



# Report on the functioning of the Audit Committee of the Board of Directors of Naturgy Energy Group, S.A. during Financial Year 2019.

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The Board of Directors, pursuant to Recommendation N<sup>o</sup>. 36 of the Unified Code of Good Governance (2015 version), Article 8 of the Regulations of the organization and functioning of the Board of Directors and its Committees and Article 529 nonies of the Spanish Corporate Enterprises Act, is required to conduct an annual assessment of the quality and effective functioning of the Board itself and of its Committees, following a report from the same. In financial year 2019, the assessment process was conducted internally.

Accordingly, this report on the Audit Committee is issued in light of the following considerations and conclusions:

## I.- BACKGROUND AND LEGAL REGULATIONS

The Articles of Association of Naturgy establish in Article 8 that the Company shall have an Audit Committee, setting forth the basic characteristics of the same with respect to its composition and functioning.

Article 26 of the Regulations of the Board of Directors alludes to the Audit Committee, underscoring, amongst other provisions, that it shall have the powers and functions provided for under applicable legislation as well as the general or specific powers and functions delegated thereto by the Board of Directors.

In addition to complying with these legal requirements, the Regulation of the Committee follows the principles and recommendations for functioning established in the Code of Good Governance of Listed Companies approved by the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores, or CNMV for short) of February 2015 as well as those others that were established by said Committee in Technical Guide 3/2017, on Spanish Audit Committees for Public Interest Entities, of 27 June 2017.

## II.- KEY FACTS

The implementation and monitoring of the Action Plan of the Company in regards to Compliance that has included, amongst other aspects, the promotion of a training plan for employees and management and the [setting up of the new web Channel for the Code of Ethics](#).

The supervision of the Criminal Liability Prevention Model and adaptation of the same to organisational structure changes in the Company.



The proposal of a new Anti-Corruption Policy that was finally approved in the Board Meeting held in July 2019 and that has facilitated obtaining the AENOR certificate for the Criminal Liability Prevention Model.

The quarterly review of the main business and legal risks of the Group.

Cybersecurity monitoring.

### III.- COMPOSITION OF THE AUDIT COMMITTEE

The composition of the Audit Committee respects, in its structure and typology of its members, the guiding principles of Corporate Governance.

The Audit Committee is made up of seven Directors and one Non-Member Secretary and one Non-member Vice-Secretary, the presence of Independent Directors being the majority, and includes their Chairman.

At 31 December 2019, positions on the Audit Committee were arranged as follows:

<b>Chairman:</b>	Mr. Francisco Belil Creixell	Independent
<b>Committee Members:</b>	Mr. Enrique Alcántara-García Irazoqui	Proprietary
	Mr. Pedro Sáinz de Baranda Riva	Independent
	Mr. Ramón Adell Ramón	Independent
	Mrs. Helena Herrero Starkie	Independent
	Mr. Rajaram Rao	Proprietary
	Mr. José Antonio Torre de Silva López de Letona (THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l)	Proprietary
<b>Secretary:</b>	Mr. Manuel García Cobaleda	
<b>Vice-secretary:</b>	Mrs. María Echenique Moscoso del Prado	

The profile of each of the members is available on the website of the Company [www.naturgy.com](http://www.naturgy.com) (Shareholders and Investors - Corporate Governance - Governing Bodies - Composition of the Board of Directors of NATURGY ENERGY GROUP, S.A.).



The composition of the Committee is particularly well-balanced, supported by the presence of profiles in regard to accounting and auditing, new technologies and cyber security, legal, financial and risk management, including institutional.

#### IV.- POWERS AND FUNCTIONS

The Audit Committee exercise the powers and functions that the Board of Directors, pursuant to the provisions set forth in Article 529 quidecies of the Spanish Corporate Enterprises Law, the Articles of Association and its Organisation and Functioning Regulation have assigned to them.

The Audit Committee, in addition to the functions of the Spanish Corporate Enterprises Law exercises, in response to resolutions of the Board of Directors on 27 November 2015, 29 January 2016 and 6 March 2018, it functions focusing on the following aspects:

- Supervision of related-party transactions.
- In regard to the information and control systems:
  - Supervision of the preparation process and the integrity of the financial information on the Company and, if applicable, the Group, checking compliance with the regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of the accounting criteria.
  - Ensure the independence of the unit that assumes the role of internal audit; approve the approach and its working plans, ensuring that its activity is focused mainly on the relevant risks of the company; receive regular information on its activities; and check that Senior Management takes into account the conclusions and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, reappointment and departure of the head of the internal audit service, as well as propose the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.
  - Establish and monitor a system that allows the employees to confidentially report, and, if possible and appropriate, anonymously, on the irregularities of potential significance, especially financial and accounting, which they may identify within the company.
  - Supervision of the Risk Management System of the Company.



- In connection with the External Auditor.
  - Ensure the independence of the Accounts Auditor.
  - Ensure that the External Auditor's remuneration for their work does not compromise its quality or its independence.
  - Assure dialogue with the External Auditor to inform appropriately on the work carried out and on the evolution of the accounting situation and risks of the Company.
  - Assure that the Company and the External Auditor respect the existing rules on the provision of non-auditing services, the limits placed on the concentration of the business of the auditor and, in general, the other rules on auditor independence.
  
- In addition to:
  - The supervision of the communication strategy and the relationship with Shareholders and Investors, including small-to-medium-sized Shareholders.
  - The periodic evaluation of the adequacy of the Corporate Governance System of the Company, in order to fulfil its mission of fostering corporate interest and take into account, as appropriate, the legitimate interests of the other interest groups.
  - Supervision and assessment of the relationship processes with the different interest groups.
  - The assessment of everything relating to the non-financial risks of the company - including the operational, technological, legal, social, environmental, political and reputational risks.

## V.- FUNCTIONING

In compliance with that set forth in Article 26 of the Regulation, the Audit Committee shall meet when necessary for submitting reports and proposals within the scope of their competency, when deemed appropriate by its Chairman or on prior request by two of its members and at least four times a year.

The Secretary of the Audit Committee has ordinarily called meetings within the minimum notice period set forth in the Regulation following instructions from the



Chairman and taking with them to the calls all available information considered appropriate or relevant on the issues to be addressed.

During 2019 the Audit Committee has met on six occasions.

The meetings of the Audit Committee were held for the most part at the Company's head offices located at Avenida de San Luis nº 77 in Madrid, except in the months of April and October, when the meeting took place in Barcelona in the offices of the Company located in Plaza del Gas 1. Furthermore it should be underscored that when Directors have not been able to attend in-person, available technological solutions were used so that that they could attend the Board meetings via remote presence technologies (video-conferencing, telepresence, and/or telephone assistance).

The business discussed at the meetings was rich and varied during the year, with the active involvement of all Directors, with most of the resolutions being unanimously adopted by those present at the meetings.

At certain meetings the Company's senior executives from the supervisory and control areas were invited to give talks or presentations on matters relating to their competencies or to answer questions on matters within the scope of their competency that were raised by the Directors.

The Internal Auditor has attended four meetings of the Committee, the External Auditor has attended two meetings and the Compliance Director has attended three of said meetings.

The Audit Committee has acted within its competencies, adopting all agreements and issuing all reports that are pertinent to them or have been expressly required.

Within the scope of its remit, the Audit Committee debated, examined and adopted decisions or issued reports on the following matters, amongst others:

- External auditing of separate and consolidated Annual Accounts
- Supervision of the process for preparing Financial Information
- Tax situation and litigation
- Independence of the Auditor
- Related-party transactions
- Verification of the Criminal Liability Prevention System.
- Supervision of the risk control and specific risk analysis systems.
- Supervision of the internal control and auditing systems.
- Insurance Scheme of Naturgy
- Action Plan in terms of Compliance
- Supervision of Internal Auditing
- Supervision of treasury stock operations



The self-evaluation carried out in coordination with the Appointments and Remuneration Committee has concluded the highly satisfactory operation of the Audit Committee during 2019 and has allowed the detection of the directors' training as an improvement area.

## VI.- RELATIONSHIP WITH EXTERNAL AUDITOR

During 2019 and according to the resolution adopted by the General Shareholders' Meeting held on 20 April 2017, Ernst & Young S.L. were appointed as the Accounts Auditor of the Company.

It should be noted that as a result of the relations with the Accounts Auditor, and after analysing the non-audit work contracted and related services and the written confirmation of the Accounts Auditor on its independence, the Committee states that it has not identified issues in the independence of the firm Ernst & Young in the provision of its services, both those corresponding to the Accounts Auditor's work and those services provided additional to the accounts audit and associated services.

## VI.- CONCLUSION

The Audit Committee during financial year 2019 has worked as expected, fully exercising their competencies without interference and with total respect for the current Law and the Organisation and Functioning Regulation of the Board. With regard to the performance of the functions by the Chairman during the period, the same has conformed in full to the requirements and requests of the Company.

*\*This assessment report of the functioning of the Audit Committee corresponding to financial year 2019 was approved in the meeting held on 3 February 2020.*