	21,143	19,675	19,577	15,458	-
Portugal	-	80,882	39,344	32,719	-	24,768	-	-
Dominican Republic	-	72,209	23,692	24,628	12,670	9,703	12,560	-

Fixed Remuneration	2018							
	Executive		Technicians		Administrative		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	59,279	46,587	22,995	20,060	17,868	15,799	20,135	16,555
Brazil	51,148	39,534	21,571	18,399	-	18,494	14,887	11,306
Chile	156,804	96,992	46,327	43,515	28,184	23,125	17,951	14,456
Colombia	83,685	75,116	15,804	11,377	6,156	6,305	-	-
Spain	102,177	88,797	45,203	43,135	33,346	31,269	31,691	27,498
France	100,743	76,888	52,909	43,353	35,231	32,339	-	-
Ireland	99,000	60,500	56,000	45,000	-	-	-	-
Morocco	93,061	88,902	34,577	32,248	13,090	12,155	17,532	-
Mexico	33,186	31,693	14,442	14,747	6,828	8,646	6,567	8,544
Panama	38,576	46,463	17,256	20,036	18,896	15,899	14,128	-
Dominican Republic	-	73,110	23,216	25,545	12,210	9,439	11,946	-

Fixed and variable Remuneration								2019	
	Executive		Technicians		Administrative		Operators		
	Men	Women	Men	Women	Men	Women	Men	Women	
Argentina	85,380	61,258	23,382	23,161	16,508	15,119	17,709	15,221	
Brazil	52,054	51,074	24,187	20,435	31,043	17,862	15,663	11,965	
Chile	164,176	82,754	36,704	34,000	22,134	16,480	16,219	10,646	
Colombia	148,985	104,717	15,643	14,719	8,508	8,648	-	-	
Spain	114,090	99,173	51,887	48,705	39,094	36,020	37,982	29,207	
France	132,735	82,902	59,679	50,637	37,917	33,444	-	-	
Ireland	168,869	-	80,309	60,122	-	-	-	-	
Morocco	98,152	95,782	34,924	34,504	13,443	13,743	18,196	-	
Mexico	53,594	52,856	21,445	21,247	8,400	10,983	7,612	7,387	
Panama	42,081	49,698	18,757	21,135	19,668	19,570	15,451	-	
Portugal	-	97,882	51,556	42,023	-	27,493	-	-	
Dominican Republic	-	88,337	26,246	25,920	13,438	10,159	12,998	-	

Fixed and variable Remuneration				2019
	18-35 years	36-50 years	> 50 years	
Argentina	14,443	18,924	21,958	
Brazil	6,652	10,444	12,065	
Chile	20,698	31,131	30,695	
Colombia	9,661	34,222	110,120	
Spain	34,879	49,140	61,252	
France	42,475	62,876	63,319	
Ireland	35,191	68,708	75,868	
Morocco	15,259	35,529	39,935	
Mexico	15,638	18,944	18,434	
Panama	19,251	27,066	30,559	
Portugal	41,691	46,361	--	
Dominican Republic	11,604	19,690	22,190	

Fixed and variable Remuneration				2018
	18-35 years	36-50 years	> 50 years	
Spain	34,446	48,698	56,566	

Data on average pay by age group are only available for Spain for 2018.

Average remuneration of executives

The remuneration of the executives of Naturgy is detailed in an individual basis in Note 26 of the annual accounts.

The average remuneration of executives detailed by gender and tipology during 2019 and 2018 exercises are as follows:

Thousand euros	2019		2018	
	Men	Women	Men	Women
Executive ¹	1,100	-	1,056	-
Independent/Dominical	262	235	288	229

¹ It does not include remuneration for executive functions.

Employees with disabilities

	2019	2018
	Percentage	Percentage
Germany	--	--
Argentina	0.5	0.8
Australia	--	--
Belgium	--	--
Brazil	2.9	--
Chile	0.5	0.2
Colombia	--	--
Costa Rica	--	--
Spain	2.3	2.4
France	--	1.5
Netherlands	--	--
Ireland	--	--
Israel	--	--
Morocco	1.1	1.1
Mexico	0.6	--
Panama	1.4	1.7
Peru	--	--
Portugal	--	--
Puerto Rico	--	--
Dominican Republic	--	--
Singapore	--	--
Uganda	--	--

Percentage of employees covered by collective bargaining agreements

The II Naturgy Collective Bargaining Agreement applies to all active workers in all Naturgy companies in Spain, except for Exempt and Excluded Personnel.

The following are considered exempt personnel: Directors, Deputy Directors and Department Heads of the company's structure, whose employment relationship is regulated by the provisions of their individual employment contracts.

Those workers who are not exempt from the agreement and who occupy positions of special dedication are considered to be exempt personnel. Excluded personnel have their employment relationship regulated by means of an individual employment contract in which their desire to be excluded from the agreement is reflected.

	2019		2018	
	Not covered by collective bargaining agreements(%)	Covered by collective bargaining agreements(%)	Not covered by collective bargaining agreements(%)	Covered by collective bargaining agreements(%)
Germany	--	--	--	100.0
Argentina	28.6	71.4	19.3	80.7
Australia	--	100.0	--	100.0
Belgium	--	100.0	33.3	66.7
Brazil	27.0	73.0	25.5	74.5
Chile	5.0	95.0	4.6	95.4
Colombia	46.5	53.5	47.6	52.4
Costa Rica	--	100.0	--	100.0
Spain	32.8	67.2	32.0	68.0
France	71.7	28.3	72.7	27.3
Netherlands	--	100.0	--	100.0
Ireland	100.0	--	100.0	--
Israel	--	100.0	--	100.0
Morocco	35.5	64.5	34.4	65.6
Mexico	20.8	79.2	19.0	81.0
Panama	57.3	42.7	61.9	38.1
Peru	--	100.0	--	100.0
Portugal	--	100.0	--	100.0
Puerto Rico	75.0	25.0	--	100.0
Dominican Republic	4.0	96.0	3.6	96.4
Singapore	--	100.0	100.0	--
Uganda	--	100.0	--	100.0
Total	26.0	74.0	24.1	75.9

Training

	2019	2018
Training hours	276,365.6	645,311.0
% of trained staff	85.8	91.0

	2019	2019
	Training hours	% of trained staff
Management team	34,846.5	88.0
Middle managers	75,496.8	90.3
Technicians	81,600.2	85.8
Operators	84,422.1	82.5
Total	276,365.6	85.8

What are our main milestones in 2019?

- Application of the new People Model.
- DigitalTEAM. New ways of working project.
- IMAGINAT. New work spaces project.
- Launch of the Transformational Leadership Academy.
- In-house Communication Plan focused on: corporate priorities, the executive role in communication, and fostering participation.

What are our goals for 2020?

- Development of programmes for profile assessment, development and transformation of talent.
- Comprehensive diversity programme: Gender, training, capabilities and geography.
- Measuring employee commitment.
- Development of new ways of working: transversal, multidisciplinary and light structures.

Analysis of the 2019 results

People management model

In 2019 the transformation and creation of value remain as the company's strategic pillars, advancing in the adoption of the new People Model, conceived as a dynamic ecosystem, which synchronises with coherence processes and management elements to better connect its employees with the strategic targets of Naturgy, in which the empowerment and responsibility of its employees are key pieces.

The value proposition of this model revolves around three key pieces:

1. Talent, retaining such talent, loyalty, training and development.
2. The reward and work environment model that the company offers its employees.
3. Culture and internal communication as evolutionary processes that accompany the transformation.

Specifically, the 2019 management meant advancing the Job Assessment and Compensation Model for the entire company. Likewise, the connection of the Talent and Leadership Model with Naturgy's strategic vision is produced, through simplification of the skills map, updating of the map of succession of management positions and the 360° evaluation, among others. Each of these elements is managed together with the company's different businesses, allowing the monitoring and evolution of its professionals.

With the same transformational vision, a new Training Model was launched to guarantee the adequacy of the position/person, the acquisition of knowledge linked to current needs of the organisation and the development of skills and abilities related to Naturgy's leadership model and culture.

Measures to foster employment

Naturgy has a pool of young professionals with sound technical and management training, through the annual programmes of work experience and the agreements for Dual VT. A pool that enables us to respond to the

company's needs and to attract the best talent in those spheres of knowledge in which Naturgy is the leader. The company has the following programmes to promote the employability and incorporation of young talent:

- Professional practices programme: Naturgy has partnerships with the main universities and higher education centres in those countries where it operates, through which it selects young people for work experience each year.
- The Dual VT offers Naturgy the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment.
- Management staff: A further programme that the company has been running since 2012 and through which it incorporates external young professionals, ensuring the attraction of high potential professionals and high performance requirements, specifically designed to accelerate young talent.

Equality, diversity and non-discrimination

For Naturgy it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on gender diversity targets, on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

Naturgy's Corporate Equality Plan, approved together with the Trade Union Representative, published in the Official State Gazette (BOE) under Registration No. 90100073112013. It is based on 14 strengths to be maintained and 14 weaknesses to be corrected identified by outsourced experts, giving rise to 32 actions in issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and life/work balance, selection, prevention of harassment, measurement and monitoring.

Naturgy's commitment to equality has been recognised with the "Equality in the Workplace" seal (DIE) from the Ministry of the Presidency, Parliamentary Relations and Equality in November 2018, by virtue of the implementation of equal opportunity policies, through comprehensive, measurable and result-oriented equality plans. This certification is granted following a thorough process of verification of the activities related to equality, with the aim of confirming the level of excellence and mainstreaming in management.

The creation and activation of a specific protocol against harassment; the best practices protocol in the selection processes, or the communication guide for business professionals that need to intervene for some reason in the selection process, are just some of the measures introduced and which, together with the Integrated Diversity Plan, have propitiated major advances in diversity and equal opportunities.

The protocol against sexual harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire staff in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

The protocol offers a series of guarantees, inter alia the complete anonymity of the informant; the process will be completed as expeditiously as possible; the intervention of the workers' representatives may be requested and an impartial hearing guaranteed, along with fair treatment for all of the affected parties. No reprisals will be allowed and the identity of the informers will be protected.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- Informal procedure: through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- Formal procedure: through which the harassment situation is reported, following these steps:
 - Notification to the Ethics and Compliance Committee or reporting to their superior or to the people management department, who will decide whether to accept it for processing.
 - Investigation, gathering information and conducting interviews with the affected parties and witnesses, if there are any.
 - Possibility of introducing precautionary measures.

Once either procedure has been followed, a report will be drawn up on the conclusions and resolution of the procedure, which will include the corrective measures and the adoption of one of the following solutions: either the complaint will be closed or disciplinary proceedings will be initiated depending on the seriousness of the offence.

In 2019, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan which brings together specific initiatives, in all geographies and territories, for people management, classified into three areas: gender, disabilities and age.

The inclusion of people with different capabilities at Naturgy is promoted by Management itself through specific initiatives and programmes, the most relevant of which are:

- Family Plan: this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability.
- Capacitas Plan: this aims to promote the employment of people at risk of social exclusion on grounds of disability.
- Aflora Plan: this encourages those employees of Naturgy with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity.
- Bequal Plus certificate: Naturgy has been certified until 2020, duly substantiating the level of commitment to Corporate Social Responsibility and Disability.

The Naturgy Equality Plan sets out a best practices protocol to avoid discrimination in the selection processes, and which includes the following measures:

- Open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- In the publication of job offers:
 - No discriminatory terminology is used.
 - Put the feminine gender first followed by the masculine.
 - Gender separation will always be carried out with slashes.
 - Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind.
 - Only specify the need for a driving licence when the job requires this.
 - Do not use possession of own vehicle as a requirement.
 - Do not use the need to reside near the place of work as a requirement.
- In the selection process:
 - In the case of disabled candidates, make sure we have the accessibility required so that they can attend the interview with us.
 - Avoid prejudices and stereotypes associated to gender, appearance, disability, age, religion, religious beliefs of any kind.
 - Transmit the corporate image.
 - Avoid personal questions and, if necessary, justify them.
 - Avoid preferential treatment.
- In the finalisation of the process:
 - Explain the result of the process.
 - Explain the next steps if they have passed the process.
- On joining the company:
 - Inform them about the equal opportunity policies.
 - Transmit values.
 - Non-discriminatory social benefits.
- Career plans based on merits and capabilities.

In addition to these specific programmes, regular awareness-raising activities are held for employees and their families, such as the camp for employees' children with disabilities, and an inclusive calendar, among others.

Training and development

In-company training is a strategic lever for transformation, contributing to continuous learning, development and empowerment of professionals to make Naturgy's business vision a reality.

In this context, the Corporate University (CU) is a representative and backbone element of the training experience, guaranteeing the adequacy between the position and the person through the delivery of key knowledge, the connection with the latest trends, technologies and with the development of skills and abilities linked to Naturgy's leadership models and culture.

The CU training model is deployed through three academies which, in a supplementary and synergistic way, allow the company to face the training challenges of the present and future:

- The Transformational Leadership Academy (TLA): training environment focused on the Naturgy executive, directive, managerial and high potential team, the aim of which is to promote transformational leadership, thus strengthening the role of natural accelerators of organisational and cultural change, driving the evolution of Naturgy.
- The Tech Academy (TA) guarantees the transfer of specific technical knowledge in each business, thus permitting its efficient development and at the same time ensures quality and uniformity in all countries. It offers learning programmes on new methodologies and technologies, preparing professionals to carry out their work in a digital and technologically advanced environment.
- The Extended Academy: aimed at offering training content to collaborating companies in technical matters, safety and risk prevention, legal concepts and customer orientation.

Likewise, the training offer of the CU is adapted to the demand of employees and the different businesses through the Evolution platform (Success Factor), in which all Naturgy professionals have access to online training from the company's catalogue, as well as to a set of channels and platforms for the dissemination of contents.

The guarantee of connection between the company's strategy and training is provided by the CU's Advisory Council, made up of representatives of the company's senior management and external advisors from prestigious academic institutions.

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2019. Since 2003, it has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period.

Flexibility

Naturgy is a committed company that encourages and promotes the reconciliation of work and family life of its employees. Reconciliation and joint responsibility are permanent objectives.

The Naturgy's Collective Bargaining Agreement contains a broad chapter on Social Responsibility, Equality and Reconciliation of work and family life, including measures aimed at achieving actual and effective equality between men and women. These measures, which go beyond what is legally established, allow a greater and better reconciliation of employees.

During 2019, progress has continued to be made in the implementation of policies that promote reconciliation and joint responsibility, obtaining an important achievement in this area. The agreements reached regarding the possibility of benefiting from greater flexibility in working hours, both in terms of adaptation and duration, as well as the implementation of remote work, are improving the possibilities of reconciliation and joint responsibility of our employees.

Global FRC Certification

Naturgy is the first and only company in the world to have the Global FRC Certification (Family Responsible Company) granted in 2013 by the “Masfamilia” Foundation, with the endorsement of the Ministry of Health, Consumer Affairs and Social Welfare, and audited each year by AENOR.

This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of the company with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2019, the management of the model has been deployed through 472 local measures, distributed among the different countries where it operates, and also 21 global measures, all of them integrated in the six action groups defined by the Global FRC Standard 1000/23: quality in employment, time and space flexibility, support for the employees’ families, support for the personal and professional environment, equal opportunities and leadership and management style.

Time bank

Naturgy provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on other aspects of their personal life.

The wide range of services offered by the Time Bank is structured into:

- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantages club: an exclusive virtual space with more than 500 offers.
- Easylife space: outreach services and acquisition of products.
- Services available on a quotation basis.

The Naturgy Time Bank also has an Easybox that allows for management of more than 20 different services through an interactive ticketing system and a website, with the advantage of delivering and collecting at the time that suits the employee. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

New reconciliation measures

In 2019, progress has been made in the implementation of new measures to reconcile work and family life, such as greater flexibility in the working day, the possibility of adapting its duration, and the implementation of remote working, which, together with the existing measures, promote reconciliation and are a clear example of the Company’s commitment to its employees.

Some of the measures implemented in Naturgy, in Spain, are:

- Paid leave that goes beyond the legal regulation, in cases of marriage, separation or divorce, marriage of parents or children, in cases of death or serious illness of relatives, in cases of moving home, cases of assisted fertilisation. Increase in the duration of breastfeeding leave or paid leave from the 38th week of pregnancy.
- Unpaid leave: in cases of assisted fertilisation, international adoptions, the repeated need to accompany relatives for medical care.
- Flexibility: in arrival and departure, in the lunch period, continuous uninterrupted working day every Friday of the year, flexible working times.
- Possibility of reduced working hours in cases other than those regulated by law.

Compensation and remuneration

The remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two remuneration models, one for employees included in the collective bargaining agreement and another for employees not included.

The management by objectives for managers and employees not included in the agreement, and variable remuneration for salespersons, are methods in place at Naturgy as incentives for employee involvement in achieving the company's targets and direct share in results.

The remuneration package of Naturgy employees is supplemented with a social benefits system, which includes a pension plan and other social benefits.

In 2019, the Total Compensation Plan was consolidated, allowing employees to personalise the composition and compensation package offered by the company. This plan, which is compatible with the flexible remuneration system, allows the employee to decide on the composition of their remuneration package, and they may choose to monetise the benefits, maintain the corresponding benefit or allocate the amount to other benefits.

The Joint Pension Plan for Employees of Naturgy is a defined contribution pension plan for the contingency of retirement and a defined benefit plan for the contingencies of death and disability in service. At year end, it has assets in excess of Euros 500 million, distributed among more than 6,000 active employees, and about 2,800 suspended participants and beneficiaries.

In the international arena, the Naturgy's policy is based on the provision of retirement savings instruments and death and disability coverage whilst an active worker, taking into account the particularities and social welfare needs of each country.

By the same token, the company provides a series of social benefits that supplement employee remuneration packages, irrespective of their type of workday.

Labour relations

Respect for the freedom to join a union; fundamental rights; collective bargaining, and the agreement culture represent the key principles of what we do. Furthermore, we respect workers' representatives freely elected in all countries where the company operates, and we have also introduced communication channels with these representatives as a major part of our corporate action principles.

The collective bargaining agreements include several communications channels with representatives, under the form of committees to deal with the many and varied aspects of general interest.

One of the mechanisms for consultation and employee participation are the regular health and safety meetings held in all areas of the company. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the staff is represented at meetings.

It should be noted that the holding of these meetings is to not replace the various health and safety committees required under labour legislation and which correspond to each country. The main issues, formerly dealt with during 2018 of these kinds of meetings with the workers' representatives, were:

- Health and safety commitment.
- Analysis of the accident rate.
- Launch of new regulations.
- Comprehensive health.
- Quarterly monitoring of measures.

The consultation and participation of workers is a vital element in the management of health and safety at Naturgy, which establishes, implements and maintains specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in them.

Mainstreaming and collaborative work that promotes the commitment of the entire organisation in matters of health, safety and the environment is a key lever for the development of projects and actions aimed at transformation, innovation and improvement of activities and processes and the achievement of optimal results.

6.6. Health and safety

What does it mean for Naturgy? Risks and management approach

Naturgy plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being of people. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This not only involves people who work for Naturgy, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damage to health, providing a safe and healthy environment as well as promoting health and well-being.

The implemented health and safety management system has established mechanisms to identify and control the risks associated with our activities. The 2019 safety plan has included several relevant lines of action aimed at controlling the six most critical risk factors for accident frequency and severity. For each of these six risk factors (confined spaces, work at height, electrical risk, tree felling and pruning, cargo handling and road safety), "red lines" have been defined, non-compliance with which has been the subject of special supervision and the application of a disciplinary regime.

What is our commitment?

- Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.
- Ensure that any potential risk situations that may affect employees, suppliers, customers, the general public and the safety of facilities are brought to attention, assessed and managed in the appropriate manner.
- Work to maintain a risk-free working environment by integrating prevention of occupational risks, and the protection and promotion of health and well-being into business management.
- Establish learning as the driver of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.
- Incorporate health and safety criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Invest in new strategies of health education and health promotion, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.
- Implement measures targeted at improving the quality of life, well-being and health of people within the communities where the company operates.
- Provide the resources and necessary means to enable compliance with established safety standards at all times.

How do we measure our performance?

Accident indicators¹

	2019			2018		
	Total	Men	Women	Total	Men	Women
No. of lost time accidents (No. of employees)	14	14	-	16	15	1
Days lost of lost time accidents	704	704	-	956	932	24
Fatality	-	-	-	-	-	-
Lost time accidents frequency rate	0.12	0.18	-	0.12	0.16	0.02
Lost time accidents severity rate	6.04	8.94	-	7.13	10.05	0.58

¹ Calculated according to the OSHA standards (indicators for every 200,000 worked hours).

Occupational illness

There have been no occupational illnesses registered in 2019 and 2018.

Absenteeism

Absenteeism data is shown for those countries that have an organisational structure or health team, or Human Resources team with people managers and that apply the Master Health Plan.

	Total Lost Hours ¹	
	2019	2018
Spain	315,410	382,146
Chile	186,882	250,980
Argentina	36,184	33,912
Brazil	15,726	15,749
Colombia	1,369	3,160
Costa Rica	252	813
France	3,136	3,836
Kenya	--	1,072
Morocco	1,180	2,899
Mexico	14,424	9,840
Moldova	--	33,415
Panama	4,666	8,790
Peru	104	152
Dominican Republic	1,432	3,184
South Africa	--	54,720
Uganda	493	313
Total	581,258	804,981

¹ We have considered the hours of absenteeism for occupational illness and non-occupational illness, and the total number of hours worked in 2019 was 23,462,341.

What are our main milestones in 2019?

- Health and safety action plan 2019.
- Horus: multi-factor analytical preventive analysis.
- Integra: exchange of best practices and learning through collaboration with collaborating companies.
- Kepler: innovation project applied to prevention.

What are our main targets for 2020?

- Migration from OSHA 18001 to ISO 45001 standard.
- Maintenance of health and safety certification in all businesses and countries.
- Consolidation of the Safety Plan.
- Consolidation of the Comprehensive Health Plan for the improvement of the well-being of its employees and families.

Analysis of the 2019 results

Health and Safety Strategy

Naturgy's safety strategy, developed in collaboration with the business units, is structured through the following elements:

- A stable health and safety culture throughout the organisation.
- A relational and governance model, integrated at the highest level and with a structure of Environmental Health and Safety (EHS) committees of a transversal nature and specific to the business units, which guarantees the uniform implementation of criteria.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities, implementation and all elements that support control and monitoring.
- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.
- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.
- Training itineraries and requirements adjusted to the job, and training and awareness to achieve the commitment of Naturgy and its collaborating companies.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.

Five lines of action on which the management system pivots:



Health and safety leadership

2019 saw approval of the Global Health and Safety Policy, which reinforces safety as a key factor of business leadership and ensures compliance with the commitments made in the Naturgy's Corporate Responsibility Policy. It places the focus on governance and links directly to Senior Management, enhancing its leadership in safety to ensure application of the model in all businesses and activities - both in-house and outsourced. In addition, the policy is linked to monitoring the evolution of KPIs and action plans arising from incidents and accidents.

Risk management

For the assessment and control of health and safety risks, Naturgy has technical procedures and standards of a transversal nature that apply to the whole group. The business units guarantee its dissemination and implementation and ensure adequate operational discipline in its application.

The safety management model articulates different tools that have been developed around the company's main health and safety axes:

- Risk assessment and management mechanisms

Instruments for inspection, monitoring and operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

- Risk map and process safety management

The maintenance and verification programmes for regulatory compliance of facilities are supplemented by process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

- Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

Specific management mechanisms aimed at ensuring strict control of the critical factors of accident rates, promoting ongoing improvement and significantly reducing accident rates at collaborating companies.

- Management and investigation of accidents and incidents

Essential for the identification of actions aimed at minimising risk situations, improving the safety of operations and reducing the associated accident rate. As a new feature of the unified incident investigation system, the root cause analysis model has been optimised, based on existing best practices and the HFACS (Human Factor Analysis Classification Scheme) methodology.

Communication to employees and action plans

In addition to the annual publication of performance, the company regularly carries out communication actions aimed at the entire organisation, taking into account diversity aspects and the points of view of stakeholders, including suppliers and visitors.

Based on the specific channel of the intranet, this year's communication plan has focused mainly on dissemination of the 2019 action plan.

- Consultation and participation

Naturgy establishes, implements and maintains specific two-way processes and bodies with employees: Health and Safety Committees, channels of participation and consultation, regular meetings between unit and team leaders, individual tools and reporting channel.

- Dissemination

The company promotes actions aimed at improving the safety of the environment in which it carries out its activity: participation in forums, collaboration with administrations and companies or sponsorship of best practices.

Training and awareness

Naturgy has a variety of consolidated learning tools and relies on the Occupational Risk Prevention Classroom, -a tool of the Corporate University- to meet the established objectives.

- Training of collaborating companies

We work to extend the culture of health and safety to suppliers, collaborating companies and their employees through dissemination and awareness. In 2019, the content of the leadership and awareness courses has been updated and global internal regulations have been introduced to coordinate operational units and collaborating companies.

- Safety among customers and society

Naturgy ensures that communication channels are established and maintained with customers and society regarding product/service information and the safety of these, incident management and protocols for action in emergency situations and contingency actions.

Certifications, safety audits and process diagnostics

Naturgy has an occupational health and safety management system, audited and certified by a third party in accordance with the OHSAS 18001 specification and whose scope is global, including all businesses and countries.

In 2019 the annual safety audit and diagnostic plan concluded with a positive assessment of the level of implementation and integration of the management system, which is effectively maintained and complies with the obligations established under prevailing legislation. One new item in 2019 has been that the transition to the new ISO 45001 standard has started.

Health

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, collaborating companies, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and health care, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of healthcare, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within Naturgy. In addition, comprehensive medical and health assistance services act as advisers for the development, monitoring and control of the plan in each of the areas.

Master Health Plan targets	
Standardised actions	Ensuring the health of workers, developing standardised actions respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in the field of healthcare.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establish monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Standardised actions	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

6.7. Responsible supply chain

What does it mean for Naturgy? Risks and management approach

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Naturgy establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Supplier Code of Ethics, to which all suppliers have to adhere and the content of which comes from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as the internationally acknowledged good governance principles.

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the supply chain management model, which the company has implemented globally and which is detailed below.

What is our commitment?

- Extending the culture of Naturgy to the supply chain, passing on the target of excellence in service, efficient use of resources and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

How do we measure our performance?

	2019	2018
Total number of suppliers	7,896	10,376
Total purchase volume awarded (euros million)	2,510	3,147,02
Number of ESG suppliers assessed	7,407	8,376
Number of critical suppliers	2,135	1,852
Official-approval suspended suppliers	--	1

What are our main milestones in 2019?

- Implementation of quarterly monitoring of suppliers based on reputational, economic-financial and CSR ratings of external data sources.
- Implementation of the updated risk matrix in the whole Naturgy.

What are our goals for 2020?

- Inclusion in the contracts of suppliers (current and future) of an integrity clause strengthening the contractual obligation to observe ethical behaviour based on not perpetrating fraudulent or anti-competitive acts.
- Implementation of online monitoring of reputational risks on potential suppliers.
- Development of the supplier selection and approval model according to ESG criteria.

Analysis of the 2019 results

The supply chain of Naturgy

Naturgy performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in the company's policies, rules and procedures, as well as internationally recognised principles of good governance, ensuring a uniform, efficient and sustainable model that goes beyond compliance with legislation.

In 2019, Naturgy set up trade relations with a total of 7,896 suppliers which accounted for a total expenditure of Euros 2.510 billion.

Purchasing and supplier management policy

The purchasing and supplier management policy sets out the criteria that constitute the general framework of action for contracting, assessment, monitoring and developing suppliers. It guarantees sustainable management of the supply chain, relying on assessed suppliers and ensuring fulfilment of Naturgy's Corporate Social Responsibility commitments.

Among its general principles, it seeks to promote participation in the bidding processes of suppliers of the country or region where Naturgy performs its activities, generating a positive impact through the creation of wealth and investment in the local community, generating economic inclusion in the company's areas of influence.

Transparency in purchasing

In terms of procurement, Naturgy is committed to ensure free competition, objectivity, impartiality, transparency and traceability throughout the procurement process through:

- The use of secure electronic means for the management of all tenders.
- The establishment of communication channels with its suppliers.

Human rights at suppliers

Naturgy has a Human Rights Policy that extends to the supplier's Code of Ethics, thus transferring to the supply chain the commitment to protect Human Rights within their sphere of influence, especially since international growth has led us to operate in some environments where their protection takes on special relevance.

Supplier Code of Ethics

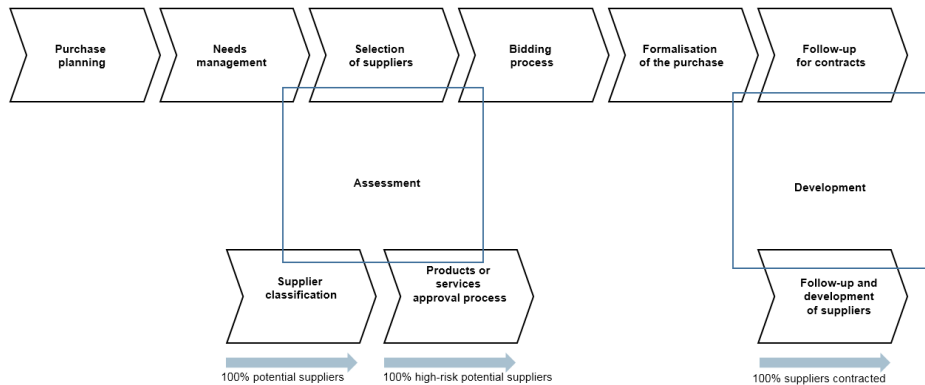
Naturgy is keen to extend the corporate culture to the supply chain, ensuring that collaborating companies comply with the principles set out in the Supplier Code of Ethics, which all Naturgy suppliers have to adhere since 2016.

Reporting Channel

All suppliers, contractors and outsourced collaborating companies of Naturgy that wish to report a violation of the Code of Ethics that they may have observed in the exercise of their functions may contact the Ethics and Compliance Committee through the email address published in the Naturgy Supplier's Code of Ethics.

Supply chain management process

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement from identification of the need for a good or service to the follow-up of the management of contracts or orders. Procurement will be based on unified and universal contractual conditions for the entire scope of Naturgy's activities, which include, among others, social and environmental clauses. The general terms and conditions of contracting and the country specific conditions are published on the relevant Naturgy websites.



Risk management of the supply chain

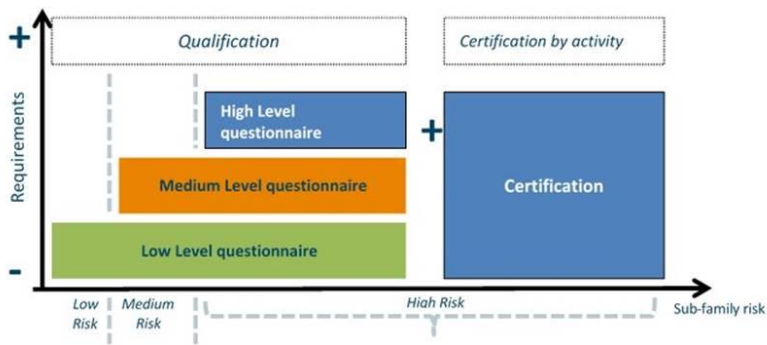
The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals.

Risk factors assessed:

- Health and safety: this measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.
- Quality: the impact that breach by the supplier with regard to the expected or agreed quality levels would have at Naturgy.
- Environmental, social and corporate governance (ESG): this measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Naturgy performs “responsible purchasing” through a management process that encourages the acquisition of products and services that are environmentally friendly and which are manufactured under socially fair conditions.
- Legal risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them.
- Reputational risk (Compliance): it refers to the potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier of Naturgy, contravening the ethical standard of compliance established in the Supplier Code of Ethics.
- Financial risk: assesses the potential impact on operations incurred by Naturgy as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.
- Cybersecurity risk: assessment of the risk inherent in the processing of information assets, knowledge or data that have value for Naturgy, with particular relevance to the risk of processing personal data in accordance with Regulation (EU) 2019/679.

Assessment of suppliers

Assessment of suppliers is introduced in the processes of Business Classification of suppliers and Approval of suppliers and products.



With the risk assessment of the purchase categories that are managed worldwide, and assessing the risks of the countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted. This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers.

Naturgy also identifies the “Suppliers with high risk in sustainability”, considering those that reveal a high risk level in the Health and Safety and ESG factors.

Supplier classification

This process is based on the assessment of compliance at business level of what is required by Naturgy in the different risk factors, in order to participate in the procurement process of goods and services. All suppliers must pass this process before maintaining commercial relations with Naturgy.

The classification is conducted using self-assessment questionnaires that take into consideration legal, economic-financial, criminal, solvency, experience, business organisation, quality, safety, human rights, environmental, social and employment practices criteria.

Official approval and management of supplier quality

Naturgy has introduced the goal whereby all suppliers that perform critical activities through being defined with a high risk in any of the ESG, Quality and Health and Safety risk factors must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any non-compliances detected during the audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the Non Tier 1 Suppliers corresponding to categories of purchase of critical products, over which in situ audits are conducted based fundamentally on quality-related aspects.

Products corresponding to critical categories may be subjected to inspections, technical acceptances or FAT at the production centres before the material is shipped.

The homologation process may bring out anomalies that result in a corrective action plan that identifies the development and corrective actions to be introduced to achieve fulfilment of the requirements and standards established by the company, or in the non-approval of the supplier, which would disqualify them from performing that activity for Naturgy.

During 2019 no supplier was suspended or disqualified from holding a contractual relationship with Naturgy for significant breaches related to security, quality and other aspects.

Monitoring of suppliers

In 2019, the online monitoring of reputational risks of the supplier portfolio with business relations with Naturgy was initiated through use of a screening tool to detect exposure to counterparty reputational risk and make decisions based on the risk detected in coordination with Compliance. Of the 6,230 suppliers analysed in 2019, no supplier was disqualified for fraud or unethical practices.

The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers. In addition, in the assessment process the supplier's economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier's global scoring that can be used in the supplier's valuation during the contract award strategy.

Monitoring of suppliers

To ensure correct performance of approved suppliers, performance assessments are carried out on the most relevant suppliers to measure the degree of satisfaction of the operating units and assess detailed aspects of the quality, health and safety, operational and ESG dimensions. Within the company's "Health and Safety Commitment", objective metrics and the method established in the Naturgy "Health and Safety Standard" are used to measure performance of health and safety aspects: Assessment of performance of collaborating companies in health and safety issues". Corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company.

In 2019, the assessment of aspects of criminal regulatory compliance, privacy and cybersecurity has also been included for high-risk suppliers in Spain by means of an assessment questionnaire and guidance on regulatory risks and the corresponding benchmarking and compliance rating report for each supplier.

In addition, ESG audits are performed on site for those suppliers classified as having a high ESG risk with the highest purchase volume.

Naturgy has developed environmental specifications for suppliers and contractors that are attached to the corresponding contracts and which include minimum environmental management requirements for application during procurement.

Development of suppliers

The Corporate University, through its Extended Academy, offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

From 2013 to 31 December 2019, Naturgy was a member of Bettercoal, an initiative managed by the main European utilities which aims to purchase coal from mines that comply with a series of social, environmental and ethical standards. Over the year, Bettercoal continued to assess mines and to develop action plans from those assessments, with working groups driving improvements, specifically in mining areas in Colombia and Russia.

6.8. Social commitment

What does it mean for Naturgy? Risks and management approach.

Naturgy is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity, as well as spending part of its profits on social investment. Fluid and ongoing dialogue with society enables to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development.

Inadequate management in access to energy can cause significant costs through non-payments and theft of electricity. By the same token, depriving vulnerable groups from receiving energy could have an impact on the company's reputation.

The lack of involvement and participation with local communities and their needs in those territories where the company operates could result in rejection and unease in the community, which could lead to lobbying for the company to cease its operation in these territories.

What is our commitment?

- Guarantee fluid and two-way dialogue and to encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the social impact that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives to create shared value and to have a positive social impact in energy projects.
- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- Transfer knowledge and values to society through partnership agreements with the academic community and the supply chain.

How do we measure our performance?

Sponsorship and social action investment

	2019	2018
Sponsorship and social action investment (euros million)	8	11

It also includes the "Contributions to foundations and non-profit organizations".

What are our main milestones in 2019?

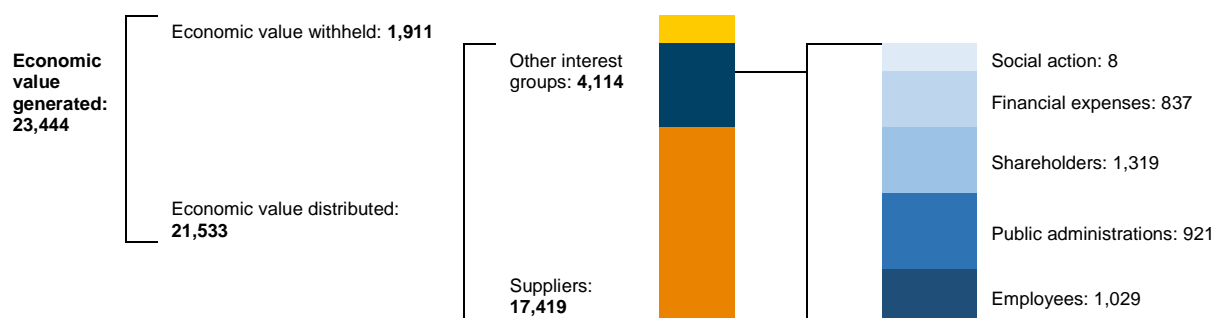
- Launch of the 1st Award for the best social initiative in the energy field.
- Development of new energy volunteer actions with young people and children.
- Development of the Sustainability Plan 2019-2022.
- Launching of the General Procedure of Sponsorship and Donations and its introduction in all countries and companies.

What are our goals for 2020?

- Implementation of the Sustainability Plan 2019-2022.
- Development of action plans for housing rehabilitation, energy school and energy volunteering.
- Launch of a global volunteer campaign (volunteer survey).
- Establishment of a methodology for measuring the impact of the Foundation's activities.
- Search for synergies with other Foundations.
- Preparation of a policy on management and use of social networks.

Analysis of the 2019 results

Economic Value Distributed. Detail by group of interest (euros million)



Sponsorship and social action investment

Economic contributions to social investment and sponsorship programmes are another important part of the Naturgy commitment. In 2019, they totalled Euros 8.16 million.

The aim of the company is to generate a higher corporate commitment to society of which it forms a part. The programmes to which these resources are therefore allocated form part of the business development strategy.

Creation of wealth and well-being where the company operates

Naturgy develops its commitment to society through different lines of action that are aligned with the company's core activities:

1. Energy vulnerability

Naturgy performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

The company has extensive experience in this regard. Accordingly, the project carried out at Cuartel V in Argentina or the CGE Group agreement in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people.

Energy Vulnerability Plan in Spain

During 2019, Naturgy, through its Foundation, continued the development of the Energy Vulnerability Plan throughout Spain to collaborate in alleviating the situation of energy vulnerability in Spain. The plan has been consolidated as the core of the activities developed by the Foundation, with actions to alleviate energy poverty being one of its priorities.

The objectives of the plan are:

- Improving management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of energy vulnerability.
- Implementing activities with entities that work to alleviate energy poverty cases and to detect vulnerabilities.

The following activities have been introduced during this year:

- Consolidation of the Energy Rehabilitation Solidarity Fund.
- Corporate energy volunteer work to give workshops on energy efficiency, advice and visits to the homes of families in vulnerable situations.

- Launch of volunteer work with Children and Young People, with a pilot in Madrid and Barcelona for children and young people in vulnerable situations and with the “Managing my energy” programme taught in schools.
- The Energy School continues to give energy efficiency workshops to support Public Administrations and the Third Sector, both to technicians and to vulnerable families.
- Launch of the 1st Award for the best social initiative in the energy field.
- Participation in two European projects (Social Watt and EPIU), financed by the EU, aimed at identifying energy poverty, defining indicators and developing and implementing measures against energy vulnerability.
- Presentation of the paper “Energy poverty in Spain. An income-based approach”.

2. Relationship with communities

Naturgy, under its Human Rights Policy, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that the company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Naturgy has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company’s business.

The company bases its relationship with communities on the following principles:

- Identifying communities affected by the company’s activity, and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.
- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in those locations where the company is looking to carry out new investment projects. These assessments serve to measure numerous impacts (positive and negative) that the company may produce as a consequence of its activity, both in local communities as well as in the territory. These include:

- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

The most prominent projects in this sphere are:

- In Australia, in the surroundings of the Crookwell and Berrybank wind farms, citizen participation programmes are being introduced to involve the community (agreements to attend to the needs of the local community, planting of trees, academic visits, strengthening of the productive fabric, etc.).

- In Brazil, around the Sobral photovoltaic plant, the development of the Quilombola Basic Environmental Project has continued, as detailed below. Environmental education actions have been developed around the Guimaraná photovoltaic plant.
- In Costa Rica, around the Torito and La Joya hydroelectric plants, we have collaborated in the educational programme “Books for All” promoted by the Ministry of Education, and we have collaborated in the improvement of educational and sports infrastructures in the area.
- In Mexico, both in the surroundings of the Bií-Hioxo wind farm, and in the environs of the Tuxpan, Hermosillo and Naco-Nogales combined-cycle power stations, environmental and health education programmes have been implemented, as well as improvements to community infrastructures (schools, roads, wells, health centre, etc.), and actions to strengthen local culture.
- In the Dominican Republic, around the Palamara-La Vega thermal power stations we have collaborated with the fire brigade in the area, and have conducted actions to improve community infrastructures for the supply of drinking water, as well as to strengthen local culture and traditions.
- In Uganda, around the Bujagali hydroelectric power station, programmes have been carried out to strengthen local suppliers, train and employ young people and women, promote health, prevent road accidents, and encourage cultural activities.

During 2019 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has four main lines of action, which include a series of specific actions of which the following have been implemented during 2019:

- Characterisation of wells in the region that could be improved with the set-up of a solar pump kit.
- Territorial study for the implementation of a teaching centre for community use.
- Provision of integral scholarships (studies and subsistence costs) for the training of professionals at university level.

3. Social action, corporate volunteers and employee participation

Through corporate volunteering, Naturgy seeks to promote social cohesion, values and a spirit of solidarity, while carrying out social action programmes with a clear purpose of contributing to the socio-economic development of the areas in which it operates. Some of the projects carried out by the company within the framework of social action are:

- Energy of Flavour: this programme aims to provide scholarships to young people between 18 and 25 at risk of exclusion, so that they can receive vocational training in the gastronomy sector and thus acquire a trade. During 2019, a special module has been developed for female victims of gender violence.
- Learn a trade workshop: the aim of the programme is to train people in a vulnerable situation in the trade of ceramics; whether they are adults, young people or people with a slight mental disability.
- Planning your future: in order to encourage the children of employees to achieve their dreams and professional aspirations, we provide them with a scholarship to start their university studies.
- Summer internship: this is a scholarship for family members of employees who are in the last two years of their university course.

With regard to corporate volunteer, during 2019, the company has promoted environmental, social and energy volunteer actions, in which employees contributed their time and their personal and professional skills.

Since 1997, a group of employees has created the Solidarity Day Association, with the aim of developing projects to promote the education and training of children and young people without resources, in the countries where the company operates. This association is managed by the company’s own employees and consists of the voluntary donation of one day’s salary per year. The company contributes the same amount

donated by all employees and covers the association's management expenses, so that all the money donated goes entirely to project development.

4. Sponsorship, patronage and donations

The sponsorship and donation collaborations are aimed at increasing the knowledge of Naturgy, supporting its growth and consolidating the relationship with the different stakeholders.

Naturgy's sponsorship and donation activity, as well as the definition of the processes that regulate and control its development, is the purpose of the company's General Procedure of Sponsorship and Donations. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The procedure also provide priorities, which can be summarised in social action, culture and energy, and the environment:

- Environment: Naturgy carries out and collaborates with educational activities aimed at young people on energy, energy efficiency and new technologies. Technical, educational, informative and social activities that contribute to a more environmentally friendly society are promoted.
- People: the company drives and support projects targeted at vulnerable social groups and to mitigate problems stemming from social exclusion. To this end, it collaborates financially with foundations and associations to improve, for example, facilities and to refurbish spaces or to provide guidance and information on energy issues.
- Culture: in the field of cultural sponsorship, Naturgy targets its efforts at encouraging and promoting music, art and university activity. The company's commitment can be seen in the extensive sponsorship work on initiatives that generate high value for the area where they are carried out. In 2019, the company continued with its support to the Gran Teatre del Liceu and the Teatro Real with twin celebrations declared to be “events of exceptional public interest”.

Naturgy Foundation

The Naturgy Foundation, created in 1992 by Naturgy, and with a presence in those countries where the company is active, is tasked with the dissemination, training, information and raising society's awareness in issues of energy and the environment, as well as the development of business and academic programmes. It also develops social action programmes in the national and international arenas, with a particular focus on actions targeted at relieving energy vulnerability.

During 2019, the foundation continued to provide seminars on energy and the environment in Spain, Belgium, Ireland, Brazil and Mexico, as well as presentations of books related to this topic. A new development in this line of work, with the participation of IESE, is the so-called “Energy Perspectives”, a series of conversations between speakers of the highest global level on the economic, technical and scientific conditions that are emerging for the future of the energy sector.

In the line of education and heritage, the Naturgy Foundation has launched several programmes:

- “Efigy education”: an educational programme aimed at students of all ages, which explores new energy technologies with the aim of transmitting specialised knowledge about the transition to a new energy model, the preservation of the environment and responsible energy consumption. This programme is complemented by online resources aimed at training students, teacher training, mentoring programmes and initiatives to encourage technological vocations.
- Our own touring projects, which aim to pass on and disseminate knowledge on issues related to energy and the environment through actions and presence at trade fairs in the sector, mobile educational resources and travelling exhibitions, such as the “Energy Challenge” eco-efficient truck.
- Educational activities have been promoted in the power stations, with the aim of supporting Naturgy's different businesses.
- Finally, in 2019 the Dual VT programme has been consolidated in the sectors of maintenance of vehicles powered by natural gas.

On the international stage, different social initiatives have been developed in Argentina, Chile, Brazil, Mexico and Morocco.

6.9. Integrity and transparency

What does it mean for Naturgy? Risks and management approach

Naturgy believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

To respond to the risks related to integrity and transparency, Naturgy has developed a series of mechanisms that introduce the guidelines that are to cover ethical and transparent behaviour of the directors and employees of the company and their daily performance, as set out in the Code of Ethics, the Supplier Code of Ethics, the Crime Prevention Model, the Anti-corruption Policy, fiscal policies and the Human Rights Policy of the company.

Corruption, fraud and bribery can have a major impact for the company, leading to sanctions imposed by the administrations, loss of contracts, loss of customers and loss of reputation that could also see investors disappear or the non-purchase of shares by investors that consider these aspects in their investment decisions.

The company would improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Naturgy. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

What is our commitment?

- Reject corruption, fraud and bribery in business dealings and establishing measures to prevent and combat them, developing internal channels allowing communication of irregularities while preserving anonymity.
- Comply with national and international laws and standards in force in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the United Nations Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- Act with responsibility in management and complying with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.
- Compete fairly on the market and prevent misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's activities.
- Maintain, at all times, permanent dialogue with stakeholders through adequate and accessible channels.

How do we measure our performance?

Queries and notifications to the Code of Ethics

	2019	2018
Queries	45	76
Notifications	149	123
Total	194	199
No. of messages received per 200 employees	3.32	3.18

What are our main milestones in 2019?

- Certification of the crime prevention model by AENOR in accordance with the UNE 19601 and ISO 37001 standards.
- Approval by the Ethics and Compliance Committee of a new Code of Ethics Channel Operating Regulation that provides a procedure for investigating complaints received through the channel.
- Management and use of SAP GRC Process Control for the comprehensive management of documentation, assessment and supervision of the Crime Prevention Model.
- Review of the Human Rights Policy.
- Publication of the non-financial statement (NFS), in accordance with Law 11/2018 on non-financial information and diversity.

What are our main targets for 2020?

- Specific training on harassment for all company employees.
- Renewal of the crime prevention model certification by AENOR pursuant to the UNE 19601 and ISO 37001 standards.
- Ongoing training and awareness of employees in human rights.

Analysis of the 2019 results

Compliance Policy and Code of Ethics

The Code of Ethics of Naturgy, approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Naturgy, in their daily work, with regard to relationships and interactions with all its stakeholders. The principles for the company's employees are related to corruption and bribery, respect for people, professional development, equal opportunities, relation with collaborating companies, occupational health and safety, and caring for the environment, among others.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

In addition, Naturgy has an Anti-Corruption Policy, which establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

The company also has a Compliance Policy that structures the Code of Ethics and Anti-corruption Policy management taken on by the Compliance Unit, whose targets are to ensure the dissemination, knowledge, application and fulfilment of the code.

This management model provides that the Audit Committee, must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy.

During 2019, the Ethics and Compliance Committee has continued its work to disseminate the Code of Ethics, as well as its role as interpreter and advisor in the event of any doubt or conflict concerning the same. The Ethics and Compliance Committee Regulations were also approved, setting out its organisation, functions and obligations within the framework of best practices in the area of compliance. In 2019, the Committee held four work meetings. The Ethics and Compliance Committee supervise the execution of the policy by the Compliance Unit.

In 2019, 31% of the notifications were related to the principle of respect for people, and they were all solved appropriately.

In 2019, no notifications were reported related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights. Therefore, in 2019, it was not necessary to repair damages relating to impacts caused by human rights cases.

Code of Ethics chapter to which notifications refers

	Queries	Notifications	Total
Respect for the individual	7	46	53
Corruption and bribery	3	50	53
Loyalty to the company and conflict of interest	34	16	50
Occupational health and safety	--	10	10
Environment and asset protection	1	12	13
Others	--	15	15
Total	45	149	194

The implementation of a new communications management tool does not allow comparisons with 2018, so no breakdown is given for 2018.

Crime Prevention Model

The company has a Crime Prevention Model which is updated annually. Thus, in 2019, the model has continued to be adapted to the new organisational structure operated within Naturgy. Likewise, the model, in a process of continuous improvement, has incorporated the legal modifications that have taken place in 2019 on criminal risks.

From an organisational standpoint, the Board of Directors has assigned the functions of autonomous body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and supervision of the working and compliance with the Crime Prevention Model, which execution corresponds to the Compliance Unit.

Each year, this model is assessed by an independent third party. In 2019, this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2019, the model has been subject to the certification process in accordance with the AENOR UNE 19601 standards (criminal compliance management systems) and ISO 37001 (Anti-bribery management systems), obtaining both certifications in October 2019. Worldwide, Naturgy also deploys crime prevention models gradually in countries with laws governing the civil liability of legal persons.

Anti-fraud and anti-corruption policies and plans

Although fraud and corruption are covered in the crime prevention system, the company works continuously to improve and update its internal regulations and define specific protocols and mechanisms in this area.

The Anti-corruption Policy establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

Naturgy has a range of mechanisms to ensure the proper implementation of the Anti-Corruption Policy, as well as to prevent, detect, investigate and punish cases of corruption, including:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.
- A communication channel for employees and third parties to make, in good faith, confidential and without fear of reprisal, inquiries or notifications of breaches of the Code of Ethics and the Anti-Corruption Policy (www.naturgy.ethicspoint.com, or postal and internal mail).
- Counterparty Due Diligence Procedure, to know and analyse the counterparties with whom Naturgy operates and thus evaluate the associated corruption and reputation risks.
- Regular declaration by all employees, in which it is formally stated that they know and comply with the principles established in the Anti-Corruption Policy.
- Dissemination and training sessions on the content of the Anti-Corruption Policy for all employees through the Anti-Corruption Programme.

The focus of the Naturgy anti-corruption programme covers three key areas:

- Establishment of an anti-fraud and anti-corruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- Development of measures and response plans in the event of situations that constitute fraud and corruption.

These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Naturgy organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- Update of the NaturalNet space which concerns the Code of Ethics and the Anti-Corruption Policy.
- Publication of information about the Ethics and Compliance Committee activities (notifications received, activities carried out, etc.).
- Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.
- Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy for new employees and administrators.
- Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.
- Regular declaration of compliance with the Code of Ethics and Anti-Corruption Policy.

During 2019, specific training courses have been held on international sanctions, procedures for payments to third parties, privileged information and market abuse, aimed at specific groups within the company. In addition, work has been done on a specific training on harassment that will be given during the first quarter of 2020 to all company employees. Also in 2019, a mandatory training programme for executives has been carried out, which has included, among other points, the Crime Prevention Model, the Code of Ethics and Anti-Corruption Policy, and the Counterparty Due Diligence Procedure.

Likewise, Naturgy has implemented a Corporate Hospitality Policy, within the framework of the Code of Ethics and Anti-corruption Policy, whose purpose is to regulate the conditions in which Naturgy administrators and employees can accept or offer courtesies to business counterparts within the framework of the performance of their professional functions. This is to ensure effective compliance with the principles set out in the Code of Ethics and Anti-corruption Policy of Naturgy and thus avoid improperly influencing their commercial, professional or administrative relationships, both with public and private entities. In 2019, a reminder has been made on the occasion of the Christmas campaign of the Corporate Hospitality Policy for all employees.

In addition, the company has a Counterparty Due Diligence Procedure that is applied systematically, to ensure that the analyses and assessments of reputational risk and corruption are carried out in an efficient and uniform way whenever when third parties intervene in the business relationships of the companies that make up Naturgy.

Prevention of money laundering

The Naturgy Crime Prevention Model is based on an analysis of criminal risks, including the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.

Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

Exist three control levels that seek to prevent, detect and, if appropriate, react to money laundering:

– Prevention: both the Naturgy Code of Ethics as well as its Anti-Corruption Policy have specific sections that expressly establish the prevention of money laundering as one of the principles that presides over the operations of the company and all of its employees. All Naturgy employees receive training on the content of the Code of Ethics, the Anti-Corruption Policy and the conduct guidelines that they must heed.

In addition, Naturgy has other policies and procedures more specific that establish a full series of controls in its day-to-day work and in the operations it performs, which encompass the prevention of money laundering. Key among these are the Counterparty Due Diligence Procedure; the General External Procurement Standard; the Procedure on granting the Signing Level, or the Internal Control Procedure for the processing of payments and cash movements, among others.

– Detection: some of the foregoing policies and procedures also allow the risk of money laundering to be detected.

Every year, those in charge of controls at Naturgy are subject to a self-assessment in the Crime Prevention Model on compliance with the same, including those where there is a risk of potential money laundering. In addition, to ensure efficiency of this model, it is reviewed regularly and audited every year by an independent expert.

Internal Auditing Unit periodically reviews the different processes of Naturgy to detect possible breaches that may have occurred in the different operational risks. These reviews include checks of revenue and payments that may be subject to the risk of money laundering.

Naturgy also has an Internal Control System on Financial Reporting that is audited every year by an independent expert.

In addition, Naturgy provides both its employees as well as stakeholders with channels so they can report to the Ethics and Compliance Committee concerning any breach or irregular or suspicious conduct in this area. They can perform these communications through the Website Channel of the Naturgy Code of Ethics or through ordinary or internal mail. In addition, in accordance with what is permitted under new data protection legislation, these communications may be carried out anonymously.

– Reaction and response: during 2019, the Ethics and Compliance Committee approved new regulations for the operation of the Code of Ethics channel, which includes a procedure for investigating complaints received through the channel. The company also has an investigation and response protocol as well as a disciplinary system so that, if it becomes aware of any denouncement or irregularity it can introduce all measures within its reach to rectify this and, if appropriate, adopt the measures required to prevent future repetition.

Finally, Naturgy collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

Tax policy

Tax strategy and tax risks control and management policy

At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks.

The basic principles governing Naturgy's tax strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Cooperation with the tax authorities.

The main lines of the Tax Risks Control and Management Policy are as follows:

- Clearly defined tax governance.
- Procedures for controlling the tax risk referred by Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

- the Naturgy Corporate Social Responsibility Policy, in which one of the commitments and principles of action is to "adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies."
- Naturgy's Code of Ethics, which establishes that "All employees of Naturgy must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions".
- the Code of Good Tax Practices (CGTP), approved on 20 July 2010 by the Plenary session of the Large Business Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Naturgy Energy Group, S.A. The CGTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual cooperation based on good faith and legitimate trust, and the application of responsible tax policies.

To align Naturgy's tax policies with these principles, Naturgy has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Naturgy also has a Risk Map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 17 "Tax situation" in the notes to the annual accounts.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2019 year-end, Naturgy did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January).

Buenergía Gas & Power, Ltd. (a company that indirectly owns a single industrial holding that engages in power generation using a combined cycle gas turbine in Puerto Rico (Ecoeléctrica, L.P.)), which was domiciled in the Cayman Islands and in which Naturgy holds a 95% stake, changed its domicile to Puerto Rico on 2 February 2018.

Gasoducto del Pacífico (Cayman), Ltd. (a dormant company acquired by the group as part of the CGE acquisition), which was domiciled in the Cayman Islands and in which Naturgy held a 52.2% stake, was liquidated on 12 January 2018 and dissolved and deregistered on 12 April 2018.

Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory's rules.

Naturgy's tax contribution in 2019 amounted to Euros 2,955 million (Euros 3,268 million in 2018). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for Naturgy ("own taxes"), and those that it withholds or that it passes on to the final taxpayer ("third-party taxes"):

Country	Own taxes						Third-party taxes								Total	
	Income tax ⁽¹⁾		Other ⁽²⁾		Total		VAT		Hydrocarbon		Other ⁽³⁾		Total		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Spain	230	62	432	621	662	683	997	1,056	362	409	253	270	1,612	1,735	2,274	2,418
Argentina	22	10	26	17	48	27	8	9	--	--	21	39	29	48	77	75
Brazil	57	52	46	46	103	98	70	73	--	--	11	13	81	86	183	184
Chile	9	31	10	13	19	44	93	60	--	--	10	47	103	107	122	151
Mexico	36	71	1	2	36	73	63	39	--	--	12	13	75	52	111	125
Panama	13	6	7	7	20	13	--	--	--	--	3	4	3	4	23	17
Rest of LatAm	15	7	--	2	15	9	--	5	--	--	1	8	1	13	17	22
Total LatAm	152	177	90	87	241	264	234	186	--	--	58	124	292	310	533	574
Europe	11	24	7	8	18	32	80	161	46	80	3	3	130	244	148	276
Total	393	263	528	716	921	979	1,312	1,403	408	489	314	397	2,034	2,289	2,955	3,268

⁽¹⁾ Refers to income tax actually paid in the year per the Consolidated Cash Flow Statement. Does not include accrued amounts. Set out below is the reconciliation between income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes", as detailed in Note 22 "Tax situation" to the consolidated annual accounts.

⁽²⁾ Includes energy taxes amounting to Euros 169 million in Spain in 2019 (Euros 306 million in 2018), local taxes, employer social security and other specific taxes in each country.

⁽³⁾ Basically includes tax withholdings from employees and employee social security contributions.

Profit by country

Euros million	2019	2018
Spain	502	(3,297)
Argentina	46	41
Brazil	74	37
Chile	202	106
Mexico	164	104
Panama	14	13
Rest of LatAm	56	(63)
Total LatAm	556	238
Europe	343	237
Total	1,401	(2,822)

Subsidies received

The changes in capital subsidies received are detailed in Note 16 to the Consolidated annual accounts. The amount received was Euros 14 million in 2019 (Euros 1 million in 2018). Operating subsidies received are detailed in Note 25 to the Consolidated annual accounts; Euros 1 million were received in 2019 (Euros 1 million in 2018).

Human Rights Policy

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. Since 2011, Naturgy has a Human Rights Policy, that has been updated and approved by the Board of Directors in 2019, defines and establishes precisely how the company believes it has to include these principles in its business management. The policy is consistent with the UN Guiding Principles on Business and Human Rights.

The Human Rights Policy acquires its full meaning in those locations where local legislation does not afford a suitable level of protection of human rights, and its compliance is horizontally integrated within the company and is the responsibility of each business area.

The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the United Nations Guiding Principles on Business and Human Rights. It is also focused on the most important principles which have the greatest impact on the company's business.

Human Rights Policy Principles:

1. Avoiding any practices which are discriminatory or which might compromise people's dignity.
 2. Eradicate labour or child exploitation.
 3. Ensure freedom of association and collective negotiation.
 4. Protect employee's health.
 5. Ensure adequate employment and salary.
 6. Commitment towards people linked to suppliers, contractors, collaborating companies and business partners.
 7. Respecting for indigenous communities and traditional ways of life.
 8. Protecting facilities and people on the basis of respect for human rights.
 9. Supporting and promoting respect for human rights in the surrounding communities.
 10. Helping to fight corruption and protect privacy.
-

The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this Human Rights Policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

During the initial stages of investment projects, and in the analyses of the social and environmental impact, the company will consider their impact on the protection and promotion of human rights and will define indicators in this regard. Similarly, the company will introduce specific measures for management of potential impacts and risks to human rights from the projects and investments, and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the Policy.

Any breaches, whether of the policy or any other aspect related to the respect of human rights will be studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. Those people who, without being company employees, witness potential malpractice in this area may also report this.

6.10. Table of contents required by Law 11/2018, of 28 December 2018, amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015, as regards non-financial information and diversity.

Contents	Pages	Reporting criteria
Business model		
– Description of the business model		GRI 102-2
▪ Business environment		GRI 102-3
▪ Organisation and structure		GRI 102-4
▪ Markets where the company operates	28-34	GRI 102-6
▪ Its objectives and strategies		GRI 102-7
▪ Main factors and trends that may affect future performance		GRI 102-15
		GRI 102-15
Reporting framework used for non-financial disclosures	27	GRI 102-54
Policies		
A description of the policies applied by Naturgy in connection with these issues		
1. Due diligence procedures used to identify, assess, prevent and mitigate material risks and impacts and for verification and control, including any measures that have been taken	32, 34, 36, 40, 42, 43, 56, 58,60,64,66	
2. Key performance indicators in connection with the implementation of policies that enable progress to be tracked and assessed	68,72,74, 77-82,83-84	GRI 103-2

Risks			
The main risks in connection with these issues related to Naturgy's activities, including, where relevant and proportionate, its business relationships, products or services that may have negative effects in those areas, and how Naturgy manages those risks, detailing the procedures used to detect and evaluate them in accordance with national, European or international reference frameworks for each issue.		34,35,40-45,49,61,64,66,68-69,71,77,79-82	GRI 102-15
Materiality analysis			GRI 102-46 GRI 102-47
Social and personnel issues			
– Employment			
▪	Number and distribution of employees by country, gender, age and professional category	51-52	GRI 102-8
▪	Total number and breakdown of forms of employment contract, and average in the year, of:		
○	Indefinite contracts, by gender, age and professional category		GRI 102-8
○	Temporary contracts, by gender, age and professional category		
○	Part-time contracts, by gender, age and professional category		
▪	Number of terminations, by gender, age and professional category	53	GRI 401-1
▪	Average remuneration, by gender, professional category and age	53-54	GRI 405-2
▪	Wage gap	52	$\frac{ARM - ARW}{ARM} 100$
▪	Average remuneration of directors and executives, including variable remuneration, per diems, indemnities, payments into long-term savings systems and any other emoluments, disaggregated by gender.	54	GRI 102-38 GRI 201-3
▪	Implementation of policies on disconnecting from work	60-61	GRI 401-2 GRI 401-3
▪	Percentage of employees with disabilities	55	GRI 405-1
– Work organisation			
▪	Organisation of work time	60-61	GRI 401-2
▪	Absenteeism (hours)	63	GRI 403-2
▪	Measures to facilitate work-life balance and encourage the shared use of them by both parents	61	GRI 401-3
– Health and safety			
▪	Health and safety conditions in the workplace	62-63	GRI 403-1 GRI 403-2 GRI 403-3
▪	Number of workplace accidents, by gender	63	GRI 403-2 GRI 403-9
▪	Occupational illnesses, by gender	62	GRI 403-2
– Labour relations			
▪	Organisation of social dialogue, including procedures for informing and consulting employees and negotiating with them	61-62	GRI 402-1 GRI 403-1 GRI 403-4
▪	Percentage of employees covered by collective bargaining	55	GRI 102-41
▪	Collective agreements, particularly in the area of occupational health and safety.	65-66	GRI 403-4
– Training			
▪	Training policies in place	59-60,66	GRI 404-2 GRI 403-5
▪	Total number of training hours, by professional category	56	GRI 404-1
– Universal access for persons with disabilities			
– Equality			
▪	Measures taken to promote equal treatment and opportunities between women and men		
▪	Equality plans		
▪	Measures adopted to promote employment	56-58	GRI 405-1 GRI 405-2
▪	Protocols against sexual harassment and gender harassment		
▪	Integrity and universal access for persons with disabilities		
▪	Policy against all types of discrimination and policy on diversity, if any.		
Environmental issues			
– Management approach			
▪	Detailed information on the current and foreseeable effects of the company's activities on the environment and, as appropriate, on health and safety	40-41	GRI 102-15 GRI 103-2
▪	Procedures for environmental assessment or certification	44-45	GRI 307-1

▪ Resources allocated to preventing environmental risks	42	GRI 201-2
▪ Application of the precautionary principle	44-45,48	GRI 102-11
▪ Number of provisions and guarantees in connection with environmental risks	42	N/A
– Pollution		
▪ Measures to prevent, reduce or remedy carbon emissions that seriously affect the environment (also includes noise and light pollution)	42, 45-47	GRI 305-1 GRI 305-2 GRI 305-3
– Circular economy, sustainable resource use and waste abatement		
▪ Measures for abatement, recycling, reuse, and other forms of waste recovery and disposal	46-47	GRI 306-2
▪ Actions to reduce food waste	47	N/A
– Sustainable use of resources		
▪ Water consumption and supply of water in accordance with local limitations	41-42, 46-47	GRI 303-1 GRI 303-2 GRI 303-3 GRI 306-1
▪ Consumption of raw materials and measures adopted to enhance the efficiency of their use	42	GRI 301
▪ Direct and indirect energy consumption	42	GRI 302-1 GRI 302-4 GRI 302-2
▪ Measures taken to enhance energy efficiency	46-47	GRI 302-4 GRI 302-5
▪ Use of renewable energy	46-47	GRI 302-1
– Climate change		
▪ Greenhouse gas emissions	42	GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-4 GRI 305-5
▪ Measures to adapt to climate change	45-46	GRI 201-2 GRI 302-4
▪ Greenhouse gas emission reduction objectives	41	GRI 305-5
– Biodiversity		
▪ Measures to preserve or restore biodiversity	48	GRI 102-11 GRI 304-3
▪ Impacts of activities	48	GRI 304-2
Information on respect for human rights		
– Due diligence	83-84	GRI 102-16 GRI 102-17 GRI 412-2 GRI 102-16 GRI 102-17
– Measures to avoid the risk of human rights violations and any measures to mitigate, manage and repair possible abuses committed	83-84	GRI 412-2 GRI 102-34
– Complaints about human rights violations	79	GRI 102-17 GRI 102-33 GRI 412-1
– Promotion of, and compliance with, the ILO's fundamental conventions related to freedom of association and the right to collective bargaining	84	GRI 102-16 GRI 407-1 GRI 408-1 GRI 409-1
– Elimination of forced or compulsory labour	84	
– Effective abolition of child labour	84	
Information on the fight against corruption and bribery		
– Management approach		GRI 102-16 GRI 102-17 GRI 205-3
– Measures to prevent corruption and bribery		GRI 102-16 GRI 102-17
– Anti-money laundering measures		GRI 201-1 GRI 413-1
– Contributions to foundations and not-for-profit institutions		
Information about society		
– Management approach		GRI 413-1 GRI 203-1 GRI 203-2
– Companies' commitment to sustainable development		
▪ Impact of the company's activities on employment and local development		
▪ Impact of the company's activities on local populations and on the territory		
▪ Relations with actors in the local communities and forms of engagement with them		
▪ Partnership or sponsorship actions		

<ul style="list-style-type: none"> - Responsible management of the supply chain <ul style="list-style-type: none"> ▪ Inclusion of social, gender equality and environmental issues in the procurement policy. ▪ Consideration of suppliers' and subcontractors' social and environmental responsibility in relations with them ▪ Supervision and audit systems - Management of customer relations <ul style="list-style-type: none"> ▪ Measures to support consumer health and safety ▪ Complaint systems ▪ Complaints received and their outcome - Tax information and transparency <ul style="list-style-type: none"> ▪ Profits, by country ▪ Corporate income tax paid ▪ Government subsidies received 	<p>GRI 308-1 GRI 414-1 GRI 414-2 GRI 102-9</p> <p>GRI 416-1 GRI 417-1 GRI 417-2</p> <p>Accounting policies</p>
--	--

7. Additional information

7.1. Own shares

The General Meeting of Shareholders of 5 March 2019 authorized the Board of Directors so that, within a term not exceeding five years, it may acquire, on a one-time basis, one or several times, shares of the company that are fully paid up, without ever having the nominal value of the shares acquired directly or indirectly, in addition to those already owned by the Company and its subsidiaries, exceeds 10% of the subscribed capital, or any other legally established. The consideration price or value may not be less than the nominal value of the shares or exceed the value of the stock exchange.

Movements during 2019 and 2018 involving own shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (Euros million)	% Capital
At 1 January 2018	-	-	-
Purchases	10,782,040	227	1.0
Purchases for long-term incentives	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	--
Disposals	(5,029,881)	(99)	(0.5)
At 31 December 2018	14,037,332	321	1.4
Share ownership plan	332,382	7	--
Delivered to employees	(310,812)	(7)	--
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
Acquisitions	5,162,320	121	0.5
Disposals	--	--	--
At 31 December 2019	13,823,485	321	1.4

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

In 2019, no profit or loss was recognised on transactions involving Naturgy's own shares (profit of Euros 0.4 million in 2018 recognised under "Other reserves").

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 20 April 2017, within the Share Acquisition Plan 2017-2018-2019, those relating to 2017 and 2018 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan were set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 have been delivered, leaving a surplus of 21,570 treasury shares.
- 2018 buyback programme: Within the Strategic Plan 2018-2022, The Board of Directors of Naturgy Energy Group, S.A. approved a treasury shares buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing

approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of 24.13 euros per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of 22.42 euros per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.

- Capital reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:
 - a) Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.
 - b) the aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.
- Long-term Variable Incentive Plan: In 2018 Naturgy acquired 8,639,595 treasury shares the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan (see paragraph on Share-based payments in this Note).

Note 11 of the Notes to the Annual Accounts contains full information on own shares.

7.2. Disclosure of delays in payment to suppliers. Additional Provision 3 "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of July 5, which laid down measures against late payment, is as follows:

	2019	2018
Total payments (Euros thousand)	1,947,320	4,663,208
Total outstanding payments (Euros thousand)	18,540	52,844
Average supplier payment period (days) ⁽¹⁾	18	17
Transactions paid ratio (days) ⁽²⁾	17	17

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

7.3. Subsequent events

Events subsequent to the end of the period are described in Note 30 of the Notes to the Annual Accounts.

8. Annual Corporate Governance Report

Attached as an annex and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2018, as required by article 526 of the Capital Companies Act.

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD

2019

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de San Luis, 77 – 28033 Madrid

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
23/07/2019	984,122,146	984,122,146	984,122,146

Please indicate if there are different types of shares with different rights associated:

YES NO **X**

Class	Number of shares	Face value	Number of voting rights	Different rights

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors* :

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20.336%			20.336%
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	4.1%				4.1%
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS I PENSIONS DE BARCELONA (LA CAIXA)		24.424%			24.424%
CVC Capital Partners SICAV-FIS S.A.		20.410%			20.410%
CAPITAL RESEARCH AND MANAGEMENT COMPANY		3.030%			3.030%

* According to information on significant shareholdings reported to the CNMV (Spanish Securities Market Authority) by the reporting parties.

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
GLOBAL INFRASTRUCTURE PARTNERS III	GIP III CANARY 1, S.À R.L.	20.336%		20.336%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U	24.424%		24.424%
CVC Capital Partners SICAV-FIS S.A.	RIOJA ACQUISITION S.À R.L.	20.410%		20.410%
CAPITAL RESEARCH AND MANAGEMENT COMPANY *	AMERICAN FUNDS FAMILY OF MUTUAL FUNDS	3.030%		3.030%

* According to information on significant shareholdings reported to the CNMV by the reporting parties.

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
ENERGIA BOREAL 2018 S.A.	December 17 th 2019	All the stakes in Energía Boreal held by CRITERIA CAIXA S.A.U. were taken over by the latter directly after the merger by absorption

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights <u>that can be transferred</u> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. FRANCISCO REYNES MASSANET		0.008			0.008		
RIOJA S.Á.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
MR. SCOTT STANLEY	0				0		
MR. PEDRO SAINZ DE BARANDA RIVA		0.002			0.002		
MR. RAMÓN ADELL RAMÓN	0.002				0.002		
MR. ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	0.003				0.003		
MR. CLAUDIO SANTIAGO PONSÀ	0				0		
MR. MARCELINO ARMENTER VIDAL	0.001				0.001		
MR. FRANCISCO BELIL CREIXELL	0.001				0.001		
MRS. HELENA HERRERO STARKIE	0				0		
MR. RAJARAM RAO	0				0		

% total voting rights held by the Board of Directors	0.017%
--	--------

Detail of the indirect holding

Name or company name of Director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights <u>that can be transferred</u> through financial instruments
Mr. Francisco Reynés Massanet	FRINVYCO, SL	0.008			
Mr. Pedro Sainz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0.002			

Observations:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A. 7

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
CRITERIA CAIXA S.A.U	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
MR. MARCELINO	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Proprietary/Managing Director

ARMENTER VIDAL		Caixa Capital Risc, S.G.E.I.C. S.A.	Vice-President – Managing Director
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman and Managing Director
		Saba Infraestructuras, S.A.	Director
		Caixa Invierte Industria, S.C.R., S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Industrial Ventures, S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Venture Capital, S.I.C.C. S.A.	Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A.
MR. ENRIQUE ALCANTARA GARCIA-IRAZOQUI	CRITERIA CAIXA S.A.U		Proprietary
MR. SCOTT STANLEY	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary
MR. RAJARAM RAO.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Shareholder
MR. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Proprietary
MR. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES NO

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one
CRITERIA CAIXA S.A.U GIP III CANARY 1, S.À R.L.	44.76%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L.,	20.410%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact N° 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

1.-Through Relevant Fact N° 281047 on 1 August 2019, Corporación Alba reported that, on said date, all the parties to the Parallel Shareholders Agreement agreed the modification of the same, as of 1 August 2019, in order to adapt it to the merger by absorption of Rioja Bidco by its sole member, namely, Rioja Acquisition, S.à.r.l., with termination date, as reported in the Relevant Fact, in September 2019 and, for that purpose, only the Parallel Shareholder Agreement was modified.

2.- Through Relevant Fact N° 283453, of 8 November 2019, Criteria Caixa reported that on 5 November 2019 it was resolved, separately, both Parallel Shareholder Agreements signed on 28 September 2018 with the companies G3T, S.L. and BCN Godia, S.L.U., respectively, in regards to shares in Naturgy Energy Group, S.A.

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES NO

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
5,183,890	8,639,595	1,40%

OBSERVATIONS

Explain the significant changes over the year:

Details of significant changes
<p>Naturgy holds 8,639,595 shares in a separate corporate vehicle that were purchased I 2018 to generate a yield that will finance the long-term incentive of certain executives if they fulfil the established conditions (see Relevant Facts dated 3 August, 1 October and 6 December 2018 and section B.7. of the Annual Remuneration Report).</p> <p>In addition, at 31 December 2019, the company has 5,183,890 shares available for the purpose of repurchasing shares for possible redemption, with the intention of acquiring shares in volume of up to 400M euros in the period ending on 30 June 2020.</p>

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders on 5 March 2019, in item 9 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2019 through redemption of a maximum of 18,998,662 own shares by implementing a Share Buy-Back programme.

Ninth.- Reduce the share capital of NATURGY ENERGY GROUP, S.A. (hereinafter the “Company”) by the amount resulting from the sum of:

1. 2,998,622 euros, through redemption of the 2,998,622 Own Shares, each with a nominal value of one euro, on close of the Market on 6 December 2018, having been acquired under the authorisation conferred by the General Meeting of Shareholders held on 14 May 2015 under item fourteen (14) on the Agenda and within the limits of that set forth in Articles 144 to 148 and 509 of the consolidated text of the Spanish Corporate Enterprises Act, approved by the Royal Legislative Decree 1/2010, of 2 July of the Spanish Corporate Enterprises Act and intended for the purposes of repurchasing own shares (buy-back), contemplated in the Strategic Plan, and possible redemption, as detailed in the Relevant Facts on 6 December 2018 (Registry Number 272,238 and 18 January 2019 (Registry Number 273,935); and

2. The aggregate nominal value, up to a maximum of 16,000,000 euros, corresponding to the additional 16,000,000 shares, each with a nominal value of one euro. Said shares shall be ordinarily purchased for their redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter, the “Buy-Back Programme”), approved by the Company under the EU Regulation N° 596/2014 on market abuse and published as Relevant Fact on 6 December 2018 (Registry Number 272,237), whose closing acquisition date expires on 30 June 2019, inclusive.

As a result, the maximum amount of the reduction in share capital (the “Share Capital Reduction”) is 18,998,622 euros, through the redemption of up to a maximum of 18,998,622 own shares with a nominal value of one euro each, proportional, approximately 1.90% of the share capital of the Company at the time of the adoption of the agreement. In view of the foregoing, on the 31 January 2019 the Company held, in accordance with the two previous points, 9,438,556 Own Shares for possible redemption.

The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section. However, in the case that the resolution contained in item eleven (11) of the Agenda of the General Meeting of Shareholders, the total amount of 8,639,595 shares acquired with respect to the Long-Term Incentive Plan, as detailed in the Relevant Fact on 6 December 2018 (Registry Number 272,238), for purposes of redemption, reducing by the same amount the needs of the Buy-Back Programme, to the extent that the underscored maximum share capital reduction amount shall not be changed”.

3.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

*“**FOURTEEN.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights,*

with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.

- 1) *Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.*
- 2) *The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.*
- 3) *As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:*

“TRANSITORY ARTICLE.- DELEGATION TO THE BOARD OF DIRECTORS.

The company's Board of Directors, with the powers of replacing this delegation with the Executive Committee, has been authorised to increase the share capital by FIVE HUNDRED MILLION THREE HUNDRED AND FORTY FOUR THOUSAND AND SIX HUNDRED AND SEVENTY EUROS (Euros 599,344,670), within five (5) years from this date (20/04/2017), through a cash contribution, in one or more payments and as and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right vote, with or without a premium, without the need for new authorisation from the General Meeting of Shareholders, up to the limit of 20% of the share capital at the time of this authorisation, as well as to amend the Articles of Association required for the share capital increase carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Spanish Corporate Enterprises Act”.

A.11 Estimated floating capital:

	%
Estimated floating capital	27.7

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES NO

Description of the restrictions
As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition. Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act (“LSC” in Spanish).

YES NO X

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company’s system of adopting corporate agreements and the framework established in the Corporate Enterprises Act (“LSC” in Spanish):

YES NO X

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company’s Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders’ rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting

of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

- 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
- 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
- 3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.
- 4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

Date of General Meeting of Shareholders	Attendance data				Total
	% physical presence	% represented	% remote voting		
			Electronic Vote	Other	
20/04/2017	68.66%	13.34%	0%	0%	82%
Of the floating capital 2017	0.1%	13.3%	0%	0%	13.4%
27/06/2018	68.69%	15.13%	0%	0%	83.82%

Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%
05/03/2019	72.12%	13.06%	0%	0%	85.18%
Of the floating capital 2019	2.55%	13.06%	0%	0%	15.61%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes No

Agenda items that have not been approved	% of votes against (*)

(*)If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES NO

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES NO

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:

https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Independent	Coordinating Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09-01-1958
Mr. Enrique Alcántara-García Irazoqui		Proprietary	Director	27/06/1991	20/04/2017	Agreement General Meeting of Shareholders	21-10-1944
Mr. Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	02-06-1957

Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of Shareholders	24-05-1946
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	04/05/2016	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	03-04-1971
RIOJA S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	01/08/2019	Board Co-opted	26-11-1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
D. Pedro Sainz De Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 6-07-2018)	Agreement General Meeting of Shareholders	23-03-1963
Mr. Scott Stanley		Proprietary	Director	29/01/2019	05/03/2019	Agreement General Meeting of Shareholders	07-02-1957
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-71

Total number of directors	12
----------------------------------	-----------

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the mandate
William Alan Woodburn	Proprietary	20/04/2017	29/01/2019	ARC	YES
Rioja Bidco Shareholdings, S.L.U.	Proprietary	27/06/2018	01/08/2019	ARC	YES

Reason for the resignation and other observations
<p>Proprietary Director Mr. Woodburn resigned due to his new responsibilities in Group GIP.</p> <p>Rioja Bidco Shareholdings, SLU was replaced on the decision of the Shareholder due to a company restructuring of its business group.</p>

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mr. Enrique Alcántara-García Irazoqui	CRITERIA CAIXA S.A.U	Legal profile: Former Public Prosecutor. He is Secretary of the Board of Directors and of the Trusts of multiple Societies and Foundations.
Mr. Marcelino Armenter Vidal	CRITERIA CAIXA S.A.U	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l..	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Rioja S.à.r.l. (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions Sarl, S.L.U	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Mr. Scott Stanley	GIP III Canary 1 S.à r.l.	Economics and international business profile: Degree in Ceramic Engineering from the Ohio State University.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (Mr. Jose Antonio Torre de Silva López de Letona).	Rioja Acquisitions S.a.r.l	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).

Total number of proprietary directors	6
% of the entire board	50.00%

OBSERVATIONS

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Graduate in Law. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudio Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director may perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

OBSERVATIONS

Throughout 2019 there has not been any significant renewal processes of the Board of Directors. The only renewal circumstance that occurred was the replacement of a natural person representative Proprietary Director, Mr. William Woodburn, who resigned from his position in the light of the new responsibilities that he had to assume in the business group to which he provides services. Mr. Scott Stanley, candidate who was replaced through the co-option system, representing a significant shareholder, was proposed by said shareholder, and certified by the General Meeting of Shareholders held on 5 March 2019.

The replacement of a legal entity proprietary director also took place, albeit due to the company restructuring of the group of the significant shareholder but did not affect the appointment of the natural person representative of the same.

Within the framework of this process of renewal of proprietary directors, the Company has first of all been respectful of the right to proportional representation that lawfully corresponds to shareholders. The detail of the assessment made by the Appointments and Remuneration Committee of the different candidates proposed by the shareholders is included in the corresponding report of the Committee that was published with the call to Meeting.

In any case, in line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in extension of term of office. Said process, concluding with the proposal to the General Meeting of Shareholders was made by the Appointments and Remuneration Committee in the aforementioned meeting in October 2019, after approval of the Competency Matrix.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:

Explication of the measures
<p>The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune</p>

reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought.

On the same lines, the Board meeting held in October 2019 approved, according to the recommendations of the CNMV (Spanish Securities Market Authority) 1/2019 Technical Guide, a Competency Matrix that has already been used in the process for selecting candidates to cover the position of Independent Director that is in extension of term of office and that is planned in financial year 2020, to be incorporated in the Policy for selecting Directors once the corresponding modification of said policy is approved by the Board.

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons

The Company's Appointments and Remuneration Committee fully respects the legally recognised right to proportional representation of its significant shareholders. To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director that is in extension of term of office.

C.1.7 Explain the Appointments Committee's conclusions on the checks carried out to ensure that the Director Selection Policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020 comes to an end.

The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

In line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in

extension of term of office. Said process, concluding with the ensuing proposal to the General Meeting of Shareholders to be held in 2020, was made by the Appointments and Remuneration Committee in the said meeting in October 2019, after approval of the Competency Matrix.

The percentage of female profiles among independent directors represents 20% of the total, although it is expected to increase when it is appropriate to make new proposals.

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES NO X

Name or company name of shareholder	Explanation

C.1.9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11 Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director

Mr. Marcelino Armenter Vidal	Caixabank S.A.	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automocion, S.A.	Director

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES NO X

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	7.803
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	5.232(*)
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	0

OBSERVATIONS
(*) It includes the amount corresponding to the variable remuneration 2018 and 2019 that are settled as a contribution to the Executive Chairman's Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr. Antonio Gallart Gabás	Director of Business Infrastructures Latin America South Zone
Mr. José García Sanleandro	Director of Business Infrastructures Latin America North Zone
Mr. Antonio Basolas Tena	Manager Corporate Strategy & Development
Mr. Manuel Fernández Álvarez	Business Director Gas & Electricity
Mr. Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Tabernero	Communication & Institutional Relations Managing Director

Mrs. Rosa M ^a Sanz García	España & Empl – Medgaz Infrastructure Business Managing Director
Mr. Miguel Angel Aller Blanco	Lean Project Manager
Mr. Steven Fernández	Capitals Market Director
Mr. Jon Ganuza Fernandez De Arroyabe	Controlling
Mr. Carlos Ayuso Salinas	Director of Internal Audit

Total remuneration of senior management (in thousands of euros)	16.366
--	--------

OBSERVATIONS
Messrs. Egea Krauel and Peris Mingot stopped working for the company in 8 april 2019 and 31 December 2019, respectively.

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES x NO

Description of modifications
At the meeting of 29 October 2019 Article 6 of the Board Regulations was amended to (i) extend from six (6) to eight (8) the minimum yearly meetings that the Board should meet and (ii) to facilitate any Director requesting the inclusion of matters in the Agenda.

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

<p>The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act (“LSC” in Spanish).</p> <p>1.- Appointment:</p> <p>The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.</p> <p>If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.</p> <p>The status of Shareholder is not required to be appointed Director.</p>
--

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a previous report/proposal from the Appointments and Remuneration Committee.

In particular, the proposals for the appointment of Directors which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date have a term of three (3) years). The Directors appointed by co-option will exercise their position under the terms established in prevailing legislation.

The Appointments and Remuneration Committee is also entrusted with evaluating the quality of the work and the dedication of the Directors proposed during the preceding mandate. It will make suggestions regarding Independent Directors and report on the remaining Directors, on a compulsory basis, on the proposals for the re-election of Directors which the Board of Directors chooses to submit to the General Meeting of Shareholders.

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

According to the foregoing, the new Competency Matrix approved by the Board is also to be used in the process for re-electing Directors.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Executive Directors step down from their executive positions.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, a Competency Matrix has been used in the process for covering the position of Independent Director whose re-election/appointment must be put forward to the General Meeting of Shareholders, since the term of office has expired of the Director currently in this position and it is planned modify in financial year 2020 the Policy for selecting Directors to include this Matrix in all processes to cover vacancies or re-election of Directors.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
<p>The evaluation of the Board of Directors for 2017 included the participation of an independent expert as consultant, which implemented throughout 2018 of an Action Plan on the subject of corporate governance which led to the approval in the General Meeting of Shareholders in 2018 of some new Company's Articles of Association, the reduction of the number of Directors, the removal of the Executive Committee, and the attribution to the Appointments and Remuneration Committee of new powers in matters of corporate governance.</p> <p>Since a there has been in-depth renewal with respect to corporate governance in financial year 2018, the assessment of the board relating to financial year 2018 has not identified the need to make any significant changes to internal organisation or in the procedures applicable to the activities during financial year 2019.</p> <p>Nonetheless, the publication by the CNMV of the Technical Guide for Appointments and Remuneration Committees led to both the Committee and the Board as a whole to examine the processes to which said Guide makes reference. The most significant outcome of the same is that the Board approved a Competency Matrix in October 2019 and the</p>

modification to the Directors Selection Policy to include the need to take said Matrix into account in the processes for selecting Directors was approved in the meeting held in February 2020.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
<p>The Board was advised by an external consultant for the self-assessment of its operation during 2017, which allowed it to have a base with which to address the process of simplification and the broad renewal of the Board in June 2018. For this reason, the Board has not resorted to such external consultation in 2018, on the understanding that it is appropriate to let a certain period of time pass in order to adequately analyse the effectiveness of the agreed measures, since they have been implemented progressively throughout 2018.</p> <p>Notwithstanding, the experience gained in said evaluation process has served to improve the internal self-assessment process. Likewise, similar to that done in 2018, some detailed questionnaires were prepared on which the Appointments and Remuneration Committee have worked, and that were sent to all Members of the Board and the Committees so that they could express their opinions relating to the functioning of the Board. This meant that the questionnaires could be submitted anonymously if the Director so deemed to do so. The conclusions of said questionnaires have been analysed in detail when preparing the corresponding self-assessment reports.</p> <p>The Assessment of the Board assisted by an external consultant shall most likely be carried out in financial year 2020.</p>

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NOT APPLICABLE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

- a. When Executive Directors step down from their executive positions.
- b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES NO

Where appropriate, describe the differences.

Description of the differences
<p>Article 7.4 of the Regulations of the Board of Directors states the following:</p> <p>“4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority.</p> <p>In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable:</p> <ol style="list-style-type: none"> a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one.

- d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000.
- e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts.
- f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros.
- i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO **X**

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES NO **X**

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES NO **X**

Additional requirements and/or maximum number of years of in office	
---	--

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association “Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary.”

In addition, Article 7.3 of the Regulations of the Board states: “Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors’ representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman’s Office or the Board Secretary before the beginning of the session”.

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	16
Number of board meetings without the Chairman attending	0

Observations

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0
--------------------	---

Observations
Since the Coordinating Director is also the Chairman of the Appointments and Remuneration Committee and had held this position on the Audit Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit Committee	6
Number of meetings of the Appointments and Remuneration Committee	6
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the _____ Committee	

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	16
% of attendance over the total number of votes during the year	97%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	12
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	96%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

YES X NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, the Audit Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well as supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that no accounting qualifications have been made.

C.1.29 Is the Secretary of the Board also a Director?

YES NO **X**

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for

examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective. In order to increase transparency, this area has been enhanced by differentiating it from the Financial Department.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO **X**

Outgoing auditor	Incoming auditor
------------------	------------------

--	--

Observations

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES NO

	Company:	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	17	168	185
Amount of tasks other than auditing/Amount billed by the audit company (%)	1,90%	4,5%	4,0%

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to

YES NO

Explication of the reasons

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated
--	------------	--------------

Number of years without interruption	2	2
--------------------------------------	---	---

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	6,90%	6,90%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES NO

Details of the procedure
<p>Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: “2- Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held”.</p> <p>The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting.</p> <p>To this end, the Board’s documentation is made available to the directors through a computer platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the</p>

exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.

Furthermore, during the meeting, those Directors whose issues are being dealt with at the meeting are available to be called -and they frequently are called -so that the Directors in attendance can ask them directly for any clarifications, details or opinions in relation to the items discussed in the session and can directly appreciate their suitability for the position.

Finally, the Directors may request additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the Company's credit and reputation:

YES NO

Explain the rules
<p>In accordance with Article 11.3 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.3, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.</p> <p>Also, Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:</p> <ul style="list-style-type: none">a) When Executive Directors step down from their executive positions.b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Indicate whether or not any Member of the Board of Directors has informed the Company that he/she has been prosecuted or hearings against him/her have been opened for any difference laid down in Article 213 of the Spanish Corporate Enterprises Act:

YES NO X

Director's name	Criminal Case	Observations

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

YES NO X

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 9.7 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change

of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases

C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	17
Beneficiary type	Description of the agreement
Executive Chairman	<p>The Chairman’s contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan.</p> <p>The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year’s fixed remuneration has been established.</p> <p>The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.</p>

Executives	<p>The contracts signed with 11 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.</p> <p>In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute.</p> <p>Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.</p>
------------	--

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting of Shareholders
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Meeting of Shareholders informed of the clauses?	X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE OR DELEGATED COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

NOT APPLICABLE.

Indicate whether the composition of the Delegated or Executive Committee reflects the participation in the board by the various directors depending on their category:

YES NO

If the answer is negative, explain the composition of your Delegated or Executive Committee
NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mr. Enrique Alcántara-García Irazoqui	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mr. Rajaram Rao	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

In response to different resolutions of the Board of Directors of 27 November 2015, 29 January 2016 and 6 March 2018, it exercises the following functions:

- Prepare the report on auditor independence.
- Prepare the Report on the performance of the Audit Committee.
- Prepare the Report on related operations.

- Strive to ensure that the Board of Directors can present the company’s accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor’s report. In the exceptional case that qualifications exist, both the Chairman of the Committee and the Auditors should give a clear account to shareholders of their scope and content of said limitations.
- With respect to control and reporting systems:
 - (a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
 - (b) Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.
 - (c) Setting up and supervising a mechanism whereby employees can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
- With regard to the External Auditor.
 - (a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.
 - (b) Ensuring that the remuneration of the external auditor does not compromise its quality or independence.
 - (c) Supervising that the company notifies any change of external auditor to the National Securities Market Commission as a relevant event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - (d) Ensuring that the external auditor has a yearly plenary session of the board to inform them of the work undertaken and developments in the company’s risk and accounting positions.

- (e) Ensuring that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
- Call any of the Company's employees or managers, and also have them appear without the presence of any other executive.
- Analyse and report to the Board of Directors on the economic conditions and the accounting impact and, especially, where applicable on the exchange ratio, in relation to the operations of structural and corporate modifications that, due to their nature or amount, are of special relevance. Transactions whose net value exceeds the value of 25% of the assets that appear on the last approved balance sheet of the Company will be deemed relevant.
- In addition:
 - (a) Supervision of compliance with the internal codes of conduct.
 - (b) Overseeing the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
 - (c) The regular evaluation of the adequacy of the company's governance system
 - (d) Monitoring and assessing the processes of liaising with different stakeholders.
 - (e) The evaluation of the company's non-financial risks

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

The Audit Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2019.

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- Quality and efficiency of its operation.
- External audit of individual and consolidated Annual Accounts.
- Supervision of the process of preparation of financial reporting.
- Tax situation.
- Independence of the Auditor.
- Related-party transactions.
- Verification of the crime prevention system.
- Supervision of risk control systems and specific risk analysis.
- Supervision of internal control and internal audit systems.
- Monitoring of own-share operations
- Action Plan in terms of Compliance
- Internal Audit Supervision

Identify the Directors who are Members of the Audit Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	MR. RAMÓN ADELL RAMÓN
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr. Ramon Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudio Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Scott Stanley	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee’s duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments and Remuneration Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

- Prepare the report on performance of the Appointments and Remuneration Committee.
- Verify the selection policy for Directors and report on this in the Annual Corporate Governance Report.
- Through delegation that must be granted by the Chairman of the Board, to organise and coordinate the regular assessment of the Board and that of the Chief Executive of the Company.
- Prepare the report on the operation of the Board of Directors.
- Propose to the Board of Directors the standard conditions for Senior Executive contracts.
- Monitor compliance with the remuneration policy set by the Company.
- Regularly review the remuneration policy for Directors and Senior Executives.
- Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- Verify information on remuneration of Directors and Senior Executives contained in the various corporate documents.

- Through a resolution of the Board of Directors on 29 January 2016, it was entrusted with the exercise of all the corporate social responsibility powers that hitherto had been exercised by the Audit Committee.
- Through a resolution of the Board of Directors on 6 March 2018, it was agreed to entrust the Appointments and Remuneration Committee with the following tasks previously entrusted to the Audit Committee:
 - i) Monitor of the most relevant incidents in terms of health, safety and the environment.
 - ii) Raise proposals and report on initiatives in corporate governance.

b) Procedures, and organisational and operational rules

in accordance with Article 25 of the Regulations of the Board:

The Appointments and Remuneration Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2019:

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

- i) Corporate Governance: i) the Technical Guide of CNMV for Appointments and Remuneration Committees has been analysed and, to adapt to its recommendations, measures have been adopted. As part of the same of note is the proposal to the Board of Directors for their approval of a Competency Matrix for which external assessment was sought, ii) a modification to the Policy for selecting Directors to include the need for preparing said Competency Matrix was proposed, iii) the Committee has worked hard on the self-assessment process of the Board in which some specific questionnaires have been designed that must be completed by the Directors, iv) different measures for modifying the Articles of Association and the Board of Directors Regulation have been proposed to progress in the alignment to the best corporate governance practices (minimum number of meetings of the Board and right to any Director to include items on the Agenda of the Board Meeting) Proposal for new Directors: given that the Independent Director Mrs. Herrero is in extension of term of office, the coverage of this position has been analysed with the help of the aforementioned Competency Matrix. As a result of the same, the Committee proposed to the Board the renewal of Mrs. Herrero in her position.
- ii) Health and Safety: the Committee has followed the indicators on Health and Security of the Group and have been informed of the accidents reported and the proposals for corrective and preventative measures. Likewise, the integrated model of the Group for managing safety has been analysed in detail.
- iii) Remuneration: the Committee has been engaged in applying the new Director Remuneration Policy by the General

iv)	Meeting of Shareholders of 2019, as well as supervising the remuneration policy of the Management Team. Corporate Social Responsibility: the Committee have analysed and submitted to the Board for their approval a new Strategic Sustainability Plan for 2019-2022.
-----	--

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors
% of independent directors
% of other external directors

Observations

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee’s duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

_____ **COMMITTEE**

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

--

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	Financial Year 2019		Financial Year 2018		Financial Year 2017		Financial Year 2016	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	1	10%	1	10%
Audit Committee	1	14.28%	1	14.28%	2	28.57%	2	28.57%
Appointments and Remuneration Committee	0	0%	0	0%	1	20%	1	20%
Appointments Committee	-	-	-	-	-	-	-	-
Remuneration Committee	-	-	-	-	-	-	-	-
Committee	-	-	-	-	-	-	-	-

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) → Shareholders and investors → Corporate governance → Corporate governance standards.

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions
<p>In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit Committee, of the operations that the Company or its group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.</p> <p>In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit Committee every year.</p>

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or Company Name of Significant Shareholder	Name or Company Name of the Company or Entity of the Group	Nature of the Relationship	Type of Operation	Amount (thousands of euros)
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Provision of Services	10
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	13.368
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	1.217
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	27.028
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	333,486

CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	268,548
Gip III Canary 1, S.A R.L.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	267,584

Observations

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousands of euros)

Observations

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)

Observations

D.5 Indicate the amount from related party transactions.

0 (thousands of euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

- The Director must refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.

- Also, the director shall adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the Company.

- In his/her capacity as loyal representative of the Company, the director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in NATURGY ENERGY GROUP S.A. and investee companies.

- The director must notify the Company of significant changes to their professional circumstances and changes which affect the nature or capacity by which he/she was categorised.

- The director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent proprietary directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

The Director must abstain from conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the Company or which, in any other manner, place them in permanent conflict with the Company's interests. Particularly, the director, may not hold, himself or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with NATURGY ENERGY GROUP S.A. or any other company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of NATURGY ENERGY GROUP S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of NATURGY ENERGY GROUP S.A.

The Director Selection Policy establishes that candidates are to be asked if they may have any possible conflicts of interests.

2.- Directors and executives:

Indicate whether or not their respective activity area and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group:

YES

NO

Define the possible business relationships between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group
--

Indicate the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:

Mechanisms for solving possible conflicts of interests
--

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the Group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

Audit Committee

A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

Risk Committee

Is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks.

Risk Control Units

Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include: Risks and Insurance, Gas&Power Risks and Internal Auditing.

Business, Corporate and Project Units

They are responsible for the application of the main principles of the Control and Risk Management Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its business targets.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of hydraulic production	Optimisation of commercialisation/generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.

Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Collection process.
Operational risks		
Operational: image and reputation	Deterioration in perception of Naturgy by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable.	Accidents, damages or non-availabilities in assets of Naturgy.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational:	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Corporate positioning with regard to climate change. Active participation on influence forums.
Operational: cybersecurity	Attacks on computer systems.	Implementation of security measures. Analysis of events and application of remedies Training
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NTGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.

Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure
------------------	--	-------------------------------------

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Unit's responsibility to assess the risks identified, based on:

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Identify any risks, including tax risks, which have occurred during the year.

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

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.

Subsequent to the approval of the new Strategic Plan 2018-2022, asset impairment or write-offs of Euros 4,851 million have been recorded, caused by the reassessment of future cash flow estimates based on the aforementioned plan, as well as other factors that have occurred during the period.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity’s internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company’s control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter “ICFR”) in the “Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy”.

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit Committee.

The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- Audit Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit Committee will have the function of supervising the effectiveness of the company’s internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation

to the reporting and control systems, the Audit Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit Committee is supported by the Internal Auditing Unit.

- Corporate Financial Department: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the Internal Control of Financial Reporting team.
- Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.
- Internal Auditing Unit: In general, it is responsible for assisting the Audit Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.
- Compliance Unit, responsible of the Crime Prevention Model at NTGY, provides information and support to the Audit Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information..
- Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control, the responsibilities, previously centralized in the Corporate Finance Department, have been decentralized to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Corporate Finance Department is responsible for establishing the criteria and principles for the design and organization of the operation of the SCIIF (with the Internal Financial Information

Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.)

In this process, the Administration and Operational Monitoring units are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single NTGY Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the existing critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business and additionally the Financial Management prepares the Interrelationship Maps of the transversal and corporate processes

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

- (i) the information required to prepare the financial reporting;
- (ii) the parties in charge that are either the source or recipient of the financial reporting and
- (iii) the distribution of tasks among the different organizational units
- (iv) the scope of this distribution to all group companies
- (v) the frequency of information transfer
- (vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter “Code of Ethics”), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of NATURGY ENERGY GROUP S.A. and for all investee companies in which Naturgy holds

management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of NATURGY ENERGY GROUP, S.A.

Since it was approved, it has been amended four times, on the last occasion on 27 June 2014, with the purpose of updating it and including new commitments acquired by Naturgy in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anti-Corruption Policy of Naturgy and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose; (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1)
“Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)”

- Processing of information and knowledge (Section 4.11):
“All employees that enter any kind of information in the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts”.

Naturgy has also established an Anti-Corruption Policy, which was approved by the Management Committee in a meeting held on 3 March 2014, amended in the meeting held on 24 November 2015, and which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of Chapter 4.7. “Corruption and Bribery” of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the

prevention, detection, investigation and remedy of any corrupt practice within the organisation.

The Code of Ethics Committee of NTGY has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy have been developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anti-Corruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential.**

NTGY has a Whistleblowing Channel, accessible to all its employees and third parties.

The aforementioned Whistleblowing Channel corresponds to an open channel (internal web platform accessible from any device), accessible to all NTGY employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code. All this outside the hierarchy of the usual operations of the employees.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this sense, the president of the Ethics and Compliance Committee (Compliance Director) has access, in the first instance, to know all the information of all the queries and notifications received from the group through the consultation and notification procedure. Likewise, notices related to fraud, audit or failures in accounting processes or internal control are reported directly to the Audit Committee.

More detailed information on the Code of Ethics, the Anti-Corruption Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel is given in the 2019 Corporate Responsibility report of NTGY.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2019 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

The relevant programmes performed in 2019 included the roll-out of the digital Teams tool. The purpose of this programme is to promote agile and flexible work habits, creating collaborative and mobile environments that facilitate new ways of working, taking advantage of the opportunities that this new technology offers. The global scope of Teams intends to be a transformation leverage for Naturgy.

Complimenting this programme training actions on Agile, SCRUM, Power BI, Big Data and SQL have been given that support the new ways of working in the Company.

Another of the relevant programmes carried out is the development of the online Cybersecurity course for all employees, with a focus on technical knowledge and on the duties and obligations in this area.

The specific knowledge for the economic-financial area covers several objectives, including normalising the economic-financial processes developed in any area of the organisation: updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2019 more than 1,600 professionals from the economic-financial area devoted nearly 1,600 hours to training in specific content, highlighting, among other matters, auditing, financial risks, renewable financing, functioning of the markets, internal control criteria for international bank payments, compliance, unbundling and activity separation and international tax planning.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled “Matrix for defining scope of financial reporting of Naturgy”.

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the “Risks matrix of financial reporting of Naturgy”.

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation of the SAP GRC Process Control tool was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to other countries of the group, such as Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support. .

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.
- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.
- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests have been performed in the following years according to the established schedules, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called “Consolidated closing cycle of Naturgy”. Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

The Audit Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit Committee uses the Internal Audit Unit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

- F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.**

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Naturgy is regularly reviewed by the head of the Corporate Financial Department, identifying possible deviations.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated annual accounts of NATURGY ENERGY GROUP, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the “Global Policy for the Internal Control System of Financial Reporting (ICFR)” of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group’s processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy’s ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
 - General control activities.
 - Processes control activities.

- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1).

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location...), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change.

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.

- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation.

In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.

- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.
-

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “Global Policy for External Contracting”, Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy has subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain customer service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In 2019, monitoring of online reputational risks of the supplier portfolio was introduced with respect to their commercial relationship with Naturgy through the use of a Screening tool for identifying exposure to the reputational risk of the counterparties and decision-taking depending on the risk identified in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the Corporate Financial Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the “Naturgy Accounting Plan”, which includes the group’s accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The “Naturgy Accounting Plan” is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group’s accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group’s subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (CSCs) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy's consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

- F.5.1. The supervision activities of the ICFR carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the**

possible corrective measures, and if its impact on financial information has been taken into account.

The Audit Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit Committee has the information and documentation provided by the Internal Audit and the Corporate Financial Department.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit

Unit, reports to the Audit Committee of NATURGY ENERGY GROUP S.A.

It has the task of guaranteeing the continuous review and improvement of the Group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the Group operates, in particular the operational, corruption, fraud and legal risks. Likewise, it is responsible for the report of the internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the Group's processes in all areas, and also assesses the operational risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the effectiveness and efficiency of operations and mitigate the main risks in each sphere of Naturgy, in particular the operational, corruption, fraud and legal risks.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk areas included in the Corporate Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit Committee and from top-tier management.

In accordance with the Strategic Audit Plan for processes, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

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

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

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

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).

- Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).
- Within the scope defined, inform the Audit Committee of the results and the weaknesses identified in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2019 were as follows:

- Gas networks: outages, disconnection/reconnection, energy control, network construction, training and commissioning, network maintenance,
- Electricity grids: grid development, grid maintenance, service provision, logistics.
- Generation: operation and generation assets maintenance, storage management, development and implementation of new projects, fuel purchases.
- Commercialisation (gas, electricity and services): contracts administration and access, access management, maintenance of power installations.
- Gas supply: management and monitoring of contracts.
- LNG: LNG invoicing, collection and payments.
- Customer Service: invoicing, debt management.
- Physical resources management: management of purchases and service contracting
- Management of internal control: monitoring of corrective actions, ICFR
- Management of information systems: information security and cybersecurity, guarantee of continuity and availability of the Information Systems (IS)
- Economic and financial resources management: treasury stock, economic-administrative management operations.
- Legal advice and support: powers of attorney.
- Review of the Group’s regulatory system
- Code of Ethics channel
- Crime Prevention Model.
- Continuous auditing

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been

entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6 of the Regulation of the Board:

The Board shall meet eight (8) times a year and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the Company or when requested by at least one-third (1/3) of the Directors.

The Members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the effectiveness of the internal control system.

In accordance with the Articles of Association and Regulations of the Board of Directors and its Committees, the Audit Committee shall comprise of a minimum of three (3) and a maximum of seven (7) directors appointed by the Board of Directors from among the non-executive directors, and at least one (1) of them will be assigned with taking into account their knowledge and experience in issues of accountancy and auditing or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors. The majority of the Committee Members will be Independent Directors. At 31 December 2019, the Committee was made up of seven (7) Directors, three (3) Proprietary Directors and four (4) Independent Directors with one (1) being, in turn, the Chairman.

The Board of Directors shall elect the Chairman from among the Members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of the Board of Directors.

The Committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his/her own initiative or upon prior request of two (2) of its Members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

The sphere of activity of the Audit Committee extends to:

- NATURGY ENERGY GROUP, S.A.
- Companies that are majority-owned by NATURGY ENERGY GROUP, S.A.
- Other entities and companies for which NATURGY ENERGY GROUP S.A. has in some form the effective control or responsibility for management or operation.

The Internal Audit Unit regularly reports to the Audit Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the Group.

They also present:

- The Annual Internal Audit Plan for the committee's approval.

- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment and the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including corresponding to Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit Committee.

The External Auditor informs the Audit Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2019 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business and corporate units	178	183	361
Processes identified	59	176	235
Controls certified	906	1,485	2,391

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 33, out of which four (4) were in Spain. During 2019, 34% of the action plans identified in 2018 were resolved, and new plans arose during 2019. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

Compliant **X** Explain

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;**
- b) The mechanisms in place to solve possible conflict of interest that may occur.**

Compliant Partially compliant Explain Not applicable **X**

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous annual general meeting.**
- b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant **X** Partially compliant Explain

4. The Company should draw up and implement a policy of communication and contracts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant **X** Partially compliant Explain

- 5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.**

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **X** Partially compliant Explain

- 6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.**
- b) Reports on the operation of the Audit Committee and the Appointments and Remuneration Committee.**
- c) Audit Committee report on related party transactions.**
- D) Report on corporate social responsibility policy.**

Compliant **X** Partially compliant Explain

- 7. The company should broadcast its general meetings on the corporate website.**

Compliant **X** Partially compliant Explain

- 8. The Audit Committee should strive to ensure that the Board of Directors can present the Company's accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor's report. In the exception case that qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to Shareholders of their scope and content.**

Compliant **X** Partially compliant Explain

- 9. The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant **X** Partially compliant Explain

- 10. When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

- a) Immediately circulate the supplementary items and new proposals.**
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals**

can be voted on in the same terms as those submitted by the Board of Directors.

- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.
- d) After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant Partially compliant Explain Not applicable **X**

- 11. In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

- 12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **X** Partially compliant Explain

- 13. The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant **X** Partially compliant Explain

- 14. The Board of Directors should approve a Director Selection Policy that:**

- a) Is specific and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of the Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Meeting of Shareholders is convened that will ratify the appointment and re-election of each director.

The Director Selection Policy should pursue the goal of having at least 30% of total Board places occupied by female directors in 2020.

The Appointments Committee should run an annual check on compliance with the Director Selection Policy and set out its findings in annual corporate governance report.

Compliant Partially compliant **X** Explain

The policy for the selection of Directors ensures that the selection procedures do not suffer from implicit biases that may imply any discrimination, within the framework of full respect for the right of proportional representation of the shareholders recognised in Law. The policy for the selection of directors is aimed at ensuring adequate diversity in the composition of the Board of Directors, which has led to Board members responding to professional profiles and different and complementary career paths among themselves, based on the conviction that said diversity results in better performance of the Board. Within this framework, the Board pays attention to issues of gender diversity. Although the goal of having females represent one third (1/3) of the Board in 2020 has not been made explicit, the Board is firmly committed to the principle of diversity in its composition in all its manifestations, and has made proposals for the incorporation of new directors following the recommendations of profiles resulting from the self-assessment exercise assisted by the independent External Consultant, as well as those resulting from the Competency Matrix approved by the Board of Directors.

Although the Company shares the willingness to increase the presence of females on the Board up to at least 30%

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant **X** Partially compliant Explain

16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the Board but not otherwise related.**

Compliant **X** Explain

17. Independent directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant Explain **X**

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater

share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation. Out of respect for prevailing legislation and the special shareholder configuration of the Company means that, for legal reasons, this recommendation cannot be complied with if shareholders with more than 8.33% of the share capital wish to exercise their right to proportional representation, which is the case. Current legislation establishes the principle of proportional representation, for which reason the Company is obliged to guarantee respect for the legitimate exercise of that right by its shareholders.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 65.62% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date.

- a) **Background and professional experience.**
- b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) **Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) **Dates of their first appointment as Board member and subsequent re-elections.**
- e) **Shares held in the company, and any options on the same.**

Compliant Partially compliant Explain

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the

director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant **X** Explain

22. Companies are to stipulate rules obliging directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant **X** Partially compliant Explain

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant **X** Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all Members of the Board. Whether or not such resignation is disclosed as a Relative Fact, the motivating factors should be explained in the annual corporate governance report.

Compliant **X** Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

Compliant Partially compliant **X** Explain

Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

- 26. The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

Compliant Partially compliant Explain

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

Compliant Partially compliant Explain

- 28. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

Compliant Partially compliant Explain Not applicable

- 29. The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant Partially compliant Explain

- 30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant Partially compliant Explain Not applicable

- 31. The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

Compliant Partially compliant Explain

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

Compliant Partially compliant Explain

- 33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is**

given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.

Compliant Partially compliant Explain Not applicable

- 34. When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant Partially compliant Explain Not applicable

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

- 35. The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant Explain Not applicable

- 36. The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.

f) The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

37. When an executive committee exists, its membership mix by type of director reassembles that of the Board and the Secretary acts as such to the same.

Compliant Partially compliant Explain Not applicable

38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.

Compliant Partially compliant Explain Not applicable

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters and that the majority of said Members be Independent Directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit Committee.

Compliant Partially compliant Explain

The Internal Audit Department ensures, amongst others, the proper functioning and internal control reporting to the Financial Department.

Supervision of the performance of the Internal Audit Department corresponds to the Audit Committee, so that it reports its activities to said Committee, which also authorises its annual budget and proposes its work plan and remuneration targets of the internal Audit Director. Likewise, the Audit Committee, together with the Appointments and Remuneration Committee, is responsible for the annual performance of the Internal Audit Director, for remuneration purposes.

41. The head of the unit in their internal auditing role submits to the Audit Committee their Work Plan for the year, informing the same in-person of any incidents arising during its development and submit an activities report at the end of each financial year.

Compliant Partially compliant Explain Not applicable

42. The Audit Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Supervise the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the

regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct application of the accounting criteria.

- b) Ensure the independence of the unit in charge of the internal audit function; propose the selection, appointment, re-election and termination of the party responsible for the internal auditing service; propose the budget for this service; approve the approach and work plans of the same, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management is acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby employees can report, confidentially and, if possible and if considered appropriate, anonymously, any potentially significant irregularities that they detect in the course of their duties, in particular of a financial and accounting nature within the company.

2. With regard to the External Auditor:

- a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Supervise that the company notifies any change of external auditor to the National Securities Market Commission as a Relevant Event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant **X** Partially compliant Explain

43. The Audit Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant **X** Partially compliant Explain

44. The Audit Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant **X** Partially compliant Explain Not applicable

45. The risk control and management policies should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The level of risk considered acceptable by the Company.

- c) **The measures laid down to reduce the impact of the risks that are identified should they occur.**
- d) **Internal control and reporting systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.**

Compliant **X** Partially compliant Explain

46. That, under the direct supervision of the Audit Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

- a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**
- b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant **X** Partially compliant Explain

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant **X** Partially compliant Explain

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant Explain **X** Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, one of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant **X** Partially compliant Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

- a) Propose to the Board of Directors the standard conditions for Senior Executive contracts.**
- b) Monitor compliance with the remuneration policy set by the Company.**
- c) Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant **X** Partially compliant Explain

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant **X** Partially compliant Explain

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.**
- b) Committees should be chaired by an Independent Director.**
- c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant Partially compliant Explain Not applicable **X**

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) Review the company's corporate responsibility policy, ensuring that it is geared towards value creation.**
- e) Monitor the corporate responsibility strategy and practices and assess their degree of compliance.**
- f) Monitor and assess the processes of liaising with different stakeholders.**
- g) Evaluate all aspects of non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant **X** Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) The corporate strategy with regard to sustainability, the environment and social issues.**
- c) Specific practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.**
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) Channels for stakeholder communication, participation and dialogue.**
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant **X** Partially compliant Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant **X** Partially compliant Explain

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **X** Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **X** Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) **Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) **Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) **Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant Partially compliant **X** Explain Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. A major part of variable remuneration components should be deferred for a long enough period that predetermined performance criteria have effectively been met.

Compliant Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Compliant partially Explain Not applicable

The variable remuneration of the Executive Chairman does not explicitly take into account the qualifications that may appear in the external auditor's report and which reduce the profits, nor is it a situation that has previously arisen in the Company. However, the Appointments and Remuneration Committee only sets the degree to which targets are met for the variable remuneration once the company's accounts have been audited, so it is in a position to take into account the aforementioned qualifications, if any, when determining the degree to which targets have been achieved.

Accordingly, the degree of compliance with the targets established by the Board of Directors, mainly associated with the audited annual accounts, is reviewed and validated by the Internal Audit Department prior to approval of its favourable report by the Appointments and Remuneration Committee and the Company and is made at the time the annual accounts are formulated.

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three (3) years after the award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Compliant partially Explain Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable

- 64. Termination payments should not exceed a fixed amount equivalent to two (2) years of the director's total annual remuneration and should not be paid until the company confirms that said director has met the predetermined performance criteria.**

Compliant Partially compliant **X** Explain Not applicable

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

D OTHER INFORMATION OF INTEREST

- 1. If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**
- 2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

- 3. The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

At its meeting on 17 September 2010, the Board of Directors agreed that Naturgy would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Naturgy has effectively complied with the content of this code and, more specifically, at the meeting held on 4 February 2020, the Board was notified, through the Audit Committee about the tax policies adhered to by the group in 2019.

Furthermore, at its session on 9 January 2018, and with the favourable report from the Audit Committee, the Board of Directors approved the Fiscal Strategy and the Fiscal Risks Control and Management Policy, which regulated the basic principles that must

guide the fiscal function of Naturgy, as well as the key action lines to mitigate and guide proper control of fiscal risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on XX January 2020.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

YES

NO

Name and Company Name of the Members of the Board that have voted against approving this report.	Reasons (against, abstention, non-attendance)	Explain the reasons