Annual financial report 31 December 2018

Naturgy Finance B.V.

Amsterdam, the Netherlands

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Chamber of Commerce
File number 24.243.533

NATURGY FINANCE B.V.

Contents

Board of Managing Directors Report

The Board of Managing Directors hereby submits its financial statements for the year ended 31 December 2018.The Company decided to switch from accounting policies under International Financial Reporting Standards (IFRS) as adopted by in the EU to Dutch accounting policies (NL GAAP) with effect 1 January 2018. The NL GAAP are also allowed for the Company, and, to reduce complexity and to align with the principles use by the sector companies, the Board of Directors has decided to prepare the financial statements based on NL GAAP as from this financial year.

The Company is convinced that, under the circumstances, applying NL GAAP also ensures that its financial statement give a true and fair view of its financial position and financial results.

Overview of activities
Naturgy Finance B.V. ("the Company"), having its legal seat in Amsterdam, the Netherlands, was incorporated on 26 November 1993. The Company has its business address at Barbara Strozzilaan 201, Amsterdam. In the year 2012, the Company changed its name from Union Fenosa Finance B.V. to Gas Natural Finance B.V., its official seat from Rotterdam to Amsterdam and the articles of association of the Company were amended according to the new laws in the Netherlands on simplification and flexibilisation (of Dutch B.V. "Flex B.V. legislation"). In 2015 the articles of association were also amended in order to create a Supervisory Board and an Audit Committee. Also, in 2018 the Company changed its name from Gas Natural Fenosa Finance B.V. to Naturgy Finance B.V.

The Company is a wholly-owned subsidiary of its ultimate parent company who, in 2018 changed its legal name from Gas Natural SDG, S.A to Naturgy Energy Group S.A. Naturgy Energy Group, S.A. has its legal seat in Madrid, Spain, and is the controlling party of the Company.

In September 2009 Naturgy Energy Group, S.A (formerly Gas Natural SDG S.A.) merged with Union Fenosa S.A. Naturgy Energy Group, S.A. took over Unión Fenosa Generación, S.A. and Unión Fenosa, S.A. (formerly the shareholder). As a consequence, Naturgy Energy Group, S.A. is the shareholder of the Company. This merger did not have any effect on the capital and reserves of the Company.

All subsidiaries of Naturgy Energy Group, S.A., and Naturgy Energy Group itself are referred to as group companies.

Naturgy Finance B.V. was incorporated to facilitate the funding of its shareholder and associated companies. In order to achieve its objectives, the Company is authorized to raise funds by issuing negotiable bonds, perpetual subordinated bonds and commercial paper on the capital and money markets.

The Company maintains an Advance Pricing Agreement (APA) with Dutch Tax Authorities for the period 2015-2019 which establishes the Company's remuneration for its intercompany financing activities at 6.4316 basis points (5.3 previous APA) over the intercompany loans between the Company and group companies.

In March 2010 the Company entered into a Euro Commercial Paper (ECP) Program as issuer, guaranteed by Naturgy Energy Group, S.A., under which the Company can issue notes provided that the amount disposed in each moment does not exceed of EUR 1,000,000 thousand. The Company signed a revolving cash advance facility agreement with Naturgy Energy Group, S.A. to carry out the on-lending of the proceeds raised under the ECP program.

In November 2010 the Company entered into a Euro Medium-Term Notes (EMTN) program. The issuers of the program are both the Company and Naturgy Capital Markets S.A. (formerly Gas Natural Capital Markets, S.A.) another group company. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market. The notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued by the Company. Naturgy Energy Group, S.A. is the guarantor under the EMTN program.

This EMTN program is updated annually, and after various extensions, the last being in December 2018, the program limit is EUR 15,000,000 thousand. At 31 December 2018, principal drawn down of the total program amounted to EUR 9,707,673 thousand (EUR 11,204,823 thousand at 31 December 2017).

As at 31 December 2018 the amount issued by the Company was EUR 6,607,423 thousand and the amount issued by Naturgy Capital Markets, S.A was EUR 3,100,250 thousand (EUR 6,354,823 thousand and EUR 4,850,000 thousand respectively, at 31 December 2017).

All the proceeds from the notes are on lent by the Company to its parent company Naturgy Energy Group, S.A.

In January 2018 the Company issued bonds under its EMTN program for an amount of EUR 850,000 thousand, maturing in 10 years and with a 1.5% coupon. Part of the proceeds from the issuance were used for a bond buy-back offer for EUR 564,100 thousand of debentures maturing between 2019 and 2023. The proceeds obtained from the issuance on lent to its parent company in means of an intercompany loan.

In October 2018, the company successfully repurchased bonds under the EMTN program amounting EUR 33,300 thousand with maturity in 2021. The intercompany loan directly linked to such bonds were duly cancelled.

No bonds have reached its maturity during 2018.

The breakdown of the nominal balance issued by the Company and the markets where the bonds are listed and traded is as follows:

EMTN Programme (in thousands)

Principal	Currency	Interest rate %	EUR	Issued	Maturity	Listed
299,600	EUR	3.500%	299,600	2013	2021	Luxemburg Stock Exchange
491,000	EUR	3.875%	491,000	2013	2022	Luxemburg Stock Exchange
462,000	EUR	3.875%	462,000	2013	2023	Luxemburg Stock Exchange
500,000	EUR	2.875%	500,000	2014	2024	Luxemburg Stock Exchange
200,000	EUR	2.625%	200,000	2014	2023	Luxemburg Stock Exchange
500,000	EUR	1.375%	500,000	2015	2025	Luxemburg Stock Exchange
600,000	EUR	1.250%	600,000	2016	2026	Luxemburg Stock Exchange
300,000	EUR	0.515%	300,000	2016	2021	Luxemburg Stock Exchange
1,000,000	EUR	1.375%	1,000,000	2017	2027	Luxemburg Stock Exchange
300,000	EUR	1.875%	300,000	2017	2029	Luxemburg Stock Exchange
800,000	EUR	0.875%	800,000	2017	2025	Luxemburg Stock Exchange
850,000	EUR	1.500%	850,000	2018	2028	Luxemburg Stock Exchange
		Subtotal EUR	**6,302,600**			
250,000	CHF	2.125%	203,915	2013	2019	Six Swiss Exchange AG
		Subtotal CHF	**203,915**			
800,000	NOK	3.974%	100,908	2013	2023	Luxemburg Stock Exchange
		Subtotal NOK	**100,908**			
		Total	**6,607,423**			

Related to the Swiss Franc (CHF) 250,000 thousand note, the Company signed a cross-currency swap, exchanging CHF 250,000 thousand with a fixed coupon of 2.125% for EUR 203,915 thousand with a fixed coupon of 3.345%. The agreement requires an exchange of the notional amounts at maturity. The hedge is fully effective as the notional amount of the cross-currency swap equals the CHF note and all cash flow dates and interest rates coincide between the CHF note and the cross-currency swap. The proceeds from the note have been on lent in EUR to its parent company Naturgy Energy Group, S.A.

Regarding the Norwegian Krone (NOK) 800,000 thousand issuance, the proceeds from the notes have been on lent in NOK to its parent company Naturgy Energy Group, S.A. and as a consequence, the foreign exchange risk for the Company has been offset by a position with its parent company.

From 2014 the Company started to issue Subordinated perpetual debentures. On November 18, 2014 the Company issued the first "Undated 8 year non-call deeply subordinated guaranteed fixed rate reset securities" (Subordinated perpetual debentures EUR 1,000,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand. The issue price was 99.488%. The Subordinated perpetual debentures EUR 1,000,000 thousand bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 8 year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards, it will be 4.353%. The initial coupon was set at 4.125%.

On April 24, 2015 the Company issued the second "Undated 9 year non-call deeply subordinated guaranteed fixed rate reset securities" (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group., for an amount of EUR 500,000 thousand. The issue price was 99.049%. The Subordinated perpetual debentures EUR 500,000 thousand bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 9 year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial coupon was set at 3.375%.

At its sole discretion, the Company may elect to defer any payments of coupon on the Subordinated perpetual debentures. Any amounts so deferred will accrue remuneration. Coupons deferred are however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays dividends in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares. Although these Subordinated perpetual debentures do not have a contractual maturity date, the Company will have the right to redeem the Subordinated perpetual debentures EUR 1,000,000 thousand on 18th November 2022 and the Subordinated perpetual debentures EUR 500,000 thousand on 24th April 2024 and on any subsequent years, at coupons payment dates:

Subordinated perpetual debentures (in thousands)

Principal	Currency	Interest rate %	EUR	Issued	Maturity	Listed	Reset Date
1,000,000	EUR	4.125%	1,000,000	2014	Perpetual	Luxemburg Stock Exchange	18th November 2022
500,000	EUR	3.375%	500,000	2015	Perpetual	Luxemburg Stock Exchange	24th April 2024
		Total	**1,500,000**				

The proceeds from the Subordinated perpetual debentures have been on lent by the Company to its parent company Naturgy Energy Group, S.A.

The Company has selected Luxembourg as its *'home member state'* for the purposes of the Transparency Directive 2004/109/EC.

The Company signed Guarantee Agreements in relation to the ECPs, EMTN program, and the Subordinated perpetual debentures, by which the Company pays to Naturgy Energy Group, S.A. an annual fee equal to 0.25% on the principal amount of the issuances.

Principal activities and business review

The principal activities of the Company consist of financing affiliated companies and the parent company.

Results for the year
During the year ended 31 December 2018 the Company realized a net profit of EUR 3,605 thousand (2017: EUR 3,392 thousand). The Company´s profit had a growth for year 2018 due to the funding activity, as the Company has continued issuing notes under the EMTN program.

Financial position
During the year ended 31 December 2018, the Company had an increase on its financial position due to the raise of the bond issued under EMTN program.

Board of Managing Directors
The Company adheres with the law ("Wet bestuur en toezicht"), which obliges the Company to have at least 30% female members in the Board of Managing Directors.

The Board of Managing Directors has declared that to the best of its knowledge, the management report gives a true and fair view of the Company's situation as at the balance sheet date, the events that occurred during the year and the risks to which the Company is exposed.

Supervisory Board and Audit committee
In order to comply with the legislation in the Netherlands which requires issuers to maintain an Audit Committee, the Company appointed a Supervisory Board on September 17, 2015 and, on the same date, the Supervisory Board installed an Audit Committee.

The Supervisory Board and the Audit Committee are in charge of performing the tasks required by the law mentioned above.

Financial risks
The financial risks of the Company are managed through the matching of interest expenses from its borrowings with interest income from loans to the group companies. All of the Company´s issuances are guaranteed by the parent company, Naturgy Energy Group, S.A. Therefore, the financial risk for the Company is limited to the capital and reserves, which according to the advanced pricing agreement made with the fiscal authorities, should be no less than EUR 2,000 thousand. The agreements reached with the fiscal authorities, include that, as long as the cross-currency swaps signed by the Company are fully effective, the valuation of cross-currency swaps would not affect the equity at risk requirement of EUR 2,000 thousand, under the condition that the Company will not dispose its cross-currency swaps before their maturity.

The foreign exchange risk is limited as the non-euro borrowings have similar counter positions or the foreign exchange risk is managed through swaps to eliminate the exposure.

Regarding the Subordinated perpetual debentures, the only conditions that differ between the intragroup loans, that on-lends the proceeds raised from the issuances to Naturgy Energy Group, S.A., and the instruments, are the maturity dates and the option to defer the payments of interests. In practice these differences will be managed by the Company to avoid entering financial risks.

Interest risk is offset as incoming loans and outgoing issuances have similar conditions, except for a small spread.

The same applies to liquidity risk, fair value risk and cash flow interest risk that are mitigated by the back-to-back financing with the ultimate parent company under similar conditions, except for a small spread. The shareholder acts as a guarantor for all the borrowings. In order to minimise the liquidity risk, management monitors the availability of sufficient cash in order to ensure payment of short-term liabilities.

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder.

Loans to the shareholder (refer to note 4) amount to EUR 8,087,402 thousand (2017: EUR 7,916,124 thousand). The remuneration for the Company on the loans to the shareholder is consistent with the arm's length principle. The level of remuneration reflects the functions performed and risks assumed employed by the Company in relation to the intercompany flows. It has been agreed to set the arm's length remuneration for the financing activities over the funds borrowed and lent on, as an annually gross spread. This spread is based on a corresponding transfer pricing report which is updated every five years.

The shareholder, Naturgy Energy Group, S.A. is the holding company of Naturgy Energy Group, an international energy operator, with a significant presence in the world throughout the value chain for gas and electricity. The shareholder is listed on the Spanish stock exchange.

The long term credit rating of the shareholder is as follows:

	2018	2017
Moody's	Baa2	Baa2
Standard & Poors	BBB	BBB
Fitch	BBB	BBB+

This credit risk is monitored on a regular basis by the Company.

Cash flow and financing requirements
The Medium-Term Notes (EMTN) program is updated annually the last being in December 2018 when, its maximum aggregate amount was increased up to EUR 15,000,000 thousand.

The Company also holds a Euro Commercial Paper (ECP) program entered during the year 2010, with a maximum amount disposed at each moment of EUR 1,000,000 thousand.

From November 2014, the Company has issued an aggregate amount of EUR 1,500,000 thousand of Subordinated perpetual debentures, unconditionally and irrevocably guaranteed on a subordinated basis by Naturgy Energy Group, S.A.

Technological research, development and innovation
In 2018, the Company has not carried out any activity related to research, development and innovation.

Future outlook
It is expected that the activities of the Company will remain unchanged. It is envisaged that the loan volume will increase in the next year by issuing Subordinated perpetual bond or negotiable bonds and on-lending these funds to its parent company. Additionally, the Company expects to maintain the balance of the ECP´s issued during next year.
The number of employees of the Company will not vary.

Subsequent events
Post-year-end events include the redemption of a bond that had been issued on February 8, 2013 for a total amount of CHF 250,000 thousand. Upon acquisition, this bond was converted into EUR through a total effective cross-currency swap, and the counter position with the parent company was denominated in EUR. On February 8, 2019 the bond, the cross-currency swap and the amount due from the parent company in regards, were all cancelled.

Some changes have affected the Board of Managing Directors, as Ms. V. Torres Ledesma has been appointed as director, replacing Ms. S. Rosina Roger. Additionally, Ms.H.Barcas Lewkovicz and Intertrust (Netherlands) B.V. were appointed as temporally Managing Directors, from March until September 2019, that they resigned. After these changes the Company still complies with the requirement to have at least 30% female board members.

The company has signed a new APA in June 2019 with Dutch Tax Authorities for the period 2019-2023 which establishes the Company's remuneration for its intercompany financing activities at 6.3

basis points (6.4316 previous APA) over the intercompany loans between the Company and group companies.

Also, the Company has obtained a new Advance Tax Ruling (ATR) in May 2019, until 2022; qualifying Subordinated perpetual debentures as debt for Dutch tax purposes.

Responsibility Statement
All managers confirm that, to the best of (their) knowledge:

• The financial statements for the year 2018, which have been prepared in accordance with the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company.

• The Management Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties they face, as required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act ('Wet op het financieel toezicht").

The Board of Managing Directors,

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E. Berenguer Marsal

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G.A.R. Warris

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V. Torres Ledesma

Amsterdam, 18 October 2019

Supervisory Board Report

General
The Company's Supervisory Board was established on 17 September 2015. In addition to the rules and regulations applicable under Dutch Law and the Articles of Association, a Charter was adopted that defines the tasks and responsibilities of the Supervisory Board. This Charter was approved by the General Meeting of Shareholders and was adopted by the Supervisory Board on 17 September 2015.

On Thursday 8 December 2016, the Corporate Governance Code Monitoring Committee has published the revised Dutch Corporate Governance Code (the Code). This report has been based on the requirements under the Code.

Composition
The Supervisory Board consists of 3 members, Mr. Joan Felip Font (Chairman), Mrs. Irene Velasco and Mr. Martin van Daalen.

The Supervisory Board Charter provides a formal and transparent procedure for appointing and reappointing the supervisory directors. The Supervisor Board is required to make a revision to the chart to include a solid plan of succession.

Tasks of the Supervisory Board
The Supervisory Board supervises and reviews the activities and the decisions of the Management Board, the development of the Company's operations and the realization of its objectives, taking into account the relevant interests of the Company's stakeholders. In addition, it assists the Management Board by providing advice and guidance.

The Supervisory Board has appointed an Audit Committee to provide advice and assistance in relation to the financial reporting process and its other responsibilities.

In fulfilling its tasks, the Supervisor Board and the Audit Committee make use of reports on business, finance, risks and other aspects, and on presentations and meetings with Management Board, the Auditors and other relevant parties.

Activities of the Supervisory Board
In 2018, the Supervisory Board held 2 meetings in Amsterdam, on 13 March 2018 and 15 November 2018. Outside these meetings, the Supervisory Board passed 3 resolutions.

Topics discussed in the meetings 2018 included; the approval of Annual Report 2017 and profit distribution, interest payment in March 2018, the work plan of the new external auditor EY for the audit of the 2018 Financial Statements, review remuneration and non-audit work of PwC for 2017 audit, the internal risk and control supervision checks, reappointment of KPMG as tax advisor, Master and Local files under the BEPS reporting requirements, the budget for 2019, issuances of the year – including debt restructuring, new accounting updates and various tax matters.

After the name change of the group's shareholder the Company's name changed to Naturgy Finance B.V.

Composition and activities of the Audit Committee
The Audit Committee was established on 17 September 2015. The members of the Audit Committee are: Mr. Martin van Daalen (Chairman) and Mr. Joan Felip Font.

In 2018, three meetings were held in Amsterdam on 13 March, 15 November and 13 December 2018.

On 13 December 2018, the Audit Committee held a meeting for the introduction of the new independent auditors, EY. During the meeting the audit plan of the auditor and the highlights for the previous financial year, significant risk and other areas of audit focus, materiality and tolerable error, the audit approach and the time lines were discussed, and the Audit Committee has updated the Supervisory Board on these.

Financial statements 2018

The financial statements of the company for 2018, as presented by the Board of Management, have been audited by EY as independent external auditor appointed by the General Meeting of Shareholders. The Supervisory Board is of the opinion that the Financial Statements and the Management Board's report provide a true and fair view of the Company's position. We therefore herewith approve the Financial Statement and propose that the Shareholders adopt the Financial Statements of 2018 and discharge the Management Board for its management and the Supervisory directors for their supervision during 2018.

Internal audit function and internal control.

The internal audit function of the Company is within the scope of Naturgy Energy Group, S.A., which is the head of the Group and performs the internal audit function for the group companies.
The Company has an internal control system that has been established following the Group standards. The Audit Committee closely reviews the reports of this control system and reports to the Supervisory Board.

The Board of Supervisory Directors,

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I. Velasco Miranda

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J. Felip Font

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M. van Daalen

Amsterdam, 18 October 2019

Balance Sheet as at 31 December 2018

(Before appropriation of results)

Thousands of Euro

ASSETS	Note	31-Dec-18	31-Dec-17
Non-current assets			
Loans to group companies	4	7,744,104	7,776,893
Derivatives financial instruments	8	-	6,424
Deferred income tax assets	13	-	625
Total Non-current assets		**7,744,104**	**7,783,942**
Current assets			
Current loans to group companies	4	343,298	139,231
Financial receivables		20	20
Derivatives financial instruments	8	15,753	-
Deferred income tax assets	13	434	-
Cash	5	5,733	4,339
Total Current assets		**365,238**	**143,590**
TOTAL ASSETS		**8,109,342**	**7,927,532**

Thousands of Euro

LIABILITIES AND SHAREHOLDERS´EQUITY	Note	31-Dec-18	31-Dec-17
Shareholder´s equity			
Share capital		91	91
Share premium reserve		165	165
Retained earnings		4,370	3,478
Net Income for the period		3,605	3,392
Hedging reserve		(1,353)	(1,917)
Total Shareholder´s equity	6	**6,878**	**5,209**
Non-current liabilities			
Long-term loans and bonds	7	7,743,729	7,785,657
Total Non-current liabilities		**7,743,729**	**7,785,657**
Current liabilities			
Short-term loans and bonds	7	343,081	123,411
Other current financial liabilities from group companies	9,14	14,827	12,760
Other current financial liabilities		185	171
Income tax payable	13	629	309
Other current liabilities		13	15
Total Current liabilities		**358,735**	**136,666**
TOTAL LIABILITIES AND SHAREHOLDERS´EQUITY		**8,109,342**	**7,927,532**

The notes on pages 13 to 39 are an integral part of these financial statements.

Initialed
for identification purposes only
Ernst & Young Accountants LLP
VA
EY Building a better working world

Statement of Income for the year ended 31 December 2018

Thousands of Euro

	Note	2018	2017
Other revenues and income		-	-
Other operating expenses		(397)	(358)
Personnel		(122)	(131)
Result from operating activities	**12**	**(519)**	**(489)**
Financial income	10	238,398	219,926
Financial expense	11	(232,849)	(214,977)
	Total	**5,549**	**4,949**
Profit before income taxes	**13**	**5,030**	**4,460**
Income tax expense	13	(1,425)	(1,068)
Net income for the year		**3,605**	**3,392**

The results of the Company are attributable to the parent company Naturgy Energy Group, S.A.
The notes on pages 13 to 39 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1. General

Company structure

Naturgy Finance B.V. ("the Company") is a private limited liability company established in Amsterdam (Commercial Register Number 24243533). The Company acts as a finance company.

In year 2012, the articles of association of the Company were amended according to the new laws in the Netherlands on simplification and flexibilisation (of Dutch B.V. "Flex B.V. legislation"), the Company changed its name from Union Fenosa Finance B.V. to Gas Natural Fenosa Finance B.V. and its official seat from Rotterdam to Amsterdam. On August 6, 2018 the Company changed its legal name from Gas Natural Fenosa Finance B.V. to Naturgy Finance B.V. also by means of amendment of its articles of association. The Company has its business address at Barbara Strozzilaan 201, Amsterdam, The Netherlands.

Also, in 2015 the articles of association were amended in order to create a Supervisory board and an Audit Committee. There were further amendments on the articles of association without implication on the description of the Company.

The Company is a wholly-owned subsidiary of its ultimate parent company who, in 2018 changed its legal name from Gas Natural SDG, S.A to Naturgy Energy Group S.A. Naturgy Energy Group, S.A. has its legal seat in Madrid, Spain, and is the controlling party of the Company.

The Company is included in the consolidated financial statements of Naturgy Energy Group, S.A. All subsidiaries of its shareholder, and its shareholder Naturgy Energy Group, S.A. which is head of the group, are referred to as group companies.

Activities

Naturgy Finance B.V. was incorporated to facilitate the funding of its parent company. In order to achieve its objectives, Naturgy Finance B.V. is authorized to raise funds including the issuance of subordinated securities, negotiable bonds and commercial paper on the capital and money markets.

In relation to these issuances the Company signed a Guarantee Agreement with its parent company which establishes Naturgy Energy Group as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guarantee fee of 0.25% on the principal amounts of the issuances.

Tax ruling

The Company signed in 2015 an advanced pricing agreement with the Dutch tax authorities, which applies to the period of 1 January 2015 up to and including 31 December 2019. This agreement, which sets the arm's length criteria, being obliged to apply a 6.4316 basis points margin (5.3 previous APA) on the interest expenses with the next conditions:

- The new margin was applicable for the Subordinated Perpetual debentures EUR 1,000,000 thousand issued on November 2014, since its issuance date and for any new debt instrument issued from 1st of January 2015.
- The old margin was applicable for all other issuances in place in 2015 until July 2015.
- The agreement also requires the Company to maintain a minimum equity amount of EUR 2,000 thousand excluding hedge reserves.

The Company has obtained an Advance Tax Ruling (ATR) for each Subordinated perpetual debenture, qualifying both issuances as debt for Dutch tax purposes.

Financial position
In March 2010 the Company entered as issuer (Naturgy Energy Group, S.A. as guarantor) into a Euro Commercial Paper (ECP) Program for the issuance of notes under which it will be possible to issue notes and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1,000,000 thousand. The Company has signed a revolving cash advance facility agreement with Naturgy Energy Group, S.A. to carry out the on-lending of the proceeds raised under the ECP program, where any advance to be granted by the Company to Naturgy Energy Group, S.A. is only applicable once the Company has issued the commercial paper.

In November 2010 the Company entered into the Euro Medium-Term Notes (EMTN) Program. The issuers of the program are both the Company and Naturgy Capital Markets S.A., another group company. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market, although the notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued under the program by the Company, Naturgy Energy Group, S.A. being the Guarantor. This EMTN program is updated annually, and after various extensions, the last being December 2018, the program limit is EUR 15,000,000 thousand.

In 2013, the Company begun for the first time to issue bonds under the EMTN program, and as at 31 December 2018, the bonds issued by the Company amounted to EUR 6,607,423 thousand (2017: EUR 6,354,823 thousand) (refer to note 7).

From 2014 the Company began to issue Subordinated perpetual debentures. On November 18, 2014 the Company issued the first "Undated 8 year non-call deeply subordinated guaranteed fixed rate reset securities" (Subordinated perpetual debentures EUR 1,000,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand (refer to note 7). The issue price was 99.488%. The Subordinated perpetual debentures bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 8 year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards, it will be 4.353%. The initial coupon was set at 4.125%. On April 24, 2015 the Company issued the second "Undated 9 year non-call deeply subordinated guaranteed fixed rate reset securities" (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 500,000 thousand. The issue price was 99.049%. The Subordinated perpetual debentures 500,000 thousand bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 9 year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial coupon was set at 3.375%.

At its sole discretion, the Company may elect to defer any payments of coupons on the Subordinated perpetual debentures. Any coupon payment deferral will accrue interests at 3.353% for the EUR 1,000,000 thousand Subordinated perpetual debentures and 3.079% for the EUR 500,000 thousand Subordinated Perpetual Debentures. Coupons deferred are however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays dividends in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares. Although these Subordinated perpetual debentures do not have a contractual maturity date, the Company will have the right to redeem the Subordinated perpetual debentures EUR 1,000,000 thousand on 18th November 2022 and Subordinated perpetual debentures EUR 500,000 thousand on 24th of April 2024 and on any subsequent year, at coupons payments dates.

The Company signed Guarantee Agreements in relation to the ECPs, EMTN program, and the Subordinated perpetual debentures, which establishes Naturgy Energy Group as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued.

As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guarantee fee of 0.25% on the principal amounts of the issuances.

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The present accounting policies of valuation and determination of result used are based on the assumption of going concern of the Company.

These accounts have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and with accounting principles generally accepted in the Netherlands (NL GAAP), effective during year 2018.

The financial statements have been prepared under the historical cost basis, as modified by the fair value measurement of derivative instruments.

The preparation of financial statements in conformity with NL GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

These annual accounts fairly present the equity and financial situation of Naturgy Finance B.V. at 31 December 2018 and the results of its operations and the changes in the statement of shareholder´s equity of the Company for the year ended.

The figures showed in the financial statements are expressed in thousands of Euro unless otherwise indicated.

2.2 Changes in accounting

As of 1 January 2018, the Company prepares its annual financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and accounting principles generally accepted in the Netherlands (NL GAAP). Until 2017, the Company applied the International Financial Reporting Standards (IFRS) as adopted for use in the EU. It is possible for the Company to apply NL GAAP since it does not prepare consolidated financial statements.

The Company decided to switch from accounting policies under International Financial Reporting Standards (IFRS) as adopted by in the EU to Dutch accounting policies (NL GAAP) with effect 1 January 2018. The NL GAAP are also allowed for the Company, since it does not need to prepare consolidated financial statements, as it has no subsidiaries, and, to reduce complexity and to align with the principles use by the sector companies, the Board of Directors has decided to prepare the financial statements based on NL GAAP as from this financial year.

The Company is convinced that, under the circumstances, applying NL GAAP also ensures that its financial statement give a true and fair view of its financial position and financial results.

The Company has transitioned from IFRS to NL GAAP with a transition date of January 1st, 2017. The table below provides a reconciliation between equity as at January 1st, 2017 according to the financial statements 2017, which are based on IFRS and the financial statements 2018, which are based on NL GAAP:

(Expressed in Thousands of Euro)

Reconciliation between equity under IFRS-EU and NL GAAP at 1 January 2017

Equity under IFRS-EU at 1 January 2017	1,491,263
Subordinated perpetual bonds classified as debt	(1,485,767)
Amortized cost adjustment	(2,809)
Equity under NL GAAP at 1 January 2017	**2,687**

Reconciliation between equity under IFRS-EU and NL GAAP at 31 December 2017

Equity under IFRS-EU at 31 December 2017	1,495,342
Subordinated perpetual bonds classified as debt	(1,485,767)
Amortized cost adjustment	(4,366)
Equity under NL GAAPU at 31 December 2017	**5,209**

Reconciliation between net profit for 2017 under IFRS-EU and NL GAAP

Net profit under IFRS-EU for 2017	63,074
Dividends on subordinated perpetual bonds classified as interest expenses	(58,125)
Amortized cost adjustment	(1,557)
Net profit NL GAAP for 2017	**3,392**

In 2018 Naturgy Finance B.V. changed its accounting of the subordinated perpetual debentures in its financial statements. The subordinated perpetual debentures of EUR 1,485,767 thousand have been excluded from the equity of Naturgy Finance B.V. and presented as non-current liabilities. The comparative 2017 balance sheet has been adjusted accordingly. The subordinated perpetual debentures were inappropriately classified as an equity instrument. The classification of respective instruments as liabilities in the financial statements of Naturgy Finance B.V. emphasizes the fact that the payments of dividends on these instruments are linked to the payments of dividends by Naturgy Energy Group, S.A. on its ordinary shares, therefore the payment of dividends on the subordinated perpetual debentures is at the discretion of (the shareholders of) Naturgy Energy Group, S.A. Therefore, the classification as liabilities aligns with the economic substance and the legal form of these instruments from Naturgy Finance B.V. perspective.

2.3 Use of estimates / judgment

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgment in the process of applying the Company's accounting policies. If necessary for the purpose of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the annual accounts items in question.

2.4 *Cash flow statement*

The Company does not prepare cash flow statement for the NL GAAP financial statements. As permitted under RJ 360.104, the cash flows of the Company are included in the cash flows statement of the ultimate holding company. The ultimate holding company´s financial statement are available on Naturgy´s corporate website: www.natury.com.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euros, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

- Financial Assets and liabilities are translated at the closing rate of the date of the Balance Sheet;
- Income and expenses are translated at monthly average exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

2.6 Financial instruments

Financial instruments include bonds, loans granted and other receivables, cash items, loans and other financing commitments and other payables. Financial instruments also include derivative financial instruments that are stated at cost or lower market value, unless cost price hedge accounting is applied.

a) Loans and bonds

Loans and bonds are initially recognised at their fair value, net of any transaction costs incurred. Subsequently, loans and bonds are carried at amortised cost using the effective interest rate method.

Loans and bonds are classified as current financial liabilities unless they mature in more than twelve months as from the balance sheet.

b) Loans to group companies and other receivables

Loans to group companies and other receivables are carried at amortised cost after initial recognition at fair value, using the effective interest rate method, less impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting year. These are classified as non-current assets.

c) Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing 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.

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 the risk management objective.

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.

The fair values of derivative instruments used for hedging purposes are disclosed in note 8. Movements on the hedging reserve in statement of comprehensive income are shown in note 8.

For accounting purposes, the operations are classified as follows:

Derivatives eligible for hedge accounting
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 statement of income.

Amounts accumulated in equity are transferred to the statement of income in the period in which the hedged item affects profit or loss.

d) Impairment of financial assets

The Company assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including (i) Adverse changes in the payment status of borrowers in the portfolio; and (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognized in the statement of income.

2.7 Accounts receivable

Accounts receivable are stated at amortized cost, less an allowance for possible uncollectable amounts.

2.8 Cash

Cash includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current financial liabilities in the balance sheet.

2.9 Share capital

Ordinary shares are classified as equity.

2.10 Non-Current liabilities

The valuation and measurement of non-current liabilities is explained under the heading ´Financial instruments´.

2.11 Current liabilities

The valuation and measurement of current liabilities is explained under the heading ´Financial instruments´.

2.12 Income tax

The tax expense for the year comprises current tax and deferred tax. Tax is recognised in the statement of income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognized in equity.

The current tax charge is calculated at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax is recorded at nominal value.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The taxable profit of the Company is computed on the basis of an Advanced Pricing Agreement with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans. The present Advanced Pricing Agreement is valid from 1 January 2015 until 31 December 2019.

2.13 Interest income and expense recognition

Interest income and expense are recognized using the effective interest method. When a loan and receivable are impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

2.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.15 Provisions and contingencies

Provisions are recognized when the Company: has i) a present legal or constructive obligation as a result of past events; ii) for which it is more likely than not that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated. When one of these criteria is not fulfilled or the existence of the liability is dependent upon a future event, the Company discloses it as a contingent liability, except if the outflow of resources to settle it is considered to be remote. Contingent assets are not recognized in the Company's balance sheet but are disclosed when an inflow of economic benefits is probable.

2.16 Events after the reporting year

Post-year-end events that provide additional evidence of conditions that existed at the end of the reporting year (adjusting events), if any, are reflected in the financial statements. Post-year-end events that are indicative of conditions that arose after the end of the reporting year (non-adjusting events) are disclosed in the notes to the financial statements.

3. Financial risk management

3.1 Financial risk factors

The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company uses derivative financial instruments to hedge certain risk exposures.

The Company's overall risk management program focuses on the volatility of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The risk management policy is based on the consideration that the Company acts as a vehicle to raise funds for Naturgy Energy Group and to on-lend these funds to the parent company.

The set-out policy allows the Company to raise funds on non-euro currencies were the markets offer good opportunities as compared with the euro market. When the borrowings are not denominated in Euros, the Company either on lends the funds to the parent company in the same currency as the borrowing is denominated, or enters into swaps to finally obtain Euros that are then on-lent to the parent company. The Company´s policy is to enter into cross-currency swaps considered as fully effective, as the notional amount of the cross-currency swap equals the borrowing and all cash flow dates and interest rates coincide between the borrowing and the cross-currency swap.

All borrowings, taking into account the impact of the derivative hedges, are issued under the same conditions to the shareholder including a small interest spread and the maturity date is the same or later than the shareholder loans.

Market risk

a) Foreign exchange risk

To mitigate the exposure to foreign exchange risk, the currency of the loans to the shareholder will generally match the currency of the attracted funding. Where this is not applicable, derivatives are used to mitigate this exposure.

Bonds and negotiable instruments that are issued in EUR and NOK have similar counter positions with the shareholder.

The proceeds from the bond issued in NOK have been on lent in NOK to its parent company Naturgy Energy Group, S.A. and as a consequence, the foreign exchange risk for the company has been offset by a position with its parent company.

Bonds issued in CHF are converted into EUR through a total effective cross-currency swap, and the counter position with the parent company is denominated in EUR.

b) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from the Subordinated perpetual debentures and bonds. Issuances at fixed rates expose the Company to fair value interest rate risk. Issuances at variable rates expose the Company to cash flow interest rate risk. Interest rate risk is offset by similar interest conditions in the positions with the shareholder, except for a small spread.

The Company's income and operating cash flows are dependent on changes in market interest rates for Euribor. The current variable interest rates are set at Euribor plus a fixed margin. This funding exposes the Company to cash flow interest rate risk which is offset by similar counter positions.

The Company is exposed to cash flow risk, but this risk is limited as the payment conditions on the bonds are exactly the same as the payment conditions on the loans to the shareholder. When the Company enters into cross-currency swaps the notional amount of the cross-currency swap equals that of the borrowing and all cash flow dates and interest rates coincide between the borrowing and the cross-currency swap.

The shareholder does not have a history of non-compliance with the payment conditions.

Credit risk

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder.

Loans to the shareholder (refer to note 4) amount to EUR 8,087,402 thousand (2017: EUR 7,916,124 thousand). The remuneration for the Company on the loans to the shareholder is consistent with the arm's length principle. The level of remuneration reflects the functions performed and risks assumed employed by the Company in relation to the intercompany flows. It has been agreed to set the arm's length remuneration for the financing activities over the funds borrowed and lent on, as an annually gross spread. This spread is based on a corresponding transfer pricing report which is updated every five years.

In the case of the Subordinated perpetual debentures, the intragroup loans have the same subordination as the guarantees provided by Naturgy Energy Group, S.A. to the holders of the Subordinated perpetual debentures.

This credit risk is monitored on a regular basis by the Company.

The shareholder, Naturgy Energy Group, S.A. is the holding company of Narutgy Energy group, an international energy operator, with a significant presence in the world throughout the value chain for gas and electricity. The shareholder is listed on the Spanish stock exchange.

The long-term credit rating of the shareholder is as follows:

	2018	2017
Moody's	Baa2	Baa2
Standard & Poors	BBB	BBB
Fitch	BBB	BBB+

The maximum exposure to credit risk amounts to EUR 8,103,175 thousand (2017: EUR 7,922,568 thousand).

Liquidity risk

Cash flow forecasting is performed by the Company. Management monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans and external legal requirements.

In connection with the borrowings, the Company pays interests on an annual basis in the case of the bonds issued under the EMTN (refer to note 7). The redemption date for the bonds their maturity ranges from 1 to 11 years (refer to note 7).

The Company does not bear cash-flow risk regarding the issuance of the Subordinated perpetual debentures, as the intragroup loan is more liquid than the issuance and the interest rate on the intragroup loan will be received, even if the Company defers the accrued interest on the Subordinated perpetual debentures.

The Company will pay interests on an annual basis in the case that interests are mandatorily settled (refer to note 7). The Subordinated perpetual debentures have no redemption date.

Contractual maturities of the Company´s financial instruments are:

Assets

(in Thousands of Euro) At December 31, 2018	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans to shareholder	-	-	-	2,819,384	4,924,720	7,744,104
Current loans to shareholder	56,789	223,539	62,970	-	-	343,298
Financial receivables	-	-	20	-	-	20
Derivatives financial instruments	-	15,753	-	-	-	15,753
Total Financial Assets	**56,789**	**239,292**	**62,990**	**2,819,384**	**4,924,720**	**8,103,175**

Liabilities

(in Thousands of Euro) At December 31, 2018	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans and bonds	-	-	-	1,822,380	5,921,349	7,743,729
Short-term loans and bonds	48,460	239,229	55,392	-	-	343,081
Other current financial liabilities from group companies	7,330	1,470	6,027	-	-	14,827
Other current financial liabilities	-	-	185	-	-	185
Total Financial Liabilities	**55,790**	**240,699**	**61,604**	**1,822,380**	**5,921,349**	**8,101,822**

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Assets

(in Thousands of Euro) At December 31, 2017	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans to shareholder	-	-	-	2,739,534	5,037,359	7,776,893
Derivatives financial instruments	-	-	-	6,424	-	6,424
Current loans to shareholder	48,078	19,627	71,526	-	-	139,231
Financial receivables	-	-	20	-	-	20
Total Financial Assets	**48,078**	**19,627**	**71,546**	**2,745,958**	**5,037,359**	**7,922,568**

Liabilities

(in Thousands of Euro) At December 31, 2017	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans and bonds	-	-	-	1,752,656	6,033,001	7,785,657
Short-term loans and bonds	41,801	17,435	64,175	-	-	123,411
Other current financial liabilities from group companies	5,352	1,470	5,938	-	-	12,760
Other current financial liabilities	-	-	171	-	-	171
Total Financial Liabilities	**47,153**	**18,905**	**70,284**	**1,752,656**	**6,033,001**	**7,921,999**

4. Financial Assets

Financial assets are loans to group companies that consist mainly of loans given to the shareholder mirroring the borrowings received by the Company from third parties and group companies.

The breakdown of the loans to shareholders are as follows:

(in Thousands of Euro)	31 December 2018	31 December 2017
Non-current		
Loans to group companies (EMTN Program)	6,251,668	6,286,070
Loans to group companies (Referred to Subordinated perpetual debentures)	1,491,706	1,490,093
Loans to group companies (Credit facility)	730	730
	7,744,104	**7,776,893**
Current		
Accrued Interest (EMTN Program)	121,299	121,144
Accrued Interest (Referred to Subordinated perpetual debentures)	18,087	18,087
Loans to group companies (EMTN Program)	203,912	-
Loans to group companies (ECP)	-	-
	343,298	**139,231**
Total	**8,087,402**	**7,916,124**

The carrying amounts and fair values of the non-current loans to the shareholders are as follows:

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans to group companies (EMTN Program)	6,171,252	6,204,726	6,562,053	6,743,927
Loans to group companies (Referred to Subordinated perpetual bond)	1,491,706	1,490,093	1,527,869	1,642,713
Loans to group companies (Credit facility)	730	730	730	730
Total EUR	7,663,688	7,695,549	8,090,652	8,387,370

(in Thousands of Nok)	Carrying value		Fair Value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans to group companies (EMTN Program)	800,000	800,000	911,360	952,859
Total NOK	800,000	800,000	911,360	952,859

The fair value of the non-current loans to the shareholder is estimated using the discounted cash-flows over the remaining terms of such. The discount rates for intercompany loans corresponding to non-traded related loans were determined based on the cost of borrowings in Euros of Naturgy Energy group, adjusted by the additional spread stipulated in the intercompany loan. The average effective interest rate for those loans during the year has been 2.902% (2017: 2.939%). The discount rates for the loans to the shareholder corresponding to the EMTN program not including the Subordinated perpetual debentures have been determined considering the fair market value of the corresponding bonds issued by the Company, adjusted by the additional spread stipulated in the intercompany loan. The average annual interest rate for those loans during the year has been 2.580% (2017: 2.700%).

The carrying amount and fair value of the current loan to the shareholders is as follows:

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans to group companies (EMTN Program)	203,912	-	204,457	-
Total EUR	**203,912**	**-**	**204,457**	**-**

The movement of loans to group companies is as follows:

(in Thousands of Euro)	2018	2017
At 1 January	**7,916,124**	**5,919,128**
Increase of loans to group companies (EMTN Program)	169,665	2,095,501
Increase of loans to group companies (Referred to Subordinated perpetual deber	1,613	1,547
Decrease of loans to group companies (Credit facility)	-	-
Decrease of loans to group companies (ECP Program)	-	(100,052)
As at 31 December	**8,087,402**	**7,916,124**

The Company did not identify an impairment of the loans to group companies as of 31 December 2018 and 2017.

We set out below a description of the loans to the shareholder:

Loans to group companies (EMTN Program)

In order to on-lend the proceeds raised under the EMTN program, the Company signed a finance agreement with Naturgy Energy Group, S.A., formerly named Gas Natural SDG, S.A. dated 26 November 2012, that stipulates the general terms and conditions of the individual loan agreements that will be made between the parties each time the Company issues a bond. Each loan agreement will be a mirror loan of the relevant issuance of Notes and the terms and conditions of the Loan Agreement will be identical to the Final Terms of the Issuance of Notes. Thus, the loans have the same maturity date as the EMTN issuances to which they are related to, and bear the same nominal interest rate plus 0.25% plus a taxable margin of 0.064316%, in line with the tax ruling.

As at 31 December 2018 the nominal value of the intra-group loans related to the EMTN Program are for the Euro denominated loans EUR 6,506,515 thousand (2017 EUR 6,253,915 thousand) and for Norwegian Krone denominated loans NOK 800,000 thousand (EUR 80,416 thousand). As at 31 December 2018, the amortized cost of the loans using an effective interest rate is EUR 6,171,251 thousand for the Euro denominated loans and thousand and EUR 80,416 thousand for the Norwegian Krone denominated loans (2017 EUR 6,204,726 thousand and EUR 81,344 thousand respectively).

The loans to the shareholder related to the EMTN program recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	2018	2017
Long term		
At 1 January	**6,286,070**	**4,209,253**
Loans to group companies	752,593	2,076,624
Repayment from group companies	(597,400)	-
Transfer from long term to short term	(203,888)	-
Amortized cost released	15,221	6,904
Exchanges differences	(928)	(6,711)
As at 31 December	**6,251,668**	**6,286,070**
Short term		
At 1 January	**121,144**	**102,460**
Transfer to short term from long term	203,888	-
Amortized cost released	24	-
Interest income	155,591	148,619
Interest received	(155,436)	(129,935)
As at 31 December	**325,211**	**121,144**
Total	**6,576,879**	**6,407,214**

In January 2018 the company issued bonds under its EMTN program for an amount of EUR 850,000 thousand, maturing in 10 years and with a 1.5% coupon. The proceeds from the issuance were used for a bond buy-back offer for EUR 564,100 thousand of debentures maturing between 2019 and 2023. The intercompany loans directly linked to such repurchase were early repaid for the same amount, and the corresponding cancellation costs and expenses were duly applied. The proceeds obtained from the issuance was on lent to its parent company in means of an intercompany loan with an interest rate of 1.814316%.

In October 2018, the Company successfully repurchased bonds under the EMTN program amounting EUR 33,300 thousand with maturity in 2021. The intercompany loan directly linked to such bonds was early repaid for the same amount, and the corresponding cancellation costs and expenses were duly applied.

No loans have reached its maturity during 2018.

Loans to group companies (Referred to Subordinated perpetual debentures)

In order to on-lend the proceeds raised under the Subordinated perpetual debentures, the Company signed finance agreements with Naturgy Energy Group, S.A. dated on 18 November 2014 and 24 April 2015 that stipulates the general terms and conditions on which the intragroup loans are granted.

The maturity dates of the intragroup loans will be 2022 and 2024 respectively. However, the loan could be extended for a further period of a year. Immediate repayment should follow in case of repayment of the debenture.

The loans will bear interest at a fixed rate, calculated on the nominal amount of the loans, which will be similar to the interest on the Subordinated perpetual debentures (including the interest re-set) (refer to note 7) plus 0.25% plus a taxable margin in line with the tax ruling. Interest will be payable annually in arrears on each interest payment dates. The initial interest rates are, for the loan mirroring the Subordinated perpetual debentures EUR 1,000,000 thousand, 4.439316% until year 2022 and for the loan mirroring the Subordinated perpetual debentures EUR 500,000 thousand, 3.6893% until year 2024.

The loans will be subordinated to Senior Obligations of the Borrower, rank equal to Parity Obligations of the Borrower and rank senior to Junior Obligations of the Borrower. Junior Obligations include all current and future ordinary shares and all current and future preferred securities of Naturgy Energy Group, S.A.

The only conditions that differ between the intragroup loans, that on-lends the proceeds raised from the issuances to Naturgy Energy Group, S.A., and the instruments, are the maturity dates and the option to defer the payments of interests.

The maturity dates of the intergroup loans are 2022 and 2024 and the Subordinated perpetual debentures have no fixed redemption dates. However, the loans can be extended one more year. In practice, the loans will have the same maturity as the Subordinated perpetual debentures issued, as the intragroup loans will be extended until the Subordinated perpetual debentures will be repaid to the holders. Immediate repayment should follow in case of repayment of the Subordinated perpetual debentures.

At its sole discretion, the Company may elect to defer any payments of interests on the Subordinated perpetual debentures, whereas this option is not applicable to the intragroup loans, so if the Company defers interest on the Subordinated perpetual debentures, it will still receive the interest on the intercompany loan. In practice, the interest received will be on-lent again to its parent company in the same conditions as the interest deferred, until the interest will be paid to the holders. It is the usual policy of the Company to invest its surplus funds with Naturgy Energy Group.

(in Thousands of Euro)	2018	2017
Long term		
At 1 January	**1,490,093**	**1,488,546**
Amortized cost released	1,613	1,547
As at 31 December	**1,491,706**	**1,490,093**
Short term		
At 1 January	**18,087**	**18,087**
Interest income	62,840	62,840
Interest received	(62,840)	(62,840)
As at 31 December	**18,087**	**18,087**
Total	**1,509,793**	**1,508,180**

Loans to group companies (credit facility)

Additionally, as of 22 September 2010 a credit facility up to a maximum amount of EUR 10,000 thousand has been agreed between the Company and Naturgy Energy Group, S.A., formerly named Gas Natural Fenosa SDG, S.A. The credit facility bears a nominal interest rate of 3 months Euribor plus a taxable margin of 0.064316% in line with the tax ruling, with quarterly payments and maturity date 22 September 2021.The outstanding lent amount as of 31 December 2018 amounts to EUR 730 thousand (2017: EUR 730 thousand).

The credit facility recognized in the balance sheet is calculated as follows:

(in Thousands of Euro)	2018	2017
Long term		
At 1 January	730	730
Repayment from shareholder	-	-
As at 31 December	730	730

Loans to group companies (ECP program)

During the year 2017 several loans have been agreed upon in a revolving cash agreement dated 23 March 2010 between the Company and Naturgy Energy Group, S.A. This agreement has been signed to carry out the lending of the proceeds raised under the ECP program up to a maximum amount of EUR 1,000,000 thousand where any advances to be granted by the Company to the borrower will be subject to the conditions precedent to the issuance of Notes. Thus, the loans have the same maturity date as the ECP issuance which is related to and bear

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the same nominal interest rate plus a taxable margin + 0.25% plus a taxable margin of 0.064316% in line with the tax ruling.

The amount of none EUR is the outstanding drawn amount as of 31 December 2018.

The loan to the shareholder related to the ECP program, recognized in the balance sheet is calculated as follows:

(in Thousands of Euro)	2018	2017
Short term		
At 1 January	-	100,052
Revolving cash advance facility	6,480,307	4,596,216
Repayment cash advance facility	(6,480,307)	(4,696,265)
Interest income	60	3
Interest received	(60)	(6)
As at 31 December	-	-

5. Cash

Cash consists of current account balances which are available on demand. As at 31 December 2018 cash amounts to EUR 5,733 thousand (2017: EUR 4,339 thousand). The cash at banks is freely disposable for the Company.

6. Equity

The movements in capital and reserves are provided as follows:

(In Thousands of Euro)

	Note	Share capital	Share premium	Subordinated perpetual Bond	Retained earnings	Profit for the year	Interim dividend	Hedge reserve	Net Equity
Balance at 31 December 2016		91	165	1,485,767	2,233	62,224	(58,170)	(1,047)	1,491,263
Reclassification	2.2	-	-	(1,485,767)	(1,310)	(59,669)	58,170	-	(1,488,576)
Balance at 1 January 2017		91	165	-	923	2,555	-	(1,047)	2,687
Profit appropriation of previous year		-	-	-	2,555	(2,555)	-	-	-
Other variation in equity		-	-	-	-	-	-	(870)	(870)
Profit for the year		-	-	-	-	3,392	-	-	3,392
Balance at 31 December 2017		91	165	-	3,478	3,392	-	(1,917)	5,209
Balance at 1 January 2018		91	165	-	3,478	3,392	-	(1,917)	5,209
Profit appropriation of previous year		-	-	-	3,392	(3,392)	-	-	-
Other variations in equity		-	-	-	-	-	-	564	564
Distribution of dividends		-	-	-	(2,500)	-	-	-	-
Profit for the year		-	-	-	-	3,605	-	-	3,605
Balance at 31 December 2018		91	165	-	4,370	3,605	-	(1,353)	6,878

Share capital

The authorized share capital of the Company consists of 200 common shares of EUR 453.78 each, amounting to EUR 90,756. As at balance sheet date all 200 shares were issued, fully paid-up in cash and have equal voting and interest rights.

All shares are held by Naturgy Energy Group, S.A.

Share premium reserves

The share premium concerns the income from the issuing of shares insofar as this exceeds the nominal value of the shares.

At least EUR 165 thousand of the share premium can be considered as free distributable share premium as referred to in the 1964 Income Tax Act. Nominal value of the shares.

Retained earnings and profit for the period

The retained earnings as at 31 December 2018 are EUR 4,370 thousand. The net income for the period is EUR 3,605 thousand.

Hedge reserves (Legal Reserves)

The hedge reserves as at 31 December 2018 are EUR (1,353) thousand.

No distributions can be made from the retained earnings for an amount of EUR 1,353 thousand insofar the hedge reserves are negatives.

Proposed appropriation of profit

During the year ended 31 December 2018 the Company realized a net profit of EUR 3,605 thousand. The Board proposal is to distribute a dividend of EUR 2,500 thousand and to credit the retained earnings of the Company for EUR 1,105 thousand. This has not yet been reflected in the financial statement. The legal reserve of EUR 1,353 thousand is deducted of the retained earnings that as at 31 December 2018 amounted to EUR 4,370 thousand for the purposes of determining the distributable profit.

On 13 March 2018, the Board of Directors approved the payment of an interim dividend out of 2017 profits of EUR 2,500 which was effectively paid on 15 March 2018.

7. Borrowings

The breakdown of the non-current and current borrowings at 31 December 2018 and 2017 is as follows:

(in Thousands of Euro)	31 December 2018	31 December 2017
Non-current borrowings		
Bonds and other negotiable securities (EMTN Program)	6,251,977	6,295,524
Bonds and other negotiable securities (Subordinated perpetual debentures)	1,491,752	1,490,133
	7,743,729	**7,785,657**
Current borrowings		
Interest payable (EMTN Program)	104,656	106,788
Interest payable (Subordinated perpetual debentures)	16,623	16,623
Bonds and other negotiable securities (EMTN Program)	221,802	-
	343,081	**123,411**
Total borrowings	**8,086,810**	**7,909,068**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying value		Fair Value	
(in Thousands of Euro)	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds and other negotiable securities (EMTN Program)	6,171,561	6,214,180	6,445,737	6,623,760
Bonds and other negotiable securities (Subordinated perpetual debentures)	1,491,752	1,490,133	1,509,415	1,619,360
Total	7,663,313	7,704,313	7,955,152	8,243,120

	Carrying value		Fair Value	
(in Thousands of NOK)	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds and other negotiable securities (EMTN Program)	800,000	800,000	900,744	939,820
Total	800,000	800,000	900,744	939,820

The fair value of bonds with fixed interest rates is estimated using the quoted bid market price available at 31 December 2018.

The carrying amount and fair value of the current borrowing is as follows:

	Carrying value		Fair Value	
(in Thousands of Euro)	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds and other negotiable securities (EMTN Program)	221,802	-	204,395	-
Total	221,802	-	204,395	-

The movement in borrowings is as follows:

(in Thousands of Euro)	2018	2017
At 1 January	**7,909,068**	**5,934,283**
Increase of EMTN program	176,123	2,073,229
Increase of Subordinated perpetual debenture	1,619	1,557
Decrease of ECP program	-	(100,001)
As at 31 December	**8,086,810**	**7,909,068**

All non-current borrowings have a fixed interest. As at 31 December 2018 and 2017, the Company does not have borrowings with a variable interest rate.

The fixed-rate debt amounts to EUR 7,966 million being the total of borrowings at 31 December 2018 (EUR 7,786 million at 31 December 2017).

As at 31 December 2018, the amortized cost of the borrowings using an effective interest rate is EUR 7,885,115 thousand for the Euro denominated loans and thousand and EUR 80,416 thousand for the Norwegian Krone denominated loans (2017 EUR 7,704,313 thousand and EUR 81,344 thousand respectively).

As at 31 December 2018, the average effective interest rate for the borrowings was 2.615% (2017: 2.616%).

We set out below the most relevant financial instruments:

EMTN program

In November 2010, the Company, formerly named Union Fenosa Finance B.V., entered into the Euro Medium-Term Notes (EMTN) program. The program is shared by the Company with Naturgy Capital Markets, S.A, formerly named Gas Natural Capital Markets, S.A., a group company. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market, although the notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued by Naturgy Finance B.V. but not by Naturgy Capital Markets, S.A. Naturgy Energy Group, S.A. is the guarantor.

This EMTN program is updated annually, and after various extensions, the last being December 2018, the program limit is EUR 15,000,000 thousand. At 31 December 2018, principal drawn down amounted to EUR 9,707,673 thousand (EUR 11,204,823 thousand at 31 December 2017) and the amount of EUR 5,292,327 thousand was available.

In 2013, the Company begun for the first time to issue notes under the EMTN program, and as at 31 December 2018, the bonds issued by the Company amounted to EUR 6,607,423 thousand (2017: EUR 6,354,823 thousand).

The funds from all the bonds have been on lent by the Company to its parent company Naturgy Energy Group, S.A.

The bonds recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	2018	2017
Long term		
As at 1 January	**6,295,524**	**4,237,437**
Bonds and other negotiable securities	850,000	2,100,000
Repayment of Bonds and other negotiable securities	(597,400)	-
Transfer from long term to short term	(213,238)	-
Transactions cost incurred	(103,528)	(23,376)
Amortized cost released	21,506	6,953
Exchanges differences	(928)	(25,872)
Derivatives amortized cost	41	382
As at 31 December	**6,251,977**	**6,295,524**
Short term		
As at 1 January	**106,788**	**91,646**
Interest payable	(132,454)	(114,784)
Interest expense	130,322	129,926
Transfer to short term from long term	213,238	-
Amortized cost released	23	-
Exchanges differences	8,191	-
Derivatives amortized cost	350	-
As at 31 December	**326,458**	**106,788**
Total	**6,578,435**	**6,402,312**

The table above describes the balance of the notes issued at 31 December 2018 and 2017 net of cost.

The breakdown of the nominal issue balance at 31 December 2018 and 2017 is as follows:

EMTN Programme (in thousands of Euro)

Principal	Currency	Interest rate %	EUR	Issued	Maturity	Listed
299,600	EUR	3.500%	299,600	2013	2021	Luxemburg Stock Exchange
491,000	EUR	3.875%	491,000	2013	2022	Luxemburg Stock Exchange
462,000	EUR	3.875%	462,000	2013	2023	Luxemburg Stock Exchange
500,000	EUR	2.875%	500,000	2014	2024	Luxemburg Stock Exchange
200,000	EUR	2.625%	200,000	2014	2023	Luxemburg Stock Exchange
500,000	EUR	1.375%	500,000	2015	2025	Luxemburg Stock Exchange
600,000	EUR	1.250%	600,000	2016	2026	Luxemburg Stock Exchange
300,000	EUR	0.515%	300,000	2016	2021	Luxemburg Stock Exchange
1,000,000	EUR	1.375%	1,000,000	2017	2027	Luxemburg Stock Exchange
300,000	EUR	1.875%	300,000	2017	2029	Luxemburg Stock Exchange
800,000	EUR	0.875%	800,000	2017	2025	Luxemburg Stock Exchange
850,000	EUR	1.500%	850,000	2018	2028	Luxemburg Stock Exchange
		Subtotal EUR	**6,302,600**			
250,000	CHF	2.125%	203,915	2013	2019	Six Swiss Exchange AG
		Subtotal CHF	**203,915**			
800,000	NOK	3.974%	100,908	2013	2023	Luxemburg Stock Exchange
		Subtotal NOK	**100,908**			
Total as at 31 December 2018			**6,607,423**			

EMTN Programme (in thousands of Euro)

Principal	Currency	Interest rate %	EUR	Issued	Maturity	Listed
500,000	EUR	3.500%	500,000	2013	2021	Luxemburg Stock Exchange
750,000	EUR	3.875%	750,000	2013	2022	Luxemburg Stock Exchange
600,000	EUR	3.875%	600,000	2013	2023	Luxemburg Stock Exchange
500,000	EUR	2.875%	500,000	2014	2024	Luxemburg Stock Exchange
200,000	EUR	2.625%	200,000	2014	2023	Luxemburg Stock Exchange
500,000	EUR	1.375%	500,000	2015	2025	Luxemburg Stock Exchange
600,000	EUR	1.250%	600,000	2016	2026	Luxemburg Stock Exchange
300,000	EUR	0.515%	300,000	2016	2021	Luxemburg Stock Exchange
1,000,000	EUR	1.375%	1,000,000	2017	2027	Luxemburg Stock Exchange
300,000	EUR	1.875%	300,000	2017	2029	Luxemburg Stock Exchange
800,000	EUR	8.750%	800,000	2017	2025	Luxemburg Stock Exchange
		Subtotal EUR	**6,050,000**			
250,000	CHF	2.125%	203,915	2013	2019	Six Swiss Exchange AG
		Subtotal CHF	**203,915**			
800,000	NOK	3.974%	100,908	2013	2023	Luxemburg Stock Exchange
		Subtotal NOK	**100,908**			
Total as at 31 December 2017			**6,354,823**			

In January 2018, the Company issued bonds under its EMTN program for an amount of EUR 850,000 thousand, maturing in 10 years and with a 1.5% coupon. The proceeds from the issuance were used for a bond buy-back offer for EUR 564,100 thousand of debentures maturing between 2019 and 2023. The proceeds obtained from the issuance are lent to its parent company in means of an intercompany loan.

In October 2018, the Company successfully repurchased bonds under the EMTN program amounting EUR 33,300 thousand with maturity in 2021.

No bonds have reached its maturity during 2018.

Subordinated perpetual debentures

On November 18, 2014 and April 24, 2015, the Company issued Subordinated perpetual debentures respectively, guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand and EUR 500,000 thousand. The issue prices were 99.488% and 99.049% respectively.

The main characteristics of the Subordinated perpetual debentures are the following:

- *Maturity:* The Subordinated perpetual debentures have no fixed redemption date. The Company will have the right to redeem the debentures on 18th November 2022 or 24th April 2024 respectively, and on any subsequent year, at interest payment dates.

- *Optional interest deferral*: At its sole discretion, the Company may elect to defer any payment of interest on the Subordinated perpetual debentures. Any interest payment deferral will accrue interests. Interest accrued is however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group S.A., pays interests in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares

- *Interest*: The Subordinated perpetual debentures bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rates are:

    - For the EUR 1,000,000 thousand issuance, the 8 year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards it will be 4.353%. The initial interest rate was set at 4.125%.

    - For the EUR 500,000 thousand issuance, the 9 year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial interest rate was set at 3.375%.

- *Guarantee*: The Subordinated perpetual debentures are guaranteed by Naturgy Energy Group, S.A. on a subordinated basis. Any payment obligations of Naturgy Energy Group, S.A. also are subordinated (and are only senior to some junior obligations of Naturgy Energy Group, S.A.). Junior Obligations of Naturgy Energy Group, S.A. include all of its current and future ordinary shares and all of its current and future preferred securities.

The Subordinated perpetual debentures recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	2018	2017
Long term		
As at 31 December	**1,490,133**	**1,488,576**
Amortized cost released	1,619	1,557
Balance – 31 December	**1,491,752**	**1,490,133**
Short term		
At 1 January	**16,623**	**16,623**
Interest payable	(58,125)	(58,125)
Interest expense	58,125	58,125
As at 31 December	**16,623**	**16,623**
Total	**1,508,375**	**1,506,756**

The breakdown of the nominal issue balance at 31 December 2018 and 2017 is as follows:

Subordinated perpetual debentures (in thousands)

Principal	Currency	Interest rate %	EUR	Issued	Maturity	Listed	Reset Date
1,000,000	EUR	4.125%	1,000,000	2014	Perpetual	Luxemburg Stock Exchange	18th November 2022
500,000	EUR	3.375%	500,000	2015	Perpetual	Luxemburg Stock Exchange	24th April 2024
		Total	**1,500,000**				

ECP program

On 23 March 2010, the Company entered into a Euro-Commercial Paper Program (ECP) for the issuance of notes under which the Company may issue and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1,000,000 thousand or its equivalent in alternative currencies. The term of each issuance must not be less than one day nor greater than 364 days from the issue date to the maturity date.

During the year 2018 the Company issued 140 notes to a total nominal value of EUR 6,478 million of which none are outstanding as of 31 December 2018. The average annual interest rate agreed for those notes issued during the year has been -0.354% (2017: -0.358%) whereas the average length of these notes has been 45 days (2016: 49 days).

The accrued interest payable for the ECP program issuances are included as a part of the borrowing, thus reducing the principal amount of 0 EUR (2017: 0 EUR).

The fair and carrying values of the ECP program issuances match due to their short-term length.

The borrowings from the ECP program recognized in the balance sheet is calculated as follows:

(in Thousands of Euro)	2018	2017
Short term		
As at 31 December	-	100,001
Issuance of ECPs	6,480,307	4,596,217
Redemption of ECPs	(6,480,307)	(4,696,218)
As at 31 December	-	-

8. Derivatives financial instruments

During year 2013, the Company entered into a cross-currency swap related to the Swiss Franc (CHF) 250,000 thousand bond exchanging CHF 250 million with a fixed coupon of 2.125% for EUR 203,915 thousand with a fixed coupon of 3.345%. In addition, the agreement required an exchange of the notional amounts at maturity. The hedge is fully effective as the notional amount of the cross-currency swap equals the CHF note and all cash flow dates and interest rates coincide between the CHF note and the cross-currency swap.

The derivative is recognized in the balance sheet at fair value and is considered a cash flow hedge as it is hedging a particular risk associated with a recognized liability. Fair value for the cash–flow hedge derivative is calculated as the present value of the estimate future cash-flows based on observable yield curve. The market value obtained by the procedure described above, is adjusted by the counterparty default risk for the evaluation of the derivative that is positive, and by the Company´s own credit risk for the valuation of the derivative that is negative.

The derivative will mature in 2019. Annually the interest income and interest expense is recognized in the Statement of Income.

The breakdown of derivative financial instruments by category is as follows:

(in Thousands of Euro)	31 December 2018		31 December 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**15,753**	**-**	**6,424**	**-**
Cash flow hedges cross currency swap				
Interest rate and foreign exchange rate	15,753	-	6,424	-
Total derivative financial instruments	**15,753**	**-**	**6,424**	**-**

The impact on the income statement from derivative financial instruments is as follows:

	31 December 2018	**31 December 2017**
(in Thousands of Euro)	**Operating Profit**	
Cash flow hedges	2,223	1,827
Total	**2,223**	**1,827**

The impact on the income statement relates to the foreign exchange on translation of the borrowing to the functional currency at the end of the reporting period.

The breakdown of derivatives at 31 December 2018, their fair value and maturities of their notional values is as follows:

(in Thousands of Euro)	**Fair Value**	**31 December 2018**		
		2018	**2019**	**Total**
Interest rate and foreign exchange rate hedges				
Cash flow hedges				
Financial swaps (CHF)	15,753	-	203,915	**203,915**

(in Thousands of Euro)	**Fair Value**	**31 December 2017**		
		2018	**2019**	**Total**
Interest rate and foreign exchange rate hedges				
Cash flow hedges				
Financial swaps (CHF)	6,424	-	203,915	**203,915**

9. Other current financial liabilities from group companies

(in Thousands of Euro)	31 December 2018	31 December 2017
Payables to group companies	14,827	12,760
	14,827	**12,760**

The payables to group companies relate mainly to the Guarantee Agreement signed by the Company with Naturgy Energy Group, S.A. which establishes Naturgy Energy Group as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guarantee fee of 0.25% on the principal amounts of the issuances and to the debt with GNF Mineria B.V. and Gas Natural Europe S.A.S. due to the Fiscal Unity (see note 13)

10. Financial income

(in Thousands of Euro)	Year ended 31 December 2018	Year ended 31 December 2017
Financial income		
Group companies and associates	238,398	219,913
Third parties	-	13
	238,398	**219,926**

11. Financial expense

(in Thousands of Euro)	Year ended 31 December 2018	Year ended 31 December 2017
Financial expense		
Bonds and other negotiable securities (EMTN Programme)	206,236	196,569
Bonds and other negotiable securities (ECP Program)	(2,307)	(2,218)
Payable to group companies (Guarantee Agreement)	22,048	18,760
Derivatives financial instruments (Cash flow hedges)	6,821	1,827
Other	51	39
	232,849	**214,977**

12. Result from operating activities

(in Thousands of Euro)	Year ended 31 December 2018	Year ended 31 December 2017
Services	**397**	**358**
Administrative expenses	65	63
Audit fees for statutory accounts	28	30
Other consultants' fees	278	240
Other general expense	26	25
Personnel	**122**	131
	519	**489**

The breakdown of the audit fees at 31 December 2018 and 2017 is as follows:

(in Thousands of Euro)	Year ended 31 December 2018	Year ended 31 December 2017
Audit of the financial statements	28	28
Other audit services		2
Tax services	-	-
Other non-audit services	-	-
	28	**30**

All the services set under the audit of the financial statements of 2018 have been provided by Ernst and Young Accountants LLP (2017: PricewaterhouseCoopers Accountants N.V.).

13. Income tax expense

The taxable profit of the company is computed on the basis of a special ruling with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans as well as covering any exchange risks by way of derivative agreements or other hedging procedures. Taxation is based upon a percentage spread of the average amount of all loans (amounts borrowed) outstanding during the year minus the operational costs of the Company (to a certain amount).

The Company signed in 2015 a new advanced pricing agreement with the Dutch tax authorities, which applies to the period of 1 January 2015 up to and including 31 December 2019. This agreement, which sets the arm's length criteria, states most of the Company's profit every year, being obliged to apply a 0.064316% margin on the interest expense.

Additionally, in November 2014 and April 2015, the Company submitted an Advance Tax Ruling (ATR) in connection with the issuance of the Subordinated perpetual debentures in the amount of EUR 1,000,000 and EUR 500,000 thousand, by which the taxation conditions for the Company regarding the Subordinated perpetual bonds are set as follows:

- The bonds qualify as debt for Dutch tax purposes.
- No Dutch interest withholding tax will be due in case of interest payments made by the Company.
- The interest to be paid should be deductible for Dutch corporate income tax purposes and can be offset against the interest income realized by the Company.
- The deductibility of the interest expenses is not restricted.
- The Company will report a taxable margin.

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On March 17, 2016, the Dutch Tax Authorities approved the Company's request for a fiscal unity. The companies included in such fiscal unity are Naturgy Finance B.V. as parent company and Gas Natural Fenosa Mineria B.V. and Gas Natural Europe S.A.S. as subsidiaries, and it is of application as per 1 April 2015.

(in Thousands of Euro)	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Profit before income tax	5,030	4,460
Corporate income tax (tax ruling)	1,425	1,068
Effective tax rate	28.33%	23.94%
Applicable tax rate	20%-25%	20%-25%

In accordance with current corporate Income tax law in the Netherlands the first EUR 200 thousand of Profit before taxation is charged at 20%, all profit above EUR 200 thousand is charged with a 25% tax rate.

The movement in the current income tax liabilities is included in the table below:

(in Thousands of Euro)	**Year ended 31 December 2018**	**Year ended 31 December 2017**
As at 1 January	**309**	**27**
Taxes paid	(1,105)	(786)
Income tax expense	1,425	1,068
As at 31 December	**629**	**309**

The breakdown of the tax effect for each item on the statement of recognized Income is as follows:

(in Thousands of Euro)	**31 December 2018**			**31 December 2017**		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	(1,787)	434	(1,353)	(2,542)	625	(1,917)
Total	**(1,787)**	**434**	**(1,353)**	**(2,542)**	**625**	**(1,917)**

The breakdown of the deferred income tax assets is as follows and relates to the valuation at the fair value of the derivative:

(in Thousands of Euro)	**31 December 2018**	**31 December 2017**
Deferred income tax assets		
Non-current	-	625
Current	434	-
Total deferred tax	**434**	**625**

14. Related-party transactions

Naturgy Energy Group, S.A. is the parent Company of Naturgy Energy Group. Naturgy Energy Group, S.A. owns and controls a 100% of the Company´s shares.

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(in Thousands of Euro)	**31 December 2018**	**31 December 2017**
Due from Parent, long term	7,744,104	7,776,893
Due from Parent, short term	343,298	139,231
	8,087,402	**7,916,124**
Due to Parent, short term	(14,827)	(12,760)
	(14,827)	**(12,760)**

(in Thousands of Euro)	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Financial income from Group companies	238,398	219,913
Financial expense from Group companies	(22,048)	(18,760)
	216,350	**201,153**

Financial income for the years ended 31 December 2018 and 2017 was accrued with the shareholder Naturgy Energy Group, S.A. (amounts due from Parent). The interest rate of the loans to the shareholder is calculated adding to the total costs of the borrowings received by the Company an arm's length remuneration, set as an annually gross spread of 0.064316%.

Financial expense accrued with related parties (amounts due to Parent) relate to Naturgy Energy Group S.A. for the Guarantee Agreement in relation to the EMTN program, ECP program and Subordinated Perpetual bonds which establishes Naturgy Energy Group as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guarantee fee of 0.25% on the principal amounts of the issuances.

15. Average number of employees

During the year 2018, the average number of employees calculated on a full-time basis was 1 (2017:1).

16. Directors and Supervisory and Audit committee members

(in Thousands of Euro)	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Current and former directors	96	107
Supervisory board and Audit Committee members	-	-
	96	**107**

The directors' remuneration includes periodically paid remuneration, such as salaries, holiday allowance and social premiums, remuneration to be paid after a certain term, such as pensions to the extent that these items were charged to the Company.

The Company has three members of the Board of Managing Directors and three Supervisory Board members and two Audit Committee members.

17. Events after the reporting year

Post-year-end events include the redemption of a Bond that had been issued on February 8, 2013 for a total amount of CHF 250,000 thousand. Upon acquisition, this bond was converted into EUR through a total effective cross-currency swap, and the counter position with the parent company was denominated in EUR. On February 8, 2019 the bond, the cross-currency swaps and the amount due from the parent company in regards, were all cancelled.

Some changes have affected the Board of Managing Directors, as Ms. V. Torres Ledesma has been appointed as director, replacing Ms. S. Rosina Roger. Additionally, Ms.H.Barcas Lewkovicz and Intertrust (Netherlands) B.V. were appointed as temporally Managing Directors, from March until September 2019, that they resigned. After these changes the Company still complies with the requirement to have at least 30% female board members.

The company has signed a new APA in June 2019 with Dutch Tax Authorities for the period 2019-2023 which establishes the Company's remuneration for its intercompany financing activities at 6.3 basis points (6.4316 previous APA) over the intercompany loans between the Company and group companies.

Also, the Company has obtained a new Advance Tax Ruling (ATR) in May 2019, until 2022; qualifying Subordinated perpetual debentures as debt for Dutch tax purposes.

The Board of Managing Directors and the Supervisory Board have declared that to the best of their knowledge, the financial statements give a true and fair view of the assets, the liabilities, the financial position and the results of the Company.

The Board of Managing Directors,

E. Berenguer Marsal

V. Torres Ledesma

G.A.R. Warris

The Supervisory Board,

I. Velasco Miranda

Mr. Joan Felip Font

Mr. Martin van Daalen

Amsterdam, 18 October 2019

Other information to the financial statements for the year ended 31 December 2018

Profit and profit distribution

Article 21 of the Articles of Association provides that:

21.1 The General Meeting has the authority to allocate the profits determined by adoption of the annual accounts. If the General Meeting does not adopt a resolution regarding the allocation of the profits prior to or at latest immediately after the adoption of the annual accounts, the profits will be reserved.

21.2 The General Meeting has the authority to make distributions. If the Company is required by law to maintain reserves, this authority only applies to the extent that the equity exceeds these reserves. No resolution of the General Meeting to distribute shall have effect without the consent of the Management Board. The Management Board may withhold such consent only if it knows or reasonably should expect that after the distribution, the Company will be unable to continue the payment of its due debts.

Independent auditor's report

Reference is made to the independent auditor's report included hereafter.

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Independent auditor's report

To: the shareholders and supervisory board of Naturgy Finance B.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Naturgy Finance B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Naturgy Finance B.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2018
- The statement of income for 2018
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Naturgy Finance B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€40.5 million
Benchmark applied	0.5% of total assets as at 31 December 2018
Explanation	We have applied total assets as we believe that this benchmark is the most appropriate metric for the holders of the notes, debt and loans issued by the Company

We have also taken into account misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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We agreed with the supervisory board that misstatements in excess of €2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our 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. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans issued to parent company	
Risk	The main activity of the Company is to operate as a financing company of its parent company, Naturgy Energy Group S.A., raising funds from third party lenders through bonds issuance, loans and other facilities. The Company is exposed to the risk that Naturgy Energy Group S.A. defaults on the meeting its obligations. As loans to the parent company represent the most significant portion of the Company's current and non-current assets, any impairment may have a material impact on the financial statements. As such we identified valuation of loans to the parent company as key audit matter. We refer to note "2.6 Financial instruments, d) Impairment of financial assets", of the financial statements, where management has disclosed the policies and procedures in respect of impairment assessment on loans to the parent company. The board of managing directors did not identify any objective evidence triggering that loans might be impaired.
Our audit approach	Our audit response includes a consideration of the appropriateness of assumptions and estimates in relation to the recoverability of the loans issued to parent company. We challenged those assumptions and estimates based on, amongst others, our analysis of the financial position of the parent company and by identification of indicators of non-recoverability of loans issued to parent company, including an assessment on whether parent company through the year has not been able to meet its financial obligations toward the Company.
Key observations	Based on the procedures performed we concur with the board of managing directors that no objective evidence is available that triggers impairment of the loans issued to parent company.

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Changes in accounting	
Risk	As of 1 January 2018, the Company prepares its annual financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code (Dutch GAAP). Until 2017, the Company applied the International Financial Reporting Standards as adopted by the European Union (EU-IFRS). In addition, Naturgy Finance B.V. has changed its accounting of the subordinated perpetual debentures in its 2018 financial statements. The subordinated perpetual debentures were inappropriately classified as equity. In the 2018 financial statements of Naturgy Finance B.V. these subordinated perpetual debentures are classified as liabilities. We have identified changes in accounting in the 2018 financial statements as key audit matter. We refer to note "2.2 Changes in accounting", of the financial statements, where management has made the respective disclosures.
Our audit approach	Amongst other procedures we have: ▶ Assessed the relevant differences between EU-IFRS and Dutch GAAP ▶ Inspected underlying documents in respect of the subordinated perpetual debentures ▶ Reviewed key judgments made by management regarding the classification of the subordinated perpetual debentures ▶ Assessed the calculation for the necessary adjustments ▶ Assessed the appropriateness of the relevant disclosures made.
Key observations	Based on procedures performed we concur with the changes in accounting in the 2018 financial statements and respective disclosures made.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The board of managing directors report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the board of managing directors report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement
We were engaged by the board of managing directors as auditor of Naturgy Finance B.V. on 13 March 2018, as of the audit for the year 2018 and have operated as statutory auditor since that financial year.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided
Our services are only related to the audit of the financial statements.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- Obtaining 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 company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's 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 a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 18 October 2019

Ernst & Young Accountants LLP

signed by R.A.J.M. Emmerink