

2018 Integrated Annual Report

Our energy
creates value

Naturgy 



Integrated Annual Report
2018



Naturqu



Letter from the Chairman	Page 6
Main milestones and key figures	Page 8
Market context, risks and opportunities	Page 16
Corporate governance	Page 26
Business model and value creation	Page 36
Business performance and results	Page 46
Strategy	Page 80
Sustainable innovation	Page 96
Our commitments	Page 104
About the Integrated Annual Report	Page 173

Letter from the Chairman

Dear shareholders,

It is my pleasure to present the Naturgy Director's Report for 2018, a year marked by important key corporate events, which have allowed the company to initiate its transformation in preparation for the energy transition. This will enable the company to face the future with greater stability and to meet the targets set out in the 2018–22 Strategic Plan.

A series of events occurred throughout 2018 which I have taken the opportunity to enumerate. Following on from the change in chairmanship in February, a set of changes were made to the company's shareholding structure in May, with the exit of a historic shareholder, Repsol. Their stake was acquired by a new shareholder, Rioja BidCo, jointly owned by CVC and Corporación Financiera Alba. This brought about the first changes to the Board of Directors.

In June, with broad support from the General Shareholders' Meeting, the first decisions were taken in the field of corporate governance, in order to expedite the decision-making process, simplify the organisational structure and adapt the profiles of board members to the new reality of the company.

In this respect, the reduction in number of board members was approved, with the incorporation of new directors with broad industrial and international experience, and enhancing the role of independent directors, who were given an increased weighting within the Board of Directors. Moreover, a new organisational structure was implemented in order to ensure simpler and more transparent management, with greater autonomy of the business areas, while constantly subject to the oversight of the corporation.

Also, in June, after the launch of the new brand, we presented the new 2018–22 Strategic Plan to the market. This strategic plan, whose essential focus is to achieve the satisfaction of our customers and create value for our shareholders, is based on the consolidation of the group's organic growth. Likewise, management efforts are concentrated on four basic pillars: i) fostering simplicity and accountability in management; ii) optimising business operations; iii) guaranteeing discipline in investment; and iv) optimising sustainable shareholder remuneration.

After only six months of working with this new roadmap, our businesses have shown a positive evolution, but it will only be in the coming years, as we execute the Strategic Plan, that we will see an improvement in results.

Ordinary operating Ebitda for 2018 grew by 12% to Euros 4,4 billion, and the company achieved an ordinary net profit of Euros 1,2 billion, a 57% increase on that of 2017.

All our businesses improved their ordinary operating results in 2018, despite unfavourable evolution in exchange rates, particularly in Latin America. In addition, investment of Euros 2,3 billion was made in 2018, 30% more than the previous year, of which 70% was earmarked for growth projects.

For the purpose of greater transparency and coherence with the hypotheses considered when defining our targets for 2022, an asset valuation review was carried out, mainly affecting conventional power generation in Spain. This review led to a write-down in value of Euros 4,9 billion. In consequence, the company recorded consolidated losses in net results to the value of Euros 2,8 billion. Although this does not affect the policy of dividend distribution, it is evidence of the team's commitment not only to results, but also to transparency.

Cash flow in 2018 rose to Euros 5,5 billion, which were equitably destined to i) growth in strategic assets, among which renewable energies are highlighted; ii) reduction of financial debt; and iii) shareholder remuneration.

In this respect, I would like to confirm the commitment included in the Strategic Plan to increased and sustainable remuneration for shareholders. In 2018, this commitment translated into a 30% increase in the dividend over that of 2017, reaching Euros 1.30/share, a figure that will be proposed at the General Meeting of 5 March for approval. As a result of the dividend payout and the share buyback programme – in the absence of inorganic investment opportunities

that meet the criteria for financial discipline in investment – Naturgy shareholders may be up for a total of Euros 1,5 billion in remuneration to be charged against the results of 2018, 50% higher than the previous year.

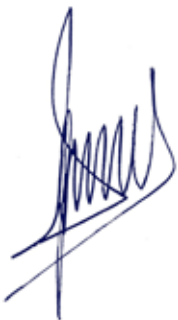
These results would not have been possible without the good work and highest levels of commitment by the management team, for whom the company has implemented a long-term incentive plan linked to total shareholder return until 2022. Once again, the alignment of the interests of the company's shareholders and management will be a guarantee for the creation of value pursued by the current Strategic Plan.

The responsible management of our business has allowed us to retain our position of leadership on the different sustainability indices. For the second consecutive year, Naturgy is the global leader in the Gas Utilities sector of the DJSI index, and global leader in the Multi-utilities sector of FTSE4Good index. We are the only Spanish energy company on the CDP A List for our action against climate change, and CDP has acknowledged us as world leader for the eighth consecutive year. According to MSCI, Naturgy has achieved the highest scores for mitigation of climate change and incorporation of sustainability; it is listed among the 120 most sustainable companies in the world on the Euronext Vigeo index; and it features among the Top 5 companies in transparency and sustainability according to Sustainalytics.

In the field of social responsibility, the company confirmed its commitment in every country where it carries out its activities, particularly to the most vulnerable groups. In addition to improving the management of these customers, the Naturgy Foundation has given a major boost to initiatives such as the Energy School and the energy volunteer programme for employees, within the framework of the company's Vulnerability Plan. The foundation has also launched two new initiatives: an Energy Rehabilitation Solidarity Fund, in order to improve the energy efficiency of the homes of vulnerable families, and the Job Circle project, to train long-term unemployed people in energy rehabilitation.

Through this report, I invite you to become familiar with the details of the activities and results of this company – your company – which marked its 175th anniversary in 2018 fully immersed in a cultural transformation, all of which will allow us to continue to look after the interests of all its customers and shareholders.

Many thanks.

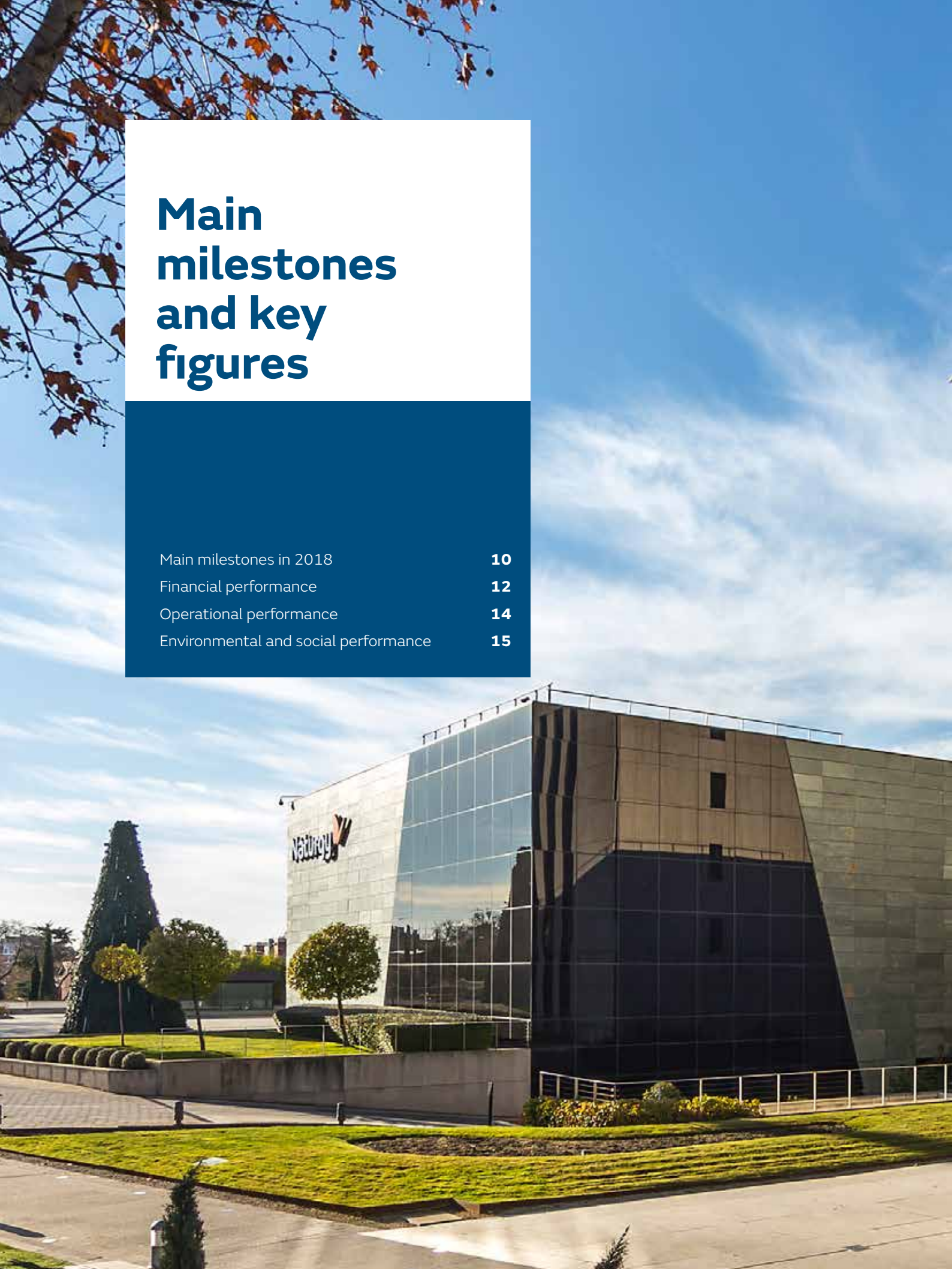


Francisco Reynés Massanet
Executive Chairman



Main milestones and key figures

Main milestones in 2018	10
Financial performance	12
Operational performance	14
Environmental and social performance	15





Main milestones in 2018

Naturgy issued **Euros 850 million in 10-year bonds** paying 1.5%, the proceeds from which were used to tender for **Euros 916 million in bonds maturing** between 2019 and 2023.

Naturgy, through subsidiary Global Power Generation (GPG), acquired **two solar photovoltaic projects in Brazil** in March 2018. The development of these projects, located in the state of Minas Gerais and with a total capacity of 83 MW, represented an **investment of over Euros 95 million**; they entered commercial operation on 12 December 2018.

In May, the **20.072% stake in share capital of Gas Natural SDG, S.A., belonging to Repsol**, was sold to Rioja Bidco Shareholdings, S.L.U, a company owned by funds advised by CVC Capital Partners and Corporación Financiera Alba, S.A.

January

February

March

May

The Board of Directors of Naturgy appointed **Mr Francisco Reynés Massanet to the post of Executive Chairman on 6 February 2018**, following the resignations of Mr Isidro Fainé Casas from his role as Chairman of the Board of Directors, and of Mr Rafael Villaseca Marco from his position as Chief Executive Officer of the company. Mr Isidro Fainé was in turn made Honorary Chairman of Naturgy.

On **19 March 2018**, following approval by the competition authorities, **a minority 20% stake in the company Holding de Negocios de Gas, S.A.**, which owns gas network assets in Spain, was sold to a consortium of long-term infrastructure investors comprising Allianz Capital Partners and Canada Pension Plan Investment Board for Euros 1.5 billion, resulting in a capital gain of Euros 1 billion.



The Shareholders' Meeting also approved the **Strategic Plan 2018-2022**

Naturgy is launched, the group's new brand. An international brand, adapted to global markets and which represents the values of the company's transformation: simplicity, innovation, expertise and respect.

In September 2018, **Naturgy concluded the agreement to renew and extend the gas supply contract with Sonatrach** to 2030 under better terms.

On **3 September 2018, Unión Fenosa Gas (UFG)**, the company that owns the Damietta plant in Egypt and is owned 50% by Naturgy, received an arbitration award in its favour from the International Centre for Settlement of Investment Disputes (ICSID), an agency of the World Bank, resolving the dispute presented in 2014; the arbitrators ruled against the Arab Republic of Egypt for failure to supply to UFG's liquefaction facilities in Damietta.

The Solidarity Fund for Energy Rehabilitation was launched in October 2018; the funds were allocated to energy refurbishment of dwellings selected by NGOs with which the company has cooperation agreements.

June

On 27 June 2018, the Shareholders' Meeting approved the distribution of income consisting of allocating **Euros 1,001 million out of 2017 income to dividends**. That is a dividend of Euros 1 per share, of which Euros 0.33 per share was paid as an interim dividend in cash on 27 September 2017 and the remaining Euros 0.67 per share, also in cash, on 5 July 2018.

The General Meeting of Shareholders also approved **reducing the number of members of the Board of Directors from 17 to 12**. It also approved a new composition of the board, reflecting the shareholding restructure caused by the exit of Repsol and the entry of CVC and Corporación Financiera Alba into the share ownership.

September

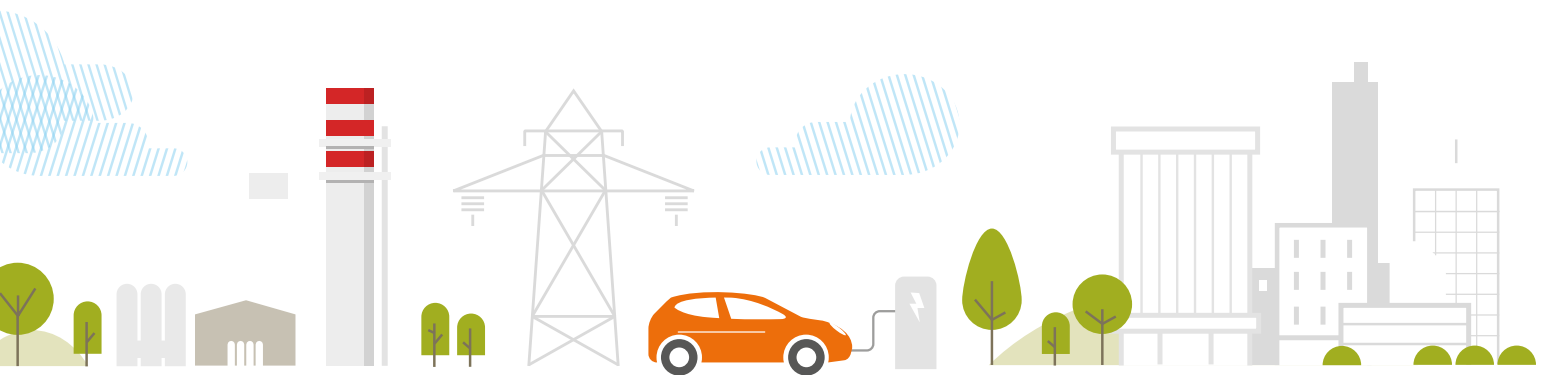
On **11 September 2018**, the Government of Victoria in **Australia** announced the **award to GPG** of a total of 180 MW of power generating capacity in a wind project located approximately 150 km from the city of Melbourne.

In **September 2018**, the **Dow Jones Sustainability Index (DJSI)** ranked **Naturgy as the world leader** in the Gas Utilities sector for the second consecutive year; the company was also certified as **world leader in the multi-utilities segment by FTSE4GOOD**.

October

December

On **6 December 2018, Compañía General de Electricidad, S.A.**, a subsidiary of Naturgy Energy Group, S.A. in Chile, **completed a bond issue for a total of 5 million** Unidades de Fomento (UF), equivalent to approximately Euros 176 million.



Financial performance

Revenue

Euros million

24,339

+4.9% vs. 2017

Ordinary net profit

Euros million

1,245

+57% vs. 2017

Capex

Euros million

2,321

+30.2% vs. 2017

Net financial debt (31/12)

Euros million

13,667

-9.8% vs. 2017

Free cash flow after minorities

Euros million

3,054

Investments

70%

in growth

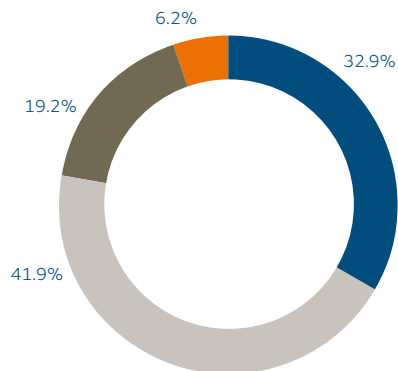
Ordinary Ebitda

Euros million

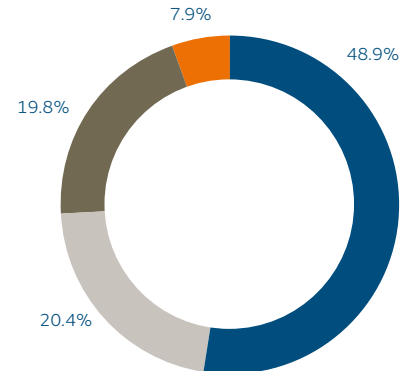
4,413

+12% vs. 2017

Ordinary Ebitda by business



Capital expenditure by business



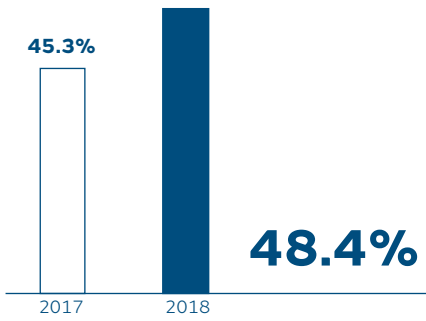
Ordinary Ebitda by geography



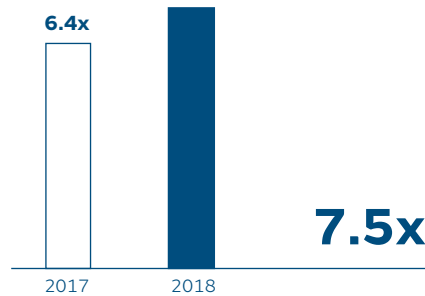
- Gas & Power
 - Infrastructures EMEA
 - Infrastructures LatAm South
 - Infrastructures LatAm North
- Others: -0.2%

- Gas & Power
 - Infrastructures EMEA
 - Infrastructures LatAm South
 - Infrastructures LatAm North
- Others: 3.0%

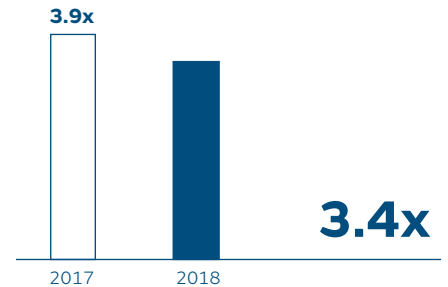
Leverage



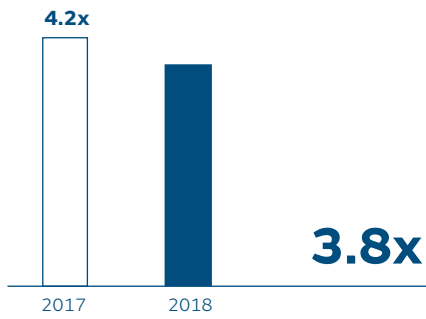
Ebitda / Net debt cost



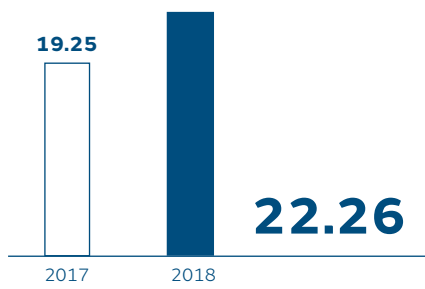
Net financial debt / Ebitda



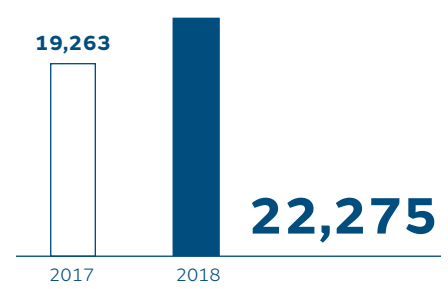
Net financial debt / Ebitda (IFRS 16)



Share price at 31/12
in euros



Market capitalisation at 31/12
Euros million



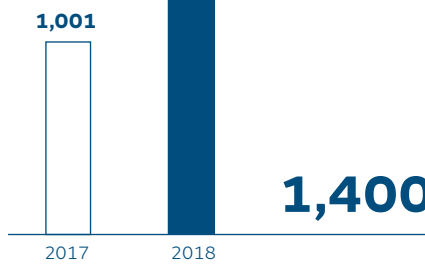
Ordinary earnings per share
in euros

1.25

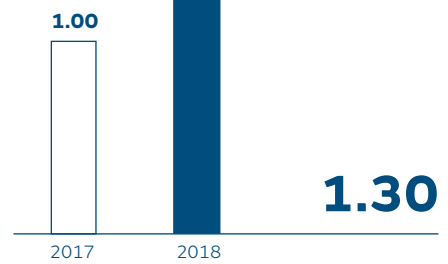
Total No. of shares
in thousands

1,000,689
1,000,689 vs. 2017

Dividend paid
Euros million



Dividend distributed per share
in euros



Operational performance

Distribution

Gas distribution (GWh)

Spain: **197,313**
 Latin America: **251,946**
 Total: **449,259**

Gas distribution network (Km)

Spain: **56,124**
 Latin America: **63,874**
 Total: **119,998**

Gas distribution connections (in thousands)

Spain: **5,403**
 Latin America: **5,202**
 Total: **10,605**

Electricity distribution (GWh)

Spain: **32,698**
 Latin America: **22,222**
 Total: **54,920**

Electricity distribution network (Km)

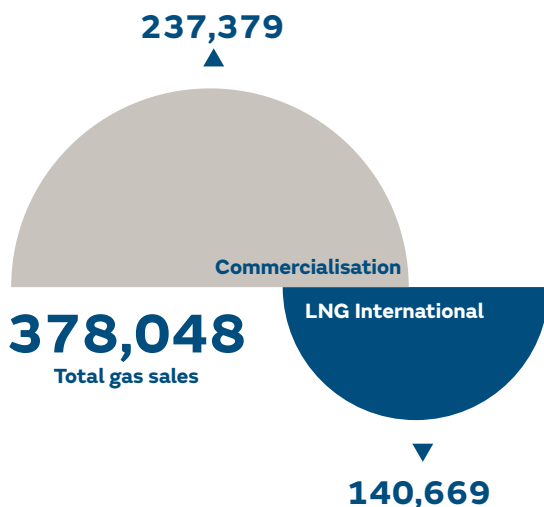
Spain: **113,557**
 Latin America: **101,975**
 Total: **215,532**

Electricity connection points (in thousands)

Spain: **3,740**
 Latin America: **3,829**
 Total: **7,569**

Commercialisation

Gas commercialisation (GWh)



Electricity generation

Total installed capacity (MW)

15,597

Installed capacity in Spain	12,504
Installed capacity in rest of world	3,093

Total net production (GWh)

46,658

Net production in Spain	28,307
Net production in rest of world	18,351

Electricity commercialisation (GWh)

35,437
 35,640 in 2017

Environmental and social performance

Environment

Emission factor
(tCO₂/GWh)

342
388 in 2017

GHG emissions (M tCO₂ e)¹

18.3
20.5 in 2017

**Emissions-free
installed capacity** (%)

27.5
26.4 in 2017

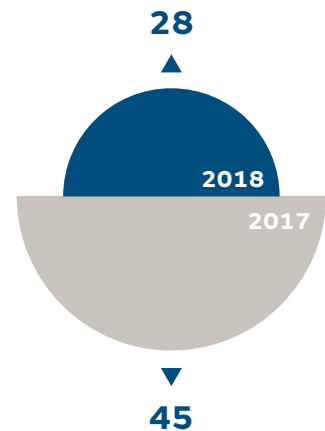
**Net production
free of emissions** (%)

24.9
19.6 in 2017

1. GHG: greenhouse gases, measured as tCO₂ equivalent (scope 1).

Health and safety

No. of accidents leading to days lost



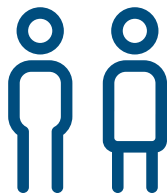
Interest in people

No. of employees ²

12,700

69%
men

71% in 2017



31%
women

29% in 2017

Training hours per employee

49.9
38.4 in 2017

2. Does not include the number of employees at discontinued operations (786 persons in 2018 and 2,053 persons in 2017).

Commitment to society and integrity

Economic value distributed
(Euros million)

23,413
22,402 in 2017

**No. of notifications received
by the Ethics Committee**

199
141 in 2017

A person wearing a white shirt is sitting at a wooden table in a cafe or office setting. They are holding a black smartphone in their right hand, looking at the screen. On the table, there is a white coffee cup with a lid, a laptop, and a small metal tray. The background is slightly blurred, showing other people and the interior of the space.

Market context, risks and opportunities

Market context	18
Risks	19
Opportunities	24



Market context

Reduction of CO₂ emissions and expansion of renewable energy, with natural gas as a key contributor

The Paris Agreement (2015 XXI United Nations Climate Change Conference, or COP21) seeks to minimise the impact of climate change, entailing a reduction in emissions that is only possible if there is a long-term transformation in energy. This energy transformation may be an opportunity, since it will require increased investment, but it will also reshape the appeal of businesses and investments alike.

Although there is no single path to achieving the climate goals, the most ambitious scenarios pose significant challenges for fossil fuels.

Due to falling capital costs, renewables are consolidating their leadership and will be the fastest-growing primary energy source in the medium and long term. Renewables are expected to expand from 2% of primary energy demand in 2016 to 6% by 2040.

Natural gas is expected to account for 20% of the primary energy mix in 2040, as it is the main energy source that is compatible with the climate commitments.

Renewables are expected to expand



Growing electricity demand and energy efficiency

In terms of final energy consumption, electricity will expand by 62%, from total worldwide demand of 21,000 TWh in 2016 to 34,000 TWh in 2040. Development of the emerging economies will require increased use of electrical applications (motors, cooling systems, information technology, etc.), while greater electrification of homes and transportation, coupled with digitalisation, will drive growth of electricity as a final energy source.

Electricity's share of total energy demand is expected to rise from 19% in 2016 to 23% in 2040.

Electricity's share of total energy



Big data and data analytics

Digitalisation in the energy sector, such as the development of applications and services that transform the relationship with customers due to greater connectivity, will enable demand management to be optimised (smart devices) and the portfolio of products and services to be expanded.

The number of connected devices is expected to increase by 27 billion between 2017 and 2020. Sales via digital channels are expected to increase by over USD 1 trillion in the same period.

Number of connected devices



Risks

Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders. This requires establishing the risk tolerance by setting limits for the main risk categories. In this way, the company can anticipate the consequences of certain risks and be perceived in the market as a sound, stable company, with all the benefits that entails.

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360° view of the group's processes, existing controls and the associated risks.

Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

The system addresses basically three categories of risk:

- **Market risk:** understood as the uncertainty related to commodity prices, exchange rates and interest rates, which may impact the company's balance sheet, its procurement costs or its ability to raise funding in the capital markets. It is measured using two yardsticks: in the short term, focused on the income statement, and in the long term, focused on enterprise value, including the capacity to generate cash flow and its stability, variations in the funding structure, and volatility in the applicable discount rates.
- **Credit risk:** i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.
- **Operating risk:** i.e. the possibility of financial losses as a result of failures in processes, internal systems or other factors. It enables risk to be measured objectively, which is decisive for raising awareness within the company and for improving management of exposure, all of which have an essential impact on the reinsurance market's perception of Naturgy's operational excellence.



Risk management bodies

Guaranteeing the predictability and sustainability of the company's operational and financial performance is a key aspects of risk management at Naturgy, and is supported by a number of bodies with clearly identified areas of responsibility.

Audit Committee

Supervises the company's internal control and risk management systems. Its function is to identify the various types of risk and the measures implemented to mitigate them, and to address them in the event that they materialise in the form of actual damage.

Risk Committee

Entrusted with determining and reviewing the company's target risk profile. It ensures that the risk profile is aligned with the company's strategic position and it also safeguards stakeholders' interests. It also exercises oversight to ensure that the entire organisation understands and accepts its responsibility for identifying, assessing and managing the main risks.



Risk Control Units

In charge of monitoring and reporting risks and ensuring that they fall within the limits defined in the target risk profile by the Risks Committee. Three units in particular stand out:

- **Risks and Insurance:** Identifies, monitors and tracks the Group's overall risk profile based on a definition of policies and metrics in coordination with the business units. Supports the Risk Committee in determining and monitoring the overall risk profile.
- **Gas & Power Risks:** Oversees and proposes measures to mitigate risks on the basis of Group policy, reducing volatility to achieve the target rate of return.
- **Internal audit:** Reviews and tracks the internal control system established by Senior Management and evaluates the operational risks linked to the processes. Supports the Audit Committee in its supervisory functions.

Businesses

In charge of managing risk in all their areas of action. They identify trends and positions that may entail risk and report them to the Risk Units. They also apply the guidelines and criteria established by the Risk Units.

Business, Corporate and Project units

Responsible for applying the general principles established in the Risk Control and Management Policy and for risk management in their areas of responsibility, observing, reporting, managing and mitigating risks.

Main risks

Risk type	Description	Management approach	Metric	Trend	
Market risks					
Commodity prices	Gas	Volatility in the international markets that set gas prices.	Physical and financial hedges. Portfolio management.	Stochastic	▲ Decoupling of long-term contracts from hub prices.
	Electricity	Volatility in the Spanish and Portuguese electricity markets.	Physical and financial hedges. Optimisation of the power generating fleet.	Stochastic	▲ Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	◀▶ Aggregate demand pressure in Spain in a context of energy efficiency.
	Electricity	Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output.	Optimisation of the balance between supply and generation.	Stochastic	▲ Aggregate demand pressure in Spain in a context of energy efficiency.
Regulatory	Exposure to regulatory review of the criteria and returns recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.	Scenarios	▲ Different business units at different stages of maturity.	
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local currency funding and derivatives. Monitoring of the net position.	Stochastic	◀▶ Uncertainty about growth prospects in Latin America.	
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	◀▶ Uncertainty about the interest rate scenario.	

Risk type	Description	Management approach	Metric	Trend
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or due to a material amendment of same.	Queries to independent expert bodies. Engagement of top level advisory firms. Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	◀▶ Different business units at different stages of maturity.
Credit risk				
Credit	Uncertainty about performance of bad debt ratios as a result of the economic cycle.	Analysis of customer solvency to define specific contractual conditions. Debt collection process.	Stochastic	◀▶ Pursues efficiency in debt collection.
Operational risk				
Operational: insurable risks	Accidents, damage and non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	▲ Growing tension in the insurance market in the face of natural catastrophes.
Operational: image and reputation	Impaired perception of Naturgy by stakeholders.	Identification and tracking of potential reputational events. Transparency in communication.	Scenarios	◀▶ Stabilisation of MERCO index score.
Operational: environment	Harm to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	▼ Implementation of an Integrated Management System that is audited and certified each year by AENOR.
Operational: climate change	Changes in environmental factors as a result of climate change. Regulation aimed at combating it.	Corporate positioning vis-à-vis climate change.	Stochastic/ Scenarios	▲ Uncertainty about policy developments to encourage energy efficiency.

Metrics used:

- **Stochastic:** production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally Ebitda, earnings after taxes, cash flow and value.

- **Scenarios:** analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks - interest rates, exchange rates, price of raw materials or commodities, credit risk, liquidity risk- are explained in Note 18 of the Consolidated Annual Report.

Opportunities

Naturgy's main opportunities are as follows:



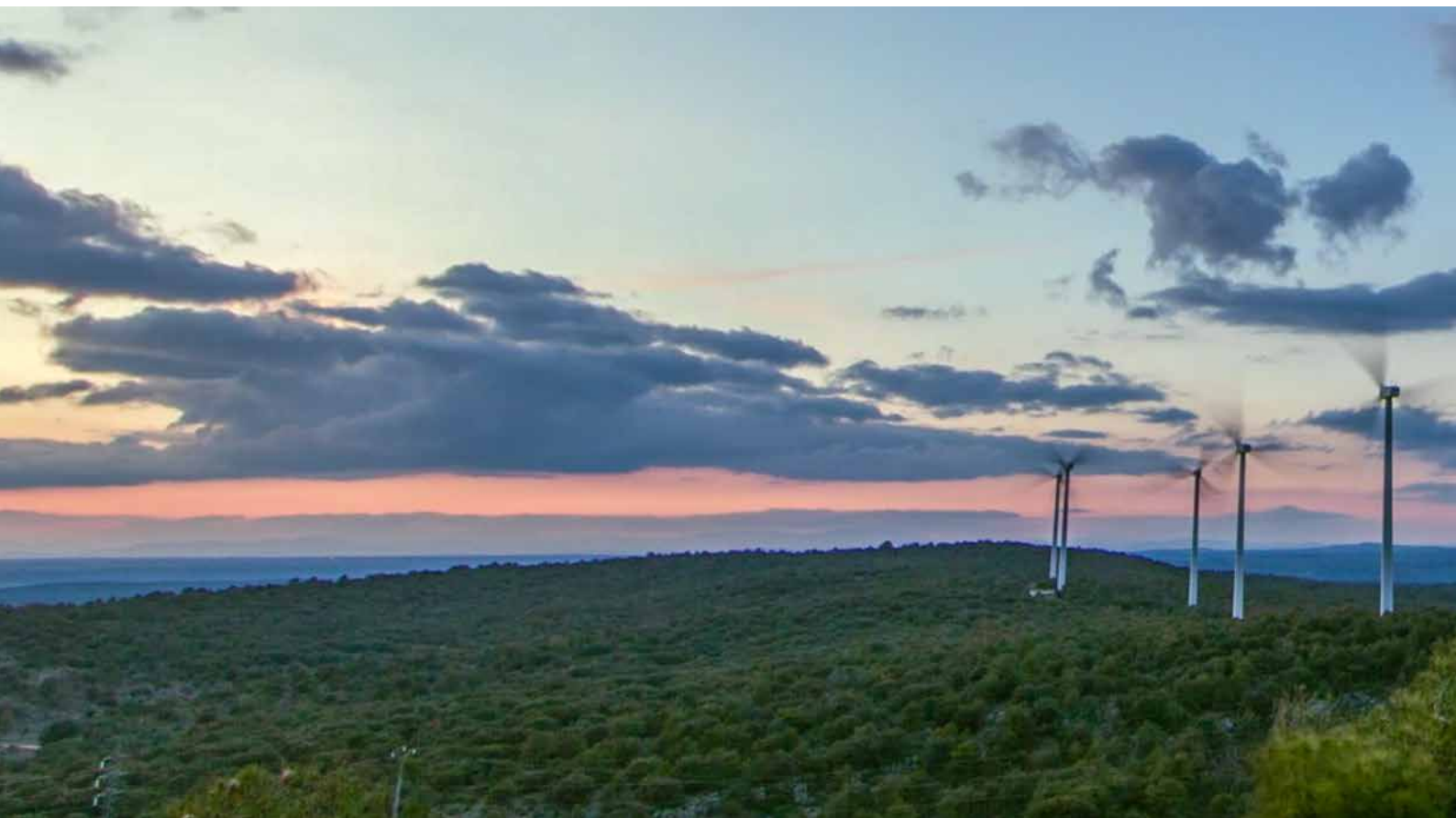
Renewable generation: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.



Generation mix: Naturgy's generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity markets.



Portfolio of natural gas and LNG procurements: Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Group's various businesses in a flexible, diversified way by optimising for different energy scenarios. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean basin.





A balanced structural position in businesses and regions, many of them with stable flows that are independent of commodity prices, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.



Technological development and innovation: Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.



Corporate Governance

Corporate Governance Model	28
Shareholders' Meeting	29
Board of Directors	30
Management structure	33
Remuneration policy	34

2018
Junta General
de Accionistas

Naturgy



Junta General de Accionistas 2018

Naturgy



Corporate Governance Model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main recommendations and standards in this area, and it adopts advanced corporate governance practices for this purpose.

The corporate governance terms of reference comprise basically:

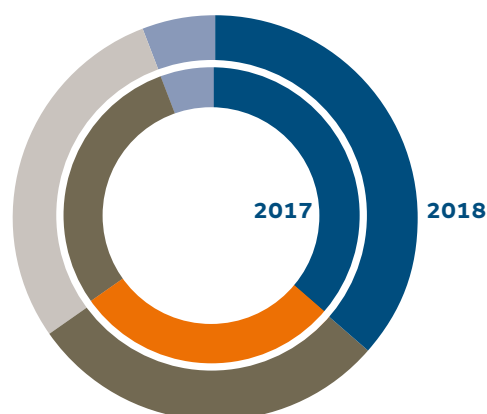
- Articles of Association (updated in 2018)
- Regulations of the Board of Directors and its committees (updated in 2018)
- Regulations of the General Meeting of Shareholders (updated in 2018)
- Human Rights Policy
- Code of Ethics (updated in 2015)

On 6 February 2018, following the resignation of Mr Rafael Villaseca Marco as Chief Executive Officer of the company, the Board of Directors of Naturgy appointed Mr Francisco Reynés Massanet as Executive Chairman. Additionally, Mr Isidro Fainé Casas resigned as a director and was appointed Honorary Chairman of Naturgy.

On 22 February 2018, Repsol, S.A. reached an agreement to sell its 20.072% stake in the capital of Naturgy Energy Group, S.A. to Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC. The transaction was completed on 18 May 2018, with the result that Repsol, S.A. ceased to be a shareholder of the company.

Following that transaction, the main shareholders of Naturgy as of 31 December 2018 are as follows:

Stake %



	2018	2017
● Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ¹	25.6	24.4
● Repsol, S.A.	-	20.1
● Global Infrastructure Partners III ²	20.0	20.0
● Rioja Bidco Shareholdings, S.L.U. ³	20.1	-
● Sonatrach	3.9	4.0

1. A 20.4% direct stake via Criteria Caixa S.A.U. and a 5.2% indirect stake (holding 5.0% through Energía Boreal 2018, S.A. and 0.2% through other).

2. Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

3. Controlled by funds advised by CVC.

Shareholders' Meeting

Following the changes in ownership structure, on 27 June 2018 the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to twelve. Additionally, the Executive Committee was eliminated and the number of members of the Audit Committee and of the Appointments and Remuneration Committee was set at seven in both cases.

As a result of those changes, the following directors stepped down:

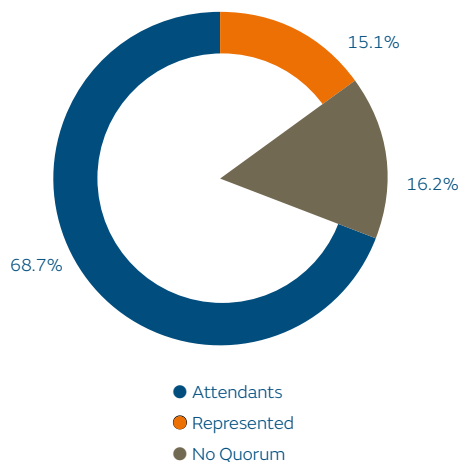
- Mr Isidro Fainé Casas (Chairman), on 6 February 2018.
- Mr Rafael Villaseca Marco (Chief Executive Officer), on 6 February 2018.
- Mr Alejandro García-Bragado (proprietary director, representing Criteria), on 21 May 2018.
- Mr Josu Jon Imaz San Miguel (proprietary director, representing Repsol), on 6 March 2018.
- Mr Luis Suárez de Lezo Mantilla (proprietary director, representing Repsol), on 18 May 2018.
- Mr Iñigo Alonso de Noriega (proprietary director, representing Repsol), appointed on 6 March 2018 until 18 May 2018.
- Mr Guillermo Llopis Garcia (proprietary director, representing Repsol), appointed on 6 March 2018 until 18 May 2018.
- Mr Mario Armero Montes (proprietary director, representing GIP), on 27 June 2018.
- Mr Juan Arbide Estensoro (proprietary director, representing CVC), of Theatre Directorship Services Beta, S.à.r.l., appointed on 18 May 2018 until 27 June 2018.
- Ms. Cristina Garmendia Mendizábal (independent), until 27 June 2018.
- Ms. Benita María Ferrero-Waldner (independent), until 27 June 2018.
- Mr Xavier Añoveros Trias de Bes (independent), until 27 June 2018.

And the following new directors were appointed:

- Mr Javier de Jaime Guijarro (proprietary director, representing CVC), of Rioja Bidco Shareholdings, S.L.U., appointed on 18 May 2018.
- Mr José Antonio Torre de Silva López de Letona (proprietary director, representing CVC), of Theatre Directorship Services Beta, S.à.r.l., appointed on 18 May 2018.
- Mr Pedro Sainz de Baranda (independent), appointed on 27 June 2018.
- Mr Claudio Santiago Ponsa, appointed on 27 June 2018.

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Attendance at the 2018 Shareholders' Meeting



Attendance at the 2018 Shareholders' Meeting

83.8%

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee and an Appointments and Remuneration Committee, whose functions are as set out in the Act.

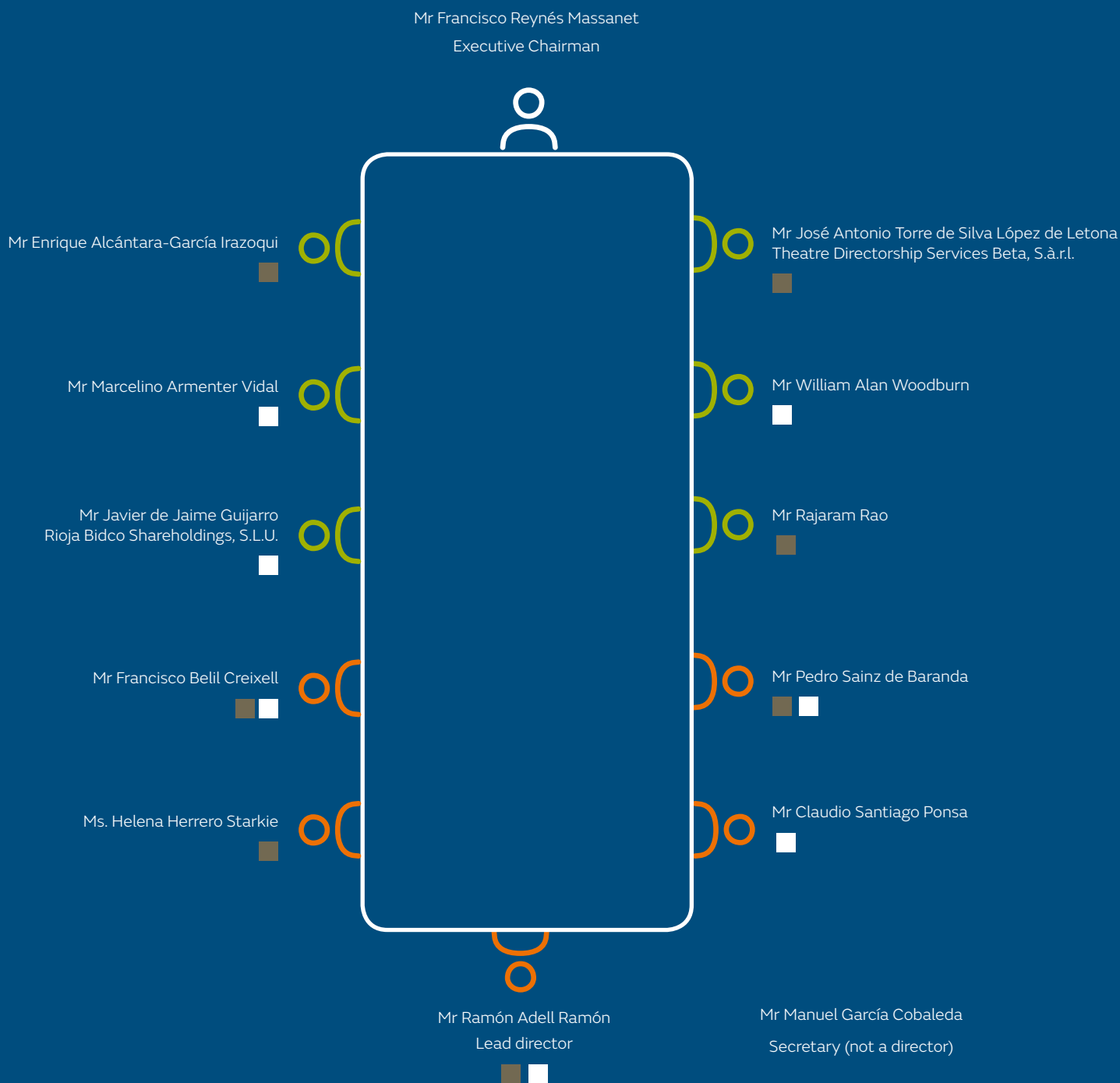
Until 27 June 2018, the Board had an Executive Committee, which was responsible for deciding on the issues most closely related to operations over which the Board has competence. In the framework of the Action Plan implemented by the Board of Directors as a result of the self-assessment performed in 2017, the size of the Board of Directors and the existence of the Executive Committee were reconsidered in 2018. After the reduction of the number of members of the Board of Directors to 12, it was no longer considered necessary to maintain that Committee since the aforementioned number guarantees agility in the decision-making process.

In 2018, the Board of Directors undertook an in-depth debate on strategy which crystallised in the approval of the Strategic Plan 2018-2022.

The other main issues that were considered are as follows:

- Monthly, six-monthly and annual oversight and review of business performance.
- Approval of the accounts, and other actions required by accounting and/or securities market regulations.
- Budgets, finance plan, capital expenditure plan and other actions related to activities planning and to financial discipline.
- Efficiency plan.
- Examination of the Company's main risks and its control systems.
- Actions in connection with corporate governance: in addition to the normal reports (Annual Corporate Governance Report, Annual Report on Remuneration, etc.), as a result of a performance assessment of the Board of Directors and its committees this year a Corporate Governance Action Plan was drawn up and approved, in line with best practices in the area of corporate governance. This resulted in material changes in this area, such as a review to simplify all corporate regulations, reduce the number of directors, and eliminate the Executive Committee.
- Notice of the Shareholders' Meeting, including the proposal to appoint new directors and a dividend proposal.
- Corporate Social Responsibility and health and safety issues.

Composition of the Board of Directors and its committees (at 31 December 2018)



Committee on which he/she sits

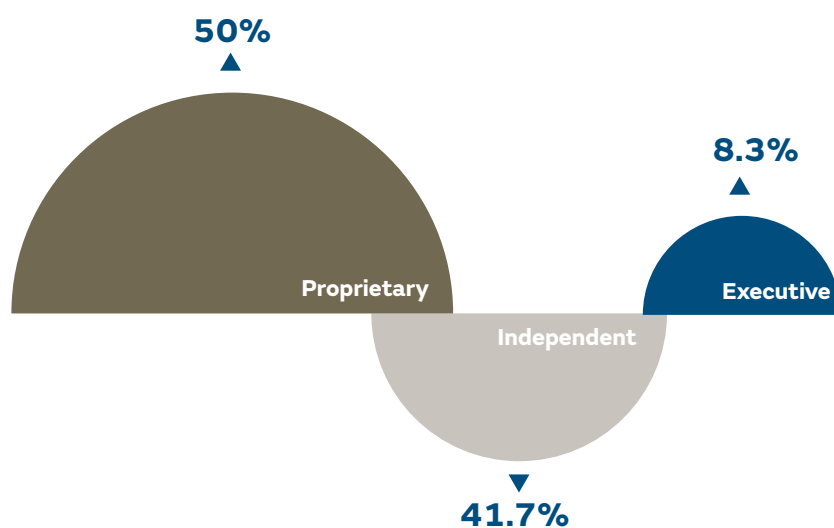
Audit Committee
 Appointments and Remuneration Committee

Category of director:

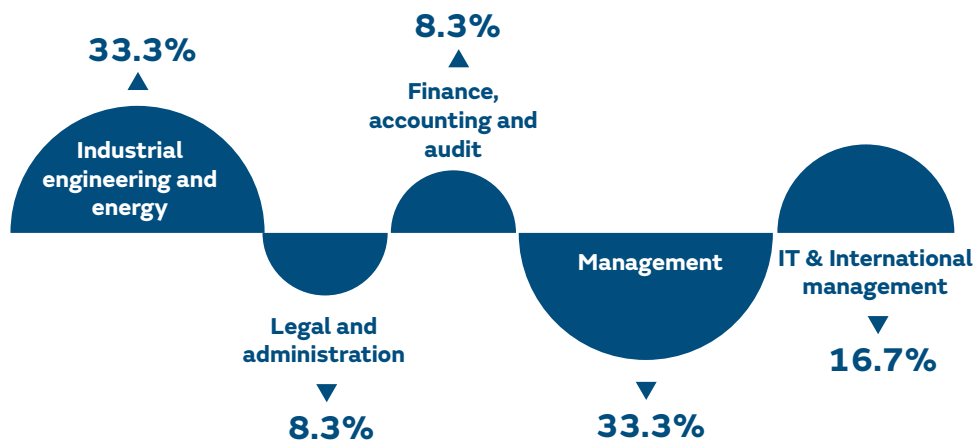
Executive
 Independent
 Proprietary

Board of Directors profile

Type of Director



Skills



Number of meetings of the Board of Directors and its committees

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
2018	14	2	7	11
2017	15	3	10	5

Management structure

Following the appointment of Mr. Francisco Reynés Massanet as Executive Chairman on 6 February, the group's organisation structure was redesigned, including the elimination of the Executive Committee.

A new and simplified organisational structure was defined comprising four business units (Gas & Power, Infrastructure EMEA, Infrastructure LatAm South and Infrastructure LatAm North) and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility for their bottom line, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr Francisco Reynés Massanet.

As of 31 December 2018, it comprised the following executives:

Executive Chairman
Francisco Reynés Massanet

Business Units



Corporate Units



Remuneration policy

Board of Directors

The Annual Report on Director Remuneration was presented as a separate item for a consultative vote at the Shareholders' Meeting in 2018.

Directors' remuneration for their membership of the Board and its committees consists solely of fixed amounts determined on the basis of the positions they hold.

The remuneration system was amended in 2018:

- On 6 February 2018, the Board of Directors adopted a material change in the Company's management and administration structure by approving the appointment of a new Executive Chairman and the resignation of the former Chairman and CEO, with the result that the contractual relationship with the previous CEO was terminated on 6 February.

- As part of the process of simplifying corporate governance, the Shareholders' Meeting on 27 June 2018 decided to reduce the size of the Board to 12 members and to abolish the Executive Committee, which resulted in a redistribution and overall reduction of the directors' remuneration for performing non-executive functions.

- In accordance with the provisions of article 9 of the Articles of Association and in the framework of the approval of the Strategic Plan 2018-2022 by the Board of Directors on 27 June 2018, the Board resolved, at a meeting on 31 July, to replace the pre-existing multi-year variable remuneration system with a long-term incentive which, since it requires the approval of the Shareholders' Meeting, is subject to the condition precedent that it be authorised by the 2019 Shareholders' Meeting.

These decisions were adopted by the Board of Directors following recommendations in this connection by the Appointments and Remuneration Committee; external legal advice was obtained for the implementation of the new long-term incentive plan and its submission to the Shareholders' Meeting.

The remuneration is supplemented by pension plans and a group health insurance policy.

Remuneration for membership of the Board of Directors and its committees (Euros/year):

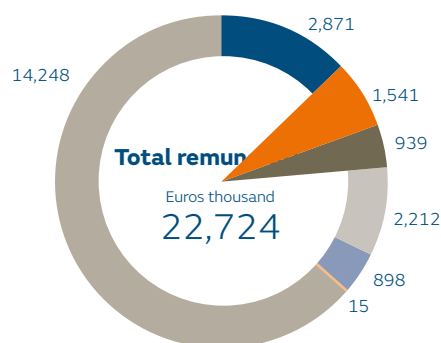
	From 27 June 2018	Up to 27 June 2018
Chairman of the Board of Directors	1,100,000	550,000
Director	175,000	126,500
Lead director	30,000	30,000
Committee chairman	90,000	-
Committee member	60,000	-
Chairman of the Executive Committee	Not applicable	550,000
Member of the Executive Committee	-	126,500
Member of the Appointments and Remuneration Committee	-	25,000
Member of the Audit Committee	-	40,000

Following those changes, the remuneration policy for the Executive Chairman, in respect of his executive functions, is based on the following:

Item	Objective	Criteria
Fixed remuneration annual basis	Remunerate the level of responsibility attached to these functions.	Ensure that the remuneration is competitive vis-à-vis comparable companies.
Annual variable remuneration	Link remuneration with the company's performance in the short term.	Based on 100% of the total fixed annual remuneration, multiplied by the degree to which the goals were actually achieved in the year. Achievement is capped at 150%. No remuneration is payable if goal achievement is less than 80%. The goals and weightings are expected to be established by the Board of Directors at a meeting on 5 March 2019.
Long-term incentive plan	Strengthen the commitment to achieving the goals set out in the strategic plans.	Related to the return obtained by shareholders in the period of reference, which coincides substantially with that of the Strategic Plan 2018-2022.
Other items	Safeguard the company's benefits.	Health, life insurance and disability. Energy rebate, company vehicle.

Total remuneration earned by the Board of Directors in 2018, by type

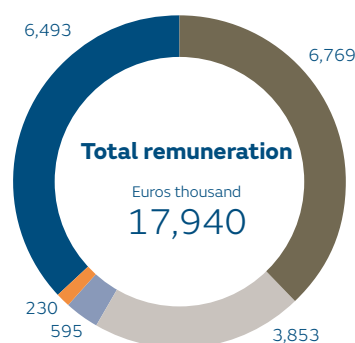
Euros thousand



- For sitting on the Board
- For sitting on the Board committees
- Fixed remuneration
- Short-term variable remuneration
- Pluri-annual variable remuneration
- Other items
- Termination benefit

Total remuneration earned by the Management Committee and head of Internal Audit¹ in 2018, by type

Euros thousand



- Fixed remuneration
- Short-term variable remuneration
- Pluri-annual variable remuneration
- Other items
- Termination benefit

Senior Management

The general remuneration policy for Senior Management is determined by the Board of Directors on the basis of a proposal by the Appointments and Remuneration Committee.

The remuneration model contains the same components as above for the Executive Chairman's executive functions.

1. In accordance with CNMV Circular 5/2013, for the purposes of remuneration, senior management includes executives who report directly to the company's chief executive and also the head of internal audit.



Business model and value creation

Business model	38
Value creation and sustainable management	44



Business model

Naturgy is an integrated energy group supplying gas and electricity to almost 18 million customers. It focuses on the gas distribution and supply and on generating, distributing and supplying electricity. It also operates other business lines, such as energy services,

which enhance the diversification of activities and revenues, staying at the forefront of new market trends, meeting customers' specific needs and offering them an integrated service not confined to selling energy.



The long-term commitment to **value creation** and sustainable management is specified in the Corporate Responsibility Policy. This policy undertakes eight **commitments to the company's stakeholders**:



These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

Naturgy's business model is implemented through a number of companies in Spain, elsewhere in Europe, and in Latin America and Africa, and is underpinned by the following main businesses:



Gas & Power

34%
of Ebitda: Spain,
Europe and Latin
America



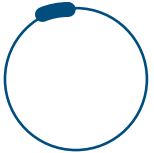
**Infrastructures
EMEA**

45%
of Ebitda:
Spain and Africa



**Infrastructures
LatAm
South**

20%
of Ebitda:
Latin America



**Infrastructures
LatAm
North**

6%
of Ebitda:
Latin America

Note: -5% other activities.

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring a regular supply of gas and electricity, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.



Worldwide presence

America

Argentina

Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.7 million customers) and electricity distribution (0.2 million customers).

Brazil

Gas distribution (Rio de Janeiro state, São Paulo South and 1.1 million customers). NG/LNG commercialisation and generation (153 MW solar).

Chile

Gas distribution (18 provinces and 0.6 million customers), electricity distribution and transportation (13 provinces and 2.9 million customers). Wind and solar generation projects.

Costa Rica

Generation (101 MW, hydraulic).

Jamaica

NG/LNG commercialisation.

Mexico

Gas distribution (ten states including Mexico City and 1.8 million customers) and generation (2,289 MW, combined cycles and 234 MW, wind).

Panamá

Electricity distribution (Panamá Central, West, Inland, Chiriquí and 0.7 million customers) and generation (22 MW, hydraulic).

Peru

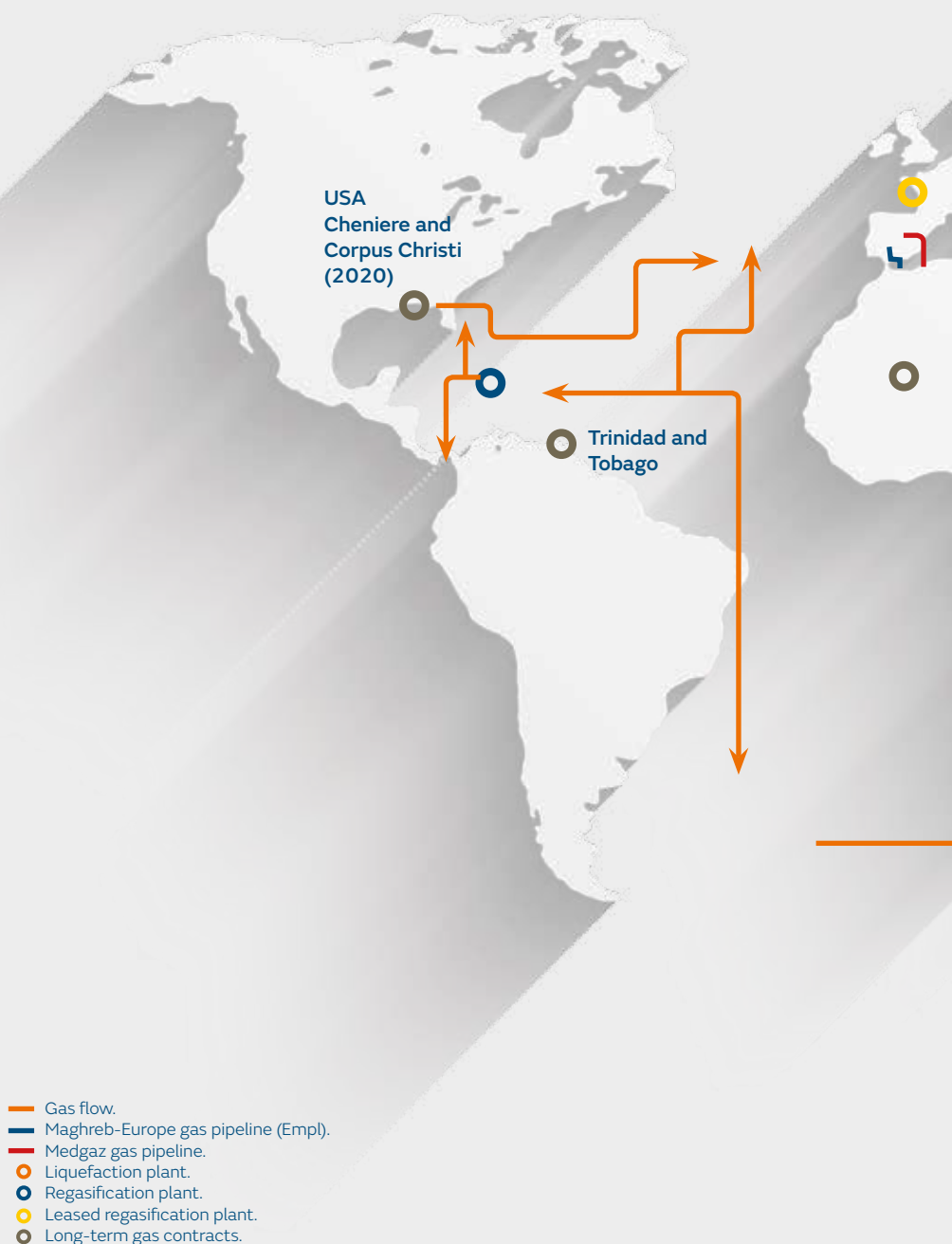
Gas distribution (Arequipa).

Puerto Rico

NG/LNG (regasification plant) infrastructure and generation of electricity.

Dominican Republic

Generation (198 MW, fuel-oil).



NB: Does not include the power distribution business in Colombia as the stake in Electricaribe ceased to be consolidated as at 31 December 2016 nor in the gas distribution in Italy and Colombia, electricity distribution in Moldova, electricity generation in Kenya and mining in South Africa business because they have been reclassified to discontinued operations.

Europe

Portugal

NG/LNG and electricity commercialisation.

Ireland

NG/LNG and electricity commercialisation.

Spain

Exploration, transportation, distribution and commercialisation of gas and electricity. Generation (combined cycles, nuclear, hydraulic, coal, co-generation, mini-hydraulic and wind).

United Kingdom

NG/LNG commercialisation.

France

NG/LNG commercialisation. Montoir regasification.

Belgium

NG/LNG commercialisation.

Netherlands

NG/LNG commercialisation.

Luxembourg

NG/LNG commercialisation.

Germany

NG/LNG commercialisation.

Russia Yamal (2019)

Norway

Qatar

Nigeria

Asia, Africa and Oceania

Algeria

NG/LNG supply and infrastructure, and Medgaz gas pipeline.

Australia

Wind generation (96 MW).

China

NG/LNG commercialisation.

Egypt

NG/LNG supply and infrastructure (Damietta liquefaction plant).

Japan

NG/LNG commercialisation.

India

NG/LNG commercialisation.

Jordan

NG/LNG commercialisation.

Morocco

NG/LNG infrastructure and Maghreb-Europe gas pipeline.

Oman

NG/LNG supply and infrastructure (Qalhat liquefaction plant).

Pakistan

NG/LNG commercialisation.

Singapore

NG/LNG commercialisation.

Business lines

Leadership in the gas business

	Networks	Gas		
	Gas distribution	Infrastructures	Procurement	Supply
	10.6 million distribution connections. 119,998 km of network.	Eight LNG carriers. Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz.	~ 30 bcm supply portfolio.	378 TWh of gas supplied.
Our positioning	<p>Spain Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.</p> <p>Latin America Latin America's top distributor, catering for more than 5.2 million customers. Presence in Argentina, Brazil, Chile, Mexico and Peru and in six of the ten largest Latin American cities.</p>	<ul style="list-style-type: none"> • Eight LNG carriers (1.3 Mm³). • Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline. • Interest in one regasification plant (Ecoeléctrica) and two liquefaction plants (Damietta and Qalhat). • Proprietary storage capacity of 0.5 bcm and leased capacity of 1 bcm. 	<p>Business model based on the diversification and flexibility that have made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Unique access to markets: almost 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins.</p> <p>39% market share in Spain.</p> <p>Competitive supply to combined cycle plants (CCGT).</p>
	Our strength	Naturgy has an outstanding position in the markets where it operates, affording it an platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	<p>Naturgy has an integrated gas infrastructure aimed to afford the business considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.</p> <p>Its storage capacity is seeking to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.</p>	Its diversified procurements portfolio enables it to tap value-added markets.

Standard-bearer in the electricity business

	Networks	Electricity	
	Electricity distribution	Generation	Supply
	7.6 million supply connections. 215,532 km of network.	15.6 GW of power generation capacity.	35.4 TWh supplied.
Our positioning	<p>Spain</p> <p>The third-largest operator in the Spanish market, where it distributes electricity to 3.7 million customers.</p> <p>Latin America</p> <p>Presence in Argentina, Chile and Panama (3.8 million customers).</p>	<p>Spain</p> <p>Capacity of 12.5 GW, with a significant presence in five technologies: 7 GW CCGT, 2 GW hydroelectric, 1.7 GW coal, 1.2 GW renewable and 0.6 GW nuclear power.</p> <p>Naturgy has a market share of 17.4% in non-renewable generation and 2.1% in renewable generation.</p> <p>International</p> <p>Capacity of 3.1 GW: 2.3 GW CCGT (Mexico), 0.2 GW oil-fired (Dominican Republic), 0.1 GW hydroelectric power (Costa Rica and Panama) and 0.5 GW renewables (Mexico, Australia and Brazil).</p>	<p>Leader in the mainstream consumer and residential segments, with a total market share of 14.0% in Spain.</p> <p>One of the main traders in the Spanish market.</p> <p>A dual supply and a broad range of value-added services.</p>
	Our strength	<p>Naturgy is a leader in the markets where it operates.</p> <p>Naturgy is one efficient operator in terms of operation and maintenance costs in the electricity distribution business.</p>	<p>The company has considerable know-how in the generation technologies that operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.</p> <p>The company's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation.</p>

Value creation and sustainable management

The long-term commitment to value creation and sustainable management is specified in the Corporate Responsibility Policy, which provides the common framework for action that guides the company's socially responsible conduct; it was approved and updated by the Board of Directors in December 2015, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.







This policy undertakes eight commitments to the company's stakeholders:

- 1) Commitment to results.
- 2) Service excellence.
- 3) Responsible environmental management.
- 4) Interest in people.
- 5) Health and safety.
- 6) Responsible supply chain.
- 7) Social commitment.
- 8) Integrity and transparency.

These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

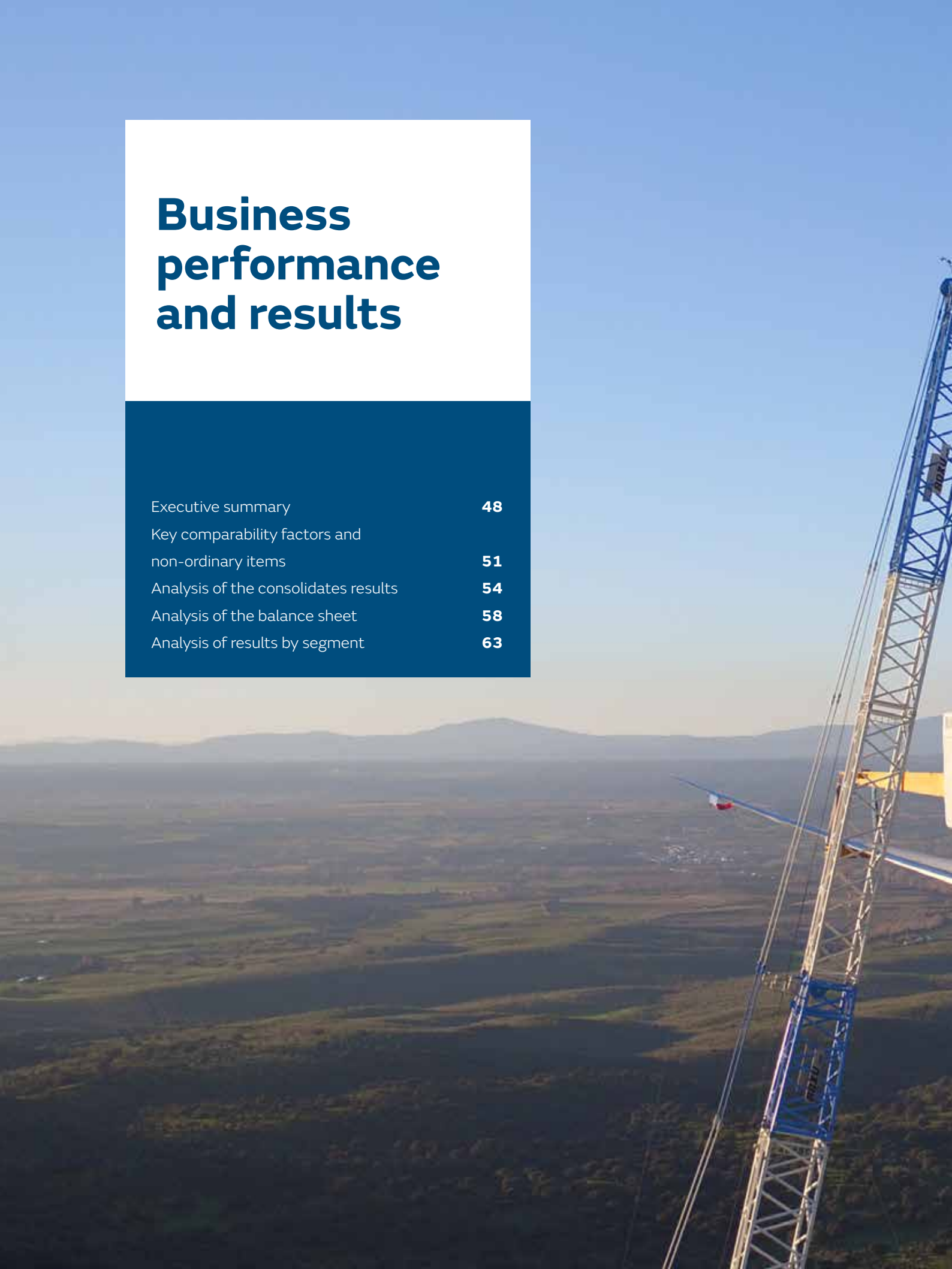
Naturgy has all the essential kinds of capital with which to develop its business model, which is based on the responsible and sustainable management of all the resources it uses.



	 Financial	 Human	 Manufactured	 Environmental	 Social
Our capitals	<ul style="list-style-type: none"> Sustainable cash generation. Free cash flow = €3,054 M Strict financial discipline. Leverage = 48.4% 	<ul style="list-style-type: none"> Professional development and talent management. Diversity and equal opportunities. Extending principles to supplier chain. 	<ul style="list-style-type: none"> Investment and maintenance in gas and electricity distribution networks. Sustainable innovation. Operation development of electricity production capacity. 	<ul style="list-style-type: none"> Environmentally-friendly products and services. Energy efficiency. Undertaking to reduce emissions. 	<ul style="list-style-type: none"> Relations and dialogue with stakeholders. Guarantee of supply
	<p>See Strategy chapter, page 80.</p> 				
	<p>Corporate Governance</p> <p>Our commitments</p> <ul style="list-style-type: none"> Commitment to results. Service excellence. Responsible management of the environment. Interest in people. Health and safety. Responsible supply chain. Commitment to society. Integrity and transparency. 				
Our results	<ul style="list-style-type: none"> Dividends policy. Payout: €1,400 M Meeting financial targets. Ordinary Ebitda: €4,413 M Ordinary net profit: €1,245 M 	<ul style="list-style-type: none"> Corporate University and training plans % Staff trained: 91.0 Retaining talent. Voluntary rotation: 2.5 Health and safety. Accident frequency index: 1.00 	<ul style="list-style-type: none"> Gas distribution: 449,259 GWh Electricity distribution: 54,920 GWh Gas supply: 378,048 GWh Net production: 46,658 GWh 	<ul style="list-style-type: none"> Direct GHG emissions : 18.3 MtCO₂ eq. CO₂ emissions/generation: 342 tCO₂/GWh 	<ul style="list-style-type: none"> Economic value distributed : €23,413 M Social investment: €11 M
Our stakeholders	<ul style="list-style-type: none"> Shareholders 	<ul style="list-style-type: none"> Employees 	<ul style="list-style-type: none"> Customers 	<ul style="list-style-type: none"> Customers Society 	<ul style="list-style-type: none"> Society

Business performance and results

Executive summary	48
Key comparability factors and non-ordinary items	51
Analysis of the consolidated results	54
Analysis of the balance sheet	58
Analysis of results by segment	63





Naturgy

Executive summary

Year 2018 has been marked by a number of key corporate events:

- On 6 February 2018, Francisco Reynés Massanet was appointed as Executive Chairman of the company.
- Repsol reached an agreement to sell its entire 20.1% stake in the capital of Naturgy to Rioja Bidco, a company controlled by funds advised by CVC and in which Corporacion Financiera Alba holds a 25.7% stake. The transaction was completed on 18 May 2018.
- On 27 June 2018, Naturgy presented its new Strategic Plan 2018-2022 which laid the foundations of its value creation strategy, positioning the company for the energy transition.

During the year, Naturgy has made steady progress on the development of its value creation strategy founded on four key pillars:

1. Simplicity and accountability

Throughout the year, Naturgy undertook relevant changes in its corporate governance based on a leaner structure and simpler corporate regulations, leading to a more agile decision-making process. The board of directors was reduced from 17 to 12 members, with six proprietary directors (Criteria Caixa, GIP and Rioja two each), five independent directors and the Executive Chairman.

Additionally, the company changed its organisational structure with a new reporting perimeter consisting of four main business units including: Gas & Power, Infrastructure EMEA, Infrastructure LatAm South and Infrastructure LatAm North. This has allowed Naturgy to simplify its management structure and reinforce the accountability of the different businesses. As part of this process, the company reduced the number of subsidiaries and replaced most of its subsidiary Board Directors by joint administrators, while scaling down support functions at the corporate level and reallocating some of these, based on strict functional needs, into each of the business units.

Furthermore and as part of the new strategic plan, Naturgy carried out an asset valuation review, consistent with its new Strategic plan assumptions, which translated into an impairment of Euros 4,851 million, in an effort to provide a more transparent and realistic value of its asset base. Additionally, and prior to the approval of the plan, other impairments were recorded for Euros 54 million.

2. Optimization

During 2018, Naturgy achieved substantial progress in its optimization efforts.

In September 2018, Naturgy finalised the agreement to renew and extend its gas procurement contract with Sonatrach up to 2030 under improved terms. On the other hand, a favourable judgement was made in the ICSID in relation to Unión Fenosa's arbitration process in Egypt.

Furthermore and as part of the new Strategic Plan, Naturgy launched a new efficiency plan targeting Euros 500 million savings in Opex by 2022. During 2018, Naturgy accelerated such program and incurred Euros 180 million capture costs which will result in a reduction of its ordinary Opex base going forward. In 2018 the ordinary Opex base has been reduced by approximately Euros 200 million compared to 2017.

During 2018, the Company also made progress on its capital structure optimization. In this sense part of its excess cash was used to amortize all of its bank-funded corporate debt, including Euros 1,270 million denominated in euros, as well as Euros 390 million denominated in USD. Additionally, Naturgy completed Euros 333 million bond repurchases at the holdco level and refinanced / issued new debt in Latin America for an aggregate amount of approximately Euros 1,073 million, including new bond issuances of Euros 389 million and new banking debt / refinancing of Euros 684 million, consistent with its financing strategy of reducing debt at the corporate level and maximizing financing into the business units.

3. Capital discipline

Naturgy is fully committed to the capital discipline and Golden Rules of investment established in its Strategic Plan 2018-2022.

Consistent with Naturgy's targeted growth in renewables during the Strategic Plan 2018-2022, the company continued to develop the wind and solar projects awarded last year in the Spanish auctions, investing approximately Euros 382 million during the year 2018. During 2019, the Company expects to start operating over 900 MW of additional renewable capacity.

Additionally during 2018, Global Power Generation (GPG) was awarded a 180 MW wind farm project in Australia, which will entail a total investment of AU\$259 million (equivalent to approximately Euros 166 million) and is expected to contribute an Ebitda of approximately Euros 22 million once fully operational. The project, which fully complies with the investment and profitability criteria established by Naturgy in its Strategic Plan 2018-2022, allows the company to reinforce its presence in stable economies, increase the predictability of its cash flows, and raise its exposure to renewable energy sources.

Moreover, the Company acquired two solar photovoltaic projects in Minas

Gerai (Brazil). The development of these projects which total 83 MW of capacity, required approximately Euros 95 million investment and came into operation in December 2018.

Finally during 2018, Naturgy completed the disposal of its businesses in Italy and Colombia, as well as the 20% minority stake in Nedgia, receiving proceeds of Euros 2,600 million in aggregate. The Company continues to progress on the various disposal processes of non-core businesses, following the business positioning criteria established in its Strategic Plan 2018-2022.

4. Shareholder remuneration

The Company has started delivering on its shareholder remuneration targets.

As part of its new Strategic Plan 2018-2022, Naturgy increased its shareholder remuneration policy. Dividends increased by 30% to Euros 1.30/share in 2018, with a 5% minimum annual increase thereafter, irrespective of operating performance. Moreover, a share buy-back program of up to Euros 400 million (in the absence of inorganic opportunities meeting the Golden Rules of investment) was started.

As part of its new shareholder remuneration policy, Naturgy completed a payment of Euros 0.28/share corresponding to the 2018 first interim dividend on 31 July 2018 and a payment of Euros 0.45/share corresponding to the 2018 second interim dividend on 31 October.

In addition, since the beginning of its Strategic Plan and until the closing of 2018, Naturgy invested Euros 121 million to buy back shares part of its planned Euros 400 million buy-back per annum until the end of June 2019.

Finally and as part of the new Strategic Plan, Naturgy set up a new long term incentive plan (LTIP) to fully align shareholders' interests, execution of the Strategic Plan and the managers' long term variable pay. The new LTIP is exclusively linked to total shareholders return and guarantees a full alignment of shareholders' interests with the top managers of the company.

2018 Results

- Business performance during 2018 has been marked by the strong performance of Gas & Power, which was partly offset by non-recurrent items and the negative impact of exchange rates evolution.
- Ebitda in 2018 reached Euros 4,019 million after non-ordinary effects. Stripping these out, ordinary Ebitda rose 11.8% to Euros 4,413 million mainly supported by the improvement in the Gas & Power business unit as well as stability in the Infrastructure businesses which together more than offset the negative Euros 218 million FX impact.
- Net income in 2018 amounted to Euros 2,822 million negative mainly as a result of the Euros 4,905 million asset write-down conducted in the first half of the year. Excluding this impact and other non-ordinary items, ordinary net income rose 57.0% to Euros 1,245 million driven by higher activity, lower depreciation, and lower financial expenses resulting from the group's debt optimization.
- During 2018, Naturgy has invested Euros 2,321 million, up 30.2% vs. 2017. More than 70% of Capex has been deployed in growing the company's asset base through the development of new renewable capacity across the different geographies, the addition of two new methane tankers acquired under finance leases, and other revenue-generating projects.
- Free cash flow after minorities rose from Euros 746 million to Euros 3,054 million, reflecting the company's increased focus on cash flow generation and the completion of the various disposals processes during the period.
- As of 31 December 2018, Net Debt amounted to Euros 13,667 million, down 9.8% vs. 31 December 2017. The decline in Net Debt/LTM Ebitda to 3.4x from 3.9x in 2017 together with the improvement in Ebitda/Cost of net financial debt to 7.5x from 6.4x at the end of last year, underline the reinforcement of the company's financial solidity in 2018.
- All in all, these 2018 results illustrate Naturgy's progress towards the successful implementation of its Strategic Plan 2018-2022.

Ebitda

Euros million

4,019

Free cash flow after minorities

Euros million

3,054

Capex

Euros million

2,321

Net Debt

Euros million

13,667

Key comparability factors and non-ordinary items

Perimeter changes

The following transactions were completed in 2018:

- The disposal of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, equal to its carrying amount, net of the dividends received, with no impact on the consolidated income statement.
- The disposal of the gas distribution and supply business in Italy, together with the transfer of the gas supply contract, for Euros 766 million, generating a capital gain of Euros 188 million after taxes recognised under "Income from discontinued operations" in the consolidated income statement.
- The sale of a 20% minority stake in the gas distribution business in Spain (Nedgia) for Euros 1,500 million, which resulted in an increase of Euros 1,016 million in the "Equity" caption in the consolidated balance sheet.



Non-ordinary items

The non-ordinary items are summarized below:

Euros million	Ebitda		Net income	
	2018	2017	2018	2017
Gas transport cost & procurement retroactivity	(50)	20	(38)	15
Chile non-ordinary expenses	(44)	-	(28)	-
Restructuring costs	(180)	(126)	(137)	(99)
Asset write-down	-	-	(3,824)	-
Discontinued operations and non-controlling interests ¹	-	-	49	494
Chile mergers tax effect	-	-	42	116
Others	(120)	61	(131)	41
Total	(394)	(45)	(4,067)	567

¹ Including Euros 188 million post-tax capital gain from Italian disposal and impairments in Kangra, Moldova and Kenya for Euros 104 million, Euros 73 million and Euros 5 million respectively.

- At the Ebitda level, non-ordinary impacts amount to Euros 394 million negative, the most important of which correspond to capture costs (Euros 180 million) due to the implementation of the efficiency plan.

Other non-ordinary impacts include gas supply and transportation costs (Euros 50 million), non-ordinary fire prevention costs, trial and penalties in Chile (Euros 44 million) and others provisions (Euros 120 million), primarily relating to an existing litigation in process pending resolution as well as other provisions and one-off regularizations.

- At the net income level, non-ordinary items amount to Euros 4,067 million negative, primarily driven by the asset write-down announced during the Strategic Plan presentation.

Foreign exchange impact

Exchange rate fluctuations in the period are summarized as follows:

2018	Accumulated Average	% Change	Ebitda	Net income
€/USD	1.18	4.4	(34)	(17)
€/MXN	22.71	6.6	(13)	(3)
€/BRL	4.31	19.7	(46)	(10)
€/ARS ¹	43.11	130.9	(107)	(67)
€/CLP	757.34	3.4	(15)	(4)
Others	-	-	(3)	(2)
Total	-	-	(218)	(103)

1. Exchange rate as at 31 December 2018 as a consequence of considering Argentina as an hyperinflationary economy.

Hyperinflation in Argentina

Since 1 July 2018, according to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary with retroactive effects as of 1 January 2018. The financial information presented in previous years will not be re-stated.

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

The main impacts as of 31 December 2018 are detailed as follows:

- An increase in shareholders' equity as a result of applying the change of inflation to the historical cost of non-monetary assets from their acquisition or incorporation date in the consolidated balance sheet and the corresponding deferred tax liability.

The accumulated effect of the accounting restatement that corrects the effects of hyperinflation corresponding to previous years before 2018 is still shown in the

translation differences at the beginning of 2018.

- An adjustment to the different items of income and expenses to apply the change of inflation from the date they were incorporated into the income statement, as well as to reflect the losses derived from the net monetary position.
- The translation into Euros of the figures thus adjusted in the consolidated financial statements applying the closing exchange rate of the Argentine peso against the euro.

Main impacts in the consolidated financial statements at 31 December 2018 (euros million)

Net sales	(38)
Ebitda	10
Financial result	(14)
Net income	(8)
Shareholder's equity	55
Capex	(4)

Analysis of the consolidated results

Net Sales (euros million)

	2018	% r/total	2017	% r/total	% 2018/2017
Gas & Power	19,560	80.4	17,692	76.2	10.6
Gas, power and services sales	13,064	53.7	12,236	52.7	6.8
International LNG	3,529	14.5	2,629	11.3	34.2
Europe power generation	2,050	8.4	1,935	8.3	5.9
International power generation	917	3.8	892	3.8	2.8
Infrastructure EMEA	2,419	9.9	2,438	10.5	(0.8)
Spain gas networks	1,254	5.2	1,261	5.4	(0.6)
Spain electricity networks	855	3.5	873	3.8	(2.1)
Maghreb infrastructure	310	1.3	304	1.3	2.0
Infrastructure LatAm South	5,080	20.9	5,695	24.5	(10.8)
Chile electricity	2,137	8.8	2,382	10.3	(10.3)
Chile gas	738	3.0	1,022	4.4	(27.8)
Brazil gas	1,565	6.4	1,811	7.8	(13.6)
Argentina gas and electricity	635	2.6	479	2.1	32.6
Peru gas	5	-	1	-	-
Infrastructure LatAm North	1,367	5.6	1,343	5.8	1.8
Mexico gas	596	2.4	546	2.4	9.2
Panama electricity	771	3.2	797	3.4	(3.3)
Rest	220	0.9	343	1.5	(35.9)
Consolidation adjustments	(4,307)	(17.7)	(4,304)	(18.5)	0.1
Total	24,339	100.0	23,207	100.0	4.9

Net sales totalled Euros 24,339 million in 2018, up 4.9% with respect to 2017, mainly driven by higher volumes and prices in the gas business.

Ebitda (euros million)

	2018	% r/total	2017	% r/total	% 2018/2017
Gas & Power	1,360	33.8	980	25.1	38.8
Gas, power and services sales	164	4.1	49	1.3	-
International LNG	496	12.3	276	7.1	79.7
Europe power generation	411	10.2	379	9.7	8.4
International power generation	289	7.2	276	7.1	4.7
Infrastructure EMEA	1,802	44.8	1,770	45.3	1.8
Spain gas networks	884	22.0	888	22.8	(0.5)
Spain electricity networks	630	15.7	603	15.4	4.5
Maghreb infrastructure	288	7.2	279	7.1	3.2
Infrastructure LatAm South	791	19.7	859	22.0	(7.9)
Chile electricity	243	6.0	293	7.5	(17.1)
Chile gas	211	5.3	223	5.7	(5.4)
Brazil gas	223	5.5	282	7.2	(20.9)
Argentina gas and electricity	118	2.9	65	1.7	81.5
Peru gas	(4)	(0.1)	(4)	(0.1)	-
Infrastructure LatAm North	232	5.8	273	7.0	(15.0)
Mexico gas	161	4.0	169	4.3	(4.7)
Panama electricity	71	1.8	104	2.7	(31.7)
Rest	(166)	(4.1)	21	0.5	-
Total	4,019	100.0	3,903	100.0	3.0

Consolidated Ebitda in the period amounted to Euros 4,019 million, 3.0% more than in 2017.

The negative effect of the evolution of the foreign exchange impact of Euros -218 million is matched basically with the positive evolution in the Gas & Power business. Stripping out non-ordinary effects, ordinary Ebitda grew by 11.8%.

Net income

The depreciation, amortisation and impairment expenses at 31 December 2018 amounted Euros 6,007 million (Euros 1,621 million in the exercise 2017) because of the impairment of assets of Euros 4,333 million booked in the first half of the year.

Impairment of credit losses amounted Euros 179 million through the Euros 154 million of the previous year, an increase of 16.0%.

Ebit in 2018 amounted to Euros 2,167 million negative as a result of the previously discussed impairment booked in the first half of the year.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros -513 million in 2018 mostly as a result of the impairment of Union Fenosa Gas (Euros -538 million) and of the holding in Ecoelectrica (Euros -34 million).

Income tax

The effective rate for 2018, without considering the effect of impairments and the positive tax rate of the mergers in Chile (Euros 43 million), is 21.5%, flat vs. 2017.

Financial result (euros million)

	2018	2017	Variation (%)
Net debt cost	(538)	(611)	(11.9)
Other financial expenses/income	(147)	(87)	69.0
Financial result	(685)	(698)	(1.9)

The financial result improved 1.9% driven by lower rates on new issues used to refinance maturing debt or redeem bonds, and to the cancellation of bank debt compensated by the increase in other expenses due to substitutions and inflation. The average cost of gross financial debt is 3.1% (vs. 3.4% in 2017), and 87% of the debt is at fixed rates.

Income from discontinued operations (euros million)

	2018	2017
Colombia gas	7	430
Italy	194	37
Kenya	(5)	(19)
Moldova	(56)	12
Kangra	(150)	(12)
Total	(10)	448

The Italy financial results includes Euros 188 million corresponding to the capital gains resulting from the aforementioned sale of the business.

The income of Moldova includes a write-down of Euros 73 million and the Kangra another one for Euros 141 million because of the departures procedures finished or in progress.

Non-controlling interest (euros million)

	2018	2017	Variation (%)
EMPL	(54)	(56)	(3.6)
Nedgia	(57)	(7)	-
Other interest	(55)	(214)	(74.3)
Other equity instruments	(60)	(60)	-
Total	(226)	(337)	(32.9%)

In other interest are included: International Power Generation, gas distribution companies in Chile, Brazil, Mexico and Argentina, and the electricity distribution companies in Chile and Panama.

In other equity instruments are included accrued interest on perpetual subordinated notes.

**Net income**

Net income in 2018 amounted to Euros 2,822 million negative. Ordinary net income grew to Euros 1,245 million in 2018 (Euros 793 million in 2017) that represents an increase of the 57.0%.

Analysis of the balance sheet

Investments (euros million)

	2018	2017	%
Intangible and PPE investments	2,321	1,782	30.2
Financial investments	35	44	(20.5)
Gross Investments	2,356	1,826	29.0
Divestments and others	(2,640)	(229)	-
Total Investments	(284)	1,597	(117.8)

The investments in property, plant and equipment (PPE) and intangible assets amounted to Euros 2,321 million, with an increase of the 30.2% respect previous year, mainly for the increase in renewable in Spain and international level and the acquisition of two new methane tankers under a financial lease.

Breakdown for business activities of the plant and equipment investments and intangible investments (euros million)

	2018	2017	%
Gas & Power	1,135	394	1.9
Gas, power and services sales	61	48	27.1
International LNG	380	-	-
Europe power generation	462	178	-
International power generation	232	168	38.1
Infrastructure EMEA	473	475	(0.4)
Spain gas networks	240	212	13.2
Spain electricity networks	228	252	(9.5)
Maghreb infrastructure	5	11	(50.0)
Infrastructure LatAm South	459	496	(7.5)
Chile electricity	207	229	(9.6)
Chile gas	131	80	63.0
Brazil gas	60	120	(50.0)
Argentina gas	41	37	10.8
Argentina electricity	7	11	(36.4)
Peru gas	13	19	(31.6)
Infrastructure LatAm North	183	225	(18.7)
Mexico gas	80	115	(30.4)
Panama electricity	103	110	(6.4)
Rest	71	192	(63.0)
Total	2,321	1,782	30.2

Gas & Power

Euros million

1,135

+1.9% vs. 2017

Infrastructure EMEA

Euros million

473

-

Infrastructure LatAm South

Euros million

459

-7.5% vs. 2017

Infrastructure LatAm North

Million euros

183

-18.7% vs. 2017

Maintenance Capex in 2018 amounted to Euros 683 million, compared to Euros 853 million in 2017, a 19.9% reduction driven by maintenance Capex optimization in the infrastructure businesses and rest of activities.

Growth Capex in 2018 represented over 70% of total Capex, and amounted to Euros 1,638 million, up from last year's Euros 929 million. It mainly includes the following:

- Euros 380 million for the acquisition under financial lease of two gas carriers.
- A total of Euros 382 million have been invested during the period in the construction of different renewable projects in Spain (wind and solar), with 32,6 MW already put in operation in 2018 in the Canary Islands and other 929 MW expected to come into operation before 2020.
- Euros 106 million correspond to the acquisition and development of solar projects in Brazil, with 85 MW coming into operation in 4Q18.
- Lastly, Euros 75 million have been invested during the period in the construction of 96 MW of wind capacity in Australia, which came into operation in 4Q18.

Additionally, 180 MW of wind capacity in Australia and 324 MW of wind and solar capacity in Chile will be developed before 3Q20-1Q21 respectively.

Maintenance Capex

Euros million

683
(19.9%) vs. 2017

Growth Capex

Euros million

1,638
70% of total Capex

Divestments

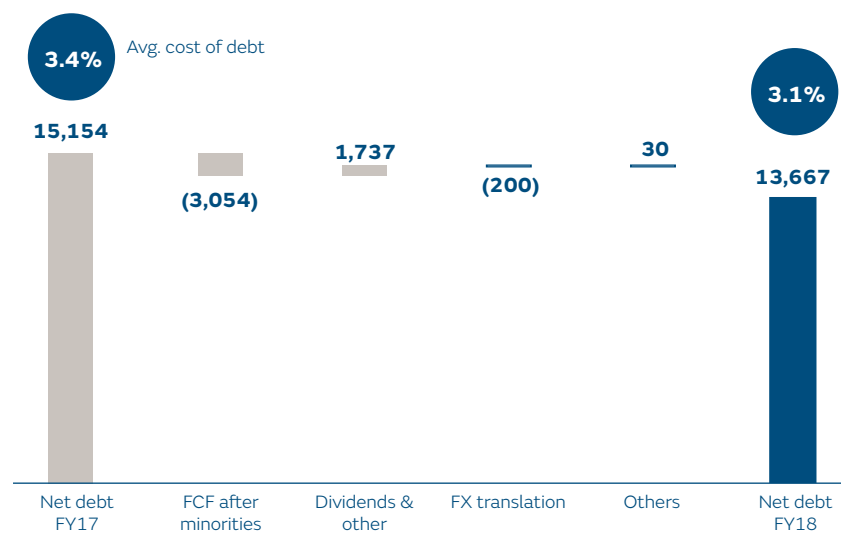
Divestments include the sale of the businesses in Italy for Euros 746 million, the proceeds from the sale of a 20% non-controlling stake in Nedgia (Euros 1,500 million) and the proceeds from the sale of the remaining 41.9% stake in the gas distribution business in Colombia (Euros 334 million).



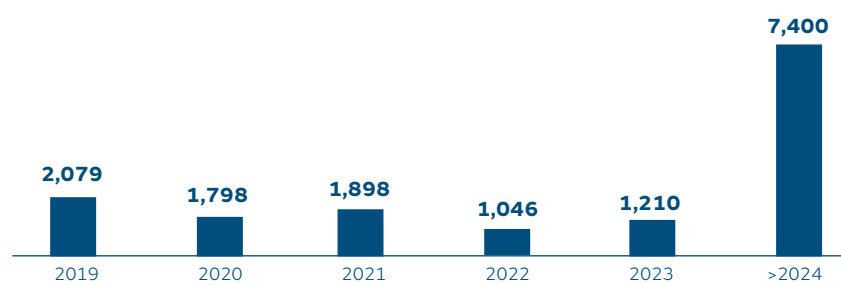
Debt and financial management

- Naturgy is progressing on the optimization of its capital structure as outlined in its Strategic Plan 2018-2022.
- In January 2018, the company completed a liability management exercise at the holdco with the issuance of a Euros 850 million 10-year bond with a coupon of 1.5% and Euros 916 million notes repurchase. Additionally, two bonds of Euros 1,099 million in aggregate with an average coupon of 4.59% matured in 2018.
- During the last quarter of 2018, the company completed Euros 333 million bond repurchases at the holdco with maturities spanning from 2019 to 2021.
- Furthermore, the company used part of its excess cash to amortize all of its bank-funded holdco debt, including Euros 1,270 million denominated in euros, as well as Euros 390 million denominated in USD.
- The company is in the process of optimizing the financing allocated into each of the business units in order to increase accountability and funding autonomy in the same currency where cash flows are originated, and gain increased flexibility. In this respect, the Company refinanced / issued new debt in Latin America for an aggregate amount of approximately Euros 1,073 million, including new bond issuances of Euros 389 million and new banking debt / refinancing of Euros 684 million.

Net debt evolution (euros million)



Net debt maturities (euros million)



Evolution of the principal ratios applied referent to the Net financial debt

		2018	2017
Ebitda/Net financial cost	Times	7.5	6.4
Net financial debt / Ebitda	Times	3.4	3.9
Net financial debt / Ebitda (IFRS 16)	Times	3.8	4.2

Detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency

		Group		Chile	Brazil	Argentina	Peru	Mexico	Panama	Holding and others	
		Dec'18	Dec'17	CLP	USD	BRL	ARS	USD	MXN	USD	EUR/USD
Net financial debt	Million euros	13,667	15,154	1,995	14	244	(34)	55	367	506	10,520
Average cost of gross debt	%	3.1	3.4	5.9	3.8	7.9	40.9	4.6	8.6	4.1	2.3
% Fixed (Gross debt)	%	87	88	72	-	-	1	-	53	59	95

Naturgy's long-term and short-term credit rating

Agency	Short-term	Long-term
Fitch	F2	BBB
Moody's	P-2	Baa2
Standard & Poor's	A-2	BBB

Liquidity and capital

At 31 December 2018, cash and cash equivalents together with available bank finance totalled over Euros 6,950 million, providing the company with sufficient liquidity to cover its debt maturities for more than 24 months, with the following breakdown:

Liquidity source	Limit	Drawn-down	Available
Undrawn credit facilities	5,468	(234)	5,234
Undrawn loans	-	-	-
Cash and cash equivalents	-	-	1,716
Total	5,468	(234)	6,950

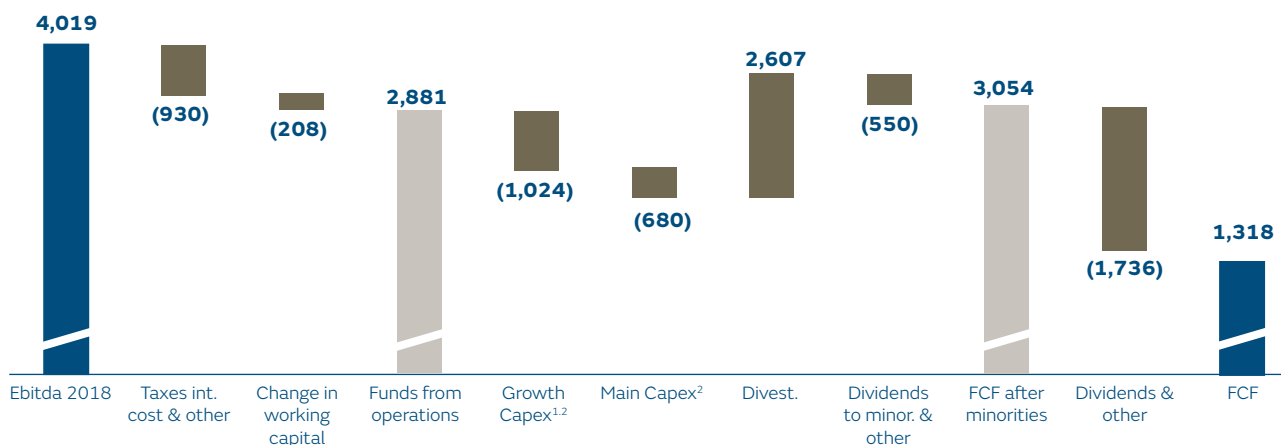
Breakdown of working capital at 31 December	2018	2017
Current operating assets ¹	5,799	5,536
Current operating liabilities ²	(4,468)	(4,069)
	1,331	1,467

¹ Includes inventories, trade receivables and other receivables.

² Includes trade payables, other payables and other current liabilities, not including dividends payable.

Additionally, at 31 December 2018, the company had Euros 7,691 million available in the form of shelf registrations for financial instruments, including Euros 5,292 million in the Euro Medium Term Notes (EMTN) programme, Euros 1,000 million in the Euro Commercial Paper (ECP) programme, and a combined Euros 1,399 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange, the marketable bonds programme in Argentina and the bond lines in Chile.

Evolution of the free cash flow of the 2018



1. Without considering Euros 380 million corresponding to two LNG vessels acquired under financial leasing.
 2. Net of assignments.

Analysis of contractual obligations and off-balance sheet transactions

The breakdown of contractual obligations, off-balance sheet transactions and contingent liabilities of Naturgy is set out in note 35 to the Consolidated Annual Accounts.



Analysis of results by segment

Gas & Electricity

Supply of gas, electricity and services

This business includes wholesale gas procurement and supply in the Spanish liberalised market, the supply of gas and electricity and of other products and services related to retail supply in the Spanish liberalised market, supply of gas at the last resort tariff (TUR) in Spain and supply of electricity at the small consumer voluntary price (PVPC) in Spain.

Ebitda roses as a result of higher gas margins from higher prices and the positive impact from the new gas procurement contract agreement with Sonatrach and lower Opex.

Results (euros million)

	2018	2017	%
Net sales	13,064	12,236	6.8
Procurement	(12,428)	(11,686)	6.3
Gross margin	636	550	15.6
Other revenues	10	20	(50.0)
Net personnel expenses	(134)	(110)	21.8
Taxes	(63)	(62)	1.6
Other expenses	(285)	(349)	(18.3)
Ebitda	164	49	-
Depreciation, amortisation and operating provisions	(139)	(97)	43.3
Operating income	25	(48)	-



Gas sales

GWh

237,379

Electricity sales

GWh

35,437

Residential contracts (Spain)

thousands, at 31/12

11,470

Main aggregates

	2018	2017	%
Gas sales (GWh)	237,379	237,945	(0.2)
Industrial clients	160,779	155,026	3.7
Residential Spain	27,740	25,381	9.3
Electricity	17,112	20,788	(17.7)
Third parties	31,749	36,749	(13.6)
Electricity sales (GWh)	35,437	35,640	(0.6)
Liberalized market	30,384	30,587	(0.7)
PVPC	5,053	5,053	-
Residential contracts (Spain) (thousands, at 31/12)	11,470	11,719	(2.1)
Gas	4,174	4,241	(1.6)
Electricity	4,490	4,605	(2.5)
Services	2,806	2,873	(2.3)
Number contracts per client	1.52	1.52	-
Market share of gas contracts	53.3	54.4	(1.2) p.p.

Gas sales remained stable in the year 2018 driven by growth in the Spanish residential and industrial segments (up 9.3% and 3.7% respectively) which compensated for lower sales to CCGT (-17.7%) and third parties (-13.6%).

Power supply sales also remained stable vs. 2017; while margins experienced significant downward pressure during 1H18 as a result of fixed-price sales contracts set on forward prices below current pool prices, the measures taken to replace them with variable or indexed contracts allowed for margin recovery in the second half of the year.



Supply

In June 2018, Sonatrach and Naturgy strengthened their relationship by extending the contracts for the purchase of Algerian gas until the end of the next decade; their alliance ensures a stable supply of gas to Spain.

The renewal of the contracts enables Naturgy to maintain a very large volume and ensures an optimal mix of natural gas (NG) and liquefied natural gas (LNG) in its inputs.

The first shipment of LNG under the long-term contract signed with the Russian company Yamal LNG was unloaded on 21 June 2018. This is the first of a total of 37 shiploads that will reach south-western Europe each year until 2041. This contract expands Naturgy's portfolio of strategic suppliers and reinforces the diversity of supply in this region of Europe with the first long-term contract for the supply of LNG from Russia.

Market situation

Demand for gas in Spain amounted to 347,539 GWh in 2018 (349,223 GWh in 2017): 55,670 GWh for the residential market (52,082 GWh in 2017), 230,286 GWh for the industrial market and for the third-party supply (221,787 GWh in 2017) and 61,583 GWh for the electricity market (75,354 GWh in 2017).

Electricity demand in mainland Spain amounted to 248,987 GWh in 2018 (248,631 GWh in 2017) an increase of 0.1% with respect to the same period of 2017 according to Red Eléctrica de España (REE) balances.

Movements in the main gas, electricity and related market price indices are as follows (annual cumulative data):

Movements in the main gas, electricity and related market price indices (annual cumulative data)

	2018	2017	%
Brent (USD/bbl)	71.0	54.3	30.8
Henry Hub (USD/MMBtu)	3.0	3.1	(3.2)
NBP (USD/MMBtu)	8.1	5.8	39.7
TTF (€/MWh)	22.0	17.0	29.4
Arithmetic mean daily market price (€ / MWh)	58.0	53.6	8.2
Coal API 2 CIF (USD/t)	91.9	84.5	8.8
CO ₂ EUA (€/ton)	15.9	5.8	174.1



Demand for gas in Spain

GWh

347,539

55,670 residential market

230,286 industrial market

61,583 electricity market



Electricity demand in mainland Spain

GWh

248,987

+0.1% vs. 2017

LNG International

This includes trading of liquefied natural gas in international markets and maritime transportation.

Ebitda in the LNG business amounted to Euros 496 million in 2018, a 79.7% increase year-on-year.

Gas sales

GWh

140,669
+15.2% vs. 2017

Shipping fleet capacity

m³

1,293,040
+ 37.5% vs. 2017

Results (euros million)

	2018	2017	%
Net sales	3,529	2,629	34.2
Procurement	(3,003)	(2,316)	29.7
Gross margin	526	313	68.1
Other revenues	2	3	(33.3)
Net personnel expenses	(23)	(21)	9.5
Taxes	-	-	-
Other expenses	(9)	(19)	(52.6)
Ebitda	496	276	79.7
Depreciation, amortisation and operating provisions	(75)	(51)	47.1
Operating income	421	225	87.1

Main aggregates

	2018	2017	%
Gas sales (GWh)	140,669	122,087	15.2
Shipping fleet capacity (m ³)	1,293,040	940,440	37.5



Europe Power Generation

Includes power generation in Spain, also conventional and renewable.

Ebitda in 2018 increases an 8.4% as compared with 2017, mainly driven by lower thermal and higher hydro generation together with greater wholesale prices. These impacts were partially offset by higher CO₂ prices, which reduced thermal margins, and the suspension of capacity payments for CCGTs since the month of July 2018.

Results (euros million)

	2018	2017	%
Net sales	2,050	1,935	5.9
Procurement	(1,091)	(977)	11.7
Gross margin	959	958	0.1
Other revenues	16	20	(20.0)
Net personnel expenses	(140)	(147)	(4.8)
Taxes	(247)	(262)	(5.7)
Other expenses	(177)	(190)	(6.8)
Ebitda	411	379	8.4
Depreciation, amortisation and operating provisions	(4,279)	(442)	-
Operating income	(3,868)	(63)	-



Renewable generation increased by 12.5% during the period, while hydro production saw a 3.0-fold rise, thus reducing the overall thermal production by 8.8%, most notably coal, which was directly impacted by rising costs.

Naturgy continues to increase its renewable exposure through the development of its 667 MW of wind and 250 MW of solar projects awarded in the Spanish auctions. As such, the capacity into operation at year-end 2018 has reached 1,179 MW.

Renewable generation

+12.5%



250 MW

(solar projects awarded in the Spanish auctions)



667 MW

Main aggregates. Power generation capacity

	2018	2017	%
Installed capacity (MW)	12,504	12,715	(1.7)
Generation	11,325	11,569	(2.1)
Hydroelectric	1,954	1,954	-
Nuclear	604	604	-
Coal	1,766	2,009	(12.1)
CCGTs	7,001	7,001	-
Renewable and cogeneration output	1,179	1,147	2.8
Wind	1,012	979	3.3
Small hydroelectric	109	110	(0.5)
Cogeneration and other	58	58	(36.8)

Main aggregates. Electric energy produced and electricity sales

	2018	2017	%
Electric energy produced (GWh)	28,307	27,953	1.3
Generation	25,736	25,668	0.3
Hydroelectric	3,359	1,126	-
Nuclear	4,431	4,578	(3.2)
Coal	3,694	5,953	(37.9)
CCGTs	14,252	14,011	1.7
Renewable and cogeneration output	2,571	2,285	12.5
Wind	1,958	1,800	8.8
Small hydroelectric	549	407	34.9
Cogeneration and other	64	77	(17.1)
Market share of generation	17.4	17.1	0.3 pp



Generation International (GPG)

This area encompasses the international generation assets and holdings in Brazil (commercial operation in September 2017), Mexico, Puerto Rico, Dominican Republic, Panama and Costa Rica and the power generation projects in Australia and Chile, as well as assets operated for third parties via group company O&M Energy.

Ebitda for 2018 amounts to Euros 289 million, with a 4.7% increase. Growth was supported by the start of the Sobral I and Sertao I solar farms in Brazil from September 2017, together with better margins of excess energy sales in Mexico, and higher wind resource. The above were partially offset by a negative evolution of exchange rates vs. previous year.

Results (euros million)

	2018	2017	%
Net sales	917	892	2.8
Procurement	(527)	(511)	3.1
Gross margin	390	381	2.4
Other revenues	10	12	(16.7)
Net personnel expenses	(39)	(37)	5.4
Taxes	(3)	(4)	(25.0)
Other expenses	(69)	(76)	(9.2)
Ebitda	289	276	4.7
Depreciation, amortisation and operating provisions	(152)	(121)	25.6
Operating income	137	155	(11.6)

Ebitda by country (euros million)

	2018	2017	Change (%)	FX	Adjusted change (%)
Mexico	243	258	(5.8)	(14)	(0.4)
Rest	46	18	-	(3)	172.2
Total	289	276	4.7	(17)	10.9



Main aggregates. Power generation capacity

	2018	2017	%
Installed capacity (MW):	3,093	2,732	13.2
Mexico (CC)	2,289	2,109	8.5
Mexico (wind)	234	234	-
Brazil (solar)	153	68	-
Costa Rica (hydroelectric)	101	101	-
Panama (hydroelectric)	22	22	-
Dominican Republic (oil-fired)	198	198	-
Australia (wind)	96	-	-

Naturgy, through subsidiary Global Power Generation (GPG), acquired two solar photovoltaic projects in Brazil in March 2018 with a total capacity of 83 MW, which entered commercial operation on 12 December 2018.

Also, in November 2018, the wind farm Crookwell II entered into commercial operation in Australia.

Main aggregates. Electric energy produced and average availability

	2018	2017	%
Electric energy produced (GWh)	18,351	18,436	(0.5)
Mexico (CC)	15,923	16,340	(2.6)
Mexico (wind)	701	656	6.9
Brazil (solar)	155	48	-
Costa Rica (hydroelectric)	330	369	(10.6)
Panama (hydroelectric)	94	98	(3.7)
Dominican Republic (oil-fired)	1,092	925	18.1
Availability factor (%)			
Mexico (CC)	92.1	96.6	(4.8)
Costa Rica (hydroelectric)	93.5	97.5	(4.0)
Panama (hydroelectric)	87.0	90.5	(3.5)
Dominican Republic (oil-fired)	90.2	92.1	(1.9)
Australia (wind)	56	-	-

International installed capacity
MW

3,093
+13.2% vs. 2017

International electric energy produced
MW

18,351
(0.5%) vs. 2017

Infrastructure EMEA

Gas distribution Spain

This area includes remunerated gas distribution and transportation as well activities that are charged for outside the regulated distribution system (meter rental, customer connections, etc.), and the piped liquefied petroleum gas (LPG) business.

Ebitda in 2018 decreases 0.5% amounting to Euros 884 million driven by the demand growth and good operating performance, lower Opex coming from efficiency improvements which were sufficient to compensate for the impact of lower meter rental revenues (Euros -40 million) and, to a lesser extent, lower LPG margins.

Results (euros million)

	2018	2017	%
Net sales	1,254	1,261	(0.6)
Procurement	(75)	(68)	10.3
Gross margin	1,179	1,193	(1.2)
Other revenues	40	39	2.6
Net personnel expenses	(118)	(94)	25.5
Taxes	(28)	(27)	3.7
Other expenses	(189)	(223)	(15.2)
Ebitda	884	888	(0.5)
Depreciation, amortisation and operating provisions	(320)	(307)	4.2
Operating income	564	581	(2.9)

Main aggregates

	2018	2017	%
Sales – TPA (GWh)	197,313	195,586	0.9
Distribution network (km)	56,124	53,369	5.2
Increase in connection points (thousands)	31	58	(46.0)
Connection points (thousands) (at 31/12)	5,403	5,371	0.6



Electricity distribution Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to Naturgy's distribution network.

Ebitda for the year amounts to Euros 630 million. Opex savings due to the application of efficiency plans have been compensated with lower asset remuneration.

Results (euros million)

	2018	2017	%
Net sales	855	873	(2.1)
Procurement	-	-	-
Gross margin	855	873	(2.1)
Other revenues	26	26	-
Net personnel expenses	(94)	(130)	(27.7)
Taxes	(30)	(29)	3.4
Other expenses	(127)	(137)	(7.3)
Ebitda	630	603	4.5
Depreciation, amortisation and operating provisions	(252)	(233)	8.2
Operating income	378	370	2.2

Main aggregates

	2018	2017	%
Sales – TPA (GWh)	32,698	32,039	2.1
Connection points (thousands) (at 31/12)	3,740	3,721	0.5
ICEIT (minutes)	46	47	(0.3)



Infrastructure Maghreb

This area refers to operation of the Maghreb-Europe gas pipeline.

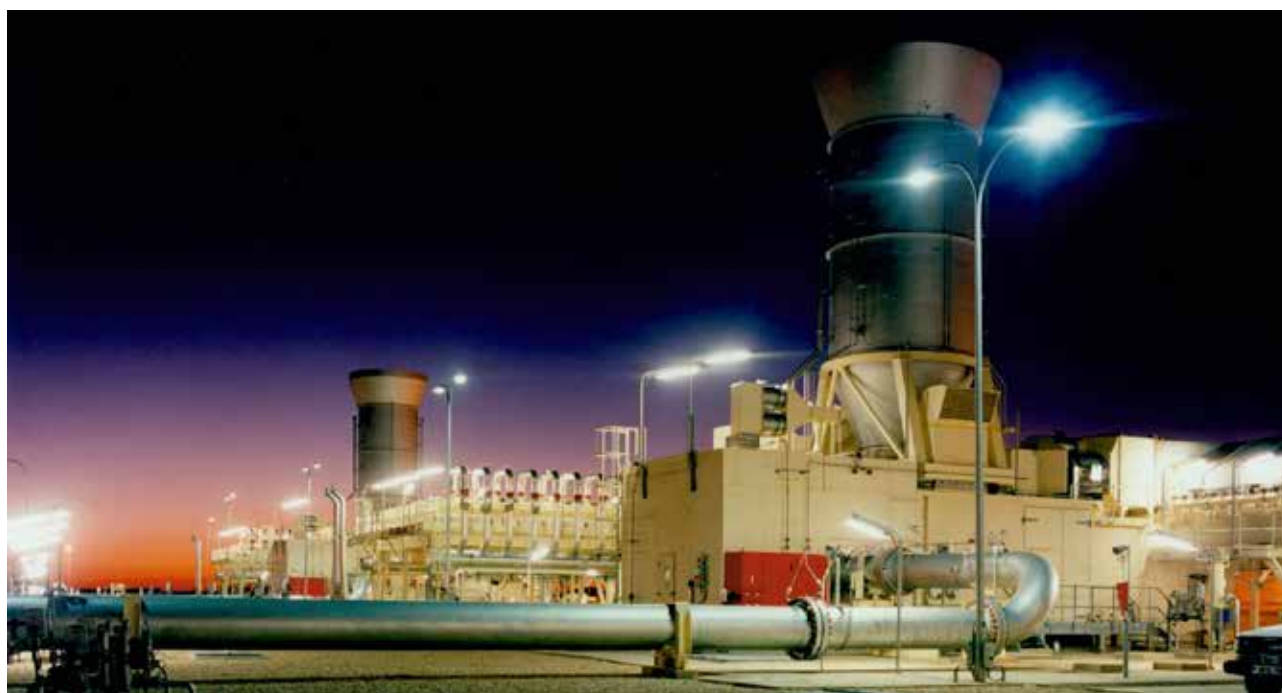
Ebitda for 2018 increased by 3.2% due to the tariff increase and volume growth, making up for the negative impact of the US Dollar devaluation relative to the Euro (Euros -14 million).

Results (euros million)

	2018	2017	%
Net sales	310	304	2.0
Procurement	-	-	-
Gross margin	310	304	2.0
Other revenues	-	-	-
Net personnel expenses	(6)	(6)	-
Taxes	-	-	-
Other expenses	(16)	(19)	(15.8)
Ebitda	288	279	3.2
Depreciation, amortisation and operating provisions	(44)	(38)	15.8
Operating income	244	241	1.2

Main aggregates in international gas transportation

	2018	2017	%
Gas transport-EMPL (GWh):	117,526	100,371	17.1
Portugal-Morocco	41,263	38,787	6.4
Spain (Naturgy)	76,263	61,584	23.8



Infrastructure LatAm South

This refers to the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the electricity distribution in Argentina and Chile. In Chile also includes the gas supply activity and the electricity transmission activity.

Gas distribution in Argentina

Ebitda increases by 134.8% over the same period in previous year supported by the final application of the new tariff framework and demand increase, which more than offset the negative Euros 107 million FX impact.

The application of IAS29 had a positive Euros 10 million impact in Ebitda.

Since April 2018 the Argentinian economy has undergone a number of changes in macroeconomic conditions that caused a sharp alteration in parity between the Argentinian peso and the US dollar, changing the economic circumstances taken into account in the Bases and Conditions and reflected in contracts with gas producers. This increase in the exchange rate (not recognised in the current Tariff Table) meant that producers had to be paid a gas price that far exceeded the price that could be passed on via tariffs.

Finally, under Decree 1053/2018 of November 2018 the National Government assumed the payment, on an exceptional basis, of the daily differences accumulated monthly between the value of gas bought by the network natural gas distribution service provides and the value of natural gas included in the tariff tables in effect between 1 April 2018 and 31 March 2019, generated solely by fluctuations

in the exchange rate and relating to volumes of natural gas delivered during that period, thereby clearing up the doubts caused by the Government Energy Secretariat Resolution 41/2018.

Results (euros million)

	2018	2017	%
Net sales	513	355	44.5
Procurement	(316)	(201)	57.2
Gross margin	197	154	27.9
Other revenues	31	35	(11.4)
Net personnel expenses	(15)	(29)	(48.3)
Taxes	(22)	(27)	(18.5)
Other expenses	(83)	(87)	(4.6)
Ebitda	108	46	134.8
Depreciation, amortisation and operating provisions	(15)	(10)	50.0
Operating income	93	36	158.3

Gas sales in the period

+5.8%

across all customer segments.

Main aggregates

	2018	2017	%
Gas activity sales (GWh)	76,287	72,084	5.8
Gas sales	30,651	30,127	1.7
TPA	45,636	41,957	8.8
Distribution network (km)	26,179	25,865	1.2
Increase in connection points (thousands)	14	19	(26.5)
Connection points (thousands) (at 31/12)	1,665	1,651	0.8

Gas distribution Brazil

Ebitda decreased 20.9% on the back of lower demand and a negative FX effect (Euros -46 million).

The absence of negative retroactive tariff adjustments present in previous periods (Euros +15 million) and the higher sales in the automotive gas segment were offset by lower sales in the power generation and industrial segments as a result of lower thermal power plant utilization and production adjustments due to the macroeconomic situation.

Results (euros million)

	2018	2017	%
Net sales	1,565	1,811	(13.6)
Procurement	(1,217)	(1,387)	(12.3)
Gross margin	348	424	(17.9)
Other revenues	39	84	(53.6)
Net personnel expenses	(31)	(42)	(26.2)
Taxes	(4)	(3)	33.3
Other expenses	(129)	(181)	(28.7)
Ebitda	223	282	(20.9)
Depreciation, amortisation and operating provisions	(75)	(69)	8.7
Operating income	148	213	(30.5)

Main aggregates

	2018	2017	%
Gas activity sales (GWh)	72,079	89,080	(19.1)
Gas sales	58,866	74,344	(20.8)
TPA	13,213	14,736	(10.3)
Distribution network (km)	7,678	7,536	1.9
Increase in connection points (thousands)	27	53	(49.9)
Connection points (thousands) (at 31/12)	1,116	1,090	2.4

Electricity distribution and transmission Chile

2018 Ebitda reached Euros 243 million, with a 17.1% decrease mainly as a result of lower revenues from prior years' regularizations and other demand impacts, as well as a negative Euros 10 million FX impact.

Electricity activity sales (Electricity sales plus TPA)

+2.6%

Connection points

+2.5%

Results (euros million)

	2018	2017	%
Net sales	2,137	2,382	(10.3)
Procurement	(1,592)	(1,795)	(11.3)
Gross margin	545	587	(7.2)
Other revenues	24	13	84.6
Net personnel expenses	(128)	(131)	(2.3)
Taxes	(7)	(8)	(12.5)
Other expenses	(191)	(168)	13.7
Ebitda	243	293	(17.1)
Depreciation, amortisation and operating provisions	(166)	(152)	9.2
Operating income	77	141	(45.4)

Main aggregates

	2018	2017	%
Electricity activity sales (GWh)	15,082	14,573	3.5
Electricity sales	12,220	13,182	(7.3)
TPA	2,862	1,391	-
Connection points (thousands) (at 31/12)	2,928	2,857	2.5
Electricity transmitted (GWh)	14,636	14,403	1.6
Transmission network (km, at 31/12)	3,528	3,528	-



Gas distribution and supply Chile

Ebitda decreases by 5.4% respect to previous year, with a negative Euros 8 million FX impact.

In addition, the decrease in residential and commercial demand was offset by higher sales to other segments and higher unitary margins in the residential and commercial segments.

Results (euros million)

	2018	2017	%
Net sales	738	1,022	(27.8)
Procurement	(441)	(722)	(38.9)
Gross margin	297	300	(1.0)
Other revenues	5	11	(54.5)
Net personnel expenses	(29)	(28)	3.6
Taxes	(2)	(2)	-
Other expenses	(60)	(58)	3.4
Ebitda	211	223	(5.4)
Depreciation, amortisation and operating provisions	(57)	(49)	16.3
Operating income	154	174	(11.5)

Main aggregates

	2018	2017	%
Gas distribution sales (GWh)	10,957	10,933	0.2
Gas commercialization sales (GWh)	4,761	5,192	(8.3)
TPA (GWh)	29,686	29,522	0.6
Distribution network (km)	7,557	7,211	4.8
Increase in connection points (thousands)	24	18	31.3
Connection points (thousands) (at 31/12)	626	602	3.9

Infrastructure LatAm North

This refers to the regulated gas distribution business in Mexico and the electricity distribution business in Panama.

Gas distribution Mexico

The positive evolution of the business, driven by a higher tariff indexation, together with growth in supply sales margins was not sufficient to compensate for the negative FX impact of Euros 11 million and from higher Opex as a result of a commercial repositioning.

Results (euros million)

	2018	2017	%
Net sales	596	546	9.2
Procurement	(352)	(305)	15.4
Gross margin	244	241	1.2
Other revenues	10	12	(16.7)
Net personnel expenses	(28)	(26)	7.7
Taxes	(1)	(1)	-
Other expenses	(64)	(57)	12.3
Ebitda	161	169	(4.7)
Depreciation, amortisation and operating provisions	(79)	(56)	41.1
Operating income	82	113	(27.4)

Main aggregates

	2018	2017	%
Gas activity sales (GWh)	58,178	57,617	1.0
Gas sales	21,284	21,166	0.6
TPA	36,894	36,451	1.2
Distribution network (km)	22,461	21,940	2.4
Increase in connection points (thousands)	23	115	(80.4)
Connection points (thousands) (at 31/12)	1,796	1,773	1.3

Electricity distribution Panama

Ebitda in 2018 decreases by 31.7% affected by milder weather and a Euros 5 million negative FX impact which was partly compensated by growth in connection points.

Results (euros million)

	2018	2017	%
Net sales	771	797	(3.3)
Procurement	(644)	(634)	1.6
Gross margin	127	163	(22.1)
Other revenues	3	2	50.0
Net personnel expenses	(13)	(13)	-
Taxes	(5)	(6)	(16.7)
Other expenses	(41)	(42)	(2.4)
Ebitda	71	104	(31.7)
Depreciation, amortisation and operating provisions	(39)	(37)	5.4
Operating income	32	67	(52.2)

Main aggregates

	2018	2017	%
Electricity sales (GWh):	5,178	5,107	1.4
Electricity sales	4,888	4,956	(1.4)
TPA	290	151	90.9
Connection points (thousands) (at 31/12)	669	641	4.2



Strategy

Foundations of strategy	82
Strategic Plan 2018-2022	84
Individual business prospects	90
Financial strategy	95



Foundations of strategy

The new Strategic Plan 2018-2022, unveiled in London on 28 June 2018, establishes the group's business model, which is focused on value creation.

Naturgy is focused on responding to its own industrial model, based on:

- Treating the energy transition as an opportunity.
- Being a flexible, competitive company.
- Transforming via digitalisation.
- Placing the customer at the centre of the model.



Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO₂ emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

As a result, the following lines of action have been established:

- Triple renewable installed capacity by 2022.
- Leverage Naturgy's lead in combined cycle plants and in the global LNG market.
- Develop the use of natural gas in transportation.
- Develop renewable gas.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and improvement of energy efficiency, supporting greater electrification and greater penetration by gas in countries where the company already operates.



Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Strategic Plan 2018-2022 :

- **Organisation:** the businesses will be autonomous units with full responsibility for their results, while seeking to optimise company personnel. To this end, a number of changes have been implemented at the organisational level in both corporate governance and the organisational structure in order to facilitate decision-making and the business units' autonomy and responsibility, while always guaranteeing control by the parent company.
- **Process re-engineering:** reviewing service contracts with suppliers, establishing new cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
- **Asset management:** search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

Naturgy presented an efficiency plan and undertook to cut annual operating expenses by Euros 500 million by 2022.



Transforming via digitalisation

The following key levers for digitalisation have been defined for 2022:

- **Customer relations:** 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).
- **Processes and operations:** Over 80% automation of internal processes and operations.
- **Remote control of assets:** Achieve 80% coverage of assets with sensors and remote control by 2022, from 56% in 2017.
- **Advanced analysis techniques:** Data-driven management to be implemented in over 90% of processes Group-wide. The main projects to be undertaken in this connection will be in the following areas: develop predictive models for asset maintenance; use models to pursue customer segmentation, predict churn and apply advanced pricing approaches.

These projects will drive the Group's transformation via digitalisation.



Placing the customer at the centre of the model

Enhance our commitment to the customer by placing them at the centre of Naturgy's strategy based on:

- A single customer experience model.
- Defining services and solutions that provide added value to the customer.
- Improve customer segmentation.
- Innovation and digitalisation.

Key factors in this connection are technological innovation such as smart apps, smart meters, remote control, autoproduction of electricity, energy storage, etc.

Strategic Plan 2018-2022

The main objective of the new Strategic Plan 2018-2022 is to guide the company towards value creation and lay the foundations for the Group's new industrial model. Naturgy's commitment to value creation is underpinned by four basic pillars: simplicity and accountability, optimisation, discipline in investment, and shareholder remuneration.

Simplicity and accountability

Corporate governance and organisation structure

In terms of corporate governance, a major change was the reduction in the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents). Internal governance rules will also be simplified to achieve a more efficient structure and to make decision-making more agile.

The organisation structure has been simplified into four business units (Gas & Power, Infrastructure EMEA, Infrastructure LatAm South and Infrastructure LatAm North), with leaner corporate functions in order to ensure that the businesses

operate autonomously and with full responsibility for their results, enabling the parent company to focus on value-added processes and on ensuring centralised oversight.

A new Opex & Capex Committee was created with the task of ensuring the execution of the company's efficiency plan and for fulfilling the discipline in capital expenditure envisaged in the Strategic Plan.

With these changes, Naturgy has simplified its corporate governance to streamline decision-making and redesigned its organisational structure to attribute greater autonomy and responsibility to the individual businesses.



Strategic positioning

Naturgy defines its strategic positioning on the basis of the following criteria:

	Where to invest	Where to divest
Markets	<ul style="list-style-type: none"> • Big markets with strong growth potential. • Where Naturgy has a significant market share or critical mass. • That offer legal certainty. • Stable macroeconomic environments (e.g. the EU, North America, OECD). 	<ul style="list-style-type: none"> • Markets that are small and/or offer little growth potential. • High regulatory risk. • Highly concentrated. • Volatile macroeconomic environments.
Businesses	<ul style="list-style-type: none"> • Electricity or gas grids. • Sale of electricity under contract. • Customer services. • Controlling stakes. 	<ul style="list-style-type: none"> • Low level of integration or synergy with the rest of the Group. • Unhedged volatility. • Non-controlling stakes.
Profitability	<ul style="list-style-type: none"> • Above hurdle rate. 	<ul style="list-style-type: none"> • Low hurdle rate.

A total of Euros 5.3 billion of expenditure in growth Capex have been identified, and Euros 300 million are expected to be realised through divestments in addition to those already performed.

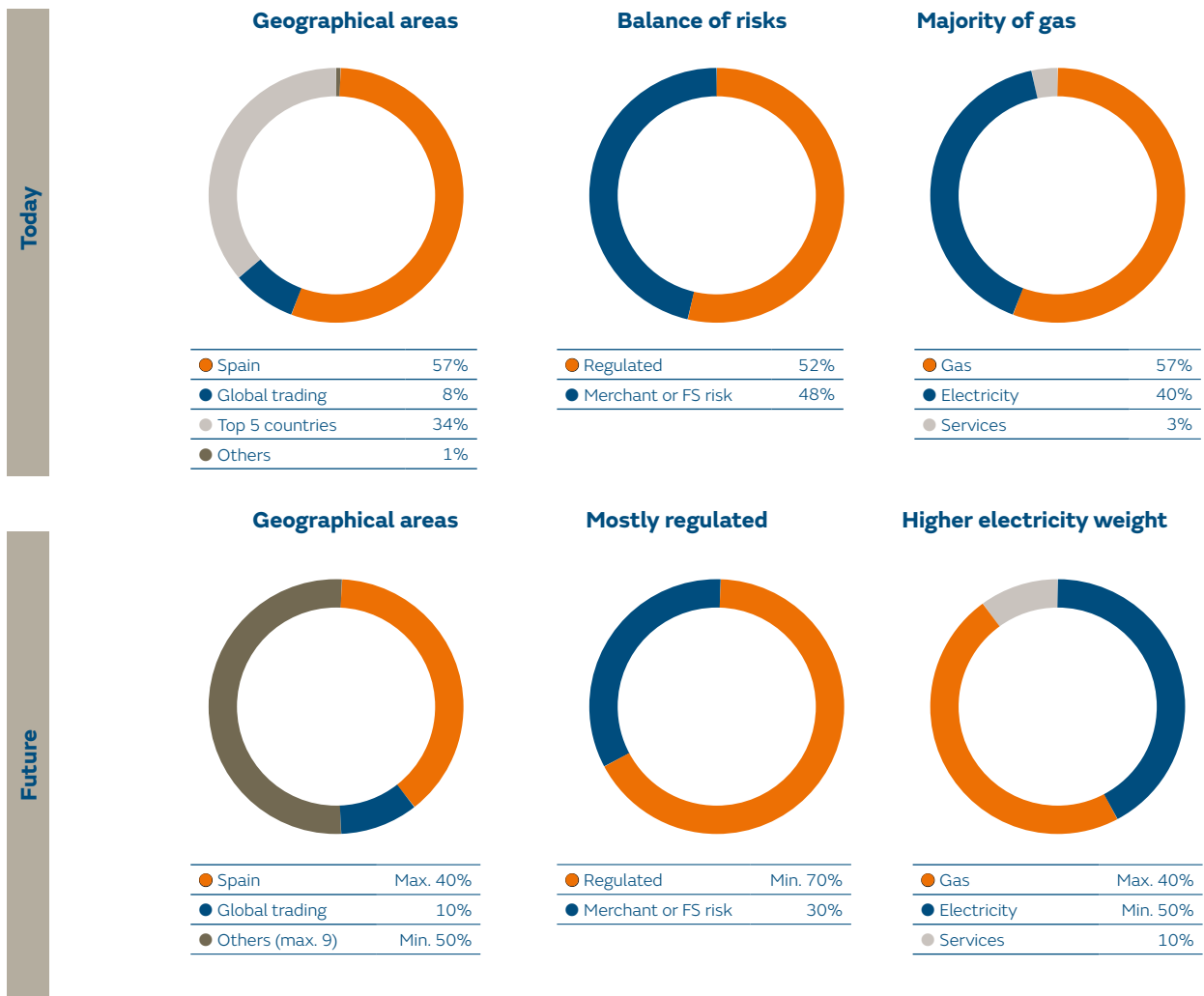
Naturgy will also work to balance the weight of its businesses in its mix of activities and will be more ambitious to increase the contribution by regulated activities and by electricity. In the future, the company expects that at least 70% of its business will be linked to regulated activities (currently 52%), with half related to electricity (currently 40%). It also expects to increase exposure to services to about 10%, reinforcing its commitment to the customer.



Additionally, on the basis of developments in the markets where it operates and in line with the assumptions and foundations of the new Strategic Plan 2018-2022, Naturgy reviewed the value of its assets, which resulted in a one-time impairment in the amount of Euros 4,851 million before

taxes, booked in 2018. This impairment had no impact on shareholder remuneration and it will be accretive from 2019 because of the lower depreciation charge.

Simplicity and accountability



Rebalancing of portfolio: more cash flow visibility and lower volatility

Optimisation

Financial strategy will focus on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. Any optimisation will be submitted for the supervision of the new Opex and Capex committee.

Under the Strategic Plan 2018-2022, the company will continue to optimise the businesses with additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022. These efficiencies will be focused on an analysis of the company's non-core activities and on the assignment of the operational functions within each of the business units, all supported by the ongoing digitalisation processes.

Naturgy plans to cut group-level Capex by Euros 200 million per year with respect to the average in 2015-2017, while increasing the percentage of investment allocated to organic growth in comparison with previous years. In average terms, the goal is for 63% of capital expenditure to be allocated to growth in 2018-2022 vs. an average of 54% in 2015-2017.



Disciplined investment

Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

- Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.

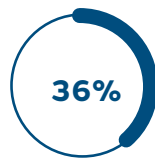
- A clear positioning focused on target markets and businesses.
- Industrial leadership via controlled subsidiaries.
- Risk management, minimising the volatility of commodity prices and exchange rates.

Applying these rules, Naturgy plans to invest Euros 8.4 billion over the next five years, of which Euros 5.3 billion will be allocated to growth, increasing the proportion of growth Capex to 63% of the total in the period:

Financial discipline will enhance free cash flow so as to sustain attractive shareholder remuneration.

Growth Capex by business for 2022

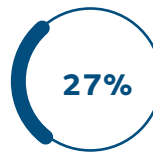
5,300
euros million



Gas & Power



Infrastructure
EMEA



Infrastructure
LatAm South



Infrastructure
LatAm North

Fully identified growth Capex

Shareholder remuneration

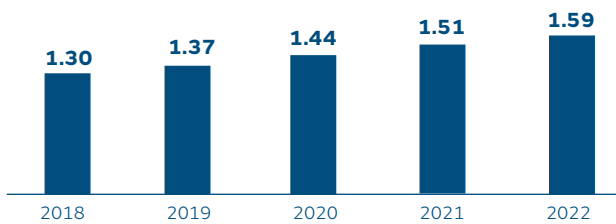
The company will increase the dividend charged to 2018 earnings by 30% to Euros 1.30 per share.

Under the Strategic Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

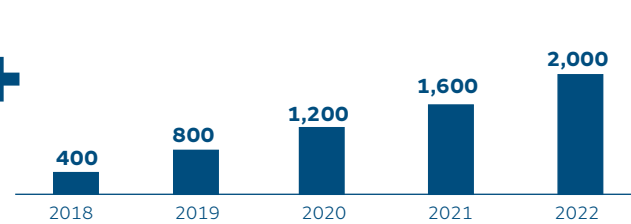
- At the end of the first half of the year (20% of the total dividend).
- At the end of the third quarter (35%).
- After the Shareholders' Meeting (the remaining 45%).

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it can allocate a maximum of Euros 2 billion to buying back own shares, capped at Euros 400 million per year.

Dividends (€/share)



Share buy-back (euros million, up €2,000 M)

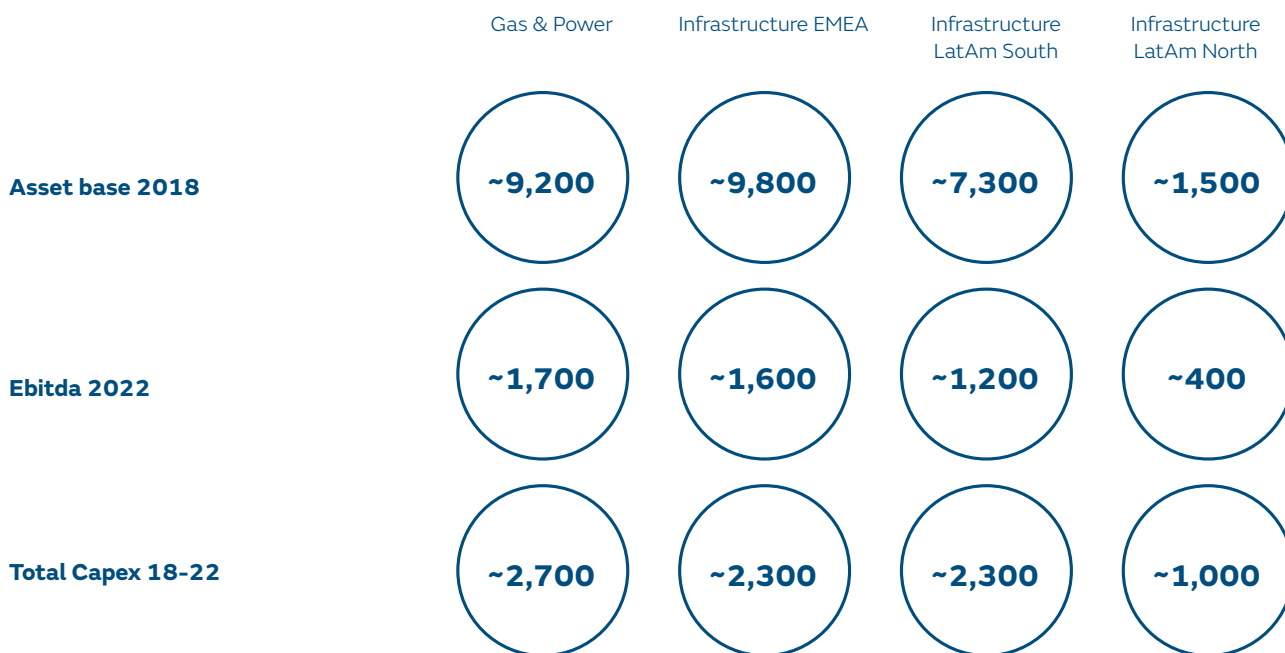


Individual business prospects

Naturgy's key financial targets for 2022 (euros million)



Business goals set in the Strategic Plan (euros million)



The growth prospects for the individual businesses, as defined in the Strategic Plan 2018-2022, are as follows:

Gas & Power

The Strategic Plan 2018-2022 targets Ebitda of Euros 1.7 billion per year, with Capex amounting to Euros 2.7 billion in the period 2018-2022. This will be driven by organic growth and higher efficiency in exploiting assets. The goals and opportunities defined for each of the units in this business are as follows:

Ebitda targets for 2022

Euros million

1,700

Capex 2018-2022

Euros million

2,700

	Opportunities	Goals (Euros million)
Gas, power and services sales	<ul style="list-style-type: none"> Define a new integrated commercial model. Maximise value by focusing on customers. Exploit the strong growth potential of the services and solutions business. 	Ebitda 2022 = 549 Capex 18-22 = 452 74% growth Capex
International LNG	<ul style="list-style-type: none"> Diversified, flexible portfolio of procurement contracts. Sales secured under contract with end customers. Entry into attractive new markets, such as the Floating Storage Regasification Unit (FSRU), small-scale solutions and bunkering. 	Ebitda 2022 = 422 Capex 18-22 = 392 100% growth Capex
European Power Generation	<ul style="list-style-type: none"> Double the volume of renewable energy while cutting total costs. Increase CCGT load factor. Adjust cost of conventional generating fleet. 	Ebitda 2022 = 507 Capex 18-22 = 1.296 64% growth Capex
International generation	<ul style="list-style-type: none"> Expand in renewables. Generate recurring cash flow. 	Ebitda 2022 = 270 Capex 18-22 = 568 68% growth Capex

Infrastructure EMEA

The Ebitda target for this business is around Euros 1.645 billion, with Capex in the period 2018-2022 totalling about Euros 2.310 billion. The goals and opportunities defined for each of the units in this business are as follows:

Ebitda targets for 2022

Euros million

1,645

Capex 2018-2022

Euros million

2,310

	Opportunities
Spain gas networks	<ul style="list-style-type: none"> • Pursue organic growth by exploiting the scope for expanding gas penetration. • Limit the business's regulatory risk. • Increase efficiency via digital transformation.
Spain electricity networks	<ul style="list-style-type: none"> • Work towards a more flexible, digitalised distribution system. • Future Capex to offset regulatory risks. • Pursue efficiency via digitalisation.
EMPL	<ul style="list-style-type: none"> • Revenues guaranteed until the concession expires (2021). • Negotiations advancing to renew Maghreb-Europe gas pipeline concession.



Infrastructure LatAm South

The Ebitda target for this business is around Euros 1.2 billion, with total Capex of about Euros 2.3 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

Ebitda targets for 2022

Euros million

1,200

Capex 2018-2022

Euros million

2,300

	Opportunities	Goals (Euros million)
Chile Electricity	<ul style="list-style-type: none"> • Distribution: the regulatory model is expected to improve in 2020 to capture updates in technology and service quality. • Transmission: improvements expected due to grid upgrades and new regulations to address the bottleneck produced by the growth of renewable energy. 	Ebitda 2022 = 436 Capex 18-22 = 1,105 60% growth Capex
Chile Gas	<ul style="list-style-type: none"> • Organic growth via greater penetration and higher demand for heating. • Drive gas exchanges between Argentina and Chile via existing pipelines. 	Ebitda 2022 = 245 Capex 18-22 = 497 85% growth Capex
Brazil Gas	<ul style="list-style-type: none"> • Organic growth through increasing penetration in the gas market as well as seeking new concessions. • Leverage the huge growth potential of the services business. 	Ebitda 2022 = 322 Capex 18-22 = 399 57% growth Capex
Argentina Gas	<ul style="list-style-type: none"> • Organic growth underpinned by grid upgrades and implementation of new networks, expanding the grid in the territory. • Leverage the huge growth potential of the services business. 	Ebitda 2022 = 159 Capex 18-22 = 323 41% growth Capex

Infrastructure LatAm North

The Ebitda target for this business is around Euros 400 million, with Capex totalling about Euros 1 billion in the period 2018-2022. The goals and opportunities defined for each of the units in this business are as follows:

Ebitda targets for 2022

Euros million

400

Capex 2018-2022

Euros million

1,000

	Opportunities	Goals (Euros million)
Mexico Gas	<ul style="list-style-type: none"> Organic growth through greater penetration in the gas market and new concessions. Strong growth potential in services via new customers and the existing customer base. 	Ebitda 2022 = 247 Capex 18-22 = 616 22% growth Capex
Panama Electricity	<ul style="list-style-type: none"> Strong growth is projected against a backdrop of moderate risk to the country's economy, with remuneration stable in USD. The tariff review for 2019-2022 is expected to be positive. Significant improvement in operational efficiency and lower power losses. Capture competitive advantages in services and solutions. 	Ebitda 2022 = 146 Capex 18-22 = 341 30% growth Capex



Financial strategy

To support the business strategy, the finance strategy targets net debt at end-2022 at the same level as end-2017 (Euros 16.4 billion, per IFRS 16) as strong cash flow will make it possible to distribute dividends (Euros 6.9 billion) and allocate Euros 2 billion to share buybacks or inorganic growth opportunities.

Finance policy will focus on maintaining the rating and leverage while managing the debt structure to make it more effective. The debt structure will be diversified, prioritising access to capital markets and institutional funds, with at least 70% of debt at fixed cost while seeking "natural" hedges by ensuring that subsidiaries are funded in the currency in which they generate cash flows.

Each business unit will be provided with the necessary liquidity and the necessary level of indebtedness to operate autonomously.



An aerial photograph of an offshore oil rig at sea. The rig is a complex structure of steel platforms, pipes, and ladders, extending from a red-hulled support vessel. The rig is surrounded by dark, choppy water. The sky is a pale, overcast blue. The rig's deck is filled with various pieces of equipment, including large storage tanks, pipes, and structural beams. The support vessel has a prominent red hull and a white superstructure. The overall scene depicts a large-scale industrial operation in a maritime environment.

Sustainable innovation

Risks and management approach

98

Analysis of 2018 results

99



Risks and management approach

Naturgy views innovation as the function that enables it to guide and drive the necessary developments, access them and apply them effectively in pursuit of its objectives. It recognises that properly orienting, implementing and applying strategic innovation are vital to obtaining competitive advantages in the markets and achieving sustainable development of its activity.

Consequently, the company applies an innovation model that is aligned with the businesses and contributes to the objectives of the Strategic Plan, it monitors developments outside the plan and anticipates disruptions in the energy model that may change the rules of the game. It does this through a solid culture of innovation, with open collaboration initiatives, intrapreneurship programmes and other tools to promote innovation.



Analysis of 2018 results

Innovation vision

The company's innovation function continues to be based on 5 major building blocks:

Social innovation.

Working to mitigate situations of energy vulnerability since 2014 through preventative measures, agreements with local and regional governments, and awareness-raising activities, including participation in forums and round tables on poverty. As part of the Vulnerability Plan, a number of measures were stepped up in 2018: the Solidarity Fund for Energy Rehabilitation and the Social Employment Program.

Innovation in marketing.

This area includes all the company's efforts to get to know its customers' actual specific needs, and to ensure that they have access to cutting-edge products that make their everyday lives easier. A major ongoing initiative is the CeX (Customer Experience) project, under which the company is applying a new methodology that is primarily customer-centric. The principal project in 2018 was the Clear Communication Project, the goal being to convey relevant information to customers in a clear and simple form.

Innovation in organisation.

This area refers to actions aimed at meeting emerging needs with respect to new business models, resulting in a new work organisation and steps to minimise risks and increase quality and safety within the organisation's practices.

Product innovation.

The FutureSisens Project provides smart flow monitoring in renewable gas plants. In particular, the project aims to develop flow sensors that are energy-autonomous or use very little energy and are capable of measuring flows in natural gas distribution networks (medium and low pressure).

Process innovation.

A notable project in this area was the optimisation of the hydroelectric generating fleet by applying machine learning in combination with traditional optimisation approaches, as well as cloud computing solutions, in models for operating the hydroelectric generation fleet in the electricity market.

The goal is to achieve more advanced analytical models in an AWS environment that allow for growth in revenues by detecting and seizing new market opportunities within a process of continuous improvement.

Innovation Plan

The innovation plan is structured through four strategic innovation areas: Energy Transition, Digitalisation, Customer-Centric and New business models, within which the following priorities were defined:

Sustainable mobility

Naturgy identifies sustainable mobility as a key component of strategic innovation within its positioning in environmentally friendly energies. As a leading energy company, it will play a fundamental role in the process of transforming mobility models, where renewable natural gas and electricity are the main vectors.

In 2018, we have developed the COFAST project, which consists of a new standardised integrated solution for fast charging stations for electric vehicles. The electricity for the charging stations will be supplied by small-scale natural gas-fired cogeneration plants.

Smart Client

In the Smart Client area, Naturgy is committed to the digital transformation of its customers as the key to achieving the objective of evolving our energy model towards a more efficient, decarbonised and decentralised one in which the concept of consumer will evolve towards a more active role in which their participation makes it possible to achieve those goals. The new active consumer will focus on three axes: distributed generation and autoproducer solutions, digital solutions and IoT products, and data analytics, making it possible to enhance customer segmentation and get to know customers better in order to offer them personalised recommendations, products and services, and also to optimise asset efficiency and operations. One of the most notable projects in 2018 was GrowSmarter, an

IoT solution for residential customers, and a pilot test of a number of photovoltaic and energy storage solutions for residential and tertiary customers has begun.

In the area of Energy Efficiency Solutions, activities focused on the development of new integrated energy solutions, based on high-efficiency renewable technologies, that can be designed and operated optimally (in both energy and monetary terms) for the development of Near-Zero Energy Buildings. One of the projects in 2018 was ReUseHeat, which aims to demonstrate heat recovery technologies in urban environments; Naturgy implemented a pilot project at a hospital in Madrid.





Distributed generation and autoproduction

The purpose of the distributed generation and autoproduction line in 2018 was to create tools and resources to support the development of products based on photovoltaic generation and batteries for end customers, as well as projects such as Growsmarter. Apart from technological developments in the field of photovoltaics and batteries, Naturgy's main contribution in this connection is its vision of the customer, which is a key element when designing control

systems that maximise the value to be extracted from these solutions.

Accordingly, it continues to pilot test commercial solutions in the Autoproduction Laboratory. The goal is to provide the business with technical and economic information about new products that are available in the market. To this end, a cost/benefit analysis methodology has been developed that uses simulation tools developed in-house, such as GENPER and OBAMA, as well as laboratory tests to measure the benefits for specific customer categories. In cooperation

with manufacturers and the IREC technology centre, the laboratory also developed an energy manager for Naturgy to optimise battery usage that is compatible with a number of commercial solutions.



Renewables and storage

Naturgy is committed to a balanced energy mix in the group's assets, in which emission-free technologies account for a growing share of its total installed capacity. Innovation in this area focuses on three main lines of action:

- Storage solutions, which facilitate greater grid integration of intermittent renewable electricity, oriented towards further enhancing the quality and reliability of the supply.
- Advanced management of generation facilities (wind, hydroelectric, solar): with initiatives for smart monitoring of assets, application of new technologies for environmental oversight and security, better communication and remote monitoring systems, predictive tools, etc.
- Evaluation of new renewable generation technologies: marine, offshore wind, geothermal, gas renewable hybridisation, etc.

One of the projects implemented in 2018 was the continuation of activities at the PV Photovoltaic Solar Laboratory in Durango (Mexico), where photovoltaic modules, structures and associated equipment are pilot-tested in order to analyse, monitor and optimise key operational parameters and indicators.

Renewable gas and liquefied natural gas

As part of Naturgy's commitment to evolve towards a low carbon economy, the company has been working for several years to promote renewable gas by participating in a number of projects, both in Spain and elsewhere in Europe, whose objective is to obtain renewable natural gas from renewable resources, and apply processes to obtain gas of a sufficient quality for injection into the natural gas grid so that it can be used for industrial, mobility, residential and power generation applications. Implementing these innovation projects makes it possible to study how the available technologies work, identify their advantages, and develop new technologies so as to optimise and reduce their production costs.

The company also continues to pursue innovation projects in the area of Liquefied Natural Gas (LNG), with a focus on three lines of action: optimisation of the LNG logistics chain (small scale), development of LNG as a cleaner, more efficient fuel for transport (bunkering), and development of LNG metering.

Some of the principal projects in this area are the Renewable Gas Unit, a joint project of Naturgy and EnergyLab in cooperation with the Bens waste water treatment plant, which has resulted in the commissioning of a biogas upgrading plant located at the WWTP, in order to produce biomethane; and Life Methamorphosis, in which the company developed and implemented the Methagro business line to produce high quality biomethane from agro-industrial waste and other organic waste materials.



Advanced asset management

The goal of this innovation effort is to maximise asset performance using advanced data analysis and new operational strategies in order to:

- Increase asset efficiency, reliability and flexibility.
- Identify new strategies for the optimised asset exploitation.
- Optimise maintenance in the field.

Using new technologies to not only avoid assets' obsolescence but also incorporate new elements that enhance their competitiveness and capacity to generate value in a highly complex environment.

During 2018, the GALA project focused on advanced control of overhead power lines (high voltage and medium voltage) in order to optimise and improve the periodic examinations required by regulation and establish an optimised felling and pruning plan for 2020.

Our commitments

Commitment to results	106
Service excellence	108
Responsible environmental management	117
Interest in people	126
Health and safety	139
Responsible supply chain	147
Social commitment	155
Integrity and transparency	162



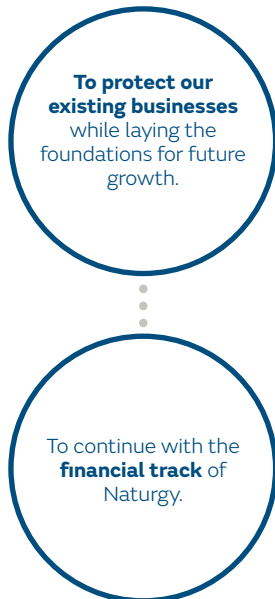


Commitment to results

What does it mean for Naturgy? Risks and management approach

In a challenging environment, Naturgy acts with the goal to maintain a solid financial and business profile. Naturgy's business model looks for a balance between regulated contracted activities and unregulated ones while applying a strict financial policy.

What is our commitment?



Sustainability indices, green bonds and sustainable funding

Presence in socially responsible investing indices and ratings

The company occupies significant positions in the leading sustainability indices on the strength of its environmental, social and governance (ESG) performance metrics. Naturgy has been part of the Dow Jones Sustainability Index uninterruptedly for the last 14 years, and in 2018 it ranked first in the world in the Gas Utilities sector for the second consecutive year. The company has also been a member of FTSE4GOOD since the index was created in 2001, and ranks as world leader in the Multiutilities sector. During 2018, Naturgy was assessed by rating agencies Oekom, Sustainalytics and Vigeo. The company is included in the three variants of the Euronext Vigeo index: World 120, Europe 120 and Eurozone 120. Naturgy has also obtained the highest rating — AAA — from MSCI and is included in the MSCI Global Climate Index and MSCI ESG Leaders Index.

In 2018, Naturgy was recognised as a world leader for its action against climate change through inclusion in CDP's Climate Change A List. The

company obtained the highest possible score in this climate change index in recognition of its action to reduce emissions, mitigate climate risks and develop a low carbon economy.

Green bonds and sustainable funding

In 2017, Naturgy developed a reference framework for the issuance of green bonds to fund renewable energies. Under this framework, on 15 November 2017, Naturgy issued a green bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. The bonds were issued at 99.77% of par. Additionally, in 2017 the company's auditors certified compliance with the commitments acquired in the framework, and Naturgy's Green Bonds Committee met in December 2018 to assess the suitability and progress with the projects and the degree to which project development conformed to the objectives set in the issue.

**How do we measure our performance?
Presence in the sustainability indexes and ratings**



First in the world in the Gas Utilities.



World leader in the Multiutilities sector.



Included in the three variants of the Euronext Vigeo index: World 120, Europe 120 and Eurozone 120.



Leader for its action against climate change through inclusion in CDP's Climate Change A List.



Naturgy arranged a sustainable loan with ING Wholesale Banking for a total amount of Euros 330 million.



The highest rating — AAA — from MSCI and is included in the MSCI Global Climate Index and MSCI ESG Leaders Index.



Naturgy was assessed by rating agencies Oekom, Sustainalytics and Vigeo.



In addition, in order to cover its funding needs and in line with its progress in sustainability, in 2017 Naturgy arranged a sustainable loan with ING Wholesale Banking for a total amount of Euros 330 million for four years, with the possibility of a one-year extension, whose cost is partially indexed to the company's environmental, social and governance (ESG) performance, as assessed by independent rating agency Sustainalytics, which issues a report and a rating in this connection.

The score by the agency improved in the first credit review, with the result that the interest rate was reduced.



Service excellence

What does it mean for Naturgy? Risks and management approach

The customer is the centre of operations at Naturgy. Through active dialogue, the company will provide speedy and efficient service which, as well as complying with the legal and profitability requirements, meets the customer's needs.

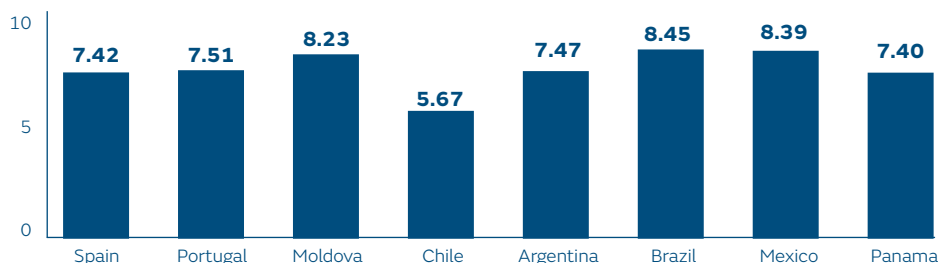
If the company fails to provide quality products and services, has a customer service that can be improved, and lacks communicative fluidity with the customer, it runs the risk of the customer requesting to finalise the contract or submitting complaints.

The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

What is our commitment?

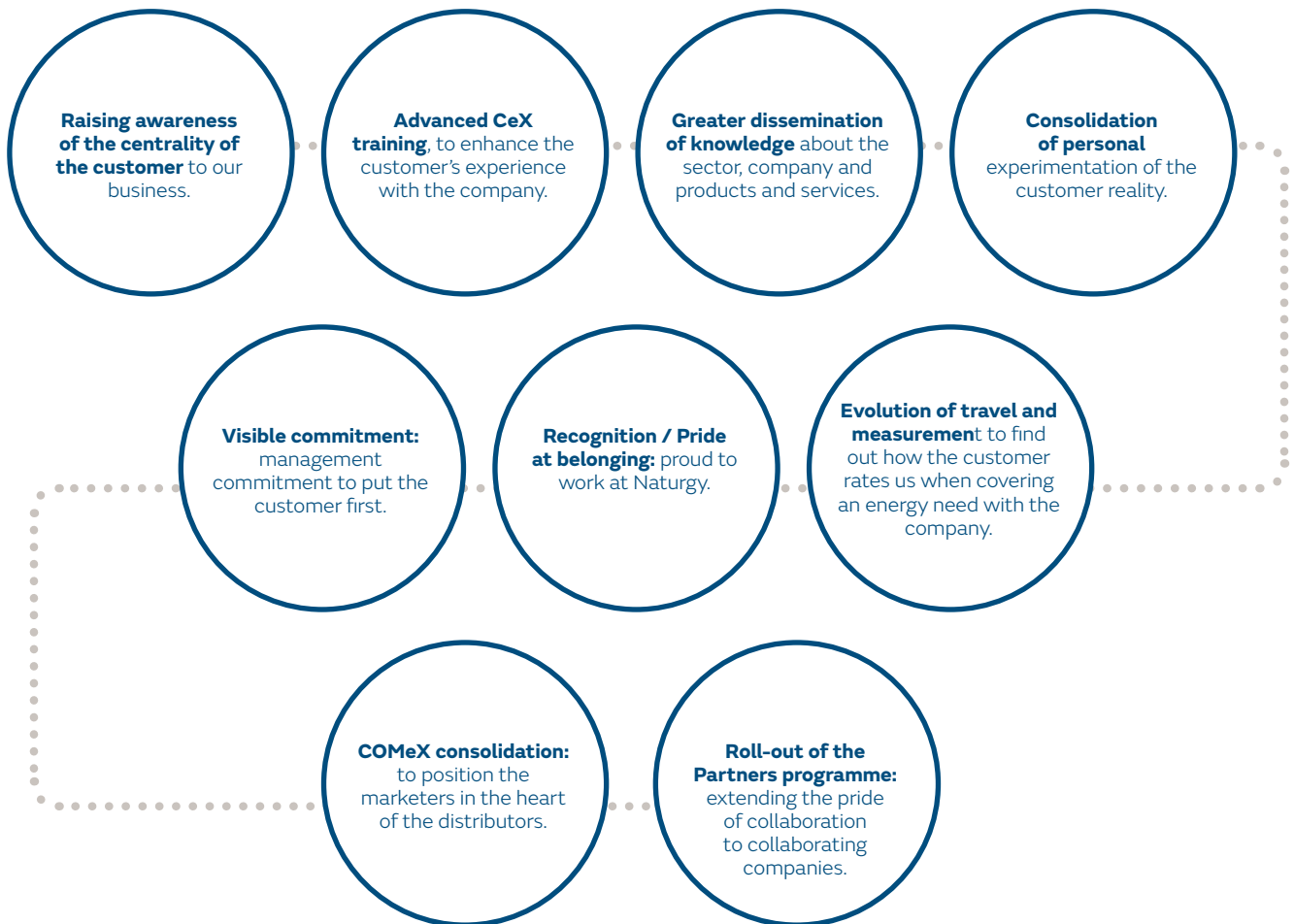


How do we measure our performance? Overall satisfaction with service quality



Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.

What are our main milestones in 2018?



Analysis of the 2018 results

The customer as the focal point

In 2018 the company began a new stage with an overhauled brand that reflects the corporate transformation, an evolution resulting from 175 years' experience and which supports our commitment with the customer to adapt ourselves to both the present and the future.

This new stage reasserts our Customer Centricity vocation as the basic pillar of the Strategic Plan 2018-2022, placing the customer as the focal point of all decisions in order to offer an excellent service in a simpler, more innovating, more digital, nearer and more environmentally friendly way.

Our value proposal is to offer our customers simple, close at hand and practical solutions that help the customer on a daily basis, supporting ourselves through digitalisation and innovation, in order to provide excellence in service.

Quality and reliability of the service

Maintenance of the gas and electricity facilities is an essential aspect within Naturgy's mission to achieve a level of quality and reliability of the service that satisfies customers and enables us to comply with the regulatory requirements of the countries where we operate and with the most demanding standards of the industry. The aim of maintenance is to improve the safety and reliability of gas and electricity networks, and to maintain a high level of service quality.

Naturgy employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures. The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

A set of inspection and assessment actions are carried out, which help to define the corresponding preventive and mitigation measures to ensure a safe and ongoing supply, maximising the useful life of assets, and which are included in the Maintenance Plan for each type of facility.

The preventive and corrective maintenance procedures are frequently subject to reviews by the technical quality, safety, and internal auditing, compliance and control divisions.

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a

notable improvement in recent years. These indicators measure, inter alia, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of grid.

To ensure that supply meets demand, Naturgy regularly reviews the operating conditions of its networks, to make sure these are correctly sized or, if appropriate, to determine the potential needs of repowering or enlarging these. Furthermore, in electricity distribution, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the development of smart grids, the application of drones to the maintenance installations and the introduction of predictive maintenance techniques for the main grid equipment.

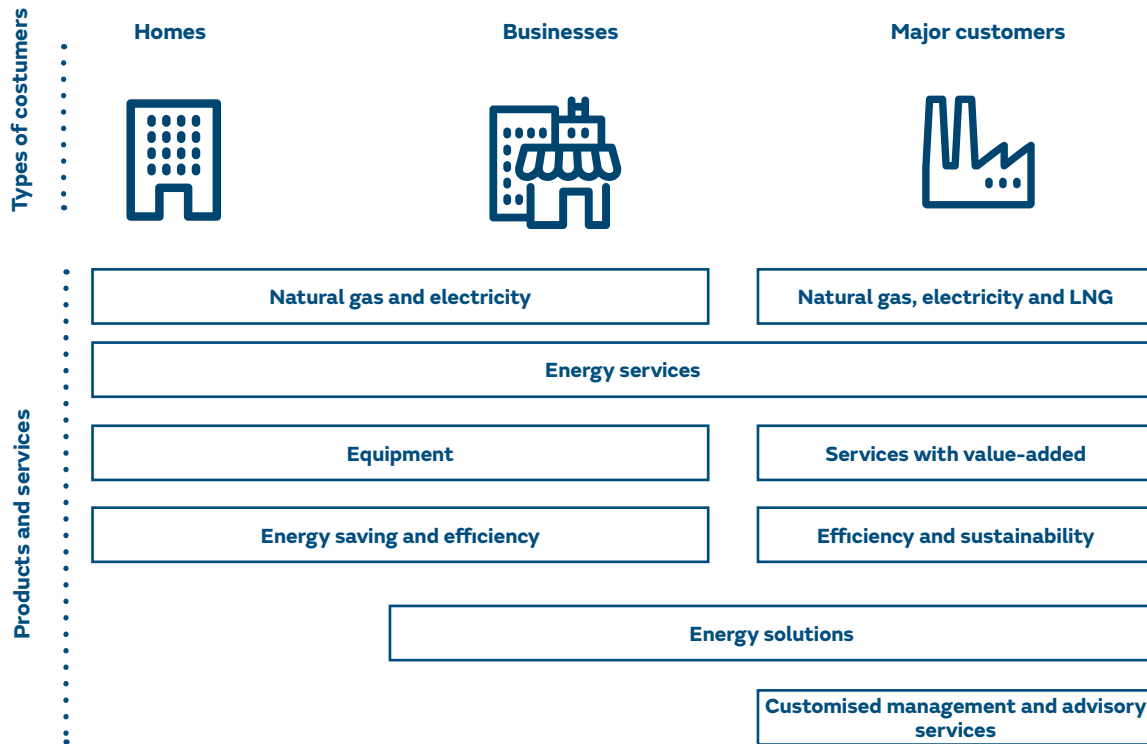
Products and services adapted to customers' requirements and priorities

Naturgy's commercial offer is targeted at homes, businesses and major customers. The products offered are not restricted solely to the supply of gas and electricity, but encompass other aspects.

The development of new products is based on the needs detected through the mechanisms enabled by the company. The commercial supply seeks efficacy and efficiency above other factors. Efficacy, to satisfy customers' demand; and efficiency, to achieve the maximum competitiveness.

In 2018 we have renewed the commercial catalogue with new tariffs and new services to offer the customer

a broader range of choices and to find more appropriate solutions for their needs, whilst simultaneously seeking to simplify the portfolio to provide customers with a simpler and more comprehensive experience. In the domestic area, we have also redesigned promotions by applying benefits according to customers' characteristics and habits.



Customer service

Naturgy has introduced an innovative Customer Service Model that is fully adapted to customers' characteristics and needs, offering close at hand and accessible solutions that allow for greater comfort and flexibility to our customers' requests. This model is included in the quality management system certified in accordance with ISO 9001 by AENOR.

The customer service channels that Naturgy makes available to customers aim to offer customised service that satisfies their expectations, and with a particular focus on digital channels in line with society's evolution, to achieve a swift and flexible resolution with self-management, simplicity and in an environmentally friendly way.

Customer service model

Our model comprises three focal points:



Operational and training model: the aim is to anticipate customers' needs through predictive and data analysis models.



Technological model: committed to a technological revolution that encourages greater self-management by customers.



Procurement and financial model: building a partnership model with suppliers and an alignment of the win-to-win objectives.

Provision of customer service at Naturgy:



Digital channel



Telephone channel



Guarantee office



Face-to-face channel - Centres



Face-to-face channel - Personal manager

The company manages claims from three different areas: retail commercialisation, wholesale commercialisation and distribution of gas and electricity.

In the retail sphere, in Spain over 650,000 customer claims were processed, approximately half of them dealing with billing issues. The process with the next highest number of claims was that of entering into contracts and, finally, claims related to payment collection. These three kinds of claims account for approximately 90% of all those received, whilst there are other processes, such as registration for new supplies, management of payment defaults and problems with readings, which make up the difference. The average claim response time was approximately one week.

In the wholesale sphere, around eight thousand claims were processed, down approximately 20% year-on-year. Most claims concerned billing and measuring processes, and none of them were of a relevant nature. Around 80% of these claims were resolved within the deadlines established.

In the area of gas and electricity distribution, any claim or complaint received from customers via the different channels available -whether through their gas or electricity marketer in issues for which the distributor is responsible (meter reading, supply quality, new registrations, etc.), directly with the

electricity or gas distributor of the Naturgy Group through the customer service channels of the distributors, via the website contacts, by postal mail or through any competent organisation- is received and processed centrally in our integrated claims management system at the Shared Services Department.

The organisation handles not only customers of the electricity or gas system in its operational area, but also any individual or legal entity that may have a claim or complaint through the action or non-action of our distribution assets (works in progress, technical elements on public thoroughfares, etc.) is dealt with as if they were a customer.

With regard to transparency in communication of claims or complaints submitted, both business of Electricity

Distribution in Spain (UFD) and Gas Distribution in Spain (Nedgia) comply with the obligations set out in circular 2 of 2016 issued by the National Securities Market Commission (CNMC), reporting every quarter with regard to the details on the situation of claims processed in accordance with the formats and deadlines established by the regulator.



Customer's satisfaction and experience

Naturgy listens to its customers' opinions and incorporates them into the decision-taking in order to develop innovative products and services that meet their needs and expectations.

The company has a model to measure customers' experience, through which it constantly monitors the satisfaction of its customers and the level of recommendation.

The model is based on three levels



Measurement: Naturgy collect the opinion of its customers through surveys that are classified into two supplementary blocks: general surveys and interaction with the company surveys.



Analysis: the results are added to the daily management reports, which allows us to include the customer's voice in decision taking.



Close the loop: process that enables immediate corrective action through the management of alerts that activate whenever the minimum satisfaction and recommendation thresholds required to maintain the level of quality that the company imposes with its customer relations are not reached.



Customer Experience programme (CeX)

The Customer Experience programme, based on cultural transformation, was born in 2015 at group level with the purpose of making the company a benchmark at international level in customer satisfaction in the energy sector, measured in terms of recommendation.

With Customer Experience the company introduces a new methodology through which the customer is at the centre the decision-making process, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience within the company.

As a response to our commitment towards the customer, we have formalised the Customer Experience as a cross-cutting group process and we have developed the Customer eXperience Global Policy for the group.

The Policy sets out the Naturgy action framework to ensure that the Customer Experience is integrated into the company's operations and decision taking.

As a result of this Policy, this year we have introduced the Clear Communication Project in the Customer Service billing area, in retail customers and markets and in infrastructures in Spain, providing the knowledge and tools so that people can develop a clearer and simpler communication for the customer.

Working model based on five pillars



Privacy and security of the customer's data

Naturgy, as part of its commitment to the privacy and security of data of employees and customers, has updated the Information Security Policy and the regulatory corpus of information security that ensures proper processing of this data throughout their life cycle collection and processing through to removal or safeguarding this data once the relationship has terminated.

The Policy and the regulatory corpus are communicated to employees, suppliers and customers, and is implemented in line with the legal requirements that govern the processing of information, the internationally accepted best practices and standards.

This regulatory corpus includes a specific technical standard, which is for the purpose of guaranteeing the protection of personal data at Naturgy and applies to all organisational units and companies of the group that capture or process personal data, as well as partners and suppliers that collaborate in such processing. This standard complies with the provisions set out in the EU General Data Protection Regulation (GDPR).

Security forms an essential part of the design, development and exploitation of all processes and systems, in particular those that process information. All of Naturgy's systems include procedures for authentication and administration of authorisations and access and are designed to guarantee that the use of these does not affect the security of the data handled.





Responsible environmental management

What does it mean for Naturgy? Risks and management approach

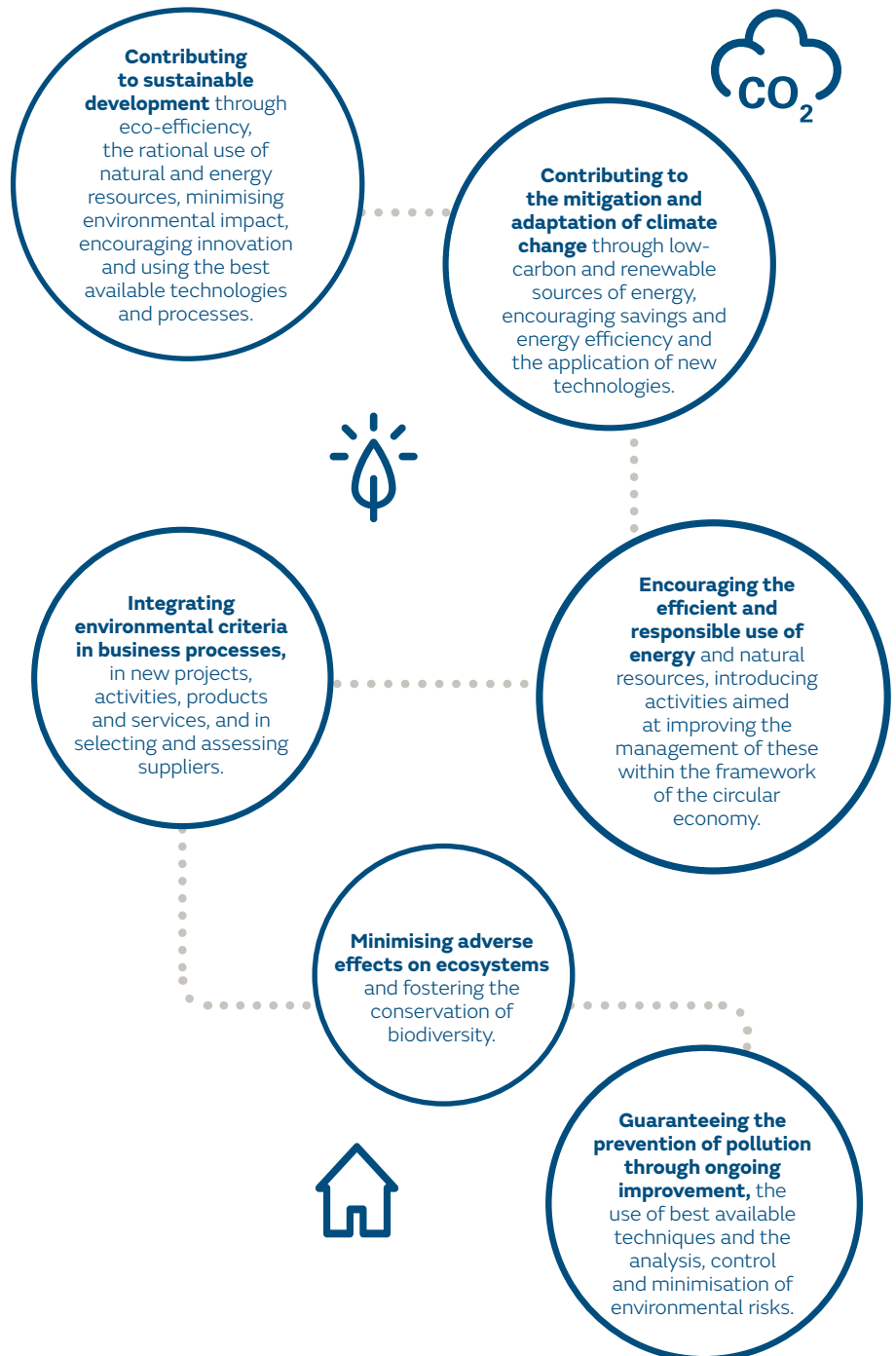
Naturgy is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand.

Naturgy goes beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and we encourage and work with our stakeholders to use energy responsibly.

Inadequate management of climate change and its associated risks can lead to substantial losses for the company, caused by the increase in exposure to natural disasters, the decarbonisation trend of the sector and the loss of affinity on the part of stakeholders.

Improper environmental management can cause environmental impacts and the deterioration of natural conditions and biodiversity in the areas where the company operates. This, in addition to the direct impact on the environment, can cause the company reputational harm. The risk is greater if the company has infrastructures and/or carries out operations in protected areas.

What is our commitment?



How do we measure our performance?

	Unit	2018	2017
Direct greenhouse gas emissions	MtCO ₂ eq	18.3	20.5
Emission factor for electricity generation ¹	tCO ₂ /GWh	342	388
Installed capacity free of emissions ¹	%	27.5	26.4
Net production free of emissions ¹	%	24.9	19.6
Activity with environmental certification ²	%	88.7	87.7
Water consumption	Hm ³	26.5	28.0
Consumption of raw materials	Kt	6,729	7,580
Natural gas	Kt	4,736	4,638
Coal	Kt	1,630	2,480
Petroleum derivatives	Kt	352	452
Uranium	Kt	11	11
Direct energy consumption ³	GWh	60,614	64,728
Indirect energy consumption (final use of natural gas distributed/commercialized)	GWh	577,647	613,181
Resources targeted at the prevention of environmental risks ⁴	Million euros	494	96

1. Includes hydroelectric, wind, nuclear and solar generation.

2. Percentage of Ebitda certified with regard to that which is certifiable. The Ebitda used in the ratio is the November closing Ebitda.

3. It includes consumption of renewable, non-renewable and electricity resources and separates the electricity and the heat sold.

4. The 2018 figure includes the investment in renewable energies.

Note: It does not include the information of Moldova, Kenya and South Africa. The figures for Moldova are: GHG emissions: 0.002 MtCO₂e, Consumption of raw materials: 0.5 kt (0.0001 kt natural gas, 0.5 kt petroleum derivatives), Direct energy consumption: 254 GWh.

Provisions and guarantees for environmental risks

The company makes financial provisions to cover the materialisation of potential environmental risks, including:

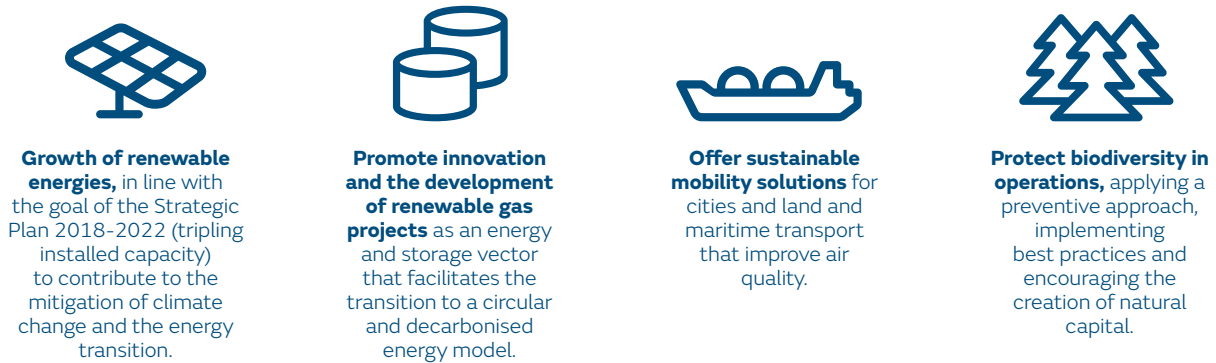
In addition, Naturgy has guarantees to cover the occurrence of environmental risks in the insurance policies it has taken out. The insurance policies that the company has contracted and in which there is environmental coverage are:

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: limit of Euros 700 million per loss event.
- Protection and compensation insurance: maximum limit of USD 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

What are our main milestones in 2018?



What are our goals for 2019?



Analysis of the 2018 results

Environmental management

Responsible management of the environment is a strategic pillar for Naturgy, which reflects its commitment to the Corporate Responsibility Policy approved and supervised by the Board of Directors. The policy includes the company's action principles, with an emphasis on promoting the sustainable development of society through the supply of competitive, safe energy and with the utmost respect for the environment.

The most significant current and foreseeable effects of the company's activities on the environment are the following:

- Contribution to climate change.
- Pollution of air, water and land.
- Biodiversity loss.
- Consumption of non-renewable raw materials.

Strategic pillars:



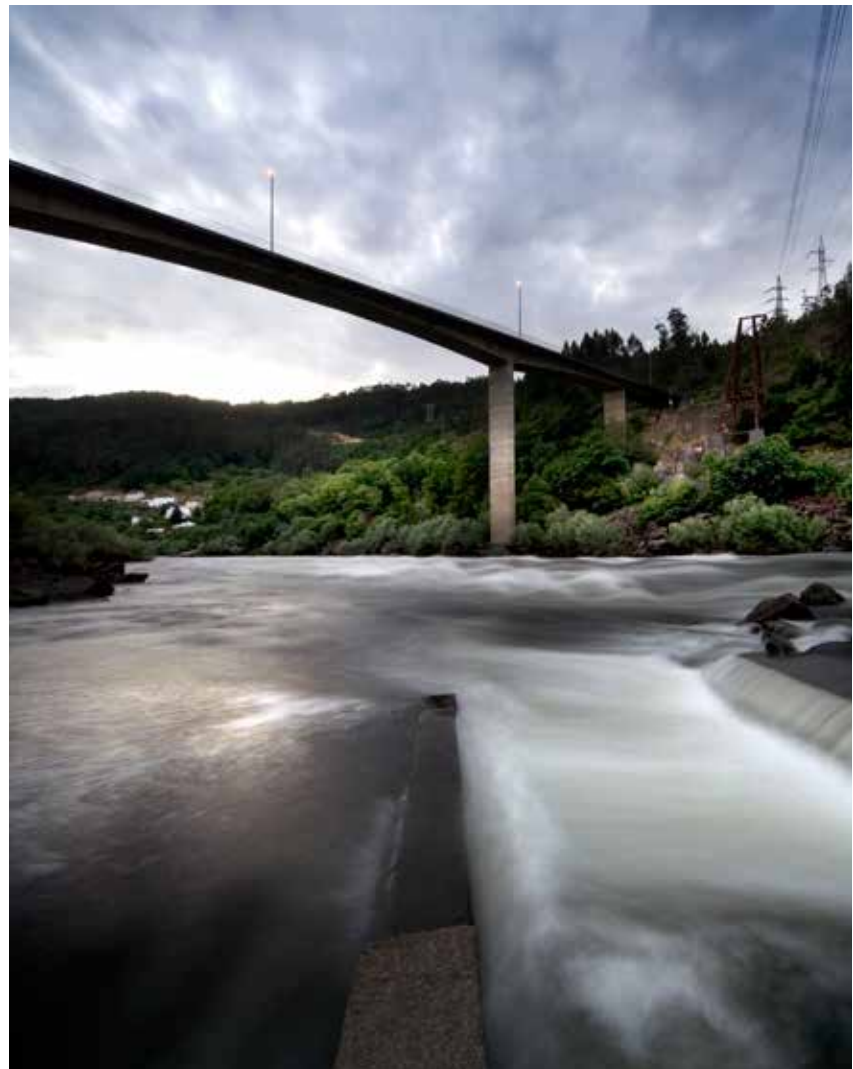
Climate and air: contributing to the mitigation of climate change, the energy transition and the improvement of air quality.



Circular economy: promoting eco-efficiency in the use of resources to reduce negative environmental impacts.



Natural capital and biodiversity: encouraging the preservation of natural and cultural heritage within the areas of operation.



To minimise these effects, Naturgy employs a preventive approach throughout the entire value chain of its business:

- Certified and externally-audited environmental management system aimed at preventing pollution and reducing environmental impacts along the entire value chain, involving employees, suppliers and other stakeholders. During the design phase of new facilities and during dismantling, the environmental conditions of the surrounding area are studied, and the projects are adapted, including the necessary preventive, corrective and compensatory measures. During the operational phase, strict monitoring is performed to ensure compliance with legislation and to maintain impacts within the limits set.
- Integration of the environment in the management of risks and opportunities and in the decision-taking processes, paying special attention to climate change and the energy transition.

To ensure consistency and uniformity in the company's key environmental management processes, there are global methodologies and tools for environmental management that are used in different businesses and geographies, including the following:

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafty, for recording and management of the findings, nonconformities, observations and opportunities to improve environmental management.
- Enablon, for recording and centralized management of environmental indicators related to atmospheric

emissions, consumption of raw materials, water and other resources, discharges, waste, etc. The system is also used to monitor environmental targets and action plans.

- Geographical information system of biodiversity, showing the protected natural areas, the group's facilities and the initiatives carried out to protect and improve natural capital.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of group activities.
- Environmental footprint, to measure the company's environmental performance, distinguishing between the components of atmosphere, waste, climate change, water, biodiversity and resources.
- DAMAS, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and supervised to reduce environmental impact and for continuous improvement.
- Environmental audits, both external and internal, conducted within the scope of the integrated management system.

Integrated Management System (IMS)

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards. This system is audited externally every year.

The processes certified through this system are:

- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Electricity generation (thermal, hydraulic, wind and solar origin)
- Distribution of natural gas and electricity.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving customer service, billing and payment, training and management of office buildings.

Climate and air quality

Naturgy identifies, records and analyses all the environmental risks and events that have occurred in order to define, apply and disseminate preventive measures to reduce potential damage to the environment. To do this, facilities with environmental risk are assessed using recognised standards as a reference. The first element for management is self-protection plans and their associated procedures, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations that can cause environmental damage.

In addition, there are global and uniform procedures and systems in the different businesses and geographies for reporting, classifying, monitoring and managing environmental events (Prosafety).

This methodology allows not only an adequate and uniform monitoring of environmental events, but also the identification, analysis, development, application and exchange of preventive measures and best practices in risk management at a global level.

For management of the climate change risk, Naturgy has a specific tool, developed in Ms Excel and @Risk, which allows us to estimate the Group's exposure to risks at an aggregate level and broken down by business and geography. This tool analyses the impact of climate change on different businesses and technologies, over time periods (short, medium and long term) and geographies. This allows us to estimate the impact of different climate change scenarios (IPCC) through different indicators:

- Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- Environmental: emissions of CO₂.
- Business: market shares and penetration levels.
- Economic: impact forecasts on level of revenue, Ebitda, cash flow and present value of the business, as well as estimates of the value at risk for different confidence levels.

In addition, it means we can simulate new scenarios based on new products and services, etc. and the implementation of R&D&I actions, generating different scenarios to assess the impact.

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less CO₂-intensive energy products and services to help mitigate climate change and the energy transition.

Main strategic lines of action in terms of climate



Favouring the mitigation of climate change and the improvement of air quality, displacing carbon-intensive fuels and encouraging the promotion of energy savings and efficiency both in our own facilities and at our customers.

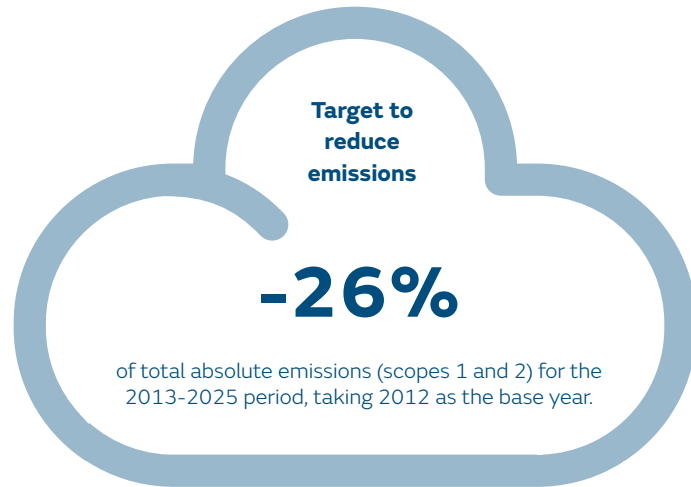


Contributing to the decarbonisation of the system, increasing the use of gas and renewable electricity and encouraging their integration through the development of smart grids.

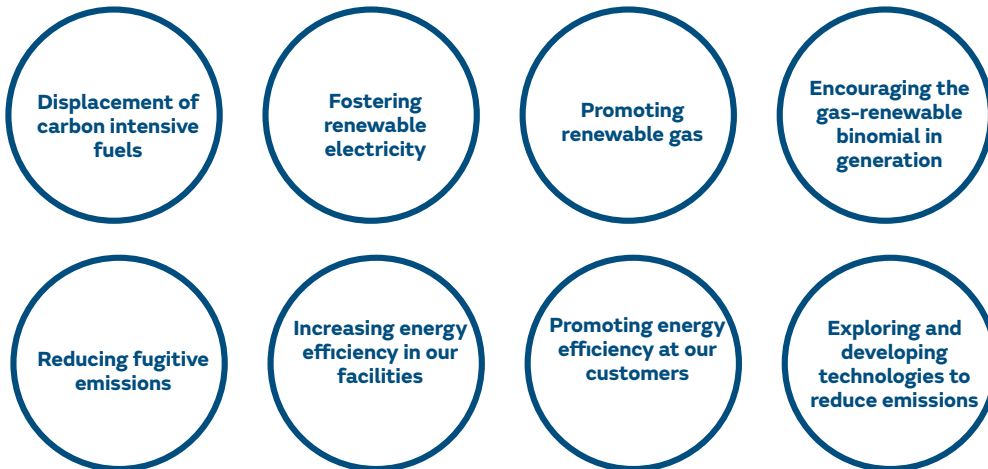


Supporting international climate change negotiations and mechanisms that foster technological neutrality and industrial competitiveness, promoting the development of the most appropriate technologies at each stage of the energy transition.

Naturgy has a voluntary goal for GHG reduction. This target is aligned with science to avoid an increase in temperature above 2°C (Science Based Targets Initiative. Tool V8): Average reduction of 26% of total direct emissions for the 2013-2025 period, taking 2012 as the base year.



The main lines of action carried out to reduce GHG emissions:



For management of climate change, the following means are available:

Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the group's carbon footprint.

Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indexes on climate change, such as the CDP.

- Participation in the following initiatives related to climate action:**
- Carbon Pricing Leadership Coalition (CPLC).
 - Caring for Climate.
 - Statement on fiduciary duty and climate change disclosure.
 - Corporate commitment with the Science Based Targets climate policy initiative.

Circular economy

Naturgy is committed to promoting the circular economy through the efficient use of resources to reduce environmental impacts. To do this, different lines of action are developed, focused fundamentally on:

- Improving eco-efficiency in the use of resources, energy, water and raw materials, reducing pollution, waste and its impact on the environment.
- Innovating for the promotion of renewable gas (biomethane and hydrogen) as an energy and storage vector that facilitates the transition to a circular and decarbonised economy model.
- Offering sustainable mobility solutions for cities and land and maritime transport that reduce atmospheric contamination and improve air quality.

Within the framework of the integrated management system, Naturgy develops management and control procedures aimed at minimising the waste that is disposed of in landfills, through prevention, reuse, recycling and/or energy recovery.

Most water consumption at the facilities of Naturgy is due to the operation of thermal power stations. Specifically, the majority is produced through the evaporation of water in the cooling towers; the rest corresponds to consumption in other processes, in the water-steam cycle and in other auxiliary services. Most of the water collected is returned to the environment. Depending on its origin, the main source of supply is the sea, with fresh water accounting for a much smaller contribution. It is important to note that Naturgy, aware of the scarcity of water in the environments of some of its power plants, introduced

systems for the reuse of wastewater in these facilities.

Regarding effluent discharges, at power stations we monitor and analyse not only the effluents but also of the waters of the environment receiving the effluent discharges. The treatment equipment and systems worked as planned in 2018, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made.

Furthermore, Naturgy also promotes energy efficiency, both in its own facilities and at its customers, helping to reduce environmental impacts due to unconsumed energy. Moreover, numerous innovation initiatives are under development in the field of renewable gas, in order to promote this new energy vector, which allows the recovery of organic waste and reduces GHG emissions.



Natural capital

Naturgy is committed to the preservation of natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species. To this end, it is based on the precautionary principle, conducting prior environmental studies during the design phase that minimise the negative impacts of the complete life cycle of the facilities.

Introducing additional voluntary measures contributes to the knowledge and mitigation of the impacts arising from the development of new projects and the operation of the facilities once they have been introduced. The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

In addition, in the areas surrounding the facilities, especially in those that are close to protected areas or of high value for biodiversity, studies are carried out to improve the knowledge of the natural spaces and to reduce impacts.

The development of Naturgy's activities requires the occupation of land. When the facilities are being designed, environmental impact studies are carried out, in which the protected areas that have a high ecological value are analysed, adapting the project to avoid or minimise the impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced.

Once the facilities are operational, they are integrated into a Geographical Information System, where they are cross-checked with the protected natural spaces to identify, quantify and monitor the impacts on biodiversity.

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

The key impacts on biodiversity that may arise from the company's operation in the area of the sites and in the areas adjacent to them, are the following:

- Temporary condition affecting the fauna present in the environment, as a consequence of the construction of transportation and distribution infrastructure of gas and electricity.
- Permanent condition affecting bird life and arboreal vegetation, as a result of the operation of transport networks and the distribution of electricity.
- Impact on the abiotic and biotic environment of the environments around the facilities, as a consequence of emissions arising from combustion.
- Condition affecting the populations of species present in the environment, as a consequence of changes in land use and the permanent presence of the facilities in the natural environment.
- Effect on the aquatic environment, as a result of effluent discharges.
- Relevant effect on biodiversity (positive and negative), as a consequence of the creation of reservoirs associated with hydraulic power stations.

Interest in people

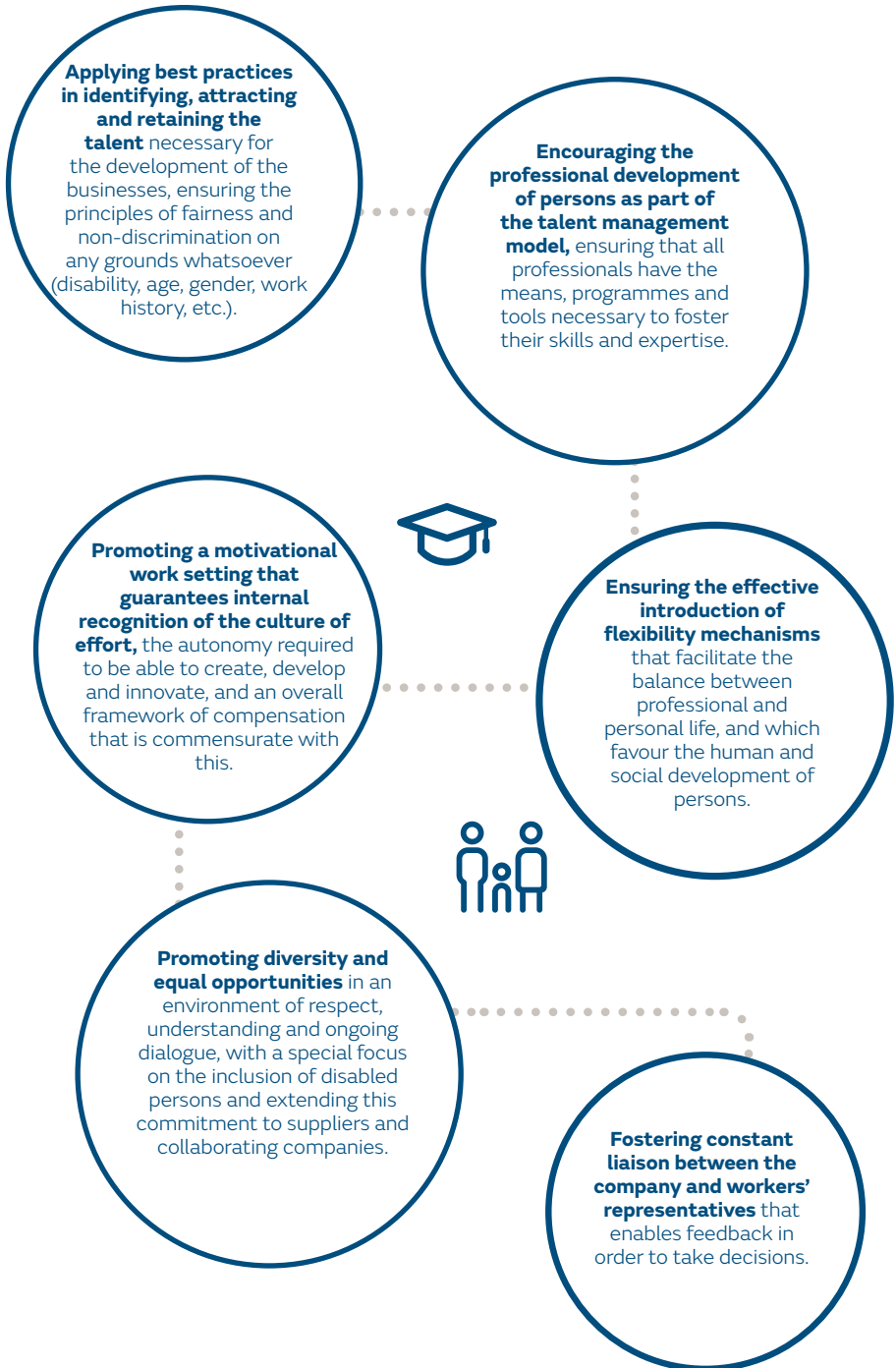
What does it mean for Naturgy? Risks and management approach

For Naturgy it is essential to foster a quality working environment, based on respect, diversity and personal and professional development. Naturgy also has a Code of Ethics that establishes the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the group's relations and interactions with its stakeholders.









Persons that suffer any kind of discrimination or do not feel themselves to be fairly rewarded tend to reduce their pride of belonging and lower their productivity. Furthermore, research reveals that the increase of pay inequality is associated with lower profits, productivity and business competitiveness.

The major transformation of the energy sector and digitalisation require new expertise and skills which, if they are not covered in a flexible way, would place the company at a disadvantage with its competitors, with the resulting consequences this could have on the business.

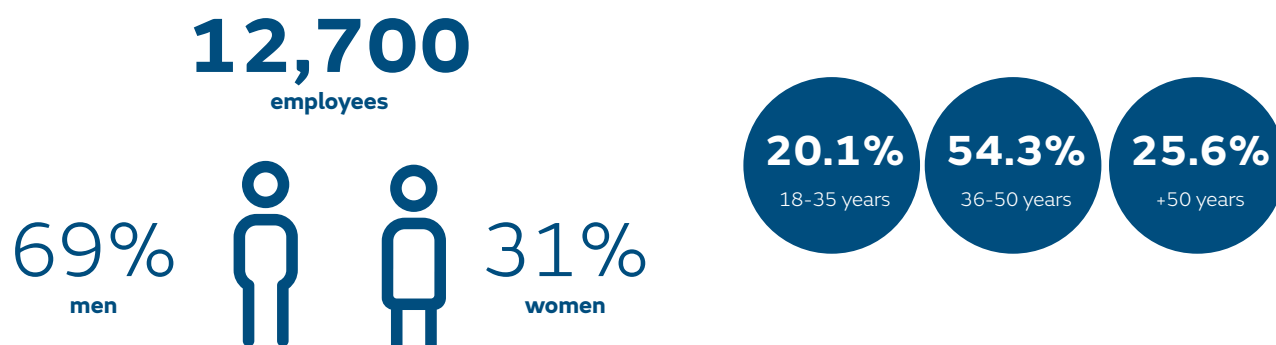
What is our commitment?











How do we measure our performance?

	N° employees	18-35 (%) ¹	36-50 (%)	>50 (%)	Management team		Middle managers		Technicians		Operators	
												
Germany	7	14.3	57.1	28.6	-	-	-	-	71.4	28.6	-	-
Argentina	767	21.3	37.4	41.3	3.7	0.8	13.7	3.5	15.1	4.8	45.0	13.4
Australia	8	50.0	37.5	12.5	-	-	-	-	25.0	-	62.5	12.5
Belgium	3	66.7	33.3	-	33.3	-	-	33.3	-	33.3	-	-
Brazil	478	25.7	61.5	12.8	5.2	2.9	12.8	7.1	15.5	11.5	29.3	15.7
Chile	3,046	27.2	49.1	23.7	2.2	0.8	12.6	3.2	26.5	11.0	33.7	10.0
Colombia	84	36.9	48.8	14.3	10.7	13.1	6.0	9.5	17.9	22.6	8.3	11.9
Costa Rica	20	20.0	65.0	15.0	5.0	-	5.0	-	10.0	-	75.0	5.0
Spain	6,532	11.1	59.9	29.0	11.1	4.4	15.2	4.6	19.9	15.0	19.2	10.6
France	66	57.6	40.9	1.5	10.6	3.0	6.1	7.6	28.8	31.8	3.0	9.1
Holland	7	28.6	71.4	-	14.3	-	14.3	-	28.6	28.6	14.2	-
Ireland	40	50.0	45.0	5.0	12.5	2.5	12.5	5.0	32.5	27.5	7.5	-
Israel	15	73.3	26.7	-	-	-	13.3	6.7	53.3	26.7	-	-
Morocco	93	7.5	43.0	49.5	3.2	1.1	39.8	2.2	11.8	2.1	29.0	10.8
Mexico	989	37.1	54.5	8.4	5.8	1.3	16.5	4.0	23.7	10.5	27.2	11.0
Panama	362	37.0	36.2	26.8	5.0	2.5	21.3	9.9	12.7	11.6	25.4	11.6
Peru	21	52.3	42.9	4.8	-	4.8	14.3	4.8	33.3	14.3	9.5	19.0
Portugal	18	38.9	61.1	-	-	11.1	-	-	16.7	44.4	5.6	22.2
Puerto Rico	5	20.0	20.0	60.0	40.0	-	40.0	-	-	-	-	20.0
Dominican Republic	84	19.0	66.7	14.3	1.2	2.4	23.8	9.5	3.6	7.1	50.0	2.4
Singapore	4	75.0	25.0	-	25.0	-	-	-	75.0	-	-	-
Uganda	51	66.7	29.4	3.9	2.0	-	39.2	5.9	-	2.0	43.1	7.8
Total	12,700	20.1	54.3	25.6	7.4	2.9	14.8	4.5	21.0	12.8	25.8	10.8

1. The indicators that represent the evolution over the year include information from companies held for sale (Moldova, Kenya) or sold prior to the year-end (South Africa) provided that the opposite is not specified, while the indicators that represent information at the year-end do not include information about these companies.







Annual average of indefinite and temporary contracts by age, gender and professional category

Workforce by type of contract 2018		Average annual workforce temporary contract by professional category 2018		Average annual workforce temporary contract by age 2018			
Permanent contract	 67.7%	Executives	 2	 -	18-35	 136	 92
	 30.1%		Technicians	102	70	36-50	68
Temporary contracts	 1.2%	Administrative staff	-	-	>50	9	2
	 1.0%	Operatives	109	62	Total	213	132
	Total	100.0	213	132			

Rotation and voluntary rotation index

	2018	2017
Rotation	17.4%	6.4%
Voluntary Rotation	2.5%	2.9%

Number of dismissals by age group, gender, and professional category

Dismissals by professional category and gender		Dismissals by age group and gender			
Executives	 9	 2	18-35	 60	 23
	Technicians	111	32	36-50	72
Administrative staff	-	-	>50	58	22
Operatives	70	55	Total	190	89
Total	190	89			

Salary gap¹









Below is a detail of the salary gap measure according to which a % above zero represents the % that women earn less than men:

	Executives	Technicians	Administrative staff	Operative
Argentina	21.4%	12.8%	11.6%	17.8%
Brazil	22.7%	14.7%	-	24.1%
Chile	38.1%	6.1%	18.0%	17.8%
Colombia	10.2%	28.0%	(2.4%)	-
Spain	13.1%	4.5%	6.2%	13.3%
France	23.7%	18.1%	8.2%	-
Ireland	38.9%	19.6%	-	-
Morocco	4.5%	6.7%	7.1%	-
Mexico	4.5%	(2.1%)	(26.6%)	(30.1%)
Moldova	2.3%	2.5%	(17.9%)	(2.1%)
Panama	(20.4%)	(16.1%)	15.9%	-
Dominican Republic	-	(10.0%)	22.7%	-









¹ Data is provided about the most relevant countries for Naturgy. The difference in salary shown by the results is in line with the context of the sector and generated mainly by the company's past gender make-up, which means greater average seniority of men in comparison with women. The reason why boxes are left blank is because there are no employees of one gender or another in said professional category.



Average remuneration by age group, gender, and employee category (euros)

2018	Executives		Technicians		Administrative Staff		Operative	
								
Argentina	59,279	46,587	22,995	20,060	17,868	15,799	20,135	16,555
Brazil	51,148	39,534	21,571	18,399	-	18,494	14,887	11,306
Chile	156,804	96,992	46,327	43,515	28,184	23,125	17,951	14,456
Colombia	83,685	75,116	15,804	11,377	6,156	6,305	-	-
Spain	102,177	88,797	45,203	43,135	33,346	31,269	31,691	27,498
France	100,743	76,888	52,909	43,353	35,231	32,339	-	-
Ireland	99,000	60,500	56,000	45,000	-	-	-	-
Morocco	93,061	88,902	34,577	32,248	13,090	12,155	17,532	-
Mexico	33,186	31,693	14,442	14,747	6,828	8,646	6,567	8,544
Panama	38,576	46,463	17,256	20,036	18,896	15,899	14,128	-
Dominican Republic	-	73,110	23,216	25,545	12,210	9,439	11,946	-

It includes only the fixed remuneration.

2017	Executives		Technicians		Administrative Staff		Operative	
								
Argentina	78,404	63,187	31,615	28,602	24,812	22,116	26,555	25,626
Brazil	75,051	65,270	26,068	23,699	-	20,518	15,449	15,034
Chile	128,109	87,065	41,803	38,023	25,064	20,438	15,191	13,140
Colombia	63,952	54,794	13,550	12,569	6,564	6,455	6,227	6,615
Spain	99,531	84,576	50,329	45,813	42,004	35,990	38,876	29,529
France	97,143	82,911	52,146	42,623	34,596	31,617	-	-
Ireland	312,231	67,600	46,680	41,656	-	-	-	-
Morocco	85,786	81,598	33,235	29,675	9,499	12,013	16,277	-
Mexico	31,796	29,357	12,741	12,849	6,478	8,188	5,617	5,585
Panama	41,041	43,775	16,393	18,152	16,216	15,082	13,098	-
Dominican Republic	46,643	73,699	20,009	24,309	11,915	9,045	11,683	-

It includes only the fixed remuneration.

Average remuneration by age (Spain)	
18-35	34,446
36-50	48,737
> 50	56,196

Average remuneration of directors and executives

The remuneration of the executives of Naturgy is detailed in an individual basis in Note 34 of the Consolidated Annual Accounts.

The average remuneration of directors of Naturgy (without taking into account indemnities detail in the section of the corporate governance) amounted Euros 808 thousand in the exercise 2018.

Disabled persons integration rate

	2018	2017
Employees with disabilities (%) in Spain	2.40	2.57

Percentage of employees covered by collective bargaining agreements

	2018		2017	
	Not covered by collective bargaining agreement	Covered by collective bargaining agreement	Not covered by collective bargaining agreement	Covered by collective bargaining agreement
Germany	-	100.0	-	100.0
Argentina	19.3	80.7	23.0	77.0
Australia	-	100.0	-	100.0
Belgium	33.3	66.7	18.2	81.8
Brazil	25.5	74.5	24.6	75.4
Chile	4.6	95.4	4.8	95.2
Colombia	47.6	52.4	45.5	54.5
Costa Rica	-	100.0	-	100.0
Spain	32.0	68.0	29.8	70.2
France	72.7	27.3	71.3	28.7
Holland	-	100.0	-	100.0
Ireland	100.0	-	95.1	4.9
Israel	-	100.0	-	-
Morocco	34.4	65.6	33.0	67.0
Mexico	19.0	81.0	18.3	81.7
Panama	61.9	38.1	59.9	40.1
Peru	-	100.0	0.0	100.0
Portugal	-	100.0	0.0	100.0
Puerto Rico	-	100.0	44.4	55.6
Dominican Republic	3.6	96.4	3.9	96.1
Singapore	100.0	-	100.0	-
Uganda	-	100.0	-	100.0
Total	24.1	75.9	22.8	77.2

Training¹

	2018	2017
Workforce trained (%)	91.0	93.7
Total course hours	645,311	613,623

	2018				Total
	Management team	Middle managers	Technicians	Operators	
Total course hours	113,262	137,823	204,617	189,609	645,311

1. They do not include Kenya or South Africa. They do not include figures for companies and/or countries that do not have access to the Success factor platform (Energía de San Juan, S.A., Ireland and Israel).

What are our main milestones in 2018?



What are our goals for 2019?



Analysis of the 2018 results

People management model

During 2018 the people management strategy at Naturgy has revolved around the transformation and creation of value, as set out in the company's roadmap. The empowerment of people is one of the levers that drives the transformation the company is introducing, and, in this regard, management of people has focused on defining its management model, bridging the new strategic targets with people and simplifying processes to accompany the creation of value.

The people management model is designed as a dynamic ecosystem that enables people to be part of the company's evolution, and is one of the key levers, together with customers and shareholders, in the creation of value. The Naturgy people model applies at corporate level and incorporates three major areas, where a series of focal points and their associated processes come together to ensure consistency and solidity of the model.

Measures to foster employment

Naturgy has a pool of young professionals with sound technical and management training, through the annual programmes of work experience and the agreements for Dual VT. A pool that enables us to respond to the company's needs and to attract the best talent in those spheres of knowledge in which Naturgy is the leader:

- Professional practices programme:** Naturgy has partnerships with the main universities and higher education centres in those countries where it operates, through which it selects young people for work experience each year.
- The Dual VT** offers Naturgy the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment.

Focal points of the people management model



Commitment and loyalty, which works on attracting, retaining and the segmentation of talent.



Total compensation, which links the professional category, remuneration and the working environment.



Training, as an element of evolution and development of the company's professionals.

Diversity and equality

For Naturgy it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on gender diversity targets, on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

In 2013, Naturgy established an Equality Plan at corporate level together with the union representations that was published in the Official State Gazette under Registration Number 90100073112013. It is based on 14 strengths to be maintained and 14 weaknesses to be corrected identified by outsourced experts, giving rise to 32 actions in issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and work-life balance, selection, prevention of harassment, measurement and monitoring.

The creation and activation of a specific protocol against harassment; the best practices protocol in the selection processes, or the communication guide for business professionals that need to intervene for some reason in the selection process, are just some of the measures introduced and which, together with the Integrated Diversity Plan, approved at the end of 2015, have propitiated major advances in diversity and equal opportunities.

The protocol against sexual harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire workforce in the issue, and in particular employees with personnel under their charge; the

obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- **Informal procedure:** through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- **Formal procedure:** through which the harassment situation is reported, following these steps:
 - Notification to the Code of Ethics Committee or reporting to their superior or to the Human Resources Department, who will decide whether to accept it for processing.
 - Investigation, gathering the information and conducting interviews with the affected parties and witnesses, if there are any.
 - Possibility of introducing precautionary measures.
 - Report on conclusions and resolution of the procedure, which will include the corrective measures and the introduction of the following solutions: filling of the report or commencement of the disciplinary file depending on the seriousness of the offence.

The protocol offers a series of guarantees, inter alia the complete anonymity of the informant; the process will be completed as expeditiously as possible; the intervention of the workers' representatives may be requested and an impartial hearing guaranteed, along with fair treatment for all of the affected parties. No reprisals will be allowed, and the identity of the informers will be protected.

In 2018, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan which brings together specific initiatives, in all geographies and territories, for people management, classified into three areas: gender, disabilities and age.

As regards integration and accessibility of people with different capabilities, the Management of Naturgy acts as an impetus for a range of actions targeted at standardising management of functional diversity:

- **Family Plan:** this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability.
- **Capacitas Plan:** this aims to promote the employment of people at risk of social exclusion on grounds of disability.

- **Aflora Plan:** this encourages those employees of Naturgy with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity.
- **Bequal Plus certificate:** Naturgy renewed this certificate in 2018, substantiating our commitment in corporate social responsibility and disability.

The Equality Plan has encompassed the development of best practices protocol to avoid discrimination in the selection processes, and which includes the following measures:

- Open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- **In the publication of job offers:**
 - No discriminatory terminology is used.
 - Put the feminine gender first followed by the masculine.
 - Gender separation will always be carried out with slashes.
 - Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind.
 - Only specify the need for a driving licence when the job requires this.
 - Do not use possession of own vehicle as a requirement.
 - Do not use the need to reside near the place of work as a requirement.
 - **In the selection process:**
 - In the case of disabled candidates, make sure we have the accessibility required so that they can attend the interview with us.
 - Avoid prejudices and stereotypes associated to gender, appearance, disability, age, religion, religious beliefs of any kind.
 - Transmit the corporate image.
 - Avoid personal questions and, if necessary, justify them.
 - Avoid preferential treatment.
 - **In the finalisation of the process:**
 - Explain the result of the process.
 - Explain the next steps if they have passed the process.
 - **On joining the company:**
 - Inform them about the equal opportunity policies.
 - Transmit values.
 - Non-discriminatory social benefits.
 - Career plans based on merits and capabilities.



Training and development

Training is one of the key areas of the Naturgy People Model. The Naturgy training and development model is instrumented through the Naturgy Corporate University, as this is a strategic lever of transformation that serves the business to build the future, create value and achieve the goals set out in the Strategic Plan.

The Corporate University's mission is to help develop professionals that make Naturgy's vision a reality and its aim is to ensure adequacy between the job position and the person, the acquisition of expertise linked to new needs of the organisation and the development of skills and abilities related to the Naturgy leadership and culture model.

Its advisory board guarantees a steadfast connection between the company's strategy and the activity of the Corporate University. The board comprises representatives from the company's senior management as well as external advisers from prestigious academic institutions.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2017 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

2018 has seen consolidation of the introduction of Evolution as an on-line training platform of the Corporate University and the evolution of the

company's new training model based on three levels: employee experience, personalisation of the training available and centralised global operations.

The Corporate University's management model responds to the training needs through its two academies:

- The Tech Academy guarantees the transfer of specific technical knowledge in each business, thus permitting its efficient development and ensuring quality and uniformity in all countries.
- The Transformational Leadership Academy, focused on transformation through the development of leadership of the executive, director and management team of Naturgy.



Flexibility

Naturgy is committed to promote an appropriate work-life balance through a significant number of flexible employment measures, services and benefits adapted to employees' needs.

Global FRC certification

Naturgy is a benchmark of the new socio-labour and business culture. This is recognised in the Global Family Responsible Company (FRC) certification, obtained in 2013, renewed in 2016 for another three years and reviewed in 2017 and 2018, respectively. We were the first and only company to obtain this qualification issued by the Más familia Foundation. This certification is audited by AENOR, and is supported by the Ministry of Health, Consumer Affairs and Social Welfare.

This certification is an endorsement of the country-specific local measures on conciliation and development, but it also identifies 20 measures that are common to all of them and which are promoted at corporate level. Among these 20 measures, we can highlight those expressly related to the principles set out in the Global FRC Standard 1000/23 on time flexibility (flexible working day and paid leave); support to the personal environment (support to the family environment and spaces of integration between employees and relatives), personal development (with non-work integration activities), and job quality (use of technological tools to avoid travel, along with health, safety and well-being measures).

Time Bank

Naturgy provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on the most enriching aspects of their personal life. The range of services available to them is extensive and structured into three blocks:

- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantages club: an exclusive virtual space with more than 500 offers.
- Easylife space: outreach services and acquisition of products.

The Time Bank also offers services available on a quotation basis, such as technical services, courier services, returning clothes to stores and currency exchange, or special services provided during Christmas or back-to-school campaigns, among others.

In addition, in April 2018 we introduced the Easybox service which makes all of these tasks even easier and more flexible, through an interactive drop-point service and a website where users can request more than 20 different services, with the benefit of being able to deliver and collect at the most convenient time.

Access to these services is built into the My Benefits platform, on the corporate Intranet. Leadership and talent programmes have helped promote professional development and training, strengthening the human potential of the company.

Compensation and remuneration

Naturgy's remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two models:

- The remuneration level of employees included in the collective bargaining agreement depends on the professional group and subgroup to which they belong.
- For those employees not included in the collective bargaining agreement, it is established on an individual basis according to the remuneration policy approved by the Board of Directors' Appointments and Remuneration Committee.

The remuneration package of Naturgy employees is supplemented with a social benefits system, which includes a pension plan, the main vehicle of funding post-employment commitments.

In the case of Spain, the Joint Pension Plan for Employees of the Naturgy group is a defined contribution plan for retirement and defined benefits in the event of death or incapacity whilst actively working.

The plan currently has assets totalling more than Euros 500 million, distributed among more than 6,300 active employees, and close to 2,000 beneficiaries.

On the international stage, the group's retirement policy at all companies revolves around retirement savings instruments and coverage for death or incapacity while an active worker. These provide employees with benefits that complement the public systems of social security and are always introduced in accordance with the particular nature and needs of the social welfare issues of each country.

By the same token, the company provides a series of social benefits that supplement employee remuneration packages, irrespective of their type of workday.

Internal communication with employees

The purpose of Naturgy's internal communication is to assist compliance with the company's strategic goals, aligning the entire organisation and strengthening corporate culture and values.

Naturgy has a range of channels to disseminate these messages, such as the corporate Intranet, Naturalnet, and the magazine Natural, which is distributed internationally and the social network Yammer. In February this year the company set up a new channel, Naturalnews, which operates as the digital newspaper of Naturgy and provides information on the company's latest news.

Labour relations

Respect for the freedom to join a union; fundamental rights; collective bargaining, and the agreement culture represent the key principles of what we do. Furthermore, we respect workers' representatives freely elected in all countries where the company operates, and we have also introduced communication channels with these representatives as a major part of our corporate action principles.

The collective bargaining agreements include several communications channels with representatives, under the form of committees to deal with the many and varied aspects of general interest.

One of the mechanisms for consultation and employee participation are the regular health and safety meetings held in all areas of the company. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the workforce is represented at meetings.

It should be noted that the holding of these meetings is to not replace the various health and safety committees required under labour legislation and which correspond to each country. The main issues, formerly dealt with during 2018 of these kinds of meetings with the workers' representatives, were:

- Health and safety commitment.
- Analysis of the accident rate.
- Launch of new regulations.
- Comprehensive health.
- Quarterly monitoring of measures.





Health and safety

What does it mean for Naturgy? Risks and management approach

Naturgy plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being of people. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This not only involves people who work for Naturgy, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damage to health, providing a safe and healthy environment as well as promoting health and well-being.



A company with a high accident rate or which does not look after the health of its employees has to face the costs associated to the absence of these or to a reduction in its productivity. Furthermore, it could have a negative influence on attracting and retaining talent, as well as the perception of the company by its stakeholders.

What is our commitment?



How do we measure our performance?

Accident indicators 2018

	Total		
Accidents requiring sick leave (N° of employees)	28	25	3
Days lost	1,524	1,497	27
Mortalities	-	-	-
Frequency rate	1.00	1.30	0.35
Severity rate	0.055	0.078	0.003
Incidence rate	1.99	2.58	0.69

It does not include the information of Moldova, Kenya and South Africa. The accident rates including Moldova and South Africa are: No. of accidents with sick leave: 34, Days lost: 1,745, Mortalities: 1, Frequency rate: 1.138, Severity rate: 0.058, Frequency rate: 2.204.

Occupational illness

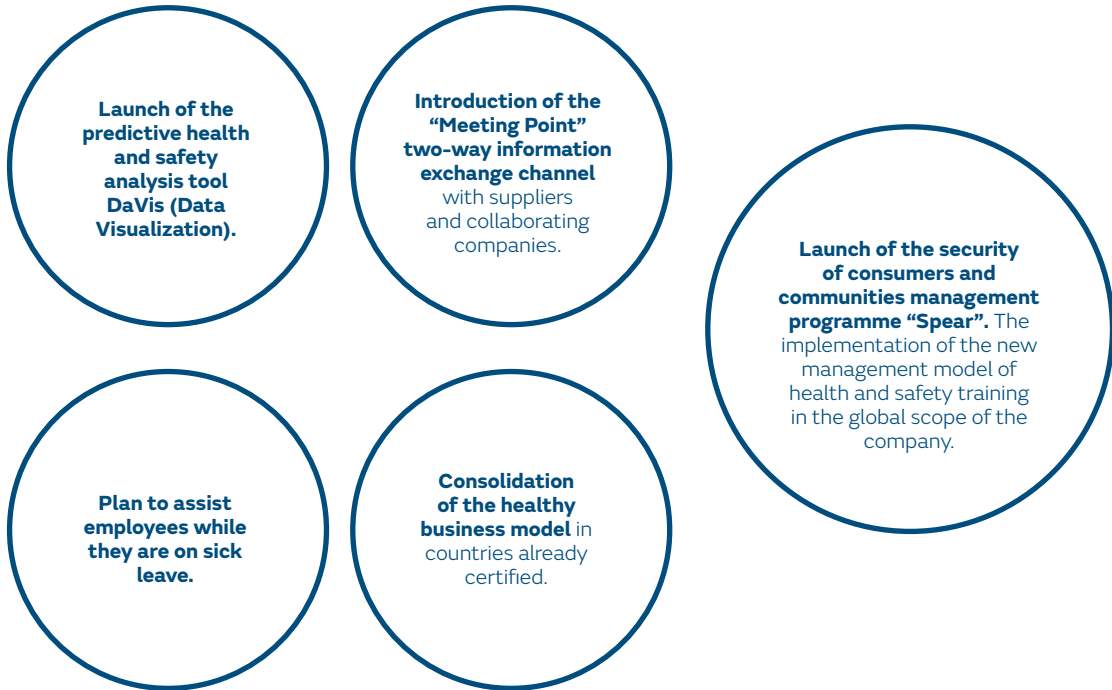
There have been no occupational illnesses registered in 2018.

Absenteeism

	Lost Hours ¹
Spain	382,146
Chile	250,980
Argentina	33,912
Brazil	15,749
Colombia	3,160
Costa Rica	813
France	3,836
Kenya	1,072
Morocco	2,899
Mexico	9,840
Moldova	33,415
Panama	8,790
Peru	152
Dominican Republic	3,184
South Africa	54,720
Uganda	313
Total	804,981

1. We have considered the hours of absenteeism for occupational illness and non-occupational illness, and the total number of hours worked in 2018 was 30,010,519.

What are our main milestones in 2018?



What are our goals for 2019?



Horus: multi-factor analytical preventive analysis.



Integra: exchange of best practices and learning through collaboration with collaborating companies.



Kepler: ongoing innovation applied to prevention.



Optimise the approach to cases of colon cancer.



Optimise the approach to osteomuscular injuries.

Analysis of the 2018 results

Health and Safety Strategy

Safety as strategy guides the way in which Naturgy operates. Health and safety are key parts of the company's business strategy, which is referred to as the "Health and Safety Commitment", one of the major undertakings established in the Corporate Responsibility Policy. A common culture has been achieved in which all levels of the company, spearheaded by the Board of Directors, have acquired a firm commitment to continuous improvement in this area.

The preventive culture of health and safety at Naturgy has consolidated itself thanks to the evolution in 2018 of the "Health and Safety Commitment" throughout the company. The actions at all levels of the organisation are based on the motto "nothing is more important than health and safety".

Since 2017, the health and safety strategy has revolved around four pillars, leading to the development of different strategic objectives and goals to be achieved.

The Health and Safety Commitment Plan, implemented between 2012 and 2016, involved overcoming the implementation stage until we were able to reach the "Health and Safety Commitment".

First of all, we analysed the initial situation, which allowed us to characterise the integration and management of the company's commitment. Next, we established responsibilities for each one of the defined work areas and strengthened the management and dissemination tools. All this involved a major impulse for the new health and safety culture.

The definitive consolidation of the plan came about in 2016, with the "Health and Safety Commitment". Achieving the commitment has involved integration of health and safety as an ongoing and stable value, taken into consideration by everybody that makes up the organisation.

This new approach has closed a cycle whose driving force has been the ongoing improvement into the daily life of the company, the increased efforts to achieve the desired objectives and the proposal for innovative initiatives.

These new steps of the strategy maintain the four lines of action of the "Health and Safety Commitment": leadership, employees, collaborating companies, and facilities and processes, each one of which has its own "network" charged with spearheading development. Furthermore, the transversal networks continue working in the quest to provide support in areas such as communication, systems, training and corporate aspects.

The cultural change has served to transfer the company's principles of health and safety to daily activity, and it reaches our collaborating companies and any new businesses that join Naturgy.

Strategic pillars



Consolidating health and safety as a strategic lever to align and to capture efficiencies.



Maintaining Naturgy as a **worldwide benchmark in health and safety issues**.



Drastically reducing the accident rate at collaborating companies.



Implementing the commitment in all countries where the company will have a presence.

Health and safety leadership

Leadership is considered the driver of cultural change in the company. This means efforts have to be made at all organisational levels, and promoted by the management, with a visible, solid and firm commitment in taking all decisions, with health and safety paramount at all times. Naturgy's commitment to the target of zero accidents is strengthened through the involvement of senior management in the management of safety in all activities.

Senior management and the various committees have the tools necessary and the power to control and apply the appropriate measures in the event of any sign or anomaly concerning safety issues in all activities and geographies.

Risk prevention

To ensure safety in the activities of Naturgy, measures aimed at preventing accidents and incidents have been introduced. Risk prevention is a key factor that governs business leadership and is supported on these principles:



This is the commitment of Naturgy and also the one that must be shared and applied by its collaborating companies.

Furthermore, we have also developed mechanisms to learn from events that occur and to avoid them in the future. These actions revolve around the main cultural axes of the company's health and safety, the cornerstone of its commitment.

Risk assessment and management mechanisms

The process of occupational risk assessment aims to estimate the magnitude of those risks that could not be avoided. In these cases, the company obtains information for the adoption of effective preventive measures.

Naturgy uses a general procedure that applies to the entire group and which establishes the guidelines and principles to be followed for the identification, assessment and control of occupational risks. The following review periods are established:

- Risk assessments every three years.
- Yearly checks of the health and safety conditions.
- Monitoring of preventive measures to be introduced as a result of the risk assessment and regular checks every quarter.

Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

Naturgy acquires the undertaking to provide a safe working environment not only for its employees but for all those who make the activity of the company possible.

For this reason, the growth of involvement of the collaborating companies within the health and safety culture has been essential.

Safety is an indispensable condition of procurement for all collaborating companies and is taken into consideration in the assessment and award of tenders and bids. Furthermore, the criterion of red lines that cannot be crossed is applied, and if this rule is broken the contract can be terminated or the supplier's approval withdrawn.

Naturgy develops other mechanisms designed to ensure that the safety level of collaborating companies is the same as for its own staff. In recent years an impact plan has been introduced for all collaborating companies of Naturgy. Among other things, this plan encompasses site inspections, the introduction of training itineraries, the application of Preventive Safety Observations, the creation of check-lists prior to commencement of works and the planning of coordination meetings.

Training and awareness

The training of each employee in the prevention of occupational risks and industrial security associated with their job is the basic tool for achieving the target of reducing the number of occupational accidents. To provide adequate training, the company receives support in management from the Occupational Risk Prevention Classroom, a tool that the Corporate University has in order to comply with the goals established.

Certifications

As included in the strategic lines of the commitment, the certification according to health and safety standards enables consistency and standardisation of working conditions at Naturgy.

The company has a Global Certification Plan for the Occupational Health and Safety System; its aim consists of achieving global certification according to the OHSAS 18001 international standard. For its fulfilment, multi-discipline working parties were created as advised by the Prevention Service.

Safety audits and process diagnostics

To verify compliance with the country's prevailing rules and regulations, Naturgy has conducted safety audits of the company's different technical processes, of the technical procedures introduced by the group and the own internal regulations of the business unit.

To contribute value to the business lines and to assist in the ongoing improvement of processes, there is monitoring and control of the operational risks concerning technology, accidents and malfunctions and impacts on the environment, and of the relevant management parameters.

As regards diagnostics, these are conducted on technical processes and on request by the different business units. The aim is to show the degree of control of the business, the monitoring mechanisms and, if anomalies are found, the appropriate actions for correction can be carried out.

Safety among customers and society

Naturgy conducts accident prevention campaigns for customers of the company, through giving advice that is communicated through the global communication channels.

Additionally, the company uses the bills as a direct communication channel with customers. The company uses the bill as a way of introducing, inter alia: campaigns to raise awareness and information on specific actions concerning situations of risk, and campaigns that explain good use of devices and the maintenance of these.



Health

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, collaborating companies, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and health care, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of healthcare, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisers for the development, monitoring and control of the plan in each of the areas.

Master Health Plan targets

Standardised actions	Ensuring the health of workers, developing standardised actions respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in health.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establish monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Continuous training	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.



Responsible supply chain

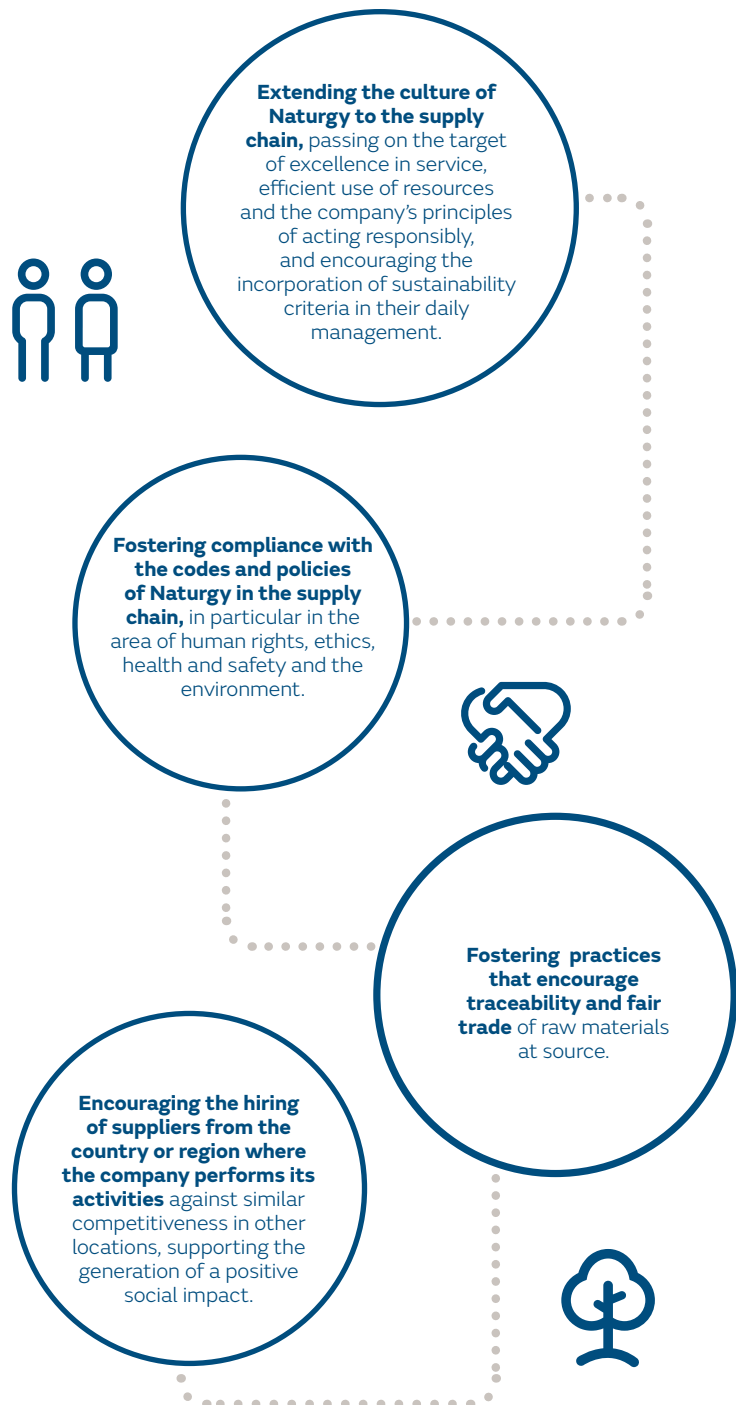
What does it mean for Naturgy? Risks and management approach

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Naturgy establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Supplier Code of Ethics, to which all suppliers have to adhere and the content of which comes from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as the internationally acknowledged good governance principles.

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption.

What is our commitment?



How do we measure our performance?

	2018	2017
Total number of suppliers	8,670	9,877
Total purchase volume awarded (millions euros)	3,147	3,428
Number of ESG ¹ assessed suppliers	6,906	4,758
Number of critical suppliers	2,584	2,457
Official-approval suspended suppliers	1	7

Environmental, Social and Governance (ESG): The suppliers ESG assessment is conducted at the main subsidiaries of the group where the Achilles tool is implemented, and through which the business classification of suppliers is carried out.

NB: Two thirds of the overall amount awarded corresponds to service suppliers that fundamentally take part in the following business areas:

- Development and maintenance of grids, both natural gas and electricity.
- Operators and maintenance workers of energy plants.
- Commercial management services.

The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity.

The development of this activity essentially takes place in the following geographical areas: Argentina, Australia, Brazil, Chile, Costa Rica, Spain, Kenya, Morocco, Mexico, Moldova, Panama, Peru, Dominican Republic and South Africa.

The evolution of data with regard to 2017 reveals a decrease in the purchase volume, number of suppliers and number of suppliers assessed. The decrease of the purchase volume is fundamentally due to the divestment in Italy, in some companies in Colombia (those that represented the highest volume) and to a lower business volume in Mexico (Euros -135 million) and Australia (Euros -85 million). In general, there has been a decrease in the remaining countries except Chile, which in 2018 contributed a higher amount (Euros 160 million more) through business growth.

As regards the number of total suppliers and suppliers assessed, the change is due to the removal of Italy and the companies in Colombia, and the increase of critical suppliers is due to the entry of new suppliers in Chile through business growth generally associated to critical activities.

What are our main milestones in 2018?



What are our goals for 2019?



Quarterly monitoring of approved suppliers based on reputational ratings, economic-financial and Corporate Social Responsibility from external data sources.



Implementation of the risks matrix updated throughout the group.

Analysis of the 2018 results

The supply chain of Naturgy

Suppliers, contractors and outsourced partners are key players in the optimal functioning and sustainable management of the value chain, demonstrating Naturgy's commitment as an efficient, responsible and innovative company, in a process of continuous improvement that guarantees safety, reliability and competitiveness of the supply chain.

In 2018, Naturgy set up trade relations with a total of 8,670 suppliers which accounted for a total expenditure of Euros 3,147 million.

Naturgy performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in the company's policies, rules and procedures, as well as internationally recognised principles of good governance, ensuring a uniform, efficient and sustainable model.

The main goals of Naturgy in terms of sustainability with respect to the supply chain are:

- Extend the corporate culture to the supply chain in a sustained way, passing on the objective of excellence in service.
- Guarantee sustainable management of the supply chain in an ongoing way, safeguarding the group's reputation.
- Promote continuous improvement and drive the development of suppliers by identifying opportunities for collaboration and innovation.

Trade relations

No. suppliers

8,670

Trade relations

Total expenditure, in Euros million

3,147

Values transmitted

Transparency:

guaranteeing fairness, independence and free competition.

Integrity:

we commit to acting with honesty, fairness, dignity and morality.

Sustainability:

the strategic horizon for our activities goes beyond immediate economic interests, contributing to economic, environmental and social development.

Commitment to results:

we develop plans, fix objectives and make decisions that comply with the objectives of our Vision, assuring compliance with the commitments made.

Management of the supply chain

Purchasing model

The Purchasing and Supplier Management Model introduces a management process with unified and overarching criteria for Naturgy's entire scope of operations. The corporate unit is responsible for defining the policy, general principles and the model of application and for ensuring compliance. The business units develop, implement and ensure traceability of the processes of contracting and management of suppliers, applying the established principles.

We encourage the aggregation of demand in purchases in which there is a single supplier market that covers most of the group's business needs and countries. In the remaining cases, the contracting of suppliers from the country or region where the company performs its activities is encouraged, supporting the generation of a positive social impact through the creation of wealth and investment in the local community, generating economic inclusion in the company's spheres of influence.

Transparency in purchasing

In terms of procurement, Naturgy is committed to ensure free competition, objectivity, impartiality, transparency and traceability throughout the procurement process.

The use of secure electronic means, the Jaggaer Advantage platform, for management of all bids brings greater transparency to the procurement process and ensures information traceability. In addition, communication channels have been established with the supplier that facilitate access to all the information necessary for their participation in the procurement processes.

Naturgy actively participates at associations, national and international fairs on supply chain management. In this regard, the company is member of the Association Representing Purchasing and Materials Management Professionals in Spain (Aerce) and RePro in Argentina, Brazil, Chile, and Spain.

Furthermore, the company subscribes to the worldwide Procurement Leaders network and in 2018 took an active part in the CPOnet Congress.

Human rights at suppliers

Naturgy has a Human Rights Policy that extends to the supplier's Code of Ethics, thus transferring to the supply chain the commitment to protect Human Rights within their sphere of influence, especially since international growth has led us to operate in some environments where their protection takes on special relevance.

Supplier Code of Ethics

Naturgy is keen to extend the corporate culture to the supply chain, ensuring that collaborating companies comply with the principles set out in the Supplier Code of Ethics, which all group suppliers have to adhere since 2016.

Reporting Channel

All suppliers, contractors and outsourced collaborating companies of Naturgy that wish to report a violation of the Code of Ethics that they may have observed in the exercise of their functions may contact the Code of Ethics Committee through the email address published in the Naturgy Supplier's Code of Ethics.

Supply chain management process

In order to promote responsible management in the supply chain, Naturgy has a comprehensive purchase process, with application of unified and universal contractual conditions for the company's entire sphere of operation and which is publicly available on the Naturgy website "The group's general procurement conditions" and where supplier management is of vital importance.



Risk management of the supply chain

The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals.

Risk factors assessed



Health and safety:

this measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.



Quality:

the impact that breach by the supplier with regard to the expected or agreed quality levels would have at Naturgy.



Environmental, social and corporate governance (ESG):

this measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Naturgy performs “responsible purchasing” through a management process that encourages the acquisition of products and services that are environmentally friendly, and which are manufactured under socially fair conditions.



Operational risk:

the potential impact on operations incurred by Naturgy as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.

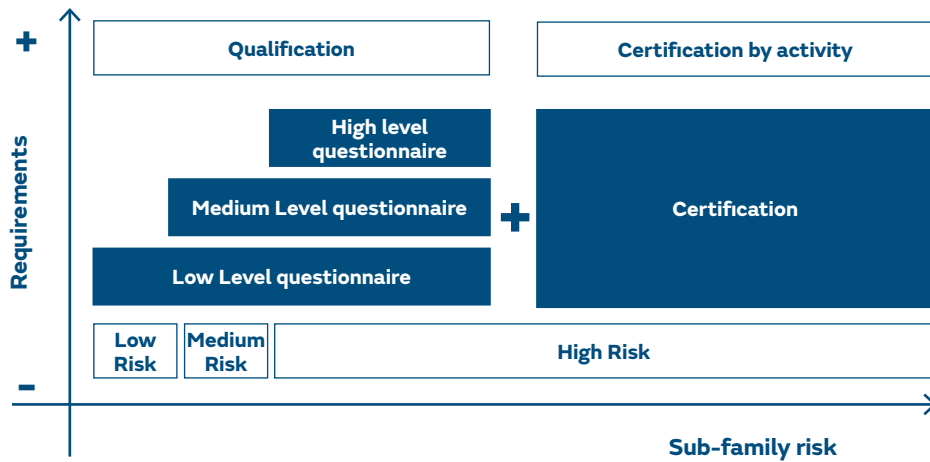


Legal risk:

possibility of infringements and breaches by providers of laws, rules and practices that apply to them.

Assessment of suppliers

Assessment of suppliers is introduced in the processes of Business Classification of suppliers and Approval of suppliers and products.



With the risk evaluation of the purchase categories that are managed worldwide and assessing the risks of the countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country. Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers. Naturgy also identifies the “suppliers with high risk in sustainability”, considering those that reveal a high-risk level in the Health and Safety and ESG factors.



Supplier classification

This process is based on the assessment of compliance at business level of what is required by Naturgy in the different risk factors, in order to participate in the procurement process of goods and services. All suppliers must pass this process before maintaining commercial relations with Naturgy.

The classification is conducted using self-assessment questionnaires that take into consideration legal, economic-financial, criminal, solvency, experience, business organisation, quality, safety, human rights, environmental, social and employment practices criteria.

Official approval and management of supplier quality

Naturgy has introduced the goal whereby all suppliers that perform critical activities through being defined with a high risk in any of the ESG, quality and health and safety risk factors must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any non-compliances detected during the audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the Non-Tier 1 suppliers corresponding to categories of purchase of critical products, over which audits are conducted based fundamentally on quality-related aspects.

Products corresponding to critical categories may be subjected to inspections, technical acceptances or FAT at the production centres before the material is shipped.

Every year approval plans are drawn up to audit suppliers in-situ. These approvals are for an open-ended period depending on the critical nature of the service or product and the purchase volume.

The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supplier, which would prevent such supplier from performing this activity for Naturgy.

The corrective action plan identifies the development actions and corrective actions to be introduced to achieve compliance with the requirements and standards established by the company.

During 2018 one supplier was suspended and disqualified from holding a contractual relationship with Naturgy for significant breaches related to security, quality and other aspects.

Monitoring, follow-up and development of suppliers

The Supplier Code of Ethics sets out that suppliers must take the utmost care to preserve the image and reputation of Naturgy in their professional actions and to monitor the respect and proper use of Naturgy's image and corporate reputation by its employees and that of its subcontracted companies.

In addition, other analyses based on reputational risk and corporate social responsibility are carried out with suppliers assessed as suitable at the high-risk level.

In 2018 no supplier was disqualified on the grounds of fraud or unethical practices.

Performance follow-up is carried out on the most relevant suppliers with a contractual relationship with the company and this involves carrying out surveys with the Naturgy units to measure their level of satisfaction with the suppliers.

Regarding the development of suppliers, one of the most important aspects is to extend Naturgy's culture to the supply chain, performing actions that allow the company's values to be transferred.

During 2018, Naturgy continued to form part of Bettercoal, an initiative launched by the main European utility companies for the purchase of coal from suppliers that comply with a series of social, environmental and corporate governance criteria, and was represented on its Board of Directors. Over the year, 94% of coal purchased by Naturgy was from mines that had agreed to follow an evaluation process with regard to these criteria.



Social commitment

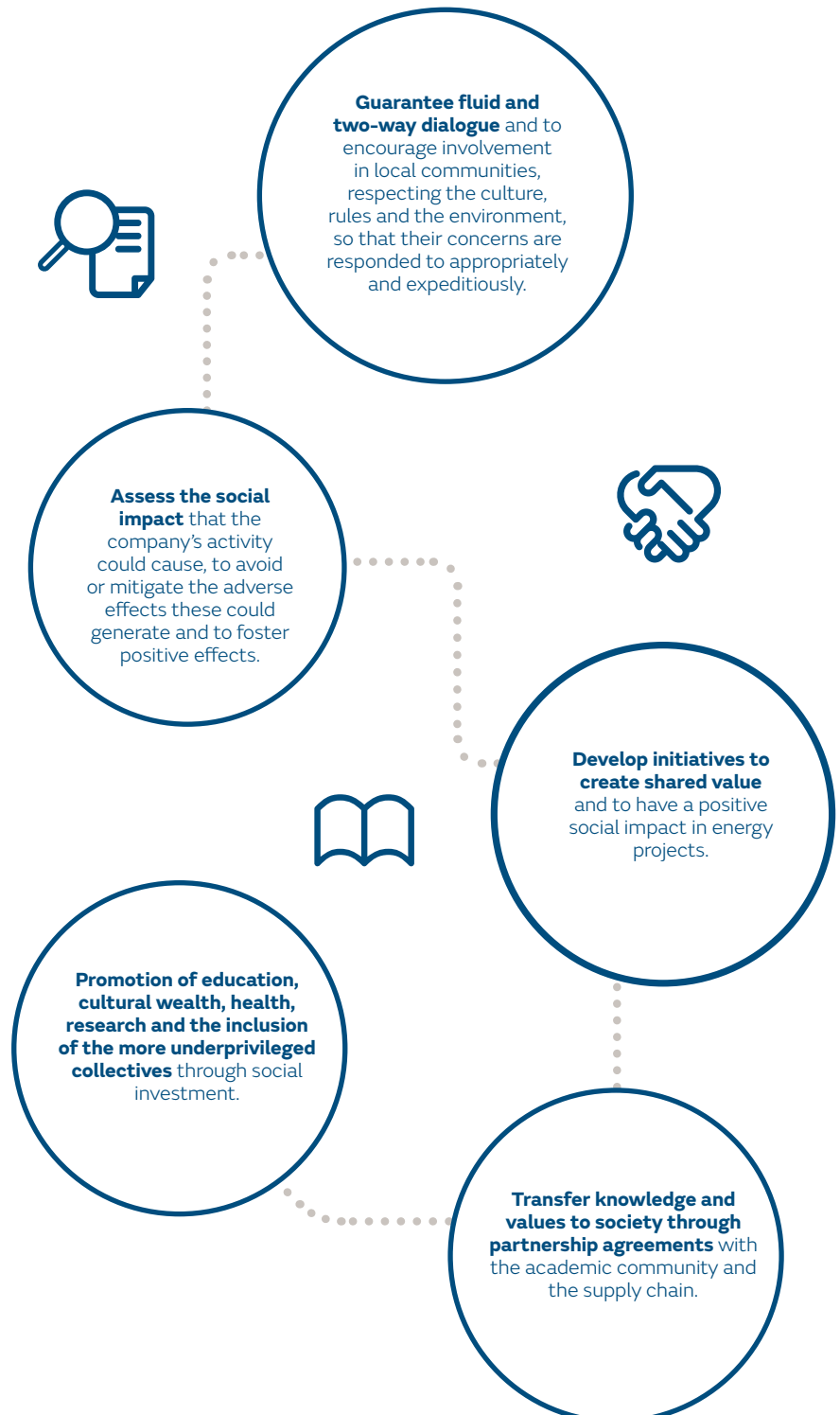
What does it mean for Naturgy? Risks and management approach

Naturgy is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity, as well as spending part of its profits on social investment. Fluid and ongoing dialogue with society enables to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development.

Inadequate management in access to energy can cause significant costs through non-payments and theft of electricity. By the same token, depriving vulnerable groups from receiving energy could have an impact on the company's reputation.

The lack of involvement and participation with local communities and their needs in those territories where the company operates could result in rejection and unease in the community, which could lead to lobbying for the company to cease its operation in these territories.

What is our commitment?



How do we measure our performance?



What are our main milestones in 2018?

Launch of the Energy Vulnerability Social Fund.

Review and update of the General Regulations on Sponsorship and Donations.

Launch of actions to support dissemination of the Vulnerability Plan and the promotion of energy efficiency.

What are our goals for 2019?



To continue promoting the **Energy Vulnerability Plan.**



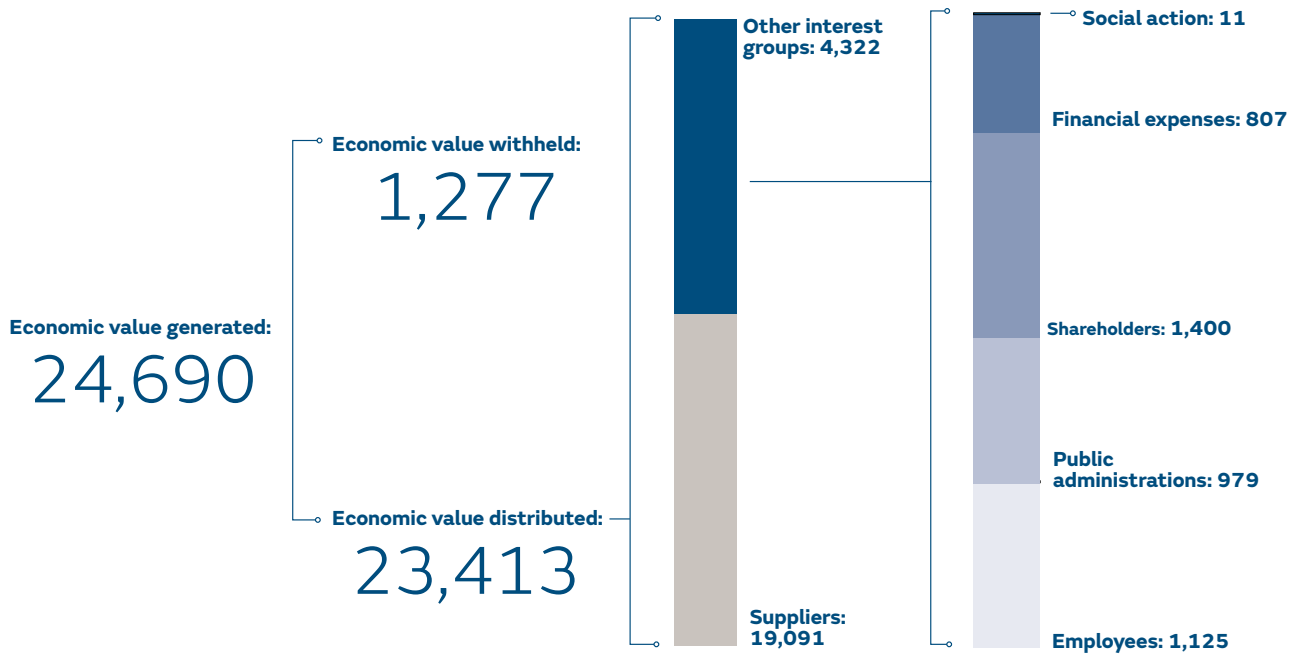
Approval of the General Procedure of Sponsorship and Donations and its introduction in all countries and societies.



Smart energy and mobility to improve air quality.

Analysis of the 2018 results

Economic value distributed (euros million)



Sponsorship and social action investment

Economic contributions to social investment and sponsorship programmes are another important part of the Naturgy commitment. In 2018, they totalled Euros 11 million.

The aim of the company is to generate a higher corporate commitment to society of which it forms a part. The programmes to which these resources are therefore allocated form part of the business development strategy.

Creation of wealth and well-being where the company operates

Naturgy develops its commitment to society through four main lines of action that are aligned with the company's core activities:

1. Energy vulnerability

Naturgy performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

The company has extensive experience in this regard. Accordingly, the project carried out at Cuartel V in Argentina or the CGE group agreement in Chile made it possible to provide access to clean and reliable energies to tens of thousands of people.

Energy Vulnerability Plan in Spain

During 2018, Naturgy, together with the Foundation, continued the development of the Energy Vulnerability Plan throughout Spain to protect vulnerable customers. The plan has become a new core focus; the actions to mitigate energy poverty are now a priority for the Foundation.

The objectives of the plan are:

- Improve management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of vulnerability.
- Implementing activities with associations that work to alleviate energy poverty cases and to detect vulnerabilities.

During this year there have been three new initiatives.

- Creation of the Energy Rehabilitation Solidarity Fund, to finance improvements at vulnerable homes through donations from individuals and a contribution from the Foundation.
- Job Circle project: commencement of a training course to refurbish 15 homes, performed by long-term unemployed persons with an undertaking from the companies to recruit 25% of course participants.
- Social entrepreneurs: we have strengthened the corporate volunteer programme with this initiative, the purpose of which is to enable Naturgy employees to encourage initiatives promoted by not-for-profit organisations and which are related to energy (energy poverty, energy efficiency) and the environment.



2. Relationship with communities

Naturgy, under its Human Rights Policy, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that the company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Naturgy has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company bases its relationship with communities on the following principles:

- Identifying communities affected by the company's activity and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.
- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.
- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

The company currently prioritises the performance of social impact assessments in those locations where the company is looking to carry out new investment projects. These assessments serve to measure numerous impacts (positive and negative) that the company may produce as a consequence of its activity, both in local communities as well as in the territory. These include:

The most prominent projects in this sphere are:

- Bujagali hydroelectric power station (Uganda): with local procurement programmes, development of suppliers, health and prevention, training and the fight against energy poverty.
- Bií Hioxo wind farm (Mexico): with actions to support fishermen, improve highways and delivery of material, support to the fire brigade, health campaigns, improved education infrastructures, support to culture and technology and guided tours of the wind farm.
- Nairobi thermal power station (Kenya): with education support programmes, health campaigns, environmental protection and promotion of art and local culture.
- Torito hydroelectric power station (Costa Rica): with support to local schools with the supply of academic material. As well as improvements along the local roads surrounding the power station.
- La Joya hydroelectric power station (Costa Rica): with support to local schools with the supply of academic material.
- CGE (Chile): development of a plan to encourage relations with social organisations to foster their links with neighbourhood councils, through participatory meetings.

During 2018 we started implementation of the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant in the municipality of São João do Piauí (Piauí, Brazil) as a measure to mitigate and offset the impacts this facility could cause in the local communities of the territories of Riacho dos Negros and Saco/Curtume. To carry out this project, we mobilised a social manager responsible for channelling ongoing communication between the company and the local community, supporting the introduction of the measures developed in the QBEP.

The project involves 4 action lines and 12 activities, of which the following have been implemented this year:

- Mobilisation of the social technical team required to undertake ongoing communication with the community, and introduction of the QBEP measures.
- Meetings and workshops to disseminate and gather information.
- Collection of information about wells in the region that could be improved with the set-up of a solar pump kit.

- Collection of information on the needs and expectations of technical and higher training for young people in the region.

3. Social action

In 2011, when the Latin America Operational Centre was created, pillars were established, and social investment programmes designed for unified development in all countries where the company has a presence.

Types of COIL projects

Inclusive business	<p>Projects that promote the inclusion of the most disadvantaged social sectors through inclusive programmes. For this project type, we continued with the programme called Energy of Flavour, launched in 2016, which aims to promote social inclusion of disadvantaged groups through training linked to gastronomy.</p> <p>Through the Training Classrooms programme we offer a training workshop on the ceramics technique which since last year has integrated persons with mild intellectual disability.</p>
Responsible consumption	<p>Encompasses projects targeted at providing knowledge about energy in general, safety and efficient use, of both gas and electricity. They also promote environmental stewardship among customers and society. As part of this pillar, the following traditional programmes were carried out:</p> <ul style="list-style-type: none"> • Responsible Consumption of Gas, in versions for children and adults. • Responsible Consumption of Electricity, in versions for children and adults. <p>In 2018 we created the Sowing the Future programme through which we created a vegetable garden at a school in Buenos Aires together with the students. To achieve this, the students were trained and instructed in the acquisition of expertise and the development of theoretical and practical skills to be able to set up the vegetable garden and maintain it over time.</p>
Talent promotion	<p>This pillar promotes projects that foster the studies and access to employment for the children and relatives of collaborators:</p> <ul style="list-style-type: none"> • The "Planning your Future" programme provides a financial grant for those who are starting college. • "Natural Vocation" seeks to contribute to the vocational and professional decision process that relatives of collaborators go through. • "Summer Internship", offers the possibility of work experience in the company in the summer months.

4. Sponsorship, patronage and donations

The resources assigned to cultural, social and environmental programmes pays special attention to those community projects that generate greater value for society, while also strengthening the company's commitment to positive integration in each community and country where the group operates.

Through the General Regulations on Sponsorship and Donations of the company, the general management principles are established for sponsorships and donations by the company and to define the processes that regulate and control its development. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The regulations also provide priorities, which can be summarised in social action, culture and energy, and the environment.

- **Educational initiatives:** Naturgy carries out educational activities for young people on the correct use of energy and sustainable development. By the same token, the company implemented a wide range of collaboration, participation and sponsorship initiatives with different educational entities in Spain and Latin America.
- **Social action focused on underprivileged groups:** the company drives, and support projects targeted at integrating the most vulnerable social groups and to mitigate problems stemming from social exclusion. It therefore collaborates financially with foundations and associations whose corporate purpose is to help mitigate or minimise these problems in some of the countries where it performs its activity.

- **Promotion of health and research:** among the different programmes in which Naturgy participates to promote research and health, we can highlight research targeted at improving the life quality of the infirm and their relatives, or research into cardiovascular diseases, which are the leading cause of mortality worldwide, through the Procnic Foundation, as well as with other international entities.
- **Promotion of music, theatre and films:** Naturgy maintains its undertaking to contribute towards the development of culture that goes beyond its business activity and which involves extensive sponsorship work in initiatives that generate high value for society. We sponsor musical cycles and artistic seasons of different institutions throughout the territory.

The company's support to the Gran Teatre del Liceu and the Teatro Real have been strengthened with twin celebrations declared to be "events of exceptional public interest".

Corporate volunteers and employee participation

Through corporate volunteering, Naturgy aims to promote social cohesion, values and a spirit of solidarity.

To achieve this, Naturgy has defined the programme objectives in three areas simultaneously -corporate, employees and the environment-, and an integrated structure of committees that includes both the areas of people as well as communication and the environment of all countries that form part of the programme.

During 2018, the company has promoted environmental, social and energy volunteer actions, in which

employees contributed their time and their personal and professional skills.

Naturgy Foundation

The Naturgy Foundation, founded in 1992 by Naturgy, and with a presence in those countries where the company is active, is tasked with the dissemination, training, information and raising society's awareness in issues of energy and the environment, as well as the development of business and academic programmes. It also develops social action programmes in the national and international arenas, with a particular focus on actions targeted at relieving energy vulnerability.

During 2018, the foundation continued to provide seminars on energy and the environment in Spain, as well as presentations of the book Air quality in cities. A worldwide challenge; taking advantage of the presentations to give temporary exhibitions about air quality in Barcelona and Guadalajara. There was also an exhibition about "Smart Ports" in Malaga. One new item this year has been the commencement of two new action lines as part of the "energy and technology" and "smart energy and mobility" sphere.

In 2018, to once again drive its educational activity and provide access to its teaching programme throughout the territory, the Foundation turned the Gas Museum into a travelling one. This allowed us to multiply the Foundation's participation throughout the year in a great many anniversaries related to education of technology in the energy sphere, through innovative and flexible agendas adapted to all kinds of audiences.

The international activities of the Foundation were developed in seven countries: Algeria, Argentina, Brazil, Chile, Morocco, Mexico and Panama.



Integrity and transparency

What does it mean for Naturgy? Risks and management approach

Naturgy considers that the trust of its stakeholders is based on integrity, which is understood to be action which is ethical, honest, responsible and in good faith of each one of the people who work in and for the group.

To respond to the risks related to integrity and transparency, Naturgy has developed a series of mechanisms that introduce the guidelines that are to cover ethical and transparent behaviour of the directors and employees of the company and their daily performance, as set out in the Code of Ethics, the Anti-Corruption Policy, the Human Rights Policy and the Fiscal Policy of Naturgy.

Corruption, fraud and bribery can have a major impact for the company, leading to sanctions imposed by the administrations, loss of contracts, legal consequences, loss of customers and loss of reputation that could also see investors disappear or the non-purchase of shares by investors that consider these aspects in their investment decisions.

What is our commitment?



How do we measure our performance?

Queries and notifications to the Code of Ethics	2018	2017
Queries	76	37
Notifications	123	104
Total	199	141
No. of messages received per 200 employees	3.18	1.67

What are our main milestones in 2018?



Analysis, content design and drafting of the **Conflict of Interest Policy**.



Launching of the Compliance Communication Plan (Campaign “Compliance Café”).

What are our goals for 2019?



Approval and dissemination of the **Conflict of Interest Policy**.



Update of the **Corporate Responsibility Policy**.



Audit the implementation of the **Human Rights Policy**.



Approval of update of the Human Rights Policy text to concepts and terminology of the United Nations Guiding Principles on Business & Human Rights.

Analysis of the 2018 results

Code of Ethics Management Model

The Code of Ethics of Naturgy, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Naturgy, in their daily work, with regard to relationships and interactions with all its stakeholders. The principles for the company's employees are related to corruption and bribery, respect for people, professional development, equal opportunities, relation with collaborating companies, occupational health and safety, and caring for the environment, among others.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

In addition, Naturgy has an Anti-Corruption Policy, which establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

The company also has a Code of Ethics and an Anti-Corruption Policy Management Model, headed by the Compliance Unit, whose targets are to ensure the knowledge, application and fulfilment of the code.

This model also provides that the Audit Committee of the Board of Directors must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy. The Ethics and Compliance Committee, which in 2018 has fully assumed the functions that were previously performed by the Code of Ethics Committee, is responsible for supervising the dissemination and compliance with the Code of Ethics and the Anti-Corruption Policy through supervision and control of the safeguard systems:

- Whistleblowing channel (the "Code of Ethics Channel"), through which all the employees and suppliers can send the Ethics and Compliance Committee queries or notify breaches of the code, in good faith, in a confidential manner and without fear of reprisal.
- Annual declaration procedure: through which all the employees repeatedly declare that they have read, understood and comply with the code.
- Online courses: on the issues included in the Code of Ethics and the Anti-Corruption Policy, mandatory for all employees. Certain groups of employees also receive classroom training sessions on a range of issues in the sphere of regulatory compliance, which include the content of the Code of Ethics.

In 2018, 24% of the notifications received were related to alleged fraud, none of which had any significant impact.

No notifications were reported related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights.

A total of 24% of the notifications were related to the people management, and they were all solved appropriately.

In 2018, it was not necessary to repair damages relating to impacts caused by human rights cases.

In 2018, the work plan of the Ethics and Compliance Committee included:

- Project to improve the Code of Ethics Channel.
- Training and informative actions on the Code of Ethics, Anti-Corruption Policy and Corporate Hospitality Policy, targeted at the company's employees.
- Collaboration with the Supply Unit to introduce improvements in communications and supplier evaluation related to compliance with the Code of Ethics.
- Updating of the Code of Ethics.

The company has introduced local committees in countries where the company has the greatest activity. The main mission of these is to make everyone aware of the Code of Ethics and the Anti-Corruption Policy and to reproduce the functions the committee carries out in Spain in each country to cover the company's entire sphere of operation.

Code of Ethics chapter to which notifications refers (%)

	Queries	Notifications	Total
Respect for the law, human rights and ethical values	3	3	6
Respect for the individual	1	35	36
Professional development and equal opportunities	2	13	15
Cooperation and dedication	-	2	2
Occupational health and safety	-	2	2
Corruption and bribery	17	23	40
Use and protection of assets	-	3	3
Irregular payments and money laundering	-	-	-
Corporate image and reputation	2	1	3
Loyalty to the company and conflict of interest	30	13	43
Processing of information and knowledge	3	1	4
Customer relations	13	14	27
Shareholders relations	-	1	1
Relations with collaborating companies and suppliers	5	10	15
Respect for the environment	-	2	2
Total	76	123	199



Crime Prevention Model

The company has a Crime Prevention Model which is updated annually. Thus in 2018, the model was subject to a process of adaptation to the new organisational structure in force at Naturgy.

The model incorporates the already established Naturgy internal control structure. Its purpose is to effectively prevent the occurrence of offences under the Organic Law 5/2010 governing the Amendment of the Penal Code. This modification introduces in Spain the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority.

The model contains 18 crimes that have been identified, together with definitions of their impact and probability of occurrence, mechanisms for their control and minimisation, and responsibilities with regard to their fulfilment.

Worldwide, the group has deployed crime prevention models in countries with laws governing the civil liability of legal persons.

During 2018, we have continued with the online training course mandatory for all employees on the Crime Prevention Model, the Code of Ethics and the Anti-Corruption Policy in order to emphasise the importance of compliance, ensure implementation of preventive and control activities and to inform all employees of the current status in these matters.

Anti-fraud and anti-corruption policies and plans

Although fraud and corruption are covered in the crime prevention system, the company worked to improve and update its internal regulations and define specific protocols and mechanisms in this area.

The Naturgy Anti-Corruption Policy complies with national and international legislation on corruption and bribery.

This policy has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation. It covers all the actions in this area and avoid conduct that may give rise to fraud or corruption and lead to situations that are damaging for the company, its administrators and employees from a legal point of view or in relation to its reputation.

The policy establishes 14 principles of action, including aspects such as promoting integrity and transparency in the processing of information, money laundering, conflicts of interest and relationships with third parties.

The focus of the Naturgy Anti-Corruption programme covers three key areas:

- **Establishment of an anti-fraud and anti-corruption culture** through training and awareness.
- **Implementation of proactive measures** to assess the risk of fraud and corruption, monitoring and controls.
- **Development of measures and response plans** in the event of situations that constitute fraud and corruption.

These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Naturgy organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- **Update of the NaturalNet space** which concerns the Code of Ethics and the Anti-Corruption Policy.
- **Publication of information about the Ethics and Compliance Committee activities** (notifications received, activities carried out, etc.).
- **Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.**
- **Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy** for new employees and administrators.
- **Presentations in Boards of Directors and Management Committees** of the Crime Prevention Model.
- **Regular declaration of compliance with the Code of Ethics and Anti-Corruption Policy.**

Likewise, Naturgy has introduced a Corporate Hospitality Policy, within the framework of the Code of Ethics and the Anti-Corruption Policy. The purpose of this policy is to regulate the conditions in which the directors and employees of Naturgy can accept/offer business courtesies from or to their business counterparts within the framework of performing their professional duties, to ensure effective compliance with the principles set out in the Code of Ethics and in the Anti-Corruption Policy of Naturgy.

The directors and employees of the group cannot accept or offer, whether directly or indirectly, business courtesies for the purpose of improperly influencing their commercial, professional or administrative relations, whether with public or private entities.

In 2018 there was a specific dissemination campaign concerning the Corporate Hospitality Policy, targeted at all employees and, in addition, one of the modules of the “Compliance Café” campaign carried out in the same year was exclusively dedicated to this Policy.

In addition, in all operations involving risk, the company conducts due diligence processes systematically, both for high-risk suppliers, and company relationships with third parties (partners, joint ventures, etc.).

The counterparty due diligence procedure aims to ensure that, across the board, reputational risk and corruption are analysed and assessed efficiently and in a standard way when third parties intervene in business relationships of the companies forming the group.



Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

We can divide these measures into three control levels that seek to prevent, detect and, if appropriate, react to money laundering:



- Prevention:** both the Naturgy Code of Ethics as well as its Anti-Corruption Policy have specific sections that expressly establish the prevention of money laundering as one of the principles that presides over the operations of the company and all of its employees. All Naturgy employees receive training on the content of the Code of Ethics, the Anti-Corruption Policy and the conduct guidelines that they must heed.

In addition, Naturgy has other more specific policies and procedures that establish a full series of controls in its day-to-day work and in the operations it performs, which encompass the prevention of money laundering. Key among these are the counterparty due diligence procedure; the general external procurement standard; the procedure on granting the signing level, or the internal control procedure for the processing of payments and cash movements, among others.



- Detection:** some of the foregoing policies and procedures also allow the risk of money laundering to be detected.

Every year, those in charge of controls at Naturgy are subject to a self-assessment in the Crime Prevention Model on compliance with the same, including those where there is a risk of potential money laundering. In addition, to ensure efficiency of this model, it is reviewed regularly and audited every year by an independent expert.

Internal Auditing periodically reviews the different processes of Naturgy to detect possible breaches that may have occurred in the different operational risks. These reviews include checks of revenue and payments that may be subject to the risk of money laundering.

Naturgy also has an Internal Control System on Financial Reporting that is audited every year by an independent expert.

In addition, Naturgy provides both its employees as well as stakeholders with channels so they can report to the Ethics and Compliance Committee concerning any breach or irregular or suspicious conduct in this area. They can perform these communications through the website channel of the Naturgy Code of Ethics or through ordinary or internal mail. In addition, in accordance with what is permitted under new data protection legislation, these communications may be carried out anonymously.



- Reaction and response:** Naturgy has an investigation and response protocol as well as a disciplinary system so that, if it becomes aware of any denouncement or irregularity it can introduce all measures within its reach to rectify this and, if appropriate, adopt the measures required to prevent future repetition. Furthermore, Naturgy collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

Tax policy

Tax strategy and tax risks control and management policy

At a meeting on 9 January 2018, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks.

The basic principles governing Naturgy's tax strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Cooperation with the tax authorities.

The main lines of the Tax Risks Control and Management Policy are as follows:

- Tax governance clearly defined.
- Procedures for controlling the tax risk arising from compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

- **The Naturgy Corporate Social Responsibility Policy**, in which one of the commitments and principles of action is to "adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies."
- **Naturgy's Code of Ethics**, which establishes that "All employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions".
- **The Code of Best Tax Practices (CBTP)**, approved on 20 July 2010 by the Plenary session of the Large Business Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Gas Natural SDG, S.A. The CBTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual cooperation based on good faith and legitimate trust, and the application of responsible tax policies.

To align Naturgy's tax policies with these principles, the group has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Naturgy also has a Risk Map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 21 "Tax situation" in the notes to the Consolidated Annual Accounts.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2018 year-end, the Naturgy Group did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January).

Buenergía Gas & Power, Ltd. (the company that indirectly owns a single industrial holding that engages in power generation using a combined cycle gas turbine in Puerto Rico (Ecoeléctrica, L.P.)), which was domiciled in the Cayman Islands and in which Naturgy holds a 95% stake, changed its domicile to Puerto Rico on 2 February 2018.

Gasoducto del Pacífico (Cayman), Ltd. (a dormant company acquired by the group as part of the CGE acquisition), which was domiciled in the Cayman Islands and in which Naturgy held a 52.2% stake, was liquidated on 12 January 2018 and dissolved and deregistered on 12 April 2018.

Tax contribution

Naturgy gives priority to fulfilling its obligation to pay the taxes that are due in each territory in accordance with the applicable regulations.

Naturgy's total tax contribution amounted to Euros 3,268 million in 2018 (Euros 3,272 million in 2017). The following table shows the breakdown of the taxes actually paid by Naturgy in each country, segmented into those that represent an actual expense for the group ("own taxes") and those that the company withholds from or charges to other taxpayers (third-party taxes):

Tax contribution (Euros million)

Country	Own taxes						Third-party taxes						Total			
	Income tax ¹		Others ²		Total		VAT		Tax on hydrocarbons		Others ³				Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Spain	62	112	621	537	683	649	1,056	845	409	342	270	228	1,735	1,415	2,418	2,064
Argentina	10	15	17	67	27	82	9	19	-	-	39	34	48	53	75	135
Brazil	52	51	46	67	98	118	73	74	-	-	13	7	86	81	184	199
Colombia	-	60	-	57	-	117	-	-	-	-	-	11	-	11	-	128
Chile	31	101	13	11	44	112	60	81	-	-	47	22	107	103	151	215
Mexico	71	66	2	4	73	70	39	57	-	-	13	19	52	76	125	146
Panama	6	10	7	9	13	19	-	-	-	-	4	4	4	4	17	23
Rest of LatAm	7	8	2	1	9	9	5	4	-	-	8	4	13	8	22	17
Total LatAm	177	311	87	216	264	527	186	235	-	-	124	101	310	336	574	863
Europe	24	15	8	35	32	50	161	170	80	111	3	14	244	295	276	345
Total	263	438	716	788	979	1,226	1,403	1,250	489	453	397	343	2,289	2,046	3,268	3,272

1. Income tax actually paid in the year that figures in the Cash Flow Statement in the Consolidated Annual Accounts. Does not include accrued amounts. The reconciliation between reported "income tax" and that which would result from applying the nominal tax rate in force in the parent company's home country (Spain) to "Profit before taxes" is detailed in Note 21 ("Tax situation") to the Consolidated Annual Accounts.

2. Includes energy taxes in Spain amounting to Euros 306 million in 2018 (Euros 260 million in 2017), local taxes, employer social security contributions and other specific taxes in each country.

3. Includes basically employee withholdings and employee social security contributions.

Income by country

	Euros million
Spain	(3,297)
Argentina	41
Brazil	37
Chile	106
Mexico	104
Panama	13
Rest of LatAm	(63)
Total LatAm	238
Europe	237
Total	(2,822)

Received Grants

The movements of the received capital grants are breakdown in the Note 15 of Consolidated Annual Accounts. The received amount is Euros 1 million in 2018 (Euros 4 million in 2017). The amount of the received operating grants is detailed in the Note 24 of the Consolidated Annual Accounts and amounted Euros 1 million in 2018 (Euros 1 million in 2017).

Human Rights Policy

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. The Human Rights Policy, approved in 2011 by the Management Committee, defines and precisely establishes how the company believes it has to include these principles in its business management.

The Human Rights Policy acquires its full meaning in those locations where local legislation does not afford a suitable level of protection of human rights, and its compliance is horizontally integrated within the company and is the responsibility of each business area.

The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the United Nations Guiding Principles on Business and Human Rights. It is also focused on the most important principles which have the greatest impact on the company's business.

Human Rights Policy Principles

1. Avoiding any practices which are discriminatory, or which might compromise people's dignity.
2. Eradicating the use of child labour.
3. Helping to ensure freedom of association and collective negotiation.
4. Protecting people's health.
5. Offering dignified employment.
6. Commitment towards people linked to suppliers, contractors and collaborating companies.
7. Supporting and publicly promoting respect for human rights.
8. Respecting for indigenous communities and traditional ways of life.
9. Protecting facilities and people on the basis of respect for human rights.
10. Helping to fight corruption.

The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this Human Rights Policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

During the initial stages of investment projects, and in the analyses of the social and environmental impact, the company will consider their impact on the protection and promotion of human rights and will define indicators in this regard. Similarly, the company will introduce specific measures for management of potential impacts and risks to human rights from the projects and investments and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the policy.

Any breaches, whether of the policy or any other aspect related to the respect of human rights will be studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. Those people who, without being company employees, witness potential malpractice in this area may also report this.



About the
Integrated
Annual Report

About the Integrated Annual Report

This report has been prepared in accordance with the information reporting (IR) framework published by the International Integrated Reporting Council (IIRC). Furthermore, in relation to non-financial aspects, Global Reporting Initiative (GRI) Standards were taken into account.

As established in the Law 11/2018, of 28 de December, by which are modified the Commercial Code, Consolidated text of the law on capital companies approved by the Royal Legislative Decree 1/2010, of 2 July, and the Law 22/2015, of 20 de July, of Audit Accounts, in terms of non-financial information and diversity, the consolidated state of non-financial situation is incorporated, in what refers to environmental, social matters, as well as the ones referred to personnel, about respect to human rights and the fight against corruption and bribery contained in the section 7 of this director's report.

Likewise, for the preparation of the report recommendations in the "Guide for the elaboration of the management report of the listed companies" that the "Comisión Nacional del Mercado de Valores" (CNMV) published in 2013 have been taken into account.

Every year, Naturgy conducts a materiality analysis that identifies the most relevant and key issues for the company in environmental, social and governance matters (ESG).

This analysis allows us to identify the issues that:

- Are of greatest relevance from the standpoint of corporate responsibility and reporting.
- Could provoke a more significant change.
- Are considered of greatest relevance for the company's stakeholders.

The purpose of the materiality analysis is to:

- Identify which issues are material and must be reported.
- Serve as the basis to respond to sustainability indices and rating agencies.
- Discover the internal and external relevance of the issues identified.
- Show the correlation of the issues identified.
- Explain the meaning that each of the issues identified has for Naturgy.
- Find out the impact that each of the material issues has on the business and on which stakeholders.
- Identify the key risks and opportunities for Naturgy with regard to each material issue.
- Associate the material issues with the Global Reporting Initiative (GRI) Standards.
- Bring together the management status of Naturgy with regard to each material issue.

- Serve as the basis of a dashboard that enables us to monitor and improve management of the material issues for Naturgy.
- Link material issues with the Sustainable Development Goals (SDG) and reveal their degree of progress in those countries where Naturgy operates.
- Discover the main events that have taken place in the last 12 months related to Naturgy and linked to each of the issues identified.

During 2018 the materiality analysis has been updated, in line with the commitments and strategy of the company.

Materiality of the main aspects identified has been assessed and prioritised the most relevant contents for inclusion in the Directors' Report, as detailed below:

Identification of significant aspects	<p>Based on internal and external analyses, a list was drawn up of aspects that may substantially affect Naturgy's capacity to create value in the short, medium and long term. The following were taken into account:</p> <ul style="list-style-type: none"> ● Stakeholders' expectations: the main aspects defined by GRI Standards and sector-specific GRI supplements "Electric Utilities" and "Oil&Gas", on the basis of the materiality study conducted by Naturgy. It was taken the basis of the 33 GRI Standards. ● Investors' expectations: feedback from investors and ESG1 analysts received during the various roadshows held in 2018. ● Taking into account the external and internal opinions: it has been made more than 39 interviews with different areas of the company and 10 interviews with external interest groups. ● Other external prescriber's sources.
Assessment of the materiality of the aspects identified	<p>Classification of the various aspects identified in line with their significance for Naturgy according to their potential impact (positive or negative) on its capacity to generate value.</p> <p>According to the degree of significance, those aspects to be considered as part of the contents of the Directors' Report are obtained.</p>
Prioritising contents	<p>Once determined, the contents of the report are prioritised based on their materiality so as to focus the report on the most significant aspects.</p>

Naturgy has identified eleven most relevant ESG issues for the company, in order of priority. Also, it has identified the rest of the interest items:

	Material issues identified	Nature of the matter
Matters of maximum significance	1 Emissions and climate change	Environmental
	2 Occupational health and safety	Social
	3 Access to energy	Social
	4 Development of the communities and social action	Social
	5 Innovation and sustainable technology	Economic and social
	6 Customer care and satisfaction	Social
	7 Biodiversity	Environmental
	8 Talent retention and attraction	Social
	9 Energy efficiency and consumption	Environmental
	10 Assessment of the supply chain	Social and environmental
	11 Diversity and equal opportunities	Social

For each of the material issues identified, the company has collected, identified and analysed the following information in its materiality study:

- Definition and description of the issue.
- Sub-issues into which the issue is divided.
- Principle of the corporate responsibility policy associated with the issue.
- Relevance of the issue for the company and its business.
- How the issue impacts on the business (cost, revenue or risk).
- On which stage of the value chain does the issue impact.
- Which stakeholders are impacted by the issue.
- Risks and opportunities related to the issue.
- Management of the issue by Naturgy.
- Sustainable Development Goals (SDG) directly associated to the issue.
- Relevant events related to Naturgy and associated to the issue.

Scope

The financial and non-financial information on Naturgy presented in this report is consolidated and refers to all the activities undertaken in 2018 as a global gas and electricity operator, although there are certain specific aspects:

As a result of the divestments of the South African mining business described in Note 9 “Non-current assets and disposal groups of assets held for sale and discontinued operations” of the Consolidated Annual Accounts, the consolidated income statement for 2017 and the operational magnitudes have been restated for purposes of comparison in compliance with IFRS 5.

With the object of clarify the scope used in the non-financial indicators and to provide the greatest possible transparency, in every part of the non-financial information state would be specified with a footnote every indicator that it was not able to collect the data of any of these countries.

The indicators that represent the evolution over the year include information from companies held for sale provided that the opposite is not specified, while the indicators that represent information at the year-end do not include information about these companies.

In the sphere of human resources, the information reported corresponds to the countries in which Naturgy is present and has companies incorporated with their own staff and in which the company manages its human resources policies centrally, except on the number of employees and the average men/women that takes into account all the employees of the group according to consolidation perimeter.

With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management or have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Accounts, titled “Naturgy Companies”, contains a complete list of companies belonging to the Naturgy group at 31 December 2018.

Moreover, any changes in the consolidation scope are described in Annex II of the Consolidated Annual Accounts.

Verification

The non-financial information in the Directors’ Report was subject to an independent external revision process. The independent assurance report, where objectives and scope of the process as well as the procedures applied and conclusions are included, is attached as an annex hereto.

Public information about Naturgy

Readers also have access to other reports, which are all available at www.naturgy.com. Each of them contains additional information of use in order to have a full understanding of the company's actions:

Annual Reports



FR

Financial Report

Drawn up in accordance with the IFRS and externally audited. The Consolidated Directors' Report incorporates the Statement of non-financial reporting whose information has been subjected to a process of independent external review.



CRR

Corporate Responsibility Report

Compiled in accordance with the Global Reporting Initiative (GRI) standards and verified externally.



CGR

Corporate Governance Report

Drawn up in accordance with the National Securities Market Commission (CNMV).



ACR

Audit Committee Report

Drawn up in accordance with the standards established on the Audit Committee.



RR

Report on Remunerations of Members of the Board of Directors, compiled in accordance with article 541 of the Securities Market Act.

Other reports



Biodiversity Report
Carbon Footprint Report
Quarterly earnings reports

Reporting on the corporate website

- The Company.
- Activities.
- Shareholders and investors.
- Reputation and Corporate Responsibility.
- Our people.
- Customers and new registrations.

Registered Office:

Avenida de San Luis, 77
28033 Madrid

Barcelona Head Office:

Plaza del Gas, 1
08003 Barcelona

www.naturgy.com

www.annualreport2018.naturgy.com

Published by:

Communication and Institutional
Relations Department

Graphic Design:

Gosban Reporting
www.gosban.es

Naturgy 

www.naturgy.com