Naturgy Energy Group, S.A.
Annual Report
2020

Naturgy

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Summary

▪ The regulated information is that submitted to the CNMV in HTML format.

▪ This 2020 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

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Audit Report

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of
NATURGY ENERGY GROUP, S.A.:

Audit report on the financial statements

Opinion

We have audited the financial statements of Naturgy Energy Group, S.A. (the Company), which comprise the balance sheet at December 31, 2020, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for Opinion

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

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

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

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Key audit matters

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

Recovery of the book value of non-current investments in group companies and associates

Description

As detailed in Note 7 to the accompanying financial statements, the Company shows long-term investments in group companies and associates corresponding to equity instruments amounting to 15,417 million euros.

The determination of the recoverable amounts of the long-term investments in group companies and associates is based on estimates that require Management to use cash flow projections based on current results. These cash flows are calculated based on the best prospective information available at that date, whose key assumptions are detailed in Note 4 to the accompanying financial statements. Additionally, Management have made a sensitivity analysis of the most significant assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, Company Management have recorded a net impairment loss amounting to 1,088 million euros (Note 4).

Given the significance of the balance of the 'Long-term investments in group companies and associates' heading and the existence of significant estimates regarding the key assumptions used in the calculations made by Management, we consider this area a key audit matter.

Our response

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

- Understanding the processes established by Company Management in the determination of the impairment of long-term investments in group companies and associates, including the assessment of the design and implementation of relevant controls.
- Reviewing whether any indications of impairment exist and, where appropriate, reviewing the model used by Company Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Company Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Company Management.
- Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: management report

Other information refers exclusively to the 2020 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

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Our audit opinion on the financial statements does not cover the management report. Our responsibility for the management report, in conformity with prevailing audit regulations in Spain, entails:

a. Checking only that the non-financial information statement and certain information included in the Corporate Governance Report, to which the Audit Law refers, was provided as stipulated by applicable regulations and, if not, disclose this fact.

b. Assessing and reporting on the consistency of the remaining information included in the management report with the financial statements, based on the knowledge of the entity obtained during the audit, in addition to evaluating and reporting on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to disclose this fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided as stipulated by applicable regulations and that the remaining information contained in the management report is consistent with that provided in the 2020 financial statements and its content and presentation are in conformity with applicable regulations.

Responsibility of the Directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Naturgy Energy Group, S.A. for the 2020 financial year, which includes an XHTML file containing the financial statements for the year, which will form part of the annual financial report.

The directors of Naturgy Energy Group, S.A. are responsible for submitting the annual financial report for the 2020 financial year, in accordance with the formatting requirements set out in Delegated Regulation EU 2019/815 of 17 December 2018 of the European Commission (hereinafter referred to as the ESEF Regulation).

Our responsibility consists of examining the digital file prepared by the directors of the company, in accordance with prevailing audit regulations in Spain. These standards require that we plan and perform our audit procedures to obtain reasonable assurance about whether the contents of the financial statements included in the aforementioned digital file correspond in their entirety to those of the financial statements that we have audited, and whether the financial statements have been formatted, in all material respects, in accordance with the ESEF Regulation.

In our opinion, the digital file examined corresponds in its entirety to the audited financial statements, which are presented, in all material respects, in accordance with the ESEF Regulation.

Additional report for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Company's audit committee on February 3, 2021.

Term of engagement

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

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signature on the original in Spanish)

José Agustín Rico Horcajo
(Registered in the Official Register of Auditors under No. 21920)

February 3, 2021

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Individual Annual Accounts

Balance sheet (million euro)

	31.12.2020	31.12.2019
Non-current assets	**31,048**	**33,257**
Intangible assets (Note 5)	3	3
Patents, licenses, trademarks and similar items	1	-
Other intangible assets	2	3
Property, plant and equipment (Note 6)	113	124
Land and buildings	101	112
Other property, plant and equipment	12	12
Long-term investments in group companies and associates (Note 7)	30,594	32,754
Equity instruments	15,417	16,552
Loans to companies	15,177	16,202
Long-term investments (Note 8)	9	10
Equity instruments	5	5
Other financial assets	4	5
Other non-current assets (Note 14)	136	189
Deferred tax assets (Note 17)	193	177
Current assets	**3,845**	**2,708**
Trade and other receivables (Note 9)	312	843
Trade receivables for sales and services	37	54
Trade receivables, group companies and associates	143	255
Sundry receivables	126	350
Current tax assets	4	183
Other amounts receivable to Public Administrations	2	1
Short-term investments in group companies and associates (Note 7)	743	666
Loans to companies	628	527
Other financial assets	115	139
Short-term investments (Note 8)	171	24
Derivatives	-	1
Other financial assets	171	23
Short-term prepayments and accrued expenses	1	1
Cash and cash equivalents (Note 10)	2,618	1,174
Cash at banks and in hand	1,076	474
Other cash equivalents	1,542	700
Total assets	**34,893**	**35,965**

Notes 1 to 30 form an integral part of these Annual Accounts.

Balance sheet (million euro)

	31.12.2020	31.12.2019
Equity (Note 11)	**18,393**	**19,853**
Shareholders' funds	**18,471**	**17,253**
Capital	970	984
Authorised capital	970	984
Share premium	3,808	3,808
Reserves	11,291	11,573
Legal and statutory	300	300
Other reserves	10,991	11,273
Treasury shares	(1)	(121)
Profit/(loss) for the year	98	4,415
Retained earnings	3,076	-
Interim dividend	(785)	(754)
Other equity instruments	14	9
Value change adjustments	**(78)**	**(61)**
Available-for-sale financial assets	(1)	-
Hedging operations	(77)	(61)
Non-current liabilities	**13,079**	**11,892**
Long-term provisions (Note 12)	373	459
Long-term post-employment obligations	258	272
Other provisions	115	187
Long-term borrowings (Note 13)	2,829	1,835
Bank borrowings	2,720	1,744
Derivatives	108	90
Other financial liabilities	1	1
Amounts owing to group companies and associates falling due in more than one year (Note 15)	9,530	9,197
Deferred tax liabilities (Note 17)	211	211
Other liabilities	136	189
Long-term accruals and deferred income	-	1
Current liabilities	**3,421**	**4,220**
Short-term borrowings (Note 13)	399	271
Bank borrowings	257	253
Derivatives	21	16
Other financial liabilities	121	2
Amounts owing to group companies and associates falling due in less than one year (Note 15)	2,560	3,168
Trade and other payables (Note 16)	461	780
Trade payables	141	237
Trade payables, group companies and associates	59	131
Sundry payables	133	355
Personnel (outstanding remuneration)	18	36
Current tax liabilities	93	-
Other amounts payable to Public Administrations	17	21
Short-term prepayments and accrued expenses	1	1
Total equity and liabilities	**34,893**	**35,965**

Notes 1 to 30 form an integral part of these Annual Accounts.

Income statement (million euro)

	2020	2019
Revenue (Note 18)	2,292	3,496
Sales	667	1,745
Income from services rendered	1	-
Income from equity instruments of group companies and associates (Note 7)	1,271	1,361
Income from marketable securities and other financial instruments of group companies and associates	353	390
Raw materials and consumables (Note 19)	(667)	(1,743)
Consumption of goods	(667)	(1,738)
Raw materials and other consumables	-	(5)
Other operating income (Note 22)	156	255
Supplementary income and other operating income	155	255
Operating grants released to the Income statement	1	-
Personnel expenses (Note 20)	(115)	(173)
Wages, salaries and related expenses	(98)	(148)
Social Security	(11)	(17)
Provisions	(6)	(8)
Other operating expenses (Note 21)	(170)	(202)
External services	(171)	(200)
Taxes	(1)	(1)
Impairment losses and variation in trade provisions	2	(1)
Fixed asset depreciation/amortisation (Notes 5 and 6)	(14)	(48)
Impairment and results on disposals of fixed assets	(1,087)	3,241
Gain/(loss) on disposals of tangible fixed assets (Note 6)	-	1
Impairment of and losses from equity instruments of group companies and associates (Note 7)	(1,088)	(320)
Gain/(loss) on disposals of equity interests in group companies and associates (Note 7)	1	3,560
Operating profit/(loss)	**395**	**4,826**
Financial income	5	11
Negotiable securities and other financial instruments	5	11
In third parties	5	11
Financial expenses	(339)	(483)
Borrowings from group companies and associates	(292)	(444)
Borrowings from third parties	(47)	(39)
Variation in fair value of financial instruments	1	(5)
Investments	1	(5)
Exchange differences	(2)	(2)
Net financial income (Note 23)	**(335)**	**(479)**
Profit/(loss) before taxes	**60**	**4,347**
Income tax (Note 17)	38	68
Profit for the year	**98**	**4,415**
Basic and diluted earnings per share in euros	0,10	4,52

Notes 1 to 30 form an integral part of these Annual Accounts.

Statement of changes in equity (million euro)

A) Statement of recognised income and expense	2020	2019
Profit for the year	**98**	**4,415**
Income and expense recognised directly in equity	**(22)**	**(75)**
Cash-flow hedges	(37)	(54)
Actuarial gains and losses and other adjustments (Note 12)	7	(48)
Tax effect (Note 17)	8	27
Releases to Income statement	**12**	**6**
Cash-flow hedges	16	8
Tax effect (Note 17)	(4)	(2)
Total income and expense recognised in equity	**88**	**4,346**

B) Total statement of changes in equity

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Retained Earnings	Profit of the year	Interim dividend	Other instruments	Value changes adjustments	**Total**
Balance at 1.1.2019	**1,001**	**3,808**	**8,009**	**(121)**	**-**	**-**	**5,282**	**(730)**	**4**	**(27)**	**17,226**
Total recognised income and expense	-	-	(40)	-	-	-	4,415	-	5	(34)	4,346
Operations with shareholders or owners											
Capital reduction (Note 11)	(17)	-	(383)	400		-	-	-	-	-	-
Dividend distribution (Note 11)	-	-	-	-	(565)	-	-	(754)	-	-	(1,319)
Trading in treasury shares (Note 11)	-	-	-	(400)	-	-	-	-	-	-	(400)
Other changes in equity (Note 11)	-	-	3,987	-	565	-	(5,282)	730	-	-	-
Balance at 31.12.2019	**984**	**3,808**	**11,573**	**(121)**	**-**		**4,415**	**(754)**	**9**	**(61)**	**19,853**
Total recognised income and expense	-	-	2	-	-	-	98	-	5	(17)	88
Operations with shareholders or owners											
Capital reduction (Note 11)	(14)	-	(284)	298	-	-	-	-	-	-	-
Dividend distribution (Note 11)	-	-	-	-	(9)	-	-	(1,361)	-	-	(1,370)
Trading in treasury shares (Note 11)	-	-	-	(178)	-	-	-	-	-	-	(178)
Other changes in equity (Note 11)	-	-	-	-	9	3,076	(4,415)	1,330	-	-	-
Balance at 31.12.2020	**970**	**3,808**	**11,291**	**(1)**	**-**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**

Notes 1 to 30 form an integral part of these Annual Accounts.

Cash-flow statement (million euro)

	31.12.2020	31.12.2019
Profit for the year before tax	**60**	**4,347**
Adjustments to results	**(196)**	**(4,500)**
Fixed asset depreciation/amortisation (Notes 5 and 6)	14	48
Impairment adjustments	1,086	320
Change in provisions	(7)	(35)
Profit/(loss) on write-offs and disposals of fixed assets	-	(1)
Profit/(loss) on write-offs and disposals of financial instruments	(1)	(3,560)
Financial income	(1,629)	(1,762)
Financial expenses	339	483
Variation in fair value of financial instruments	(1)	5
Other income and expenses	3	2
Changes in working capital	**(242)**	**(279)**
Debtors and other receivables	163	(380)
Creditors and other payables	(405)	101
Other cash-flows from operating activities	**1,821**	**2,206**
Interest paid	(346)	(395)
Dividends received	1,381	1,967
Interest collected	350	402
Income tax collections/(payments)	436	232
Cash-flows from operating activities	**1,443**	**1,774**
Amounts paid on investments	**(270)**	**(7,568)**
Group companies and associates	(232)	(7,452)
Intangible assets	(1)	-
Property, plant and equipment	(8)	(4)
Other financial assets	(29)	(112)
Amounts collected from divestments	**547**	**8,383**
Group companies and associates	486	8,372
Property, plant and equipment	6	2
Other financial assets	55	9
Cash-flows from investing activities	**277**	**815**
Collections and payments on equity instruments	**(185)**	**(406)**
Acquisition of own equity instruments	(185)	(406)
Collections and payments financial liability instruments	**1,279**	**(412)**
Issuance	3,887	6,639
Bank borrowings	1,225	3
Payables to group companies and associates	2,662	6,528
Other payables	-	108
Repayment/redemption of	(2,608)	(7,051)
Bank borrowings	(247)	(226)
Payables to group companies and associates	(2,288)	(6,807)
Other payables	(73)	(18)
Dividend payments	**(1,370)**	**(1,319)**
Cash-flow from financing activities	**(276)**	**(2,137)**
Net increase/decrease in cash or cash equivalents	**1,444**	**452**
Cash and cash equivalents at the beginning of the year	1,174	722
Cash and cash equivalents at the year-end	2,618	1,174

Notes 1 to 30 form an integral part of these Annual Accounts.

Contents of the Notes to the Annual Accounts for 2020

Notes to the Annual Accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2020

Note 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy Group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Avda. de San Luis 77, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

The company's corporate objects, as per its Articles of Association, comprise the following activities:

a. All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.

b. Acting as a holding company, incorporating companies or holding shares as a member or shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's most relevant ordinary activity is the administration and management of its shareholdings in subsidiaries. It also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

The Company's shares are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

Note 2. Basis of presentation

The Company's Annual Accounts for 2019 were approved at the Annual General Meeting of Shareholders on 26 May 2020.

The Annual Accounts for 2020, which were drawn up and signed by the Company's Board of Directors on 2 February 2021, will be submitted to the General Shareholders' Meeting for approval; they are expected to be approved without any changes.

The accompanying Annual Accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) and Royal Decree 602/2016 (2 December), so as to present fairly the Company's equity and financial position at 31 December 2020, and the results, changes in equity and cash-flows of Naturgy Energy Group, S.A. for the year then ended.

The figures set out these Annual Accounts are expressed in million euros, unless otherwise stated.

The Consolidated Annual Accounts of Naturgy for 2020 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the Consolidated Annual Accounts, which have been audited, are as follows:

Total assets	39,545
Equity attributed to the parent company	8,028
Non-controlling interests	3,237
Revenue	15,345
Profit after tax attributed to the parent company	(347)

Note 3. Accounting policies

The main accounting principles applied by the Company to prepare these Annual Accounts are described below:

3.1. Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a. Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

Goodwill is amortised over ten years using the straight-line method. Goodwill is tested annually to analyse possible impairment losses. It is recognised in the Balance sheet at cost value less amortisation and any cumulative impairment adjustments.

The impairment of goodwill cannot be reversed.

b. Other intangible assets

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

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

Research expenditure is recognised in the Income statement when incurred.

The Company has no intangible assets with an indefinite useful life.

3.2. Property, plant and equipment

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

a. Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

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

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

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

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

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

b. Depreciation

Assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33 – 50
Computer hardware	4
Vehicles	6
Other	3 – 20

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

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 3.3).

3.3. Asset impairment

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies, goodwill and intangible assets that are not in use are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised in the Income statement for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discounted cash-flow method. The Company considers value in use as the recoverable amount, calculated as described below.

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

For investments in group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), which have required an analysis of potential impairment losses, the cash-flows employed are based on the best prospective information available for the next five years, on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

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

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from various sources (analysts' consensus (Bloomberg), FMI, the Economist Intelligence Unit (EIU), Central Banks, European Commission) for the period 2021 to 2025 and the EIU from 2026.

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

- Risk-free rate: Considering the sovereign market bond and reference term of the CGU, and studies or other sources of information (Damodaran, EIU and others).
- Market risk premium: Premium based on studies and other sources of information (Pablo Fernandez, Damodaran and others).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).

- Local current interest rate swaps: Swap between 10 years and 30 years, depending on the CGU's business (Bloomberg).
- Debt-equity ratio: Based on industry comparables.

Impairment adjustments to values recognised in previous periods for investments in group companies and associates may be reversed if and only if there is a change in the estimates used to determine their recoverable amount since the latest impairment loss was recognised.

3.4. Financial assets and liabilities

The Company classifies its financial assets and liabilities based on their valuation which is determined on the basis of the business model and the characteristics of the contractual cash-flow.

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

Investments in the equity of group companies, jointly controlled entities and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the higher of fair value minus cost of sale and the current value of the cash-flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recorded on the Income statement in which it takes place.

In non-cash contributions of a business to a group company, the investment is measured at the carrying amount of the assets and liabilities contributed, as per the Consolidated Annual Accounts on the transaction date.

The Consolidated Annual Accounts of the largest group or subgroup into which the assets and liabilities are integrated, where the parent is a Spanish company, are used.

In mergers and spin-offs between group companies that involve the group's parent, directly or indirectly, the assets and liabilities acquired are measured at the amount that would be reflected in the group's Consolidated Annual Accounts following the transaction. The difference between the cost of the shares handed over and the carrying amount of the assets and liabilities acquired, in the group's Consolidated Annual Accounts, is recognised under “Reserves” in the Balance sheet.

Investments

a. Loans and receivables

These are non-derivative financial assets, with fixed or determinable payments that are not quoted on an active market and with respect to which there is no intention to trade in the short term. They include current assets, except for those maturing after twelve months as from the Balance sheet date that are classified as non-current assets.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method.

The necessary value adjustments due to impairment are made if there is objective evidence that the entire amount owed will not be collected. The provision is the difference between the carrying value of the asset and the present value of the estimated future cash-flows discounted at the effective interest rate.

b. Held-to-maturity financial assets

These are debt securities with fixed or determinable payments and fixed maturity which the Company plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c. Fair value financial assets through profit or loss

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

d. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognised at fair value. Unrealised gains and losses that arise from changes in fair value are recorded in equity. When these assets are sold or impaired over a lengthy period of time, the accumulated adjustments to the reserves due to valuation adjustments are included in the Income statement as gains and losses.

The fair values of quoted investments are based on current bid prices. In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash-flows. If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

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

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions and other short-term highly liquid investments with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognised in the Income statement during the period of repayment using the effective interest rate method.

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

Trade and other payables

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

3.5. Financial derivatives and other financial instruments

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

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

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

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

- Derivatives listed on an official market are calculated on the basis of their year-end quoted price.
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash-flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of forward price curves for those items.

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

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

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

   a. Fair value hedges

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

   b. Cash-flow hedges

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

   Amounts accumulated in equity are reclassified to the Income statement in the periods when the hedged item will affect profit or loss.

c. Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in group and multi-group companies and associates made in the same functional currency.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income statement.

3. Energy purchase and sale agreements

In the normal course of its business, the Company enters into energy purchase and sale agreements which in most cases include “take or pay” clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs of receipt or physical delivery of energy expected by the Company in accordance with regular energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and therefore fall outside the scope of the standard on the valuation of financial instruments.

3.6. Non-current assets held for sale and discontinued operations

The Company classifies as held-for-sale assets those assets for which, at the year-end, active measures have been initiated for their sale, which is estimated to take place within the next twelve months.

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

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

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

3.7. Share capital

Share capital is represented by ordinary shares.

Issuance costs of new shares or options, net of taxes, are deducted from equity as a reduction in reserves or the share premium account in the case of issuances with a share premium.

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

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

3.8. Share-based payments

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

The resulting cost is recognised under "Personnel expenses" in the Income statement as the services are rendered by the employees during relevant vesting period, with a balancing entry in "Other equity instruments" in the Balance sheet.

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

3.9. Borrowings and equity instruments

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

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

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

3.10. Provisions for employee obligations

a. Post-employment pension obligations and similar

- Defined contribution plans

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

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

  The contributions made have been recognised under "Personnel expenses" in the Income statement.

- Defined benefit plans

  For certain groups of employees, there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been externalised through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which approved the Regulations on the arrangement of companies' pension commitments.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The current value of the liability is determined discounting the estimated future cash-flows at interest rates on bonds denominated in the currency in which the benefits will be paid and having similar maturities to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and the actual situation are recognised in full in the period in which they arise, directly under Equity in "Reserves".

Past service costs are recognised immediately in the Income statement under "Personnel expenses".

b. Other post-employment benefit obligations

The Company provides post-employment benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to "Reserves".

c. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which the Company has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.11. Provisions

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

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

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

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

3.12. Leases

a. Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of the finance cost, is recognised under liabilities in the Balance sheet. The interest component of the finance cost is charged to the Income statement over the lease period so as to obtain a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b. Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the Income statement on a straight-line basis over the lease term.

3.13. Corporate income tax

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

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

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

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset temporary differences and apply tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

3.14. Recognition of income and expense

a. General

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

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

Sales are stated net of tax and discounts.

b. Other income and expenses

In accounting for revenues from the service provision agreements is used the percentage realisation method in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year-end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

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

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the Income statement for the year.

Interest incomes and expenses are recognised using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established.

The holding of shares in group companies and associates is deemed to be the Company's most relevant ordinary activity from which regular revenue is obtained. In accordance with the approach taken by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of revenue in holding companies (ruling request number 2 in ICAC Official Gazette number 79), dividends from group companies and associates, and interest received on loans granted to group companies and associates, are recognised as “Revenue”. Additionally, the item “Impairment and results on disposal of equity instruments of group companies and associates” is included in “Operating profit/(loss)”.

3.15. Foreign currency transactions

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the Income statement.

3.16. Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in mergers, de-mergers or non-cash contributions of a business, the assets that make up the acquired business are valued at the amount at which they are recognised after the operation takes place in the Consolidated Annual Accounts of Naturgy.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the acquiring company, is recorded under "Reserves" in the Balance sheet.

3.17. Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of the Company in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

3.18. Cash-flow statement

The cash-flow statements have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

a. Operating activities: Activities that constitute ordinary Company revenues, as well as other activities that cannot be qualified as investing or financing.

b. Investing activities: Acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

c. Financing activities: Activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

3.19. Significant accounting estimates and judgements

The preparation of Annual Accounts requires the use of estimates and judgements. The measurement standards that require a large number of estimates are set out below:

a. Property, plant and equipment (Note 3.2)

The determination of useful life of property, plant and equipment requires estimates of their degree of use, as well as expected technological developments. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

b. Impairment of assets (Note 3.3)

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

Note 4 details the main assumptions used to determine the recoverable value.

c. Derivatives and other financial instruments (Note 3.5)

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each Balance sheet date. Other techniques, such as estimated discounted cash-flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash-flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash-flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash-flows at the current market interest rate that is available to the Company for similar financial instruments.

d. Provisions for employee benefits (Note 3.10)

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

e. Provisions (Note 3.11)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, outstanding litigation or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f. Corporate income tax (Note 3.13)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which the Company operates. The determination if the tax authority will accept an uncertain tax treatment and the expected outcome of litigation requires the preparation of significant estimates and judgement. The Company evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g. COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand. The confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in economic indicators, energy demand and prices of the main energy variables. The effects of the COVID-19 pandemic increase the uncertainty about the future vision for individual companies and for the economy in general observing a substantial deterioration of the recuperation perspectives in the second half of the year 2020. Those prospects were considered when making the estimates and assumptions that are necessary to draw up the Consolidated Annual Accounts, as detailed in the corresponding notes.

Note 4. Asset impairment

At 31 December 2020, the Cash Generating Units (CGUs) are renamed and regrouped following the new business structure reorganisation carried out by Naturgy in 2020.

Compared with previous year, the most significant change in relation to the previous year is the splitting of the conventional electricity CGU into the Thermal generation Spain and Hydroelectric generation CGUs (the latter within the Renewables and New Business segment).

Energy and Network Management:

- Iberian Networks:
  - Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
  - Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.
- Latin American Networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile, Mexico and Peru and the regulated electricity distribution business in Argentina, Chile and Panama.
- Energy Management:
  - International LNG: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
  - Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers. It also includes the Unión Fenosa Gas CGU.
  - Gas pipelines: It includes the CGU which manages the Maghreb-Europe gas pipeline, as well as the CGU for the Medgaz gas pipeline.
  - Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear, combined cycle and others).
  - Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.

Renewables and New Business:

- Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.
- Latin American: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
- Australia: One CGU is considered which encompasses all projects in the country.

Marketing:

The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers and with high potential for growth in services and solutions, for which there is a single CGU.

Information on impairment tests performed

Naturgy has evaluated the recoverable value of the CGUs based on projections that relate to the best available forward-looking information for the next five years, taking into account the investment plans of the businesses involved and the market conditions in which they operate. Multiple potential future scenarios have also been considered when estimating the cash-flows of a CGU, if it provides more relevant information to reflect possible future economic developments. The estimated cash-flows also take into account the foreseeable effects of COVID-19.

During the first part of the year, Naturgy's best estimate and the opinions expressed by most public and private institutions suggested that the effects of COVID-19 would continue in the short term, but that the pandemic would cease to have a relevant impact in the medium and long term. This forecast was mainly based on the expectations for recovery in the economies in which Naturgy operates once the measures ordered by governments began to take effect, and on the response and adaptation capacity of the rest of the business players affected, including actions taken by the company itself. These expectations of a medium-term recovery were shared at that time by many institutions and companies, which is the reason why it was not considered necessary to update cash-flows at that time.

However, at year-end the impact of COVID-19 on cash-flow estimates was taken into account, as the macro and energy scenario was eventually seriously impacted by the COVID-19 crisis in 2020, leading to lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key Latin American regions.

In Spain, mainland electricity demand was 5.5% lower than in 2019, while gas demand fell by 9.6%. The fall in demand during the year has been in step with the more or less restrictive confinement periods that have been imposed. In the medium term, electricity demand and conventional gas demand in the Naturgy distribution network are expected to return to pre-COVID levels in 2022-2023.

In Latin America, the impact of COVID-19 on demand in Naturgy's distribution areas in 2020 has varied, with the following decreases compared to 2019:

- Gas Brazil: -14%
- Gas Mexico: -10.5%

- Gas Chile: -4.7%
- Gas Argentina: -3.8%
- Electricity Panama: -7.5%
- Electricity Argentina: +1.3%

In general terms, they are expected to recover to 2019 levels in 2022.

Information on recognised impairments (Note 7)

In 2020 and 2019, impairments of shareholdings in group companies and associates amounting to Euros 1,088 million (Euros 320 million in 2019) have been recognised under "Impairment of and losses from equity instruments of group companies and associates" in the Income statement, and break down as follows:

- Euros 1,005 million (Euros 272 million in 2019) for the shareholding in Naturgy Generación, S.L.U., included in the CGU OF Thermal Generation Spain and Hydraulic Electricity Generation.

  The assumptions and projections affecting the Spain Thermal Generation CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Bill. The above-mentioned projections envisage a drop in production and prices in line with the scenario applicable over the next five years. The NECP forecasts envisage the need for all the installed power of combined cycle generation units in the plan timeframe (2030).

  The main assumptions considered in the impairment test of the Spain thermal generation CGU are the following:

	2020	2021	2022	2023	2024	2025
Evolution of Spanish GNP	**(12.5)%**	5.7%	4.3%	3.5%	2.4%	1.5%
Pool price €/MWh	**33.8**	44.3	45.6	47.7	48.5	48.8
Brent (USD/bbl)	**41.2**	46.1	46.7	52.2	57.7	63.2
Gas Henry Hub (USD/MMBtu)	**2.1**	2.8	2.7	2.9	3.1	3.3
Coal (API2 CIF ARA) (USD/t)	**49.3**	56.1	56.2	59	61.8	64.6
CO_2 €/t	**24.4**	27.5	27.7	28.3	30.2	33.8

  The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

  - Electricity generated. Demand evolution has been estimated based on CNMC and analyst projections. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market. The main variation with respect to past projections is a decrease in thermal production in line with the expected future evolution of the generation mix offset by a mechanism to remunerate the firm capacity contributed, which is expected to be established to make the NECP forecasts viable.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the evolution of the energy scenario on the basis of the futures curves and analysts' forecasts.
- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience.
- Operation and maintenance costs have been estimated from historical costs of managed park.
- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 2.1% and a pre-tax discount rate of 7.4% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash-flows.

The assumptions and projections affecting the Hydraulic generation CGU are based on the best forward-looking information available to date. The assumptions taken into consideration regarding to the Evolution of Spanish GNP and the evolution of the electricity pool price coincided with the considerated in the Thermal generation Spain CGU.

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

- Electricity generated.
- The evolution of production has been estimated considering an average hydraulic year and in addition compensation has been considered through a mechanism that remunerates the firm capacity contributed that is expected to be implemented to make the NECP forecasts viable.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the evolution of the energy scenario on the basis of the futures curves and analysts' forecasts.
- Operation and maintenance costs have been estimated from historical costs of managed park.
- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 2.1% and a pre-tax discount rate of 6.2% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash-flows.

In 2019, the long-term growth rate was 1.9% and the pre-tax discount rate was 6.6% for the conventional Generation CGU.

The accumulated impairment at 31 December 2020 relating to the holding in Naturgy Generación, S.L.U. amounts to Euros 4,678 million (Euros 3,673 million at 31 December 2019).

The outcome of the sensitivity analysis for the holding in Naturgy Generación is as follows:

- An increase in the discount rate of 50 basis points would increase impairment by Euros 116 million.
- A decrease in the growth rate of 50 basis points would increase impairment by Euros 58 million.
- A decrease in electricity output of 5% would increase impairment by Euros 150 million.

- A decrease in the electricity price of Euros 1/MWh coupled with a related variation in the cost of gas would increase impairment by Euros 157 million.

- Euros 47 million (Euros 32 million in 2019) relates to the impairment of the 50% interest in Unión Fenosa Gas (UFG).

  As described in Note 27, in 2020 Naturgy reached an agreement with ENI and the Republic of Egypt concerning Unión Fenosa Gas (UFG), which provides for its separation from the assets and contracts with Egypt whose situation affected the cash-flow projections used in impairment tests in prior periods. The impairment analysis performed in 2019 has not been updated on the basis of this situation, only adjusted by the specific movements of this present year.

  At 31 December 2020, the carrying amount recorded is supported by external references to UFG's value for Naturgy which comprises, on the one hand, the agreement reached whereby Naturgy will receive, once the conditions precedent are met, a number of cash payments totalling approximately Euros 489 million as well as other assets and, on the other, in the event that the agreement concluded by the parties does not materialise, the right to recommence its claim proceedings, including the award in favour of UFG for Euros 1,630 million.

  The accumulated impairment at 31 December 2020 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 2,179 million (Euros 2,132 million at 31 December 2019). At 31 December 2020, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 262 million (Euros 309 million at 31 December 2019) (Note 7).

  The most sensitive matters included in the impairment test in 2019 were as follows:

  - Gas volumes to be supplied from each supply source. The decrease in the volumes of gas to be supplied from Egypt for liquefying at the plant during the Strategic Plan 2018-2022 due to delays in the materialisation of an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence impacted the impairment analysis.

  - Gas supply costs. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets based on the change in the composition of gas volumes affected by the situation in Egypt.

  - Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Unión Fenosa Gas operates.

- Euros 9 million relating to the holding in Naturgy Informática, S.A. (decrease in impairment of Euros 3 million in 2019). The impairment recognised is calculated according to the equity of the company.

  The accumulated impairment at 31 December 2020 relating to the holding in Naturgy Informática, S.A. amounts to Euros 146 million (Euros 137 million at 31 December 2019).

- Euros 3 million in 2020 for the impairment of the 32.3% holding in Petroleum Oil & Gas España, S.A. due to the lack of feasibility of this company's projects.

  The accumulated impairment at 31 December 2020 recognised for the holding in Petroleum Oi l& Gas España, S.A. amounts to Euros 73 million (Euros 71 million at 31 December 2019).

The following impairment has also been recognised:

- Euros 8 million (Euros 2 million in 2019) for the impairment of the holding in Unión Fenosa Minería, S.A.

In October 2020 Unión Fenosa Minería, S.A. was liquidated. The accumulated impairment to date recognised for the interest in Unión Fenosa Minería, S.A. amounted to Euros 252 million (Euros 244 million at 31 December 2020).

- Other impairment of shareholdings in Naturgy companies amounting to Euros 16 million (Euros 17 million in 2019) recorded in line with developments in equity.

<u>Information on other impairment tests performed</u>

In relation to the rest of CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment, in 2020 and 2019 the recoverable amounts, calculated according to the methodology described in Note 3.3, have been higher than the carrying values of the holdings in group companies and associates recorded in these Annual Accounts. The most sensitive aspects that are included in the projections used are as follows:

- Gas and Electricity Networks Spain:
  - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash-flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 and 2020 on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
  - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
  - In addition, long-term growth rate of 0.5% - 1.9% (0.5% - 1.5% in 2019) and pre-tax discount rate of 5.2% - 5.9% (5.4% - 5.8% in 2019) have been used.

- Latin American networks:

  For gas networks CGUs in Brazil, Chile, Argentina and Mexico and electricity networks CGUs in Argentina and Panama:

  - Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
  - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
  - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
  - In addition, long-term growth rate of 2.5% - 11.4% (0.6% - 11% in 2019) and pre-tax discount rate of 9.6% - 15.8% (8.5% - 13.9% in 2019) have been used.

- Thermal generation Latin American:

  For thermal electricity generation CGUs in Mexico, Dominican Republic and Puerto Rico:

- Thermal generation in Mexico is carried out over most of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. In the Dominican Republic and Mexico, upon termination of the contracts energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.
- The main estimates considered in the flows generated for the Puerto Rico Generation CGU relate to the contract with Puerto Rico Electric Power Authority (PREPA), which has been extended until the end of 2032.
- Operation and maintenance costs have been estimated from historical costs of managed park.
- In addition, long-term growth rate of 1.8% (1.9% in 2019) and pre-tax discount rate of 9% - 13.2% (8.3% - 15.8% in 2019) have been used.

– Renewables Spain:

The assumptions and projections affecting the Renewable generation CGU (wind, mini-hydro, solar and cogeneration) are based on the best forward-looking information available to date.

The assumptions taken into consideration regarding to the Evolution of Spanish GNP and the evolution of the electricity pool price coincided with the considerated in the Thermal generation Spain CGU.

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

- Electricity generated.
  For the renewable electricity CGU, projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the evolution of the energy scenario on the basis of the futures curves and analysts' forecasts.
- Remuneration. For facilities with a right to specific remuneration of the renewable generation CGU, the remuneration has been estimated based on the remuneration parameters for the established regulated income period, maintaining these values for the next regulatory period.
- Operation and maintenance costs have been estimated from historical costs of managed park.
- Taxes established by Law 15/2012.
- In addition, long-term growth rate of 2.1% (1.9% in 2019) and pre-tax discount rate of 5.7% (5.9% in 2019) have been used.

– Renewables Latin America:

Including electricity generation CGUs in Brazil, Costa Rica, Mexico, Panama and Chile.

- Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.

- Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In addition, long-term growth rate of 1.9% - 3.2% (1.9% - 3.5% in 2019) and pre-tax discount rate of 8.6% - 15% (8.4% - 16.6% in 2019) have been used.

– Renewables Australia:

- Electricity generation in Australia is managed during the majority of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generating fleet and taking into account expected supply and demand, as well as production costs.

- Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In addition, long-term growth rate of 2.7% (2.4% in 2019) and pre-tax discount rate of 7.4% (7.1% in 2019) have been used.

– Marketing:

- Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.

- In addition, long-term growth rate of 0.5% (0.5% in 2019) and pre-tax discount rate of 6.8% (6.7% in 2019) have been used.

For the remaining CGUs, Naturgy has carried out a sensitivity analysis for 2020 and 2019 of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the most relevant sensitivity analyses performed are as follows:

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

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for investments in group companies and associates recorded in these Annual Accounts.

Note 5. Intangible assets

This heading breaks down as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	-	6	6	815	**821**
Accumulated amortisation	-	(1)	(1)	(788)	**(789)**
Carrying value at 1.1.2019	**-**	**5**	**5**	**27**	**32**
Amortisation charge	-	(2)	(2)	(27)	**(29)**
Carrying value at 31.12.2019	**-**	**3**	**3**	**-**	**3**
Cost	-	6	6	815	**821**
Accumulated amortisation	-	(3)	(3)	(815)	**(818)**
Carrying value at 1.1.2020	**-**	**3**	**3**	**-**	**3**
Investment	1	-	1	-	**1**
Amortisation charge	-	(1)	(1)	-	**(1)**
Carrying value at 31.12.2020	**1**	**2**	**3**	**-**	**3**
Cost	1	6	7	815	**822**
Accumulated amortisation	-	(4)	(4)	(815)	**(819)**
Carrying value at 31.12.2020	**1**	**2**	**3**	**-**	**3**

Brands worth Euros 1 million were acquired in 2020.

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with Naturgy. It was fully amortised in 2019.

At 31 December 2020, intangible assets includes fully amortised goodwill and other fully amortised assets in use (Euros 0 million at 31 December 2019).

In 2020 there have been no disposals of fully-depreciated assets (Euros 0 million at 31 December 2019).

Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2020 and 2019:

	Land and buildings	Other property, plant and equipment	Total
Cost	197	37	234
Accumulated amortisation	(70)	(23)	(93)
Carrying value at 1.1.2019	**127**	**14**	**141**
Investment	3	1	4
Divestment	(2)	-	(2)
Amortisation charge	(16)	(3)	(19)
Carrying value at 31.12.2019	**112**	**12**	**124**
Cost	184	35	219
Accumulated amortisation	(72)	(23)	(95)
Carrying value at 1.1.2020	**112**	**12**	**124**
Investment	5	2	7
Divestment	(5)	-	(5)
Amortisation charge	(11)	(2)	(13)
Carrying value at 31.12.2020	**101**	**12**	**113**
Cost	177	34	211
Accumulated amortisation	(76)	(22)	(98)
Carrying value at 31.12.2020	**101**	**12**	**113**

In 2020 there have been disposals of fully-depreciated assets totalling Euros 2 million (Euros 18 million at 31 December 2019).

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 19 million at 31 December 2020 (Euros 19 million in 2019).

It is the Company's policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2020 and 31 December 2019, the Company had no investment commitments.

Note 7. Investments in group companies and associates

A breakdown of the investments in group companies and associates is as follows:

	At 31.12.2020	At 31.12.2019
Equity instruments	15,417	16,552
Loans	15,177	16,202
Non-current	**30,594**	**32,754**
Loans	628	527
Other financial assets	115	139
Current	**743**	**666**
TOTAL	**31,337**	**33,420**

Movements during the year in non-current investments in group companies and associates are as follows:

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 1.1.2019	15,227	15,657	10	30,894
Additions	3,962	3,364	-	7,326
Divestments	(2,321)	(2,415)	(6)	(4,742)
Reclassification	-	(403)	-	(403)
Charge/reversal provisions	(320)	-	-	(320)
Exchange differences	-	(1)	-	(1)
Balance at 31.12.2019	16,548	16,202	4	32,754
Additions	83	-	-	83
Divestments	(130)	(1)	-	(131)
Reclassification	-	(1,024)	-	(1,024)
Charge/reversal provisions	(1,088)	-	-	(1,088)
Balance at 31.12.2020	15,413	15,177	4	30,594

2020

- Cash contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 33 million.
- Cash contribution to offset losses incurred by Comercializadora Regulada Gas&Power, S.A. for Euros 28 million.
- The distribution of the share premium has been recorded as a decrease in the carrying value of the holding in the group company Unión Fenosa Minería, S.A., in the amount of Euros 21 million. Subsequently, Unión Fenosa Minería, S.A. was wound up with no impact on income, involving a divestment of Euros 43 million. As a result of this liquidation, the Company received the shareholding of Lignitos de Meirama, S.A., an investee of Unión Fenosa Minería, S.A., for a carrying value of Euros 17 million, offsetting the Company's debts with the liquidated company which totalled Euros 26 million.
- Cash contribution to offset losses incurred by Lean Grids Services, S.L. in the amount of Euros 2 million. Additionally, in March 2020, 25.0% stakes in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L. and Lean Grids Services, S.L. were sold to admit strategic partners in the delivery of the corresponding services. Those transactions did not result in the loss of control nor did they have a material impact on the Company's Annual Accounts. Subsequently, in November, the sale of an additional 60% together with the company Naturgy IT, S.L. was announced, and it is expected to be completed in the first quarter of 2021.
- Cash contribution for a capital increase in Naturgy Nuevas Energías, S.L.U. (formerly Naturgy Gas&Power, S.L.U.) amounting to Euros 2 million.
- Liquidation of Clover Financial and Treasury Services, D.A.C. without any impact on income.
- The distribution of a complementary dividend for 2019 amounting to Euros 64 million has been recorded as a decrease in the carrying amount of the holding in the group company Global Power Generation, S.A.
- Other movements totalling Euros 1 million.
- Charges of Provisions of shareholdings in group companies amounting to Euros 1,088 million have been recorded (Note 4).
- Reclassification includes the transfer to Current Loans to group companies amounting to Euros 1,024 million.

2019

- Incorporation of Holding Negocios de Electricidad, S.A., wholly owned by the Company, which has become the head of the electricity distribution business in Spain, carrying out the following operations:
  - In November 2019, Holding Negocios de Electricidad, S.A. increased capital through the issue of 10 new shares with a par value of Euros 100 each and a share premium of Euros 393,612,443 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 3,936 million.
  - On the same date, the Company granted an intragroup loan of Euros 3,362 million to Holding Negocios de Electricidad, S.A. This loan matures in five years and bears interest at a market rate.
  - On 27 November 2019, using the funds received, Holding Negocios de Electricidad, S.A. acquired from the Company 100% of the shares in UFD Distribución Electricidad, S.A. for Euros 5,170 million, which has been determined as fair value. In accordance with the provisions of paragraph 1 of Recognition and Measurement Standard 21 of the Spanish Chart of Accounts, the transaction has been accounted for at fair value and has generated a profit of Euros 3,539 million.
  - The Company had also cancelled the loans it had granted to UFD Distribución Electricidad, S.A. for Euros 2,129 million. Holding Negocios de Electricidad, S.A had granted said financing for the same amount to the acquired company.
- Cash contribution to Naturgy LNG, S.L. for Euros 13 million.
- Cash contribution to offset losses to Comercializadora Regulada, Gas & Power, S.A. for Euros 9 million.
- The distribution of the share premium had been recorded as a decrease in the carrying value of the holding in the group company Global Power Generation, S.A., in the amount of Euros 690 million.
- Sale of 45% of the holding in Torremarenostrum, S.L. for Euros 28 million, generating a capital gain before taxes of Euros 20 million.
- Liquidation of P.H. La Perla, S.A. without any impact on income as the interest was fully impaired.
- Constitution of new societies and other movements for Euros 4 million.
- Charges of provisions of shareholdings in group companies amounting to Euros 320 million have been recorded (Note 4).
- Reclassification includes the transfer to Current Loans to group companies amounting to Euros 403 million.

The cumulative provision for the impairment of shareholdings in group companies and associates totals Euros 7,369 million at 31 December 2020 (Euros 6,505 million at 31 December 2019), relating basically to the following companies (Note 4):

	2020	2019	Variation
Naturgy Generación, S.L.U.	4,678	3,673	1,005
Unión Fenosa Gas, S.A.	2,179	2,132	47
Unión Fenosa Minería, S.A.	-	244	(244)
Gas Natural Exploración, S.L.	213	213	-
Naturgy Informática, S.A.	146	137	9
Petroleum, Oil & Gas España, S.A.	73	70	3
Lignitos de Meirama, S.A.	31	-	31
Naturgy Participaciones, S.A.U.	21	12	9
Naturgy LNG, S.L.	10	-	10
General de Edificios y Solares, S.L.	9	18	(9)
Other	9	6	3
Total	**7,369**	**6,505**	**864**

Financial income for dividends received from investments in equity instruments of group companies and associates during 2020 and 2019, correspond to the following companies:

	2020	2019
Holding Negocios Gas, S.A.	432	151
Naturgy Iberia, S.A.	200	59
Holding Negocios Electricidad, S.A.	183	-
Sagane, S.A.	175	375
Naturgy Distribución Latinoamérica S.A.	141	243
Naturgy Aprovisionamientos S.A.	95	-
Naturgy Inversiones Internacionales, S.A.	25	108
Naturgy Engineering, S.L.	15	1
Naturgy Capital Markets, S.A.	3	4
UFD Distribución Electricidad, S.A.	-	308
Global Power Generation, S.A.	-	105
Naturgy Finance, B.V.	-	7
Other	2	-
Total	**1,271**	**1,361**

The breakdown of shareholdings in Naturgy companies is set out below:

Company	Registered Office	Activity	Carrying value 2020	Carrying value 2019
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	85
Naturgy LNG, S.L.	Spain	Gas supply	5	14
Sagane, S.A.	Spain	Gas supply	42	42
Unión Fenosa Gas, S.A.	Spain	Gas supply	262	309
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	154	121
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	93
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	107	107
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,936	3,936
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	5,115	5,115
Naturgy Generación, S.L.U.	Spain	Electricity generation	2,719	3,723
Naturgy Renovables, S.L.U.	Spain	Electricity generation	397	397
Global Power Generation, S.A.	Spain	Electricity generation	648	711
Toledo PV A.I.E.	Spain	Electricity generation	-	-
Naturgy Almacenamientos Andalucía S.A.	Spain	Gas infrastructures	5	8
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	9
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	-	3
Liginitos de Meirama, S.A.	Spain	Mining	15	-
Natural Re, S.A.	Luxembourg	Insurance	9	9
General de Edificios y Solares, S.L.	Spain	Services	54	45
Lean Corporate Services, S.L.	Spain	Services	-	-
Lean Customer Services, S.L.	Spain	Services	-	-
Lean Grids Services, S.L.	Spain	Services	-	-
Clover Financial and Treasury Services, D.A.C.	Ireland	Financial services	-	-
Naturgy Capital Markets, S.A.	Spain	Financial services	-	-
Naturgy Finance, B.V.	Netherlands	Financial services	7	7
Naturgy Participaciones, S.A.	Spain	Financial services	89	98
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	-	-
Naturgy Informática, S.A.	Spain	IT services	10	18
Naturgy IT, S.L.	Spain	IT services	-	-
Naturgy Engineering, S.L.	Spain	Engineering services	19	23
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	558	558
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	2	-
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	89
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	944
Unión Fenosa Minería, S.A.	Spain	Holding company	-	72
Total			**15,413**	**16,548**

(1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.
(2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

Data at 31 December 2020

	% interest							Equity
Direct	Indirect	Total	Capital	Reserves [1]	Profit/ (loss)	Interim dividend	Other[2]	EQUITY
100.0	-	100.0	1	86	(45)	-	(6)	36
100.0	-	100.0	2	12	-	-	(9)	5
100.0	-	100.0	95	22	224	(100)	(3)	238
50.0	-	50.0	33	525	(39)	-	(2)	517
100.0	-	100.0	3	101	(98)	-	46	52
100.0	-	100.0	2	27	(24)	-	-	5
100.0	-	100.0	11	4	1	-	-	16
100.0	-	100.0	3	159	205	(100)	22	289
100.0	-	100.0	-	3,934	214	(183)	-	3,965
80.0	-	80.0	-	6,318	291	-	-	6,609
100.0	-	100.0	1,052	1,499	(982)	-	(20)	1,549
100.0	-	100.0	90	211	(16)	-	-	285
75.0	-	75.0	20	698	50	-	(47)	721
33.3	-	33.3	-	-	1	-	-	1
100.0	-	100.0	-	8	(3)	-	-	5
100.0	-	100.0	8	11	5	-	(15)	9
32.3	67.7	100.0	4	4	(10)	-	-	(2)
100.0	-	100.0	23	3	(11)	-	-	15
100.0	-	100.0	5	56	1	-	-	62
100.0	-	100.0	34	11	9	-	-	54
75.0	-	75.0	-	-	1	-	-	1
75.0	-	75.0	-	-	1	-	-	1
75.0	-	75.0	-	(1)	1	-	-	-
100.0	-	100.0	-	-	-	-	-	-
100.0	-	100.0	-	-	2	-	-	2
100.0	-	100.0	-	4	4	-	-	8
100.0	-	100.0	-	99	(9)	-	(1)	89
100.0	-	100.0	-	1	1	(1)	110	111
100.0	-	100.0	20	(1)	(9)	-	-	10
75.0	-	75.0	-	-	-	-	-	-
100.0	-	100.0	-	16	17	(15)	1	19
100.0	-	100.0	-	1	-	-	-	1
100.0	-	100.0	402	238	(17)	-	-	623
100.0	-	100.0	2	-	-	-	-	2
100.0	-	100.0	-	205	(6)	-	-	199
100.0	-	100.0	250	346	70	-	(275)	391
100.0	-	100.0	-	-	-	-	-	-

The non-current loans to group companies as at 31 December 2020 amounts to Euros 15,177 million with a maturation date in 2022 (at 31 December 2019, Euros 16,202 million maturing in 2021).

Set out below are movements during 2020 and 2019 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 1.1.2019	**740**	**57**	**797**
Additions	342	135	477
Divestments	(959)	(53)	(1,012)
Reclassifications and transfers	405	-	405
Exchange differences	(1)	-	(1)
Balance at 31.12.2019	**527**	**139**	**666**
Additions	180	111	291
Divestments	(483)	(135)	(618)
Reclassifications and transfers	406	-	406
Exchange differences	(2)	-	(2)
Balance at 31.12.2020	**628**	**115**	**743**

There are no significant differences between carrying values and fair values in the balances under Loans to group companies and other receivables.

The heading "Loans to group companies" includes loans to group companies amounting to Euros 349 million (Euros 298 million in 2019) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 212 million (Euros 175 million in 2019). It also includes accrued unmatured interest of Euros 67 million (Euros 54 million in 2019).

At 31 December 2020, loans to group companies and associates have borne interest at a rate of 2.20% (2.46% in 2019) in the case of non-current loans and 1% (1% in 2019) in the case of current loans.

Dividends pending collection at 31 December 2020 amounted to Euros 110 million, recorded under “Other current financial assets” (Euros 135 million at 31 December 2019).

Note 8. Investments

The breakdown of investments by category is as follows:

At 31 December 2020	Available-for-sale financial assets	Loans and receivables	Total
Equity instruments	5	-	5
Other financial assets	-	4	4
Non-current investments	**5**	**4**	**9**
Other financial assets	-	171	171
Current investments	**-**	**171**	**171**
Total	**5**	**175**	**180**

At 31 December 2019	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Equity instruments	5	-	-	5
Other financial assets	-	5	-	5
Non-current investments	**5**	**5**	**-**	**10**
Derivatives (Note 14)	-	-	1	1
Other financial assets	-	23	-	23
Current investments	**-**	**23**	**1**	**24**
Total	**5**	**28**	**1**	**34**

Available-for-sale financial assets

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2020 and 31 December 2019.

Loans and receivables

This heading relates entirely to Other financial assets. It breaks down as:

	At 31.12.2020	At 31.12.2019
Deposits and guarantee deposits	4	5
Non-current	**4**	**5**
Deposits and guarantee deposits	51	23
Trading portfolio	120	-
Current	**171**	**23**
Total	**175**	**28**

The trading portfolio includes the valuation of deposits made at year-end as CO_2 emission allowances for an amount of Euros 120 million.

Note 9. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.2020	At 31.12.2019
Trade receivables	65	84
Trade receivables, group companies and associates	143	255
Sundry receivables	3	6
Provision	(28)	(30)
Derivatives (Note 14)	123	344
Current income tax asset	4	183
Other amounts receivable from Public Administrations	2	1
Total	**312**	**843**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 21 days.

Movements in the bad debt provision are as follows:

	2020	2019
At 1 January	**(30)**	**(29)**
Net charge for the year (Note 21)	2	(1)
At 31 December	**(28)**	**(30)**

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.2020	At 31.12.2019
Cash at banks and in hand	1,076	474
Other cash equivalents	1,542	700
Total	**2,618**	**1,174**

"Other cash equivalents" mainly relate to short-term investments in deposits associated with CO_2 emission allowances maturing in under three months and with assured returns.

Note 11. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during 2020 and 2019 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Capital reduction	(16,567,195)	(17)	-	(17)
At 31 December 2019	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	-	(14)
At 31 December 2020	**969,613,801**	**970**	**3,808**	**4,778**

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

On 10 August 2020, capital was reduced through the redemption of 14,508,345 treasury shares with a par value of Euro 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on Treasury shares in Note 11). Following the capital reduction share capital stood at Euros 970 million and consisted of 969,613,801 shares with a par value of Euro 1 each.

On 5 August 2019, capital was reduced through the redemption of 16,567,195 treasury shares with a par value of Euro 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution, establishing the share capital at Euros 984 million and consisted of 984,122,146 shares with a par value of Euro 1 each.

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

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

The most relevant holdings in the Company's share capital at 31 December 2020 and 2019, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	% Interest in share capital	
	2020[4]	2019[4]
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa"[1]	24.8	24.4
Global Infrastructure Partners III[2]	20.6	20.3
CVC Capital Partners SICAV-FIS, S.A.[3]	20.7	20.4
Sonatrach	4.1	4.1

[1] Holding through Criteria Caixa, S.A.U.
[2] Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.
[3] Through Rioja Acquisition S.à.r.l.
[4] Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

All the Company's shares are traded on the four official Spanish Stock Exchanges and the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The Company's share price at 31 December 2020 was Euros 18.96 (Euros 22.40 at 31 December 2019).

Reserves

“Reserves” includes the following reserves:

	2020	2019
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	-	27
Voluntary reserves	10,702	10,973
Capital redemption reserve	31	17
Other reserves	258	256
Total	**11,291**	**11,573**

Legal reserve

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

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

Statutory reserve

Under the Company’s Articles of Association, 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

Law 22/2015 on Auditing eliminated the requirement to record annually the restricted reserve for at least 5% of the goodwill figuring under assets on the Balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the Balance sheet.

At the Annual General Meeting held on 26 May 2020, the shareholders agreed to the transfer to Voluntary reserves of Euros 27 million from the Goodwill reserve (Euros 82 million in 2019). At 31 December 2020, the entire Goodwill reserve has been reclassified to Voluntary reserves.

Capital redemption reserve

Following approval at the ordinary General Meeting of Shareholders held on 26 May 2020, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million and Euros 284 million in Voluntary reserves (Euros 17 million of capital reduction and Euros 383 million of Voluntary reserves in 2019).

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million (Euros 17 million in 2019).

Voluntary reserve and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Naturgy's Consolidated Annual Accounts.

Share-based payments

On 31 July 2018, within the framework of the Strategic Plan 2018-2022 the Board of Directors approved a long-term variable incentive plan (ILP) involving the Executive Chairman and 25 other executives. The main characteristics of the plan were approved by the General Meeting of Shareholders on 5 March 2019.

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the Company's shareholders in the period concerned.

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

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

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

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

Forecast share price volatility[1]	17.73%
Plan duration (years)	5.00%
Expected dividends	6.26%
Risk-free interest rate	0.34%

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

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 2 million (Euros 3 million in 2019) has been recorded in the Income statement for 2020 under "Personnel expenses", credited to “Other equity instruments” in the Balance sheet.

Treasury shares

Movements during 2020 and 2019 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2019	**5,397,737**	**121**	**0.5**
Share Acquisition Plan	332,382	7	-
Delivered to employees	(310,812)	(7)	-
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
At 31 December 2019	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	-
Delivered to employees	(455,797)	(8)	-
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**-**

In 2020 and 2019, no gains or losses were made on transactions involving treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within at most five years, in one or more operations, for good and valuable consideration, shares of the company that are fully paid-up, provided that the nominal value of the shares acquired directly or indirectly, added to those already held by the Company and its subsidiaries, does not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be less than the par value of the shares nor higher than their listed market price.

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

Transactions with the Company’s Treasury shares relate to:

2020

- Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In 2020, 470,000 treasury shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 share buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019), which were allocated to reducing capital.

- Capital reduction: At a meeting on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the Annual General Meeting of Shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by at most Euros 21,465,000, as follows:

  a. The 465,000 treasury shares held by the Company at market close on 24 July 2019.

  b. The 21,000,000 additional shares, with par value of Euro 1 each, which had been acquired and could continue to be acquired for cancellation by the Company under the share buyback programme ("Buyback Programme") approved by the Company in accordance with Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280,517), with a deadline for acquisition of 30 June 2020, inclusive.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares as at 30 June 2020 under the approved buyback programme referred to in paragraph (b), the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and resolved to implement this reduction. The Capital Reduction was carried out through the cancellation of 14,508,345 treasury shares with a par value of Euro 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction, share capital stood at Euros 970 million, made up of 969,613,801 shares with a par value of Euro 1 each.

2019

- Share Ownership Plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 20 April 2017, the Share Ownership Plan 2017-2018-2019 for Naturgy employees in Spain who voluntarily applied was implemented for 2019. The Plan enables participants to collect part of their 2019 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. In 2019, 332,382 treasury shares were purchased for Euros 7 million and 310,812 were delivered, leaving a remainder of 21,570 treasury shares.

- 2018 Buyback Programme: Within the Strategic Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be cancelled if so decided by the shareholders at the Annual General Meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, i.e. a total cost of Euros 400 million, which were allocated to reducing capital.

- Capital reduction: At a meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the Annual General Meeting of Shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

  a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of Euro 1 each which had been acquired at the close of trading on 6 December 2018.

  b. The aggregate par value, up to a maximum of Euros 16 million, corresponding to the amortisation of the up to 16,000,000 additional shares with a par value of Euros 1 each acquired for amortisation under the share buyback programme approved under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the cancellation of 16,567,195 treasury shares with a par value of Euro 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the capital reduction share, capital stood at Euros 984 million, made up 984,122,146 shares with a par value of Euro 1 each.

- 2019 Share Buyback Programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Dividends

Set out below is a breakdown of the payments of dividends made in 2020 and 2019:

	2020			2019		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	**141%**	**1.41**	**1,370**	134%	1.34	1,319
Other shares (without voting rights, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**141%**	**1.41**	**1,370**	**134%**	**1.34**	**1,319**
a. Dividends charged to Income statement	**141%**	**1.41**	**1,370**	134%	1.34	1,319
b. Dividends charged to reserves or share premium account	-	-	-	-	-	-
c. Dividends in kind	-	-	-	-	-	-

2020

At a meeting held on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. agreed to the proposed distribution of profits described in Note 11 to the Annual Accounts for the year ended 31 December 2019. Following the declaration of a "state of alarm" and with the aim of safeguarding the health and safety of all shareholders, employees and collaborators, the company decided to postpone the Annual General Meeting scheduled for 17 March 2020.

To prevent this deferral having a detrimental effect on its shareholders and particularly on the over 70,000 minority shareholders, on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a third interim dividend of Euros 0.593 per share out of 2019 profits, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 25 March 2020.

The Company had sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 16 March 2020 was as follows:

Profit after tax		4,415
Reserves to be replenished		-
Maximum amount distributable		4,415
Interim dividend 2019 profits		754
Forecast maximum interim dividend payment[1]		584
Cash resources	1,100	
Undrawn credit facilities	4,807	
Total liquidity		5,907

[1] Amount considering total shares issued.

On 15 April 2020 the Board of Directors approved a new proposal for the distribution of the Company's net profit for 2019 which was to the Annual General Meeting:

Available for distribution

Available for distribution.. 4,415

Distribution:

TO DIVIDENDS: the gross aggregate amount will be equal to the sum of the following quantities (the "Dividend"):

a. Euros 1,330 million relating to the three interim dividends for 2019 paid by the Company, equivalent jointly to Euros 1.36 per share by the number of shares that were not direct treasury shares on the relevant dates; and

b. The amount obtained by multiplying Euros 0.010 per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined ("Complementary dividend").

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

Total distributed.. 4,415

The Annual General Meeting of Shareholders held on 26 May 2020 approved the supplementary dividend of Euros 0.010 per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 3 June 2020.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 3,076 million.

On 21 July 2020, the Company's Board of Directors resolved to pay a first interim dividend of Euros 0.31 per share out of 2020 results, for shares not directly held as treasury stock on the payment date, payable on 29 July 2020.

The Company has sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 21 July 2020 is as follows:

Profit after tax		535
Reserves to be replenished		—
Maximum amount distributable		535
Forecast maximum interim dividend payment[1]		305
Cash resources	2,679	
Undrawn credit facilities	5,383	
Total liquidity		8,062

[1] Amount considering total shares issued.

Finally, on 27 October 2020, the Company's Board of Directors resolved to pay a second interim dividend of Euros 0.50 per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 11 November 2020.

The Company has sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 27 October 2020 is as follows:

Profit after tax		915
Reserves to be replenished		-
Maximum amount distributable		915
Interim dividend 2020 profits		301
Forecast maximum interim dividend payment[(1)]		485
Cash resources	2,785	
Undrawn credit facilities	5,325	
Total liquidity		8,110

[(1)] Amount considering total shares issued.

The trend in the Company's profits in the last quarter of the year, basically due to the impairment of holdings in group companies, means that at year-end profits are insufficient to be able to pay an interim dividend. At the Annual General Meeting, therefore, the Board of Directors will propose that they should be taken to retained earnings.

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2020 and retained earnings, for submission to the Annual General Meeting:

Available for distribution

Profit 98

Retained earnings 3,076

Available for distribution 3,174

Distribution:

TO DIVIDENDS: The gross aggregate amount will be equal to the sum of the following quantities (the "Dividend"):

i. Euros 785 million ("Total Interim Dividend") relating to the two interim dividends for 2020 paid by Naturgy Energy Group, S.A., equivalent jointly to Euros 0.810 per share by the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim Financial Statements prepared and in accordance with the legal requirements, which showed that there was sufficient liquidity for the distribution of such interim dividends out of profit for the financial year 2020 and,

ii. The amount obtained by multiplying Euros 0.63 per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the “Supplementary Dividend”) are determined.

The Supplementary Dividend proposal is consistent with the commitments of the previous Strategic Plan, reaffirmed in market presentations during the year 2020. However, by suspending the share buyback programme, the company has shown caution in the face of uncertainties during 2020.

The group is currently in the process of drawing up a new Strategic Plan that will take into account i) the deterioration of the demand forecast as a result of the evolution of the pandemic; ii) the worsening of the macroeconomic situation, and in particular the expected evolution of exchange rates in Latin America where the group carries out a significant part of its activity; iii) the forecast of the main energy indicators affecting all the liberalised gas businesses; and iv) business opportunities in the energy transition (renewables, hydrogen and others).

The main objectives of this new Plan are i) to reformulate the one in force until now; ii) to give greater visibility for the coming years; iii) to define a long-term sustainable shareholder remuneration policy.

Of this Dividend, an amount of Euros 785 million has already been paid on 29 July and 11 November 2020. Payment of the Suplementary Dividend will be made in the amount per share indicated above through the entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The aforementioned dividend will be paid to shareholders as from 16 March 2021.

To this effect, the Board of Directors is empowered, with express power of substitution in the Director or Directors it deems appropriate, to carry out all necessary or appropriate actions to carry out the distribution and, in particular, by way of indication and not limitation, to designate the entity that shall act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the Dividend amount from the distribution base.

Total distributed 3,174

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the Annual General Meeting includes a supplementary payment of Euros 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2020 dividend (Euros 0.63 per share) the same number of treasury shares is maintained as at the 2020 year-end (35,773 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 1,778 million.

2019

The Annual General Meeting of Shareholders held on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 20 March 2019.

On 23 July 2019, the Company’s Board of Directors resolved to pay an interim dividend of Euros 0.294 per share out of 2019 results, paid on 31 July 2019 to the outstanding shares on this date for an amount of Euros 289 million.

On 29 October 2019, the Company's Board of Directors resolved to pay a second interim dividend of Euros 0.473 per share out of 2019 results for a total of Euros 465 million, which was paid on 12 November 2019 with respect to the outstanding shares at that date.

Note 12. Provisions

The breakdown of provisions at 31 December 2020 and 2019 is as follows:

	At 31.12.20	At 31.12.19
Provisions for employee obligations	258	272
Other provisions	115	187
Non-current provisions	**373**	**459**

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2020			2019		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	**267**	**5**	**272**	**250**	**6**	**256**
Appropriations/reversals charged to Income statement	4	2	**6**	6	3	**9**
Payments during the year	(15)	(2)	**(17)**	(13)	-	**(13)**
Changes recognised directly in equity	(2)	-	**(2)**	54	-	**54**
Transfers and other applications	(1)	-	**(1)**	(30)	(4)	**(34)**
At 31 December	**253**	**5**	**258**	**267**	**5**	**272**

Pensions and other similar liabilities

Most of the Company's post-employment obligations consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2020 and 31 December 2019, the Company held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.

- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Healthcare and other benefits.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of obligations	**2020**	2019
At 1 January	**969**	**927**
Service cost for the year	1	1
Interest cost	8	16
Changes recognised directly in equity	3	97
Benefits paid	(63)	(61)
Transfers and other	(1)	(11)
At 31 December	**917**	**969**

Fair value of plan assets		
At 1 January	**702**	677
Expected yield	5	11
Contributions	4	1
Changes recognised directly in equity	5	43
Benefits paid	(52)	(49)
Transfers and other	-	19
At 31 December	**664**	**702**
Provisions for pensions and similar obligations	**253**	**267**

The amounts recognised in the Income statement for all the above-mentioned defined benefit plans are as follows:

	2020	2019
Service cost for the year	1	1
Interest cost	3	5
Total charge to the Income statement	**4**	**6**

Benefits to be paid, depending on the duration of the previous commitments, are as follows:

	2020	2019
1 to 5 years	-	1
5 to 10 years	26	23
More than 10 years	227	243
Provisions for pensions and similar obligations	**253**	**267**

The plan assets expressed as a percentage over the fair value of total assets are as follows:

% of total	2020	2019
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are negative in the amount of Euros 20 million at 31 December 2020 (negative in the amount of Euros 22 million at 31 December 2019).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2020	2019
Financial assumptions	37	48
Demographic assumptions	(6)	-
Experience	(33)	6
At 31 December	**(2)**	**54**

Actuarial assumptions applied are as follows:

	At 31.12.20	At 31.12.19
Discount rate (p.a.)	0.0 to 0.78%	0.0 to 1.33%
Expected return on plan assets (p.a.)	0.0 to 0.78%	0.0 to 1.33%
Future salary increases (p.a.)	2.00%	2.00%
Future pension increases (p.a.)	2.00%	2.00%
Inflation rate (p.a.)	2.00%	2.00%
Mortality table	PERMF 2020	PERMF 2000
Life expectancy:		
Men		
Retired during the year	23.5	23
Retiring within 20 years	43.8	43
Women		
Retired during the year	27.3	27.5
Retiring within 20 years	48.3	48.9

The new PERMF2020 tier 2 group tables, approved on 28 December 2020 by the Directorate General for Insurance, have been used for the valuation of pensions and other similar obligations in Spain at 31 December 2020, for all commitments that contribute a monetary amount to the heading "Provisions for commitments with personnel" in the Balance sheet at 31 December 2020. In addition, for the remaining commitments having associated assets, and which are therefore insured, the tables in force in 2019 (PERFMF2000) have continued to be used as the change in tables has no impact on the monetary amount of the provision, as it is recorded net of the relevant asset.

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of healthcare have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2020 and 31 December 2019, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2020 and 2019.

Other obligations with personnel

Within the framework of the Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 11, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the Annual Accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2020 totals Euros 5 million (Euros 5 million in 2019).

At 31 December 2019, a provision was included relating to the remuneration programmes 2017-2019 amounting to Euros 2 million, all of which was classified as current.

Other non-current provisions

The movement in other non-current provisions is as follows:

	2020	2019
At 1 January	**187**	222
- Appropriations[1]	11	3
- Reversals	(27)	(46)
Transfers and other	(56)	8
At 31 December	**115**	187

[1] Includes Euros 1 million and Euros 3 million in 2020 and 2019, respectively, relating to the financial update of provisions.

"Non-current provisions" mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17), litigation and arbitration, and other liabilities.

No provision for business contracts was deemed necessary at 31 December 2020 or 2019.

At 31 December 2020, the estimated payment dates for these obligations are between one and five years (Euros 109 million), between five and ten years (Euros 6 million) and more than ten years (Euros 0 million) (2019: Euros 11 million at between one and five years, Euros 161 million at between five and ten years and Euros 15 million at more than ten years).

Note 13. Borrowings

The breakdown of borrowings at 31 December 2020 and 2019 is as follows:

	At 31.12.2020	At 31.12.2019
Borrowings from financial institutions	2,720	1,744
Derivatives (Note 14)	108	90
Other financial liabilities	1	1
Non-current borrowings	**2,829**	**1,835**
Borrowings from financial institutions	257	253
Derivatives (Note 14)	21	16
Other financial liabilities	121	2
Current borrowings	**399**	**271**
Total	**3,228**	**2,106**

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

	Carrying amount		Fair value	
	At 31.12.20	At 31.12.19	**At 31.12.20**	At 31.12.19
Bank borrowings, derivatives and other financial liabilities	2,829	1,835	2,831	1,835

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash-flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2020 and 31 December 2019 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2020	2019
At 1 January	**2,106**	**2,286**
Increase	1,372	49
Decrease	(250)	(229)
At 31 December	**3,228**	**2,106**

The following tables describe borrowings and maturities at 31 December 2020 and 2019, taking into account the impact of derivatives.

	2021	2022	2023	2024	2025	2026 and beyond	**Total**
At 31 December 2020:							
Fixed	237	167	291	91	191	961	**1,938**
Floating	162	785	287	15	40	1	**1,290**
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

	2020	2021	2022	2023	2024	2025 and beyond	**Total**
At 31 December 2019:							
Fixed	115	158	125	91	91	1,052	**1,632**
Floating	156	181	69	36	15	17	**474**
Total	**271**	**339**	**194**	**127**	**106**	**1,069**	**2,106**

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 321 million of total borrowings at 31 December 2020 (Euros 0 million at 31 December 2019) and variable-rate debt would amount to Euros 2,778 million at 31 December 2020 (Euros 2,000 million at 31 December 2019).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2020 and 31 December 2019 and their maturities, taking into account the impact of the derivative hedges:

	2021	2022	2023	2024	2025	2026 and beyond	Total
At 31 December 2020:							
Euro debt	399	952	578	106	231	962	**3,228**
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

	2020	2021	2022	2023	2024	2025 and beyond	Total
At 31 December 2019:							
Euro debt	271	339	194	127	106	1,069	**2,106**
Total	**271**	**339**	**194**	**127**	**106**	**1,069**	**2,106**

Borrowings bore an average effective interest rate in 2020 of 1.03% (0.82% in 2019) including the derivatives assigned to each transaction.

At 31 December 2020, Bank borrowings includes Euros 9 million in interest pending payment (Euros 6 million at 31 December 2019).

Most of the outstanding financial debt carries a change-of-control clause referring to acquisition of over 50% of the voting stock or of the right to appoint a majority of members of the Board of Directors of Naturgy Energy Group, S.A. Those clauses carry additional conditions so that triggering them depends on some of the following events occurring simultaneously: a significant downgrade of the credit rating due to a change of control, or loss of an investment grade rating; inability to fulfil the financial obligations under the contract; material impairment for the creditor, or a material adverse change in solvency. These clauses would entail repayment of the outstanding debt, although the time period would normally be longer than in the event of early termination.

At the preparation date of these Annual Accounts, the Company is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

The most relevant financial instruments are as follows:

Other bank borrowings

The group continues to work on enhancing its financial profile. In this respect, the most relevant financing operations with credit institutions arranged during 2020 were as follows:

a. New loans and credit lines in Spain amounting to Euros 1,225 million and Euros 400 million, respectively.

b. Refinancing of credit lines in Spain amounting to Euros 2,388 million.

Naturgy also enjoys a comfortable debt maturity profile and Balance sheet position, as well as flexibility in its capital expenditure and operating expenses for coping with the current economic scenario.

Institutional financing

The Company records a loan from the Official Credit Institute (ICO) relating to instruments maturing in 2029 at maximum, for a total amount of Euros 180 million (Euros 200 million in 2019).

The European Investment Bank (EIB) has granted financing to Naturgy which at 31 December 2020 is fully drawn down, in the amount of Euros 1,564 million maturing between 2020 and 2037 (Euros 1,791 million drawn down at 31 December 2019). This loan could be subject to early repayment in the event of a change in control, additionally requiring a rating downgrade, and has special debt repayment terms that are longer than those in the event of early termination. In addition, Euros 1,359 million (Euros 1,459 million at 31 December 2019) is subject to compliance with certain financial ratios.

Note 14. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash-flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

The Company employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2020 and 2019 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.20	At 31.12.19
Fixed interest rate	1,938	1,632
Floating interest rate	1,290	474
Total	**3,228**	**2,106**

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2020	50	(6)	41
	-50	6	(41)
2019	50	(2)	50
	-50	2	(50)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash-flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks the Company finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange insurance within the approved limits of hedging instruments.

The non-Euro currency with which the Company operates most is the US Dollar. The sensitivity of the Company’s profits and equity ("Adjustments for changes in value") to a 5% variation (increase or decrease) in the US Dollar/Euro exchange rate is as follows:

		2020	2019
Effect on profit before tax	+5%	-	-
	-5%	-	-
Effect on equity before tax	+ 5%	-	-
	- 5%	-	-

Commodity price risk

The Company purchases gas to be supplied to other Naturgy companies.

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants.

These gas supply contracts are typically signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sales prices to final customers are usually signed on a short/medium term basis and sales prices are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices, e.g. in periods of gas oversupply.

Therefore, Naturgy is exposed to the risk of variation in the price of gas with respect to the selling price of end customers. Exposure to these risks is managed and mitigated by natural hedging through the monitoring of the position with respect to these commodities, trying to balance the prices of purchase and supply obligations and sales prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve natural hedging, the position is managed, within reasonable risk parameters, by contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In electricity and CO_2 emission allowances trading by the Company, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

There are no impacts to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes.

Additionally, CO_2 emission allowances have been acquired together with derivatives to hedge them in order to obtain a return on cash surpluses over the short term; their fair value changes offset each other.

Naturgy has no relevant investments in upstream businesses or commodities production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.

- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Additionally to that policy, a large portion of Naturgy's supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy's markets and prices of the supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which Naturgy does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

Credit risk relating to trade receivables is reflected in the Balance sheet net of provisions for bad debts (Note 9), estimated by the Company on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2020 or 2019.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2020 and 2019.

The impaired financial assets are broken down in Note 9.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2020 and 2019 the Company did not have significant concentrations of credit risk.

Liquidity risk

The Company has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

At 31 December 2020, available cash totalled Euros 7,930 million (Euros 6,132 million in 2019), considering cash and cash equivalents of Euros 2,618 million (Euros 1,174 million in 2019) together with bank borrowings and undrawn credit facilities amounting to Euros 5,312 million (Euros 4,958 million in 2019).

Capital management

The main purpose of the Company's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers a long-term leverage level of approximately 50% as an indicator of the capital management objectives.

The Company's long-term credit rating is as follows:

	2020	2019
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Other considerations

Naturgy has not received any government aid to mitigate the effects of COVID-19 nor any tax benefits. Furthermore, it has not renegotiated any leases affecting right of use assets and recognised associated liabilities.

Nor has Naturgy instigated any lay-off proceedings as a result of COVID-19.

Since the beginning of the COVID-19 crisis, Naturgy has prioritised its commitment towards people and society and has taken various measures to mitigate the economic impact of the pandemic, such as postponing payment of electricity, gas and service bills for SMEs, individuals and the self-employed, providing free supplies to field hospitals (IFEMA and Fira de Barcelona) and to hotels with medical facilities, and other measures for its SME or self-employed suppliers, who are eligible for a cash payment programme for invoices pertaining to the second quarter of the year. All these measures help to mitigate the impact of the decline in revenues and strengthen the liquidity of the parties concerned.

In addition, as an expression of gratitude for and acknowledgement of the dedication of health personnel, law enforcement personnel and members of the army and the fire brigade, they have been offered a year of free service for electricity and gas breakdowns and for repairs of household appliances and gas equipment, whether or not they are Naturgy customers. In addition, Naturgy has provided all its customers with free medical attention by videoconference during these months.

On 23 June 2016 UK voters supported the departure of their country from the European Union in a national referendum ("Brexit"). On 31 January 2020 the United Kingdom left the European Union and a transitional period to 31 December 2020 commenced, the aim being to allow citizens and businesses more time to adjust to the situation and to negotiate agreements establishing a new framework for the relationship between the Union and the United Kingdom. During the transition period, the United Kingdom has continued to implement Union legislation, but without being represented in the EU institutions. On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement with provisional entry into force on 1 January 2021. The Agreement has four main pillars: a Free Trade Agreement; a framework for economic, social, environmental and fisheries co-operation; an internal security partnership; and a common governance framework for the Agreement as a whole. Although it will not be equal, in any way, to the level of economic integration that existed while the UK was an EU Member State, the Trade and Cooperation Agreement goes beyond traditional free trade agreements and provides a solid basis for maintaining the former co-operation and friendship. The Brexit process has had and may continue to have adverse effects on the economic and political situation in the EU and the stability of global financial markets. Without considering the above impact on an international level, Naturgy's exposure to the risk derived from Brexit is not considered significant.

Derivative financial instruments

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

	At 31.12.20		At 31.12.19	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	**-**	**108**	**-**	**90**
Cash-flow hedge				
Interest rate	-	81	-	64
Interest rate and foreign exchange rate	-	27	-	26
Other financial instruments	**136**	**136**	**189**	**189**
Price of commodities	136	136	189	189
Derivative financial instruments – non-current	**136**	**244**	**189**	**279**
Hedging derivative financial instruments	**-**	**142**	**1**	**15**
Cash-flow hedge				
Interest rate	-	21	-	15
Exchange rate	-	-	1	-
Price of commodities	-	121	-	-
Other financial instruments	**123**	**123**	**344**	**345**
Price of commodities	123	123	344	344
Exchange rate	**-**	**-**	**-**	**1**
Derivative financial instruments - current	**123**	**265**	**345**	**360**
Total	**259**	**509**	**534**	**639**

"Other financial instruments" include the derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	2020		2019	
	Operating profit	Net financial income/(expense)	Operating profit	Net financial income/(expense)
Cash-flow hedge	-	(17)	-	(8)
Other financial instruments	1	(1)	2	4
Total	**1**	**(18)**	2	(4)

The breakdown of derivatives at 31 December 2020 and 2019, their fair value and maturities of their notional values is as follows:

								At 31.12.20
	Fair value							Notional value
		2021	2022	2023	2024	2025	Subsequent years	Total
Interest rate hedges:								
Cash-flow hedges:								
Financial swaps (EUR)	(102)	63	91	191	70	498	576	1,489
Interest rate and foreign exchange rate hedges:								
Cash-flow hedges:								
Financial swaps (NOK)	(27)	-	-	101	-	-	-	101
Exchange rate hedges:								
Cash-flow hedges:								
Foreign exchange insurance (USD)	-	33	-	-	-	-	-	33
Fair value hedges:								
Foreign exchange insurance (USD)	-	-	-	-	-	-	-	-
Price of commodities hedges:								
Cash-flow hedges:								
Price of commodities Derivatives (EUR)	(121)	1,228	-	-	-	-	-	1,228
Other:								
Foreign exchange insurance (USD)	-	-	-	-	-	-	-	-
	(250)	**1,324**	**91**	**292**	**70**	**498**	**576**	**2,851**

								At 31.12.19
	Fair value							Notional value
		2020	2021	2022	2023	2024	Subsequent years	Total
Interest rate hedges:								
Cash-flow hedges:								
Financial swaps (EUR)	(79)	844	63	91	91	70	1,074	2,233
Interest rate and foreign exchange rate hedges:								
Cash-flow hedges:								
Financial swaps (NOK)	(26)	-	-	-	101	-	-	101
Exchange rate hedges:								
Cash-flow hedges:								
Foreign exchange insurance (USD)	1	119	-	-	-	-	-	119
Fair value hedges:								
Foreign exchange insurance (USD)	-	5	-	-	-	-	-	5
Other:								
Foreign exchange insurance (USD)	(1)	18	-	-	-	-	-	18
	(105)	**986**	**63**	**91**	**192**	**70**	**1,074**	**2,476**

Note 15. Payables to group companies and associates

The breakdown by maturity of payables to group companies is as follows:

Maturity	At 31.12.2020	At 31.12.2019
2020	-	3,168
2021	2,560	828
2022	1,451	1,451
2023	625	627
2024	1,604	1,590
2025	1,196	1,195
2026	1,589	597
Subsequent years	3,065	2,909
Total	**12,090**	**12,365**

Payables to group companies mainly relate to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,500 million in 2019) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million in 2019) are also included.

It also includes accrued unmatured interest of Euros 145 million (Euros 179 million in 2019) and cash-pooling balances with group companies amounting to Euros 1,268 million are also included (Euros 1,637 million in 2019).

A breakdown of amounts owed to group companies due to bond issues of Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

							At 31 December 2020
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	-	1,000	900
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euros	12,000	8,941	3,059	1,150

							At 31 December 2019
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	-	1,000	4,444
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euros	8,725	8,725	-	750

Specifically, the bonds issued, in a volume of Euros 8,941 million (Euros 8,725 million at 31 December 2019), as usual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

The main movements for the years 2020 and 2019 are:

2020

Issuances in 2020 under this programme were as follows:

Issue	Par value	Maturity	Coupon (%)
April 2020	1,000	2026	1.250
May 2020(*)	150	2029	0.750

(*) Increase issue November 2019.

In 2020 two bonds have matured for a total amount of Euros 934 million with an average coupon of 5.07%.

In 2020 Naturgy issued bonds under Euro Commercial Paper (ECP) programme for an amount of Euros 900 million (Euros 4,444 million at 31 December 2019). At 31 December 2020, there were no outstanding issues under the ECP, as was the case at 31 December 2019.

2019

In November 2019 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 750 million maturing in 10 years and with a 0.75% coupon, the proceeds of which were used in a bond buy-back offer for Euros 653 million of debentures maturing between 2021 and 2025.

In addition, in December 2019 an offer was made for the repurchase of a bond amounting to Euros 300 million, maturing in 2021 with a coupon of 0.515%. These two operations involved a net disbursement of Euros 203 million and have had a negative impact on the "Net financial income" of the Income statement of Euros 84 million (Note 23).

In 2019 bonds had matured for a total amount of Euros 780 million with an average coupon of 5.28%.

Borrowings from group companies and associates accrued an average interest rate of 2.20% in 2020 (2.46% in 2019).

There are no significant differences between the carrying amounts and fair values of Payables to group companies and associates.

Note 16. Trade and other payables

The breakdown at 31 December 2020 and 2019 is as follows:

	At 31.12.2020	At 31.12.2019
Trade payables	141	237
Trade payables, group companies and associates	59	131
Derivatives (Note 14)	123	344
Other payables	10	11
Personnel (outstanding remuneration)	18	36
Public Administrations	17	21
Current tax liabilities (Note 17)	93	-
Total	**461**	**780**

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Information on average supplier payment period. Additional Provision 3 "Duty of disclosure" of Law 15/2010 of 5 July

The average payment period is in accordance with Law 15/2010 on measures to combat late payment in business operations.

Information disclosed under the Resolution of 29 January 2016 of the Institute of Accountants and Auditors concerning the details to be included in the notes to the Annual Accounts concerning the average supplier payment period is as follows:

	2020	2019
	Amount	Amount
Total payments (thousand euro)	458,021	1,947,320
Total outstanding payments (thousand euro)	18,284	18,540
Average supplier payment period (days)[1]	32	18
Transactions paid ratio (days)[2]	32	17
Transactions pending payment ratio (days)[3]	38	30

[1] Calculated on the basis of amounts paid and pending payment.
[2] Average payment period in transactions paid during the year.
[3] Average age, suppliers pending payment balance.

The accompanying ratios do not include situations that could distort calculations, such as Trade payables, group companies and associates.

Note 17. Tax situation

The Company is the parent of tax group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The tax group for 2020 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for 2020 and 2019 to taxable income is as follows:

	At 31.12.20	At 31.12.19
Accounting profit before tax	**60**	**4,347**
Permanent differences	**(184)**	**(4,616)**
Temporary differences:		
Arising during current year	51	40
Arising in prior years	(139)	(23)
Taxable income	**(212)**	**(252)**

Permanent differences mainly relate to the application of the tax consolidation system and the double taxation exemption for dividends and income derived from the transfer of shares under Article 21 of Law 27/2014 on Corporate Income Tax, which has led to negative permanent differences of Euros 1,271 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 1,361 million in 2019), the impairment of shareholdings in group companies and associates amounting to Euros 1,080 million (Euros 320 million in 2019) and intragroup sales of shareholdings in group companies and associates for a negative amount of Euros 1 million (Euros 3,560 million in 2019).

In 2020 the Company posted a tax loss of Euros 212 million (Euros 252 million in 2019), which is recovered from the tax group companies due to the taxable income generated by them during the year.

Income tax expense is as follows:

	2020	2019
Current-year tax	60	64
Deferred tax	(22)	4
Total	**38**	**68**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied in 2020 amounted to Euros 4 million (Euros 4 million in 2019) and no tax losses were offset.

In 2020 there were negative adjustments for tax differences from the previous year, resulting in an increased expense, amounting to Euros 4 million (Euros 0 million in 2019).

Other adjustments for future risk provisions, foreign income tax and the reversal of final tax assessments totalling Euros 7 million are also recognised as an increase in the current tax expense.

On 3 December 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances, which introduced relevant changes in the corporate income tax area. Among other matters, with effect from 1 January 2016 the obligation is laid down to reverse provisions for the impairment of shareholdings that would have been deductible before 2013 in a maximum term of five years, the offsetting of tax losses for large companies is limited to 25% of the preliminary tax base and the application of the tax credit for domestic or international double taxation generated or pending application is restricted to 50% of preliminary gross tax payable. Additionally, effective from 1 January 2017, losses on the transfer of shares will not be deductible. In 2020 and 2019 these measures did not have a significant impact on the Company's Financial Statements.

Incomes that qualify to the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Legislative Royal Decree-Law 4/2004 (Revised CIT Act) of 5 March and the resulting investments made in previous periods are explained in the Annual Accounts for the relevant years. The relevant breakdown is as follows:

Year of sale	Amount obtained from sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	2	2	1	2011
2014	412	412	209	2014
Total	**414**	**414**	**210**	

The reinvestment was in fixed assets used in business activities, made by the Company itself or any other company included in the tax group by virtue of the provisions of Article 75 of the Revised CIT Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the Revised CIT Act) is explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	39	39	20	-	20
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	309	309	226	-	226
2009	161	161	87	-	87
2010	752	752	551	-	551
2011	450	450	394	1	393
2012	38	38	32	-	32
Total	**3,390**	**3,390**	**2,249**	**31**	**2,218**

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies in the tax group, pursuant to Article 75 of the Revised CIT Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31.12.20			At 31.12.19		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Cash-flow hedges	21	(5)	16	46	(12)	34
Actuarial gains and losses and other adjustments	(2)	1	(1)	53	(13)	40
	19	**(4)**	**15**	**99**	**(25)**	**74**

A breakdown of deferred taxes is as follows:

	At 31.12.20	At 31.12.19
Deferred tax assets:	193	177
Non-current	180	162
Current	13	15
Deferred tax liabilities:	(211)	(211)
Non-current	(211)	(211)
Net deferred tax	**(18)**	**(34)**

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Provisions	Tax credits	Valuation of assets and financial instruments	Goodwill	Other	Total
At 1.1.2019	**109**	**2**	**10**	**12**	**19**	**152**
Creation (reversal)	4	-	-	-	-	4
Movements linked to equity adjustments	13	-	12	-	-	25
Transfers and other	(5)	2	(1)	-	-	(4)
At 31.12.2019	**121**	**4**	**21**	**12**	**19**	**177**
Creation (reversal)	(4)	-	-	(1)	(17)	(22)
Movements linked to equity adjustments	(1)	-	5	-	-	4
Transfers and other	-	34	-	-	-	34
At 31.12.2020	**116**	**38**	**26**	**11**	**2**	**193**

Deferred tax liabilities	Differences Depreciation	Deferred gains	Other	Total
At 1.1.2019	**2**	**207**	**3**	**212**
Creation (reversal)	-	-	-	-
Movements linked to equity adjustments	-	-	-	-
Transfers and other	-	-	(1)	(1)
At 31.12.2019	**2**	**207**	**2**	**211**
Creation (reversal)	-	-	-	-
Movements linked to equity adjustments	-	-	-	-
Transfers and other	-	-	-	-
At 31.12.2020	**2**	**207**	**2**	**211**

In 2015, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this operation was defined as a non-cash contribution of a line of business and was thus subject to the special scheme provided by Title VII, Chapter VIII of that law. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2015 Annual Accounts.

In 2014, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided for in Title VII, Chapter VIII of said Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2014 Annual Accounts.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into the Company under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII of the Revised CIT Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2009 Annual Accounts.

The tax inspection proceedings initiated against the Company in July 2018 as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT concluded at the end of 2020. The periods under inspection for corporate income tax purposes (tax consolidation regime) were from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

The assessments raised on the conclusion of the proceedings have not had a material impact on the Naturgy companies as the resulting liability had already been provisioned.

As a result of the agreed tax assessments, a current tax liability has been recognised under "Trade and other payables" (Note 16), as the voluntary settlement period ends in 2021.

The assessments relating to the adjustment to the international double taxation credit was contested, as the company considers that its approach is supported by legal doctrine and case law on this matter. This amount has been recorded under "Provisions" (Note 12).

In accordance with Spanish tax legislation, at the date of preparation of these Annual Accounts, the Company's returns for the last four years for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

Concerning tax-related appeals, on 30 September 2020 the Spanish National Court handed down a ruling on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2006-2008, which were contested and which basically regularised the tax deduction for export activities. This ruling has yet to be implemented and the resulting liability is recorded under "Provisions" (Note 12).

On 3 July 2019, the Central Economic-Administrative Court ruling of 14 May 2019 was received in relation to the administrative appeals filed against the assessments arising from the inspection of Naturgy's corporate income tax for 2009-2010, which had been contested and which regularised the tax credit for export activities and the exemption for international double taxation applied. This ruling partially upheld the appeal filed and its implementation has resulted in a refund in Naturgy's favour of Euros 5 million.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these Annual Accounts.

Naturgy has recorded provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant (Note 12).

Spanish Act 11/2020, enacting the Central Government Budget for 2021, published in the Official State Gazette on 31 December 2020, amended certain articles of the Corporate Income Tax Act (Act 27/2014). The main amendments relate to a cap on the tax exemption for dividends and capital gains so that, for annual periods commencing on or after 1 January 2021, only 95% of those deriving from holdings of over 5% of share capital will be exempt and, consequently, those relating to holdings whose acquisition cost exceeded Euros 20 million cease to be exempt (although a transitional system is provided for the latter).

The tax consolidation system was also amended as dividends between companies in the same Tax Consolidation Group are no longer eliminated, resulting in effective taxation of 1.25% of dividends received and capital gains generated in Spanish companies receiving dividends from companies in which they own a stake of 5% or greater, even where the company distributing the dividend and the recipient both belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the cap on the deductibility of financial expenses in the case of holding companies where the dividends form part of their operating profit, only dividends from companies in which they own 5% or more will be considered, while dividends from holdings whose acquisition cost was greater than Euros 20 million are not included in the calculation.

Note 18. Revenue

Revenue breaks down as follows:

	2020	2019
Electricity sales	-	655
Natural gas sales and other	667	1,085
Other sales	-	5
Provision of services	1	-
Income from equity instruments of group companies and associates (Note 7)	1,271	1,361
Income from marketable securities and other financial instruments of group companies and associates	353	390
Total	**2,292**	**3,496**

	2020	2019
Domestic market	1,770	2,974
Export market:	522	522
European Union	521	510
Other countries	1	12
Total	**2,292**	**3,496**

Electricity and gas sales in 2019 were made basically in the domestic market and relate to gas and electricity sales to other Naturgy companies.

The Company also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

Note 19. Raw materials and consumables

Includes gas purchases related to the activity of selling gas to other Naturgy companies. In the previous year, it also included sales of electricity prior to 1 June 2019.

Note 20. Personnel expenses

A breakdown of this heading in the Income statement for 2020 and 2019 is as follows:

	2020	2019
Wages and salaries	66	91
Termination benefits	32	57
Social security costs	8	13
Defined contribution plans	2	5
Defined benefit plans (Note 12)	1	1
Share-based payments (Note 11)	2	3
Other	4	3
Total	**115**	**173**

The average number of Company employees in 2020 and 2019 is as follows:

	2020	2019
Executives	48	291
Middle management	214	138
Specialists	191	328
Operational staff	74	180
Total	**527**	**937**

In 2020, Naturgy implemented a new system for evaluating work posts that affects the comparison by category of both the average workforce and the workforce at the end of the year.

The average number of Company employees during 2020 and 2019 with a disability equal to or greater than 33% is as follows:

	2020		2019	
	Men	Women	Men	Women
Executives	-	-	2	1
Middle management	1	2	1	1
Specialists	3	1	7	3
Operational staff	1	-	5	6
Total	**5**	**3**	**15**	**11**

The number of Company employees at the end of 2020 and 2019 broken down by category and gender is as follows:

	2020		2019	
	Men	Women	Men	Women
Executives	29	8	163	94
Middle management	96	68	62	65
Specialists	65	82	95	173
Operational staff	8	49	32	134
Total	**198**	**207**	**352**	**466**

Note 21. Other operating expenses

A breakdown of this heading in the Income statement for 2020 and 2019 is as follows:

	2020	2019
Leases, royalties, operation and maintenance	27	35
Professional services and insurance	19	23
Advertising and other commercial services	14	15
Contribution Naturgy Foundation	6	6
Banking services	6	6
Supplies	20	26
Taxes	1	1
Impairment losses and changes in trade provisions (Note 9)	(2)	1
Other	79	89
Total	**170**	**202**

The Company makes contributions to the Naturgy Foundation to enable it to carry out its energy and environmental projects, basically in the community area, as well to fund international initiatives.

In the community area, the Naturgy Foundation has broadened its activities to place greater emphasis on its community initiatives, defining new strategic lines for actions aimed at palliating energy vulnerability.

Note 22. Other operating income

This account includes Euros 149 million in transactions with group companies and associates in 2020 (Euros 206 million in 2019).

Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2020 and 2019 is as follows:

	2020	2019
Income from marketable securities and other financial instruments	5	11
Total financial income	**5**	**11**
Cost of borrowings	(326)	(402)
Interest expense on pensions (Note 12)	(3)	(5)
Other financial expense	(10)	(76)
Total financial expense	**(339)**	**(483)**
Variation in fair value of financial instruments	1	(5)
Net exchange differences	(2)	(2)
Net financial income/(expense)	**(335)**	**(479)**

Note 24. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US Dollar:

	2020	2019
Sales	257	629
Income from marketable securities and other financial instruments of group companies and associates	7	24
Purchases	(257)	(628)
Services received	(5)	(8)
Total	**2**	**17**

Note 25. Information on transactions with related parties

The following are related parties for the purposes of this Note:

- Significant Company shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.).

- Directors and executives of the Company and their close relatives. The term “director” means a member of the Board of Directors and the term “senior management personnel” refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and senior management personnel are disclosed in Note 26.
- Transactions between Naturgy companies form part of ordinary activities and are effected at arm's length. group companies includes the amount that reflects the Company's share of the balances and transactions with companies consolidated under the equity method.

The aggregated amounts of operations with significant shareholders are as follows (thousand euro):

	2020			2019		
Income and expense (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Receipt of services	1	-	-	1	-	-
Total expenses	**1**	**-**	**-**	**1**	**-**	**-**
Total income	**-**	**-**	**-**	**-**	**-**	**-**
Other transactions (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Dividends and other profits distributed	339,625	283,813	282,795	333,486	268,548	267,584

The aggregated amounts of operations with group companies and associates are as follows (million euro):

	2020		2019	
Expenses, income and other transactions	**Group companies**	**Jointly controlled entities and associates**	**Group companies**	**Jointly controlled entities and associates**
Financial expenses	(292)	-	(444)	-
Lease expenses	(1)	-	(1)	(2)
Receipt of services	(24)	(1)	(12)	-
Purchases of goods	(353)	-	(340)	-
Total expenses	**(670)**	**(1)**	**(797)**	**(2)**
Financial income	350	4	390	-
Dividends received	1,355	1	2,050	1
Sale of goods	516	-	1,651	-
Other income	148	1	205	1
Total income	**2,369**	**6**	**4,296**	**2**

In 2020, the heading “Purchases of goods” relates basically to natural gas purchases from group companies (in 2019 it related mainly to purchases of electricity from other group companies, since the Company acted as their market representative until 1 June 2019).

The heading "Dividends received" includes the supplementary dividend payments made against the share premium account, recorded as a Euros 85 million decrease in investments in group companies (Euros 690 million in 2019) (Note 7).

"Sales of goods" includes sales of natural gas derived from supply contracts (in 2019 electricity sales were also included as it acted as the market representative of the group companies).

The heading "Other income" includes income from services rendered in accordance with the nature and extent thereof (Note 22).

Costs shared between the Company and other Naturgy companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Note 26. Information on Board members and management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 26 May 2020 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (ACC), Appointments and Remuneration Committee (ARC) and Sustainability Committee (without additional remuneration), totalled Euros 3,955 thousand (with no increase as compared with 2019), broken down in euros as follows:

	Office	Board	AC	ARC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	-	-	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	60,000	90,000	355,000
Mr. Enrique Alcántara-García Irazoqui (1)	Director	36,694	12,581	-	49,275
Mr. Marcelino Armenter Vidal	Director	175,000	-	60,000	235,000
Mr. Francisco Belil Creixell	Director	175,000	90,000	60,000	325,000
Mrs. Lucy Chadwick (2)	Director	138,306	47,419	-	185,725
Mrs. Helena Herrero Starkie	Director	175,000	60,000	-	235,000
Ms. Isabel Estapé Tous (2)	Director	138,306	47,419	-	185,725
Mr. Rajaram Rao	Director	175,000	12,581	47,419	235,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	-	60,000	235,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	60,000	60,000	295,000
Mr. Claudi Santiago Ponsa	Director	175,000	-	60,000	235,000
Mr. Scott Stanley (1)	Director	36,694	-	12,581	49,275
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	60,000	-	235,000
		3,055,000	450,000	450,000	3,955,000

(1) Until 16 March 2020.
(2) From 16 March 2020.

In 2020, as in 2019, no amounts were received for other items.

At 31 December 2020, the Board of Directors was still formed of 12 members, the Audit Committee of 7 members, the Appointments and Remuneration Committee of 7 members and the Sustainability Committee of 5 members, without the creation of this new committee having led to an increase in remuneration during 2020.

For the executive functions carried out in the year 2020, the Chief Executive Officer has earned Euros 2,976 thousand corresponding to fixed compensation (Euros 960 thousand), annual variable (Euros 1,918 thousand) and other items (Euros 98 thousand), although the amount corresponding to the annual variable remuneration will be settled as a discretionary contribution to the pension plan of which the Chief Executive Officer is a beneficiary, in accordance with the contractually established (in the year 2019 the amounts were Euros 930 thousand for fixed compensation, Euros 2,369 thousand for variable and Euros 72 thousand for other concepts; also, in the year 2019, the annual variable remuneration was settled as a discretionary contribution to the pension plan).

Contributions to pension plans and group contractual insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed discretionary to the social welfare plan mentioned above, totalled Euros 473 thousand in 2020 (Euros 477 thousand in 2019). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 7,568 thousand at 31 December 2020 (Euros 5,232 thousand at 31 December 2019).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and 25 other senior executives take part. It is arranged through the acquisitions of shares the main characteristics of which are described in Note 11. The new incentive required the adaptation of the Remuneration Policy and the Executive Chairman's contract, which were approved by the Shareholders' General Meeting held on 5 March 2019.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total remuneration: fixed remuneration, annual variable remuneration and the annualized part of the long-term remuneration (equivalent to 1.25 times total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

Except as mentioned for the CEO, the members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2020 by Naturgy Energy Group, S.A. for the entire policy amounted to Euros 316 thousand (Euros 140 thousand in 2019).

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the Annual Accounts.

During 2020, in two sessions of the Board of Directors, two directors have abstained from participating as inorganic investments were examined in which there was a conflict of interest with Naturgy. Except for these cases, the Directors of Naturgy have not reported any general conflict of interest to the Board of Directors.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During the years 2020 and 2019, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or group companies.

Management Committee remuneration

For the sole purposes of the information contained in this section, Management Committee refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Director.

At 31 December 2020, 9 people make up this group, without taking into account the Internal Audit Director (11 people at 31 December 2019). During 2020 there have been 7 exits and 5 entries.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 5,170 thousand, Euros 2,755 thousand, Euros 79 thousand and Euros 428 thousand, respectively, in 2020 (Euros 6,217 thousand, Euros 3,452 thousand, Euros 1,081 thousand and Euros 362 thousand, respectively, in 2019). The long-term variable incentive plan (ILP) are described in Note 11 and Note 12.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,128 thousand in 2020 (Euros 1,422 thousand in 2019). Funds accumulated due to these contributions amount to Euros 5,544 thousand at 31 December 2020 (Euros 17,967 thousand at 31 December 2019).

There are no advances granted to management personnel at 31 December 2020 (Euros 45 thousand at 31 December 2019). At 31 December 2020, same as in 2019, Naturgy had not granted any new guarantees on loans to management personnel. Severance benefits received by senior management personnel leaving Naturgy amounted to Euros 14,261 thousand in 2020 (Euros 3,832 thousand in 2019).

The contracts signed with the Management Committee (9) contain a clause that establishes compensation for termination of the relationship that varies from two total annual remuneration and three and a half total annual remuneration in others, in certain cases, which include certain situations of change in control, unfair dismissal or the cases contemplated in articles 40, 41 or 50 of the Statute of Workers. Likewise, 9 of these contracts contain a clause that establishes compensation equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period up to two years.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2020 and 2019 are as follows:

- Guarantees provided to third parties, basically for investment commitments of group companies, amounting to Euros 34 million (Euros 57 million at 31 December 2019).
- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for debt issuances carried out by them totalling Euros 10,551 million (Euros 10,335 million at 31 December 2019).
- Guarantees to group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S for obligations under the gas purchase and transport contracts and gas tanker chartering agreements.

In 2019 the following guarantees provided by the Company were also included:

- Guarantees relating to the economic obligations resulting from its participation in the Spanish electricity system (MEFF and OMIE) for Euros 19 million at 31 December 2019, which have been cancelled.
- Guarantee for compliance with obligations under the administrative concession granted for USD 7 million (Euros 6 million) and guarantees for compliance with loan obligations relating to investee companies amounting to USD 78 million (Euros 69 million), which have also been cancelled in 2020 as the obligation ceased to exist due to the assignment to other Naturgy Group companies.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered reduced. Naturgy estimates that the liabilities not foreseen at 31 December 2020 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

At 31 December 2020, the Company is party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 3.5), by virtue of which it has gas purchase rights for the period 2021 - 2024 in the amount of Euros 547 million, calculated on the basis of natural gas prices at 31 December 2020 (2019: Euros 799 million based on natural gas prices at 31 December 2019).

Operating lease commitments break down as follows:

	2020	2019
Up to one year	17	19
Between 1 and 5 years	69	61
Between 5 and 10 years	42	43
	128	123

In 2020 this mainly includes operating leases without purchase options on seven properties, as detailed below:

Property	Situation	Maturity contract	Extension contract
Avda San Luis, 77	Madrid	2026	5 years
Acanto, 11-13	Madrid	2026	5 years
Calle Lérida	Madrid	2027	5 years
Avda América, 38	Madrid	2030	2 periods of 5 years
Can Ametller	Sant Cugat del Vallés (Barcelona)	2024	5 years
Diagonal, 525	Barcelona	2031	2 periods of 5 years
Torre del Gas	Barcelona	2021	-

Contingent liabilities for litigation and arbitration

The Company is involved in certain judicial and extrajudicial disputes within the ordinary course of its activities. At the date of preparation of these Annual Accounts, the main litigation or arbitration in which the Company is involved are the following:

Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contained various provisions that require negotiations between the parties, which gave rise to a second arbitration process. A second arbitration award was issued in June 2020, in addition to the one issued in February 2018, which concluded the claim filed in 2015 against Qatar Liquefied Gas Company Limited, its main decision being a 3.65% increase in the price paid in Spain. In addition, the award already allows this gas to be sold in various European terminals (France, United Kingdom, Belgium and the Netherlands). The settlement of this arbitration has not had a significant impact on the Consolidated Annual Accounts.

Energy subsidy ("bono social")

The Supreme Court ordered the reimbursement of the amounts contributed by the Company to the social bond for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. That Court revoked the Supreme Court decision and returned the proceeding to the point prior to the issuance of judgement. The Constitutional Court questioned why the Supreme Court had not applied for a preliminary ruling from the Court of Justice of the European Union and it applied for a preliminary ruling.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. A decision has yet to be issued in the arbitration being conducted in Madrid. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last, as has been done. In January 2020, as Egypt had not provided the guarantees established by ICSID, the suspension that had been provisionally decreed was lifted and enforcement actions were resumed, with the award having been approved in the United Kingdom and the Netherlands.

Following the agreement reached in February 2020 and terminated in April due to the failure to meet certain conditions precedent, in December 2020 Naturgy announced a new agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes affecting Unión Fenosa Gas. Following the conclusion of the relevant agreements in December 2020 the transaction is expected to be executed in early 2021, once the usual conditions precedent are met, including the resumption of operations in Damietta scheduled for the first quarter of 2021. The enforcement of the arbitration award is suspended while these conditions are met. The new agreement, approved by the Egyptian Cabinet, is in line with the previous agreement and values Unión Fenosa Gas (100%) in a total consideration of up to USD 1,500 million, depending on the energy scenario, of which USD 1,200 million relates to its Egyptian assets (including the outstanding legal proceedings) and the remaining USD 300 million to assets outside Egypt.

At 31 December 2020, the Balance sheet includes provisions for litigation based on the best estimate made using the information available at the date of preparation of these Annual Accounts on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Note 28. Auditors' fees

The fees accrued in thousand euro by the company Ernst & Young, S.L. are as follows:

	Thousand euro	
	2020	2019
Auditing services	696	693
Assurance services and services related to the audit [(1)]	55	179
Other services [(1)]	127	17
Total fees	**878**	**889**

[(1)] These headings include verification reports on non-financial information, comfort letters and advice on sustainability.

Note 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy. To this end, four strategic environmental axes have been established:

- Environmental governance and management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Natural capital and biodiversity.

The main milestones in 2020 in connection with environmental governance and management were the creation of the Sustainability Committee within the Board of Directors and of the Environment and Social Responsibility Department under the Sustainability, Reputation and Institutional Relations Department, reporting directly to the Chairman. Additionally, the Company received first prize both the Spanish category (in which there were 115 candidates) and the European category (94 candidates) at the European Business Awards for the Environment, organised by the European Commission, in the Environmental Management section, which is granted to companies that combine environmental sensitivity with business success.

Environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to ensure continuous improvement.

In the area of climate change and the energy transition, the main lines of action pursued in 2020 were expansion of renewable generating capacity, the closure of all of Naturgy's coal-fired plants in the first half of the year, which produced a sizeable reduction in atmospheric emissions of CO_2 and other pollutants, and the reduction in emissions that resulted from using natural gas in place of more polluting fossil fuels, such as coal and petroleum derivatives. In this connection, Naturgy obtained the highest rating in the CDP Climate Change 2020 (A List), the most prestigious index on the fight against climate change. The company also received a diploma for "Exemplary Business Action for the Climate" from Comunidad #PorElClima because of its work and commitment to address the climate emergency. As for results, direct emissions of CO_2 declined in 2020 with respect to 2019, in line with the company's climate objectives.

With regard to the circular economy, work was conducted on a number of lines. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were implemented that led to a reduction in the consumption of fuels and other materials. Actions were also taken to enhance waste recovery and reduce waste production, resulting in an improvement in the ratio. Water use increased slightly in 2020 with respect to 2019, although this was due primarily to greater recourse to sea water, since the use of fresh water, the scarcest and most sensitive water resource, was reduced.

Work continued in order to drive the use of renewable gas, produced from organic waste. In 2020, the company injected 2.02 GWh into the Spanish gas grid from the Butarque wastewater treatment plant under the ECOGATE

European initiative, and construction commenced on the biomethane plant at the Elena landfill and on the injection unit at the Bens wastewater treatment plan, the goal being to inject renewable gas into the grid early in 2021.

In 2020, Naturgy conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with preventing, reducing and offsetting our impacts, and with enhancing the value of the natural surroundings. Specifically, more than 265 biodiversity initiatives were implemented worldwide, 25% of them voluntary, and 1,982 environmental restoration actions were conducted.

The environmental activities undertaken by the Company in 2020 totalled Euros 3.9 million (Euros 3.8 million in 2019), comprising Euros 2 million relating to environmental investment and Euros 1.9 million relating to the costs of environmental management at facilities excluding those derived from the carbon market (Euros 0.3 million for environmental investments and Euros 3.5 million related to expenses incurred in environmental management at facilities in 2019). The investments include notably Euros 1.2 million in renewable projects in Spain and other countries, which will contribute to the energy transition and to reducing specific emissions of CO_2 and other atmospheric pollutants.

Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2020, total consolidated CO_2 emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 6 million tonnes of CO_2 (6.2 million tonnes of CO_2 in 2019).

Naturgy devises a strategy each year for managing transfers to its CO_2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 30. Events after the reporting date

On 15 January 2021, Naturgy, through Naturgy Solar USA, LLC, a wholly owned subsidiary, acquired a 100% holding in Hamel Renewables, LLC (United States) which holds a portfolio of 8 GW solar projects and 4.6 GW energy storage projects located in nine US states. The transaction represents an enterprise value of USD 57 million for 100% of the vehicle.

On 26 January 2021, Global InfraCo O (2), S.à. r.l., a company controlled by Australian fund IFM, announced a bid for Naturgy with the following characteristics:

- The takeover bid is voluntary and for a partial stake.
- It is for 220 million shares (approximately 22.69% of share capital) and is conditional upon attaining at least 17% of share capital.
- The price offered is Euros 23 per share.
- CVC and GIP have undertaken not to accept this takeover bid.
- The takeover bid is conditional upon obtaining authorisation from the Spanish Cabinet for foreign investments under Article 7.bis of Act 19/2003.

Appendix I. Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Engineering, S.L.
Boreas Eólica 2, S.A.	Naturgy Future, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Generación, S.L.U.
Energías Ambientales de Somozas, S.A.	Naturgy Iberia, S.A.
Energías Eólicas de Fuerteventura, S.L.	Naturgy Informática, S.A.
Energías Especiales Alcoholeras, S.A.	Naturgy Infraestructuras Emea, S.L.
Europe Maghreb Pipeline Ltd.	Naturgy Ingeniería Nuclear, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Inversiones Internacionales, S.A.
Fenosa, S.L.U.	Naturgy IT, S.L.
Gas Natural Comercializadora, S.A.	Naturgy LNG, S.L.
Gas Natural Exploración, S.L.	Naturgy Nuevas Energías, S.L.U.
Gas Natural Redes GLP, S.A.	Naturgy Participaciones, S.A.
Gas Natural Transporte SDG, S.L.	Naturgy Renovables Ruralia, S.L.
General de Edificios y Solares, S.L.	Naturgy Renovables, S.L.U.
Global Power Generation, S.A.	Naturgy Wind, S.L.
GPG Ingeniería y desarrollo de Generación, S.L.U.	Nedgia Andalucía, S.A.
GPG México, S.L.U.	Nedgia Aragón, S.A.
GPG México Wind, S.L.U.	Nedgia Balears, S.A.
Holding de Negocios de Gas, S.A.	Nedgia Castilla La Mancha, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Catalunya, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Cegas, S.A.
La Propagadora del Gas, S.A.	Nedgia Madrid, S.A.
Lean Corporate Services, S.L.	Nedgia Navarra, S.A.
Lean Customer Services, S.L.	Nedgia, S.A.
Lean Grids Services, S.L.	Operación y Mantenimiento Energy, S.A.
Lignitos de Meirama, S.A.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñarroldana, S.L.
Naturgy Alfa Investments, S.A.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Capital Markets, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Commodities Trading, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Distribución Latinoamérica, S.A.	Unión Fenosa Minería, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Preferentes, S.A.U.

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Directors' Report

1. Main aggregates performance

The main financial aggregates of Naturgy Energy Group, S.A. and their performance are as follows:

	2020	2019	%
Net turnover	2,292	3,496	(34,4)
Operating profit	395	4,826	(91,8)
Profit of the year	98	4,415	(97,8)
Shareholders' equity	18,471	19,914	(7,2)
Net equity	18,393	19,853	(7,4)
Current liabilities	3,228	2,106	53,3

Naturgy Energy Group, S.A., is a company that develops its activity basically through the tendency of other group and associated companies shares, so information below refers to Consolidated group of Naturgy (hereinafter, Naturgy).

1.1. Business performance and results

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached Appendix in Consolidated Directors' Report contains a definition of the APMs.
- The Income statement and operating figures for 2019 have been re-stated due to the discontinuation in 2020 application of IFRS 5 of the following activities: gas networks in Peru, electricity networks in Chile and coal power generation in Spain (Notes 2.2 and 11 of the Consolidated Annual Accounts).

Main aggregates

Main financial aggregates

	2020	2019	%
Net sales (1)	15,345	20,761	(26.1)
Ebitda (1)	3,449	4,252	(18.9)
Ebit (1)	466	2,634	(82.3)
Income attributable to equity holders of the parent (1)	(347)	1,401	(124.8)
Capital expenditure	1,279	1,685	(24.1)
Net borrowings (at 31/12)	13,612	15,268	(10.8)
Free cash-flow after non-controlling interests	1,626	1,958	(17.0)

(1) The consolidated Income statement for 2019 has been re-stated due to the discontinuation in application of IFRS 5 (Notes 2.2 and 11).

Key financials & metrics

	2020	2019
Leverage	54.70%	52.20%
Ebitda / Cost of net borrowings	6.9x	7.8x
Net borrowings / Ebitda	3.9x	3.6x

Main stock market ratios and shareholder remuneration

	2020	2019
Total no. of shares (in thousands)	969,614	984,122
Average no. of shares (in thousands)(1)	962,555	977,636
Share price at 31/12 (euros)	18.9	22.4
Market capitalisation at 31/12 (million euro)	18,384	22,044
Earnings per share (euros)(1)	(0.36)	1.43
Dividend paid	1,370	1,319

(1) Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Main operating aggregates

Distribution	**2020**	2019
Gas distribution (GWh)	403,910	465,844
Electricity distribution (GWh)	35,536	38,292
Gas supply points (in thousands)	11,052	11,075
Electricity supply points (in thousands)	4,727	4,689
Gas distribution network (km)	134,802	133,917
Length of electricity transmission and distribution network (km)	151,495	150,341

Gas	**2020**	2019
Supply (GWh)	184,018	214,975
International LNG (GWh)	133,979	124,277
Total gas supply (GWh)	**317,997**	**339,252**

Electricity	**2020**	2019
Thermal installed capacity (MW)	10,674	10,594
Renewable installed capacity (MW)	4,659	4,534
Total installed capacity (MW)	**15,333**	**15,128**
Thermal net production (GWh)	31,501	36,309
Renewable net production (GWh)	9,513	7,696
Total net production (GWh)	**41,014**	**44,005**

Environmental and social performance

Environment	2020	2019
Power generation emission factor (t CO_2/GWh)	297	301
Greenhouse gas (GHG) emissions (M tCO_2eq)[1]	14.3	15.4
Emissions-free installed capacity (%)	32.9	30.1
Emissions-free net production (%)	32.4	27.0

Interest in people	2020	2019
No. of employees at year-end[2]	9,335	10,156
Training hours per employee	26.6	25.2
Men/women (%)[3]	67/33	68/32

Health and safety	2020	2019
No. of accidents leading to time lost	4	14
Frequency of accidents with time lost	0.04	0.12

Commitment to society and integrity	2020	2019
Economic value distributed (million euro)	16,235	21,533
No. of complaints received by the Ethics Committee	80	149

(1) GHG: greenhouse gases measured as tCO_2 equivalent (scope 1).
(2) Does not include the number of employees at discontinued operations (1,411 persons in 2020 and 1,769 persons in 2019).
(3) Including employees at discontinued operations.

1.2. Executive summary

- COVID-19 impacted operating performance in 2020 mainly in the form of lower gas and power demand in Spain and Latin America, a more challenging scenario in International LNG and relevant FX depreciation in key Latin American regions.
- The energy scenario remained challenging during the fourth quarter of 2020, with continued pressure on gas prices and the loss of competitiveness in gas procurement conditions in the liberalised activities which were also affected by one-off costs linked to the recent gas procurement contract renegotiations. The 2020 results were also impacted by the new regulatory framework and lower remuneration in electricity distribution Spain, as well as by the volume capacity step down in the EMPL, effective since February 2020.
- The 2020 results herein presented have been restated according to the new organisational structure i) Energy management and Networks, ii) Renewables and new businesses, and iii) Supply. Moreover results have also been restated to reflect the agreement to sell our Chilean electricity networks subsidiary, Compañía General de Electricidad S.A. in Chile (CGE), to State Grid International Development Limited (SGID). As a result and for comparability purposes, Chile CGE has been classified as discontinued operations in the consolidated accounts for both 2019 and 2020.

- Ordinary Ebitda stood at Euros 3,714 million in 2020, down 14.6% vs. previous year. At constant perimeter ordinary Ebitda would have reached Euros 3,964 million, hence meeting the Euros 4.0 billion ordinary Ebitda guidance provided for 2020 despite the challenging scenario.
- Reported Net Income has been impacted by the asset valuation review completed during the 4Q20, which translated into an impact of Euros 1,019 million, in an effort to provide a more transparent and realistic value of our asset base, mainly impacting Spain thermal generation. Excluding this effect, ordinary Net Income reached Euros 872 million in 2020, down 36.7% vs. 2019.
- Total Capex amounted to Euros 1,279 million in the period, down 24.1% vs. previous year. This reduction was mainly due to the lower growth investments in networks as a result of months of confinement and a temporary slowdown in renewable developments in Spain.
- As of 31 December 2020, Net debt amounted to Euros 13,612 million, not yet reflecting the pre-tax proceeds of Euros 2,570 million expected on completion of the disposal of CGE Chile. Net debt / LTM Ebitda stood at 3.9x compared to 3.6x as of 31 December 2019.

2020 review

2020 has continued to build on the foundations established in the Strategic Plan 2018-2022, including significant progress on simplicity & accountability, business optimisation, and capital discipline.

Simplicity and accountability

Naturgy has completed a reorganisation of its business around the three strategic areas which will usher in a new period of profitable growth in networks, the expansion of our renewable footprint, and the build-up of a world-class retail brand, among others. To lead these areas, Naturgy has attracted three talented managers with proven track records and relevant entrepreneurial experience.

Naturgy has continued to reinforce the autonomy and accountability of its business units together with greater transparency, as evidenced in a new asset valuation review, to reflect a realistic value of our asset base consistent with the current scenario.

Naturgy has also taken decisive steps to further its ESG commitments. In its Environmental Plan, Naturgy has set new targets to reduce its greenhouse gas (GHG) emissions, reduce CO_2 intensity in power generation and increase the share of its generation capacity from renewable sources. The recent shutdown of the company's coal power plants and the plans to replace them with new renewable developments will contribute towards the above goals. In addition, a Sustainability Committee has been established at the Board of Directors level to supervise the company's progress and role in the energy transition along with all its environmental, health and safety, and social responsibility aspects and indicators.

Business optimisation

2020 saw an acceleration of the 2018-2022 efficiency plan. Naturgy completed its Euros 500 million efficiencies target by the end of 2020, two years ahead of its initial target. These efforts have helped to partially compensate for the challenging energy scenario and the impact of the COVID-19 outbreak. Also during 2020, Naturgy completed gas procurement contract renegotiations for an aggregate volume of 15 bcms with its gas suppliers in order to reduce its risk profile, increase its flexibility and improve its price indexation parameters to bring the gas procurement contracts closer to the current market conditions and improve its commercial competitiveness.

Furthermore, Naturgy, ENI and The Arab Republic of Egypt reached a new agreement to resolve the disputes affecting Unión Fenosa Gas (UFG), the 50%/50% partnership between Naturgy and ENI. The parties are working towards completion of the transaction during the first months of 2021, once customary conditions precedent are met, including the restart of operations in Damietta planned in the first quarter of 2021, solving a complex situation which had lingered since 2012, consuming significant time and resources.

Capital discipline

Naturgy made solid progress on its renewable development plans and reached three attractive agreements in Australia. First, a 218 MW wind farm located at Victoria State which will start operations in second half of 2022, consisting of a 15-year PPA contract with the retailer Snow Hydro. Second, the award of a 107 MW wind farm and a 20 MWh battery energy storage system by the Australian Capital Territory (ACT) at a regulated tariff, expected to start operations in the second half of 2022. Third, a 97 MW wind farm located at Hawkesdale in Victoria, approximately 270 km from Melbourne, consisting of a 15-year power purchase agreement (PPA) for the energy equivalent to 97 MW capacity. With the new projects, Naturgy will increase its installed capacity in Australia by more than 50% above 700 MW and confirms its commitment to renewables growth.

The company reached an agreement to sell its 96.04% equity shareholding in CGE for an implied EV (100%) of Euros 4,312 million, which demonstrates Naturgy's ability to execute transactions which maximise value for its shareholders.

In this respect, Naturgy has recently acquired 100% of a portfolio consisting of 8 GW solar projects together with 4.6 GW of co-located energy storage projects spanning 9 states in the U.S., of which 25 projects totalling 3.2 GW of solar and 2 GW storage could be operational before 2026. As part of the transaction, Naturgy also entered into a 5-year development agreement with Candela Renewables, a first in class team holding over 20 years of experience in the development of solar and energy storage projects in the U.S. This transaction represents Naturgy's first investment in the U.S. renewable energy market and demonstrates Naturgy's commitment to growing in renewables, focusing on stable geographies and early stage of development projects.

Shareholder remuneration

During 2020, Naturgy completed the cash payment of Euro 1.41/share including the final payment of 2019 corresponding to Euro 0.6/share and the 1st and 2nd interim dividends for 2020 amounting to Euro 0.31/share and Euro 0.50/share respectively. Moreover, and further to its commitment with shareholders, Naturgy completed the cancellation of 14,508,345 shares, with a nominal value of Euro 1 each. As of today, the share capital of the company stands at 969,613,801 shares of Euro 1 of face value each.

COVID-19 update

Macroeconomic growth and energy demand

The COVID-19 has posed significant challenges to business activities and introduced a high degree of uncertainty on economic activity and energy demand on a global scale.

Throughout 2020, the evolution of GDP estimates for 2020 together with the recovery perspectives, have gradually deteriorated as a result of the spread of COVID-19 and the subsequent economic lockdown measures undertaken on a global scale. According to the latest available consensus estimates, 2020 GDP growth is expected to experience a contraction of -3.8%, -7.3% and -3.5% for the World, the Eurozone and the USA respectively, while 2021 forecasts also reflect a slower recovery than initially expected.

The slowdown in economic activity has had a significant impact on the evolution of electricity and gas demand globally and thereby on the various regions where the group operates. In particular, electricity and gas demand in Spain decreased on average by 5.5% and 6.2% respectively during 2020 compared to 2019. Similarly, electricity and gas demand across the Latin American regions where the group operates experienced a decrease on average of 2.3% and 8.3% respectively, during 2020 compared to 2019.

Furthermore and since the appearance of the COVID-19, Latin American currencies have significantly depreciated against EUR and its evolution from here remains uncertain. This had a negative effect of Euros 175 million and Euros 53 million on the consolidated group ordinary Ebitda and Net Income respectively during 2020 and compared to 2019.

Evolution of commodity prices

Lower energy consumption caused by the coronavirus pandemic and uncertainty around Brent production cuts of major producers globally has translated into significant volatility and an unprecedented decline of commodity prices across key references, including a decrease of gas prices on major gas hubs (HH and NBP have decreased on average by 22% and 29% respectively during 2020 vs. 2019) as well as a decrease in wholesale electricity prices (Spanish pool has decreased by 29% on average during 2020 compared to the average of 2019).

Company initiatives

Naturgy has proactively taken a number of key measures to address and mitigate the impacts of the COVID-19 pandemic on their operations and performance, as well as to support and protect the interests of all its stakeholders. On 25 February 2020, less than 24 hours following the first confirmed COVID-19 case in the Iberian Peninsula, Naturgy activated its Crisis Committee and started taking steps to support its stakeholders.

Measures to preserve employee health, safety and well-being were quickly introduced, including the prompt suspension of travel and attendance to external events, the activation of resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services. Relevant measures were also introduced to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply, free gas and electricity supply to hotels, residences and other hospitalised centers, or free of charge repairs for health workers and security forces and bodies, armed forces and fire fighters, involved in supporting society during the pandemic. Our SMEs and self-employed customers are also benefiting from the deferral of invoice payments for 12 months to support their short-term financing needs, while some of our suppliers have benefited from cash payment advances in respect of their invoices.

2. Market trends, risks and opportunities

2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders.

The main objective of the model is to ensure that the main risks are properly identified, assessed and managed, the goal being to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

The Integrated Risk Management and Control System is structured as follows:

- Risk Appetite: Definition of risk tolerance by setting limits for the main risk categories, by risk and by business, as a function of the targets.
- Risk Assessment: Methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Governance & Management: Risk governance and management mechanism for all risk classes and all businesses.
- Risk Reporting: Regular systematic reporting and monitoring of risk at the various levels of management: Business, Business Units, Chairman's Office and Board of Directors.

Risk management bodies

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

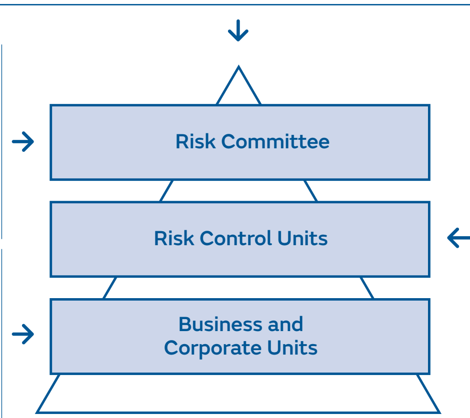
To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance.

Audit and Control Committee

Supreme body in charge of the efficacy of internal control and of the compnay's risk management systems. It checks that these systems identify the different kinds of risks and the measures introduced to mitigate said risks, and to tackle them in the event that they materialise.

Responsible for determining and reviewing the objective risk profile of the company. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and amanaging the most significant risks.

Responsible for application of the comprehensive principles of the General Risk Control and Management Policy and for risk management in their areas of responsibility: observing, reporting, managing and mitigating the different risks.



Responsible for monitoring, controlling and reporting the risk assumed, and ensuring this is within the limits defined by the objective risk profile. The Risk and Planning Unit and Internal Audit Unit (Coporate Units), and the Risk Management Unit and Business Risk and Planning Unit (Business Units) can be highlighted.

Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its Annual Accounts. In this way, it determines the maximum accepted level of risk exposure and the admissible limits.

The tools that enable the company to achieve continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are:

- Overall Risk Control and Management Policy: Updated and approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: Identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee every year.
- Other risk maps: These are developed by Naturgy's Business and Corporate units following a common methodology and serve as the basis for the Corporate Risk Map.
- Risk Measurement System: Serves to quantify, on a recurring probabilistic basis, the risk position assumed overall in each risk category. To this end, it analyses correlated risks, analyses sensitivity and performs stress tests for the main identified risk.

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.

Risk factors are grouped basically into the following risk categories:

- **Business risk:** Uncertainty associated with the pursuit and achievement of business units' objectives as a result of the emergence of factors that hinder the implementation of Naturgy's strategy, and that may have an impact on its value and/or on the Annual Accounts.
- **Market risk**, i.e. the uncertainty related to commodity volumes and prices.
- **Regulatory risk**, i.e. the potential impact on the achievement of strategic objectives produced by changes in the regulatory frameworks under which Naturgy businesses operate.
- **Tax risk**, arising from uncertainty as to whether the tax authorities will accept the tax treatment adopted in tax returns that have been filed or are to be filed.
- **Legal risk**, caused by the eventual outcome of litigation, arbitration or legal claims against Naturgy.
- **Financial risk**, understood as the uncertainty related to exchange rates and interest rates, which may impact the company's Balance sheet and its ability to raise funding in the capital markets.

- **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.
- **Operational risk**, i.e. the uncertainty associated with losses resulting from inadequate or faulty processes, personnel performance, operational asset availability or the occurrence of any external event.
- **Environmental risk**, associated with the possibility that natural phenomena or human action, may result in the environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Climate change risk**, arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.
- **Reputational risk**, i.e. uncertainty about trends in stakeholder's perception of the company's reputation as a result of conduct by the company or its employees, including corruption, and its influence on earnings in the short, medium and long term.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Fraud risk**, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.

2.2. Main risks

Risk type		Description	Management approach	Metric	Trend
Business risks					
Macroeconomic context		Macroeconomic, social and geopolitical instability.	Step up communications with government agencies. Adopt specific measures.	Deterministic	↑ Impact of the COVID-19 health crisis.
Market risks					
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Portfolio management.	Stochastic	↑ Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. **Optimisation of the generation 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.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume.	Optimisation of the supply-generation balance.	Stochastic	↑ Aggregate demand pressure.
Regulatory risk					
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑ Pressure from regulators, as a function of the situation of the country/industry.
Tax risk					
Tax		Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	⇆ Different business units are affected by different taxes.

Continues ›

Risk type	Description	Management approach	Metric	Trend
Legal risks				
Legal	Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆ Different business units are affected by different laws in each country.
Financial risk				
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	⇆ Uncertainty about growth prospects in Latin America.
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	⇆ Uncertainty about interest rate scenarios.
Credit risk				
Credit	Uncertainty about bad debt trends driven by the economic cycle.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑ Transitory effect of COVID-19.
Operational risk				
Insurable risks	Accidents, damage or 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.
Environmental risk				
Environment	Exceedance of environmental limits or harm to ecosystems or biodiversity due to natural causes or human action.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	⇆ Implementation of an Integrated Management System certified and audited each year by AENOR.

Continues ›

Risk type	Description	Management approach	Metric	Trend
Climate change risk				
Climate change and energy transition	Uncertainty arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.	Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios	↑ Regulatory uncertainty.
Reputational risk				
Image and reputation	Impairment of stakeholders' perception of Naturgy.	Identification and tracking of potential reputation events. Transparency in communication.	Scenarios	⇆ Stabilisation of MERCO index score.
Cybersecurity	Malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios	↑ The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact.

Metrics used:

- **Stochastic:** Production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally Ebitda, earnings after taxes, cash-flow and value.
- **Scenarios:** Analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks (interest rate, exchange rate, commodity prices, credit risk, liquidity risk) are discussed in Note 14 to the Annual Accounts.

Business risk

Uncertainty in the macroeconomic context

World economic growth has been modest in the last decade, which has seen stagnation in Europe and contraction in a number of emerging economies. The Euro area has lagged other advanced economies in the recovery from the sovereign debt crisis, which also impacted Spain. Growth has accelerated in Europe since 2017, although the macroeconomic structural fundamentals did not appear to be sufficiently solid. In 2019, with the world economy drifting to stagnation, the Euro area began to decelerate, reflecting modest underlying inflation, and a loss of confidence by business and consumers, resulting in stagnation of consumer and capital spending.

This was compounded by political instability in some countries, particularly with regard to Brexit on 31 January 2020, with the consequent uncertainty as to future relations between the two parties.

At this time, there is no accurate information as to the scope and medium-term consequences of the COVID-19 health crisis or as to the scale and pace of the recovery. However, the macroeconomic and energy situation in 2020 was profoundly affected by the COVID-19 crisis, which resulted in lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key regions of Latin America.

Geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments. It is exposed to two main geographies:

- Latin America

  A large part of Naturgy's operating profits are generated by its Latin American subsidiaries. Operations in Latin America are exposed to a range of risks inherent to investment in the region. Of the risk factors linked to investment and business in Latin America, the following should be noted:

  - Considerable influence of local governments on the economy.
  - Significant fluctuations in economic growth rates.
  - High inflation.
  - Devaluation, depreciation or overvaluation of local currencies.
  - Controls or restrictions on the repatriation of earnings.
  - Fluctuating interest rates.
  - Changes in financial, economic and fiscal policies.
  - Unexpected changes to regulatory frameworks.
  - Social tensions.
  - Political and macroeconomic instability.

- Middle East and Maghreb

  Naturgy has both assets and major gas procurement contracts in several countries of the Maghreb and the Middle East. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the group's gas supply.

Market risks

Electricity and gas price volatility

A significant portion of Naturgy's operating costs are related to the prices of natural gas and liquefied natural gas (LNG), both for supply in the regulated and liberalised markets in which it operates and to supply its combined cycle power plants.

In the gas supply business, the prices that Naturgy charges its customers generally reflect price trends in the natural gas market. However, since supplies are delivered under long-term contracts, in the event of sudden price changes, procurement costs may not reflect the variation in such prices in very competitive environments, possibly resulting in adverse variations in margins in the short term, with an impact on Naturgy's financial position. Market prices are clearly influenced by global demand dynamics, particularly the trends in Asian countries.

Naturgy's procurement contracts generally have mechanisms in the form of clauses that guarantee ordinary and extraordinary price reviews in the event of mismatches in procurement prices. These review processes make it possible to modulate the impact of mismatches between Naturgy's selling prices in its markets and price trends in its procurement portfolio, although the outcome depends on negotiations.

Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts, which include clauses under which Naturgy might be obliged to buy certain volumes of gas each year (take-or-pay clauses). Under such contracts, even if Naturgy does not need to acquire the volume of gas to which it is committed in a given time period, it will be obliged by contract to pay the minimum amount to which it is bound under the "take-or-pay" clause.

Those contracts contemplate volumes of gas that are in line with Naturgy's estimated needs. Nevertheless, actual needs may be lower than was estimated at the time of signing the contracts. If there are significant changes with respect to such estimates, Naturgy will be obliged to acquire a larger volume of gas than it actually needs or, failing that, to pay for the minimum amount of gas to which it is committed, even if it does not acquire more than it actually needs. Although such contracts have price review mechanisms and offer some flexibility in volume between time periods (make-up clauses), a decline in demand in the main markets or a loss of price competitiveness by the contracts might have an adverse impact on Naturgy's commercial and financial position.

In the area of electricity, Naturgy's earnings are exposed to shrinkage in electricity production volume, which is dependent on electricity demand. Additionally, given Naturgy's current generation mix, production volume may be affected by the growing importance of renewable energy production. Profits in this business may also be affected by the levels of renewable energy production, which might impact the production mix and costs.

A reduction in generation volumes entails greater uncertainty as to attainment of the target production/supply balance and the variability of earnings.

Naturgy adopts an end-to-end approach to managing its contracts and assets worldwide in order to optimise its energy balances and be able to correct any deviation in the most cost-effective way possible.

Competitive pressure in the gas and electricity markets

As can be concluded from the aforementioned risks related to gas and electricity volumes and prices, Naturgy operates in a highly competitive environment. In particular, liberalisation processes in Spain and other major markets have had a significant impact on competitive pressure, on final market prices, and on the market share that can be retained. Moreover, global demand for gas has declined recently, resulting in a surplus of LNG.

That pressure has been particularly high in the gas supply business in Spain due to the decoupling of short-term and long-term gas prices. The potential loss of competitiveness and market share until such time as those prices are realigned or the review of contractual prices is completed may have a material impact on Naturgy's earnings.

In the electricity industry, the liberalisation of the European market has increased competition due to the entrance of new players, with an impact on the Spanish market. As part of this process, the intensification of international exchanges and the introduction of greater competition has impacted liquidity and end prices in the Spanish wholesale market. All these factors may have an adverse impact on the development of the electricity generation and supply businesses.

Regulatory risk

Regulatory and legal risk

Naturgy and its subsidiaries are subject to compliance with the legislation applicable to the natural gas and electricity industries. In particular, the gas and electricity distribution businesses are regulated in most of the countries where Naturgy operates.

The legislation applicable to the natural gas and electricity industries in the countries where Naturgy operates is typically subject to regular review by the competent authorities. Such changes may affect the existing remuneration scheme for regulated activities, with an adverse effect on Naturgy's business, prospects, profits, subsidies and financial position.

In particular, during 2019, Spain's Royal Decree-Law 1/2019 revised the regulatory powers of the National Commission for Markets and Competition (CNMC) by adapting them to the requirements of EU law, empowering the CNMC to establish methodological frameworks for calculating the remuneration for gas and electricity distribution and transportation/transmission.

In the case of electricity distribution, CNMC Circular 5/2019 established the remuneration methodology for the next regulatory period (2020-2025); although it maintains the existing approach, it made a number of improvements to clarify the rules and promote efficiency, resulting in a decrease in remuneration that will be implemented progressively over the six-year period.

Regarding gas distribution, the CNMC maintained the regulatory model based on activity levels for the next regulatory period (2021-2026), with a gradual adjustment over the period. In April 2020, the CNMC approved a Circular under which the total remuneration for distributors will be reduced by 9.6% on average over the next regulatory period, assuming demand is unchanged and considering that the reduction in remuneration will be applied progressively over that six-year period.

Additionally, as a result of the COVID-19 crisis, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy is exposed to any amendment in the regulations or the law, and to the interpretation of such amendments. Where the competent public or private bodies interpret or apply such regulations in a way that differs from that adopted by Naturgy, its compliance might be questioned or challenged and, if it is found to be in breach, this might have a material adverse impact on Naturgy's business, prospects, profits, subsidies and financial position.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Risks related to concessions, licenses and other administrative authorisations

Since most of the industries in which Naturgy operates are regulated, some of the activities require concessions, licenses or other administrative authorisations.

Consequently, the profitability and performance of Naturgy's investments are contingent upon obtaining and retaining such concessions, licenses and authorisations over the medium and long term, a matter that may be beyond the group's control. Any political, social or economic change in the relevant jurisdictions may affect business plans and have an unpredictable effect on the earnings and profitability of Naturgy's regulated businesses.

Operational risk

Naturgy's activities are exposed to various operational risks such as breakdowns in the distribution network, in power generation facilities and in LNG tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, contractual breaches, sabotage or accidents in the gas distribution network or electricity generation assets and other damage and events of force majeure which may result in personal injury and/or material damage or destruction of Naturgy facilities or properties.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Although Naturgy has an extensive insurance programme that covers its operational exposure, the emergence of events such as those referred to above might impact Naturgy's financial position and results.

Moreover, the international reinsurance market has been adversely affected by the recurrence and severity of claims for natural catastrophes. This has resulted in an unprecedented toughening of conditions and the massive withdrawal of insurance capacity from the market, which might limit coverage, impact deductibles and/or significantly increase costs.

Environmental risk

Naturgy is aware of its activities' impacts on their surroundings and, consequently, pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. In its respect for the environment, Naturgy goes beyond compliance with the legal requirements and other voluntary environmental commitments and it involves its suppliers, works with stakeholders and fosters the responsible use of energy both in its own facilities and in those of its customers.

Improper management of climate change and its associated risks might result in material losses for the company as a result of higher exposure to natural catastrophes, the trend towards decarbonisation in the industry, and the loss of rapport with its stakeholders. Additionally, inappropriate environmental management might result in environmental impacts and the deterioration of natural conditions and biodiversity in the areas in which the company operates. This, in addition to the direct impact on the natural environment, might cause reputational damage to the company, which is greater if the company has infrastructure and/or operations in protected areas.

Naturgy's facilities generate atmospheric emissions, liquid discharges, waste, etc. which, if they exceed certain limits, can have an impact on the environment, biodiversity or people. Moreover, accidents at the facilities may have negative consequences for the environment. To avoid this risk, the following measures are implemented throughout the projects' life cycle:

- For new facilities, the pertinent environmental and social surveys are carried out to avoid such impacts at the design stage, by adapting the design and incorporating the necessary preventive, corrective and compensatory measures.
- During construction, operation and decommissioning, operational control procedures are implemented and, where necessary, environmental risk assessment studies and emergency plans are produced to prevent incidents or minimise their negative effects. These procedures are tested via environmental emergency drills.
- Maintenance of an externally audited and certified environmental management system to prevent and reduce environmental risks in the entire value chain. Specific insurance policies have also been arranged to cover risks of this type.
- Themis system for identifying, logging, monitoring and managing legal requirements in all businesses and geographies.
- Enablon system for logging and centralised management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc.
- System for identifying and assessing environmental aspects in potential emergency conditions.

Climate change and energy transition risk

In addition to the gas and electricity volume risks referred to above, there is also the effect of climate change. Demand for electricity and natural gas is linked to weather. A sizeable proportion of gas consumption during the winter months depends on the seasonal needs of the residential segment for space heating and of combined cycle plants to produce electricity. During the summer months, consumption is driven basically by electricity demand for air conditioning. Naturgy's revenues and earnings from the natural gas distribution and supply businesses might be adversely affected in the event of warm autumns or milder winters. Electricity demand might also decline if summers are cooler. Moreover, the level of utilisation of hydroelectric power plants depends on precipitation and might be affected by periods of drought. To a lesser extent, Naturgy might be affected by more frequent extreme weather events such as hurricanes, floods and droughts, which would interfere with its commercial operation.

Policies and measures established at European level to combat climate change might significantly affect Naturgy's earnings in the medium and long term depending on the pace of decarbonisation and the energy transition.

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy to new regulatory developments in advance. It is also involved in clean development projects aimed at reducing CO_2 emissions.

Reputational risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance. Those stakeholder expectations are addressed through a Sustainability Plan that determines the lines of action to be implemented. In 2019, Naturgy developed a Sustainability Master Plan 2019-2022 which accompanies the transformation of the company and is aligned with the Strategic Plan 2018-2022, with the goal of facilitating the implementation of the strategy, seizing opportunities in sustainability, and implementing actions, as well as targets for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The commitments under the Corporate Responsibility policy are expanded upon in the Global Environmental Policy, which applies to all geographies and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon, digital economy. To this end, four strategic environmental lines of action have been established:

1. Environmental governance and management.
2. Climate change and energy transition.
3. Circular economy and eco-efficiency.
4. Natural capital and biodiversity.

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include, for example, unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts. Unauthorised access to information and technology systems can also compromise business or customer data, resulting in fines for non-compliance with data protection legislation.

Although Naturgy has contingency and security plans and insurance policies that cover such exposure, the group's financial position and reputation might be adversely affected by any of the events described above.

2.3. Main opportunities

Naturgy's main opportunities are as follows:

- **A balanced structural position** in businesses and regions, with stable flows, and a predominance of regulated or quasi-regulated businesses make it possible to optimise the capture of energy demand growth and maximise business opportunities in new markets.
- **Renewable generation:** Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Operation and growth in Networks**, based on sound regulatory frameworks and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation:** Naturgy invests in research and development in the areas of hydrogen, renewable gas, energy efficiency, sustainability, mobility and the fair transition as a means of securing a reliable, sustainable energy supply.
- **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, guaranteeing the supply and making it possible to seize opportunities in the markets. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

3. Corporate Governance

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2020, as required by Article 526 of the Capital Companies Act.

3.1. Corporate Governance Model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main international recommendations and standards in this area.

The corporate governance terms of reference comprise basically:

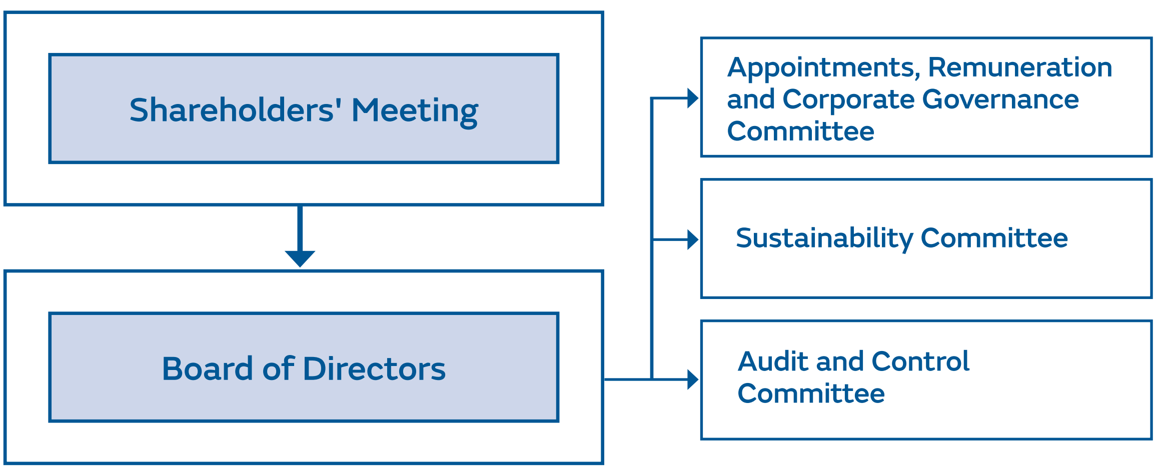
- Articles of Association (adopted in 2018, updated in 2020).
- Regulations of the Board of Directors and its Committees (updated in 2020).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2020).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2015).

The main shareholders of Naturgy as of 31 December 2020 and 2019 are as follows:

	Interest in share capital %	
	2020[4]	2019[4]
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, “la Caixa”[1]	24.8	24.4
Global Infrastructure Partners III[2]	20.6	20.3
CVC Capital Partners SICAV-FIS, S.A.[3]	20.7	20.4
Sonatrach	4.1	4.1

[1] Held through Criteria Caixa S.A.U.
[2] Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.
[3] Through Rioja Acquisitions S.à.r.l.
[4] Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Naturgy's governance structure is as follows:



3.2. Shareholders' Meeting

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

3.3. Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit and Control Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainability Committee, whose functions are as set out in the Act; a majority of members of the committees are Independent Directors.

Risk prevention and corporate responsibility are within the remit of the Board of Directors, which is the most senior body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by drafting the respective reports, it reviews and approves disclosures of the risks and opportunities in those areas.

The main issues addressed by the Board of Directors in 2020 are as follows:

- Reflection on strategy.
- 2020 Budget and continuous operational oversight.
- Monitoring the COVID-19 crisis.
- Monitoring the Company's activities.
- Portfolio rotation plan.
- Health and safety issues.
- Financial and accounting information.
- Risk map.
- Shareholder remuneration.
- Corporate governance: Improvements in aspects of corporate governance in order to adapt to the recommendations in the CNMV's June 2020 Good Governance Code of Listed Companies, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports.
- Notice of the Shareholders' Meeting: Motions proposed by the Board, reports and supplementary documentation.
- Selection and proposals for appointments in the governing bodies.
- Employee remuneration.
- Funding strategy.
- Analysis of the main projects.
- Cybersecurity.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members, and the Sustainability Committee has 5 members.

The composition of the Board of Directors and its subcommittees on 31 December 2020 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Director category	Date first appointed to the Board
Executive Chairman	Mr. Francisco Reynés Massanet	-	-	-	Executive	06/02/2018
Lead director	Mr. Ramón Adell Ramón	Member	Chairman	-	Independent	18/06/2010
Director	Mrs. Isabel Estapé Tous	Member	-	Member	Proprietary	16/03/2020
Director	Mr. Marcelino Armenter Vidal	-	Member	-	Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Member	-	Independent	14/05/2015
Director	Mrs. Helena Herrero Starkie	Member	-	Chairman	Independent	04/05/2016
Director	Mr. Rajaram Rao	-	Member	-	Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	-	Member	-	Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Member	Member	-	Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa	-	Member	Member	Independent	27/06/2018
Director	Mrs. Lucy Chadwick	Member	-	Member	Proprietary	16/03/2020
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Member	-	Member	Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

3.4. Management structure

Naturgy's management structure consists of three business units (Energy and Networks, Renewables and New Businesses, and Supply) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2020, it comprised the following departments:

Business Units

Energy and Networks, managed by Mr. Pedro Larrea Paguaga.

Renewables and New Businesses, managed by Mr. Jorge Barredo López.

Supply, managed by Mr. Carlos Francisco Vecino Montalvo.

Corporate Units

Information Systems, managed by Mr. Rafael Blesa Martínez.

Capital Markets, managed by Mr. Steven Fernández Fernández.

Planning, Control and Administration, managed by Mr. Jon Ganuza Fernández de Arroyabe.

Company and Board Secretariat, managed by Mr. Manuel Garcia Cobaleda.

Sustainability, Reputation and Institutional Relations, managed by Mr. Jordi Garcia Tabernero.

People and Organisation, managed by Mr. Enrique Tapia López.

4. Forecast group performance

4.1. Foundations of strategy

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

Through the Plan, 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 CO_2 emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and of improving 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:

- 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 co-operation 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% at the end of 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 are vital in driving the group's transformation.

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.
- Improving customer segmentation.
- Innovation and digitalisation.

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

4.2. Value creation

The main objective of the 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

1. Corporate governance and organisation structure.

   In the area of corporate governance, major changes were made in 2018, such as reducing the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents).

   The organisation structure was redesigned and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

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

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

2. Strategic positioning

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

	Where to invest	Where to divest
Markets	Big markets with growth potential. Where Naturgy has significant market share or critical mass. That offer legal certainty. Stable macroeconomic environments (e.g. EU, North America, OECD countries).	Markets that are small and/or offer little growth potential. High regulatory risk. Highly concentrated. Volatile macroeconomic environments.
Businesses	Electricity or gas grids. Renewables. Sale of electricity under contract. Customer services. Controlling stakes.	Low level of integration or synergy with the rest of the group. Unhedged volatility. Non-controlling stakes.
Profitability	Above hurdle rate.	Below hurdle rate.

Naturgy's long-term strategic vision is to operate in fewer core geographies, maintaining the benefits of diversification but reducing its exposure to non-core or higher risk markets, increasing the weight of electricity in its mix of business vs. gas, and maintain a regulated profile that provides visibility and stability to your cash generation in the long term.

Optimisation

Financial strategy focuses on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. All optimisation measures will be supervised by the Opex & Capex Committee.

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

Disciplined investment

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

1. Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.
2. A clear positioning focused on target markets and businesses.
3. Industrial leadership via controlled subsidiaries.
4. Risk management, minimising the volatility of commodity prices and exchange rates.

The objective of marked financial discipline is to strengthen the free cash-flow that will sustain the investment and industrial growth of the group as well as an attractive and sustainable shareholder remuneration.

Shareholder remuneration

The company increased 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:

1. At the end of the first half of the year (20% of the total dividend).
2. At the end of the third quarter (35%).
3. After the Shareholders’ Meeting (the remaining 45%).

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it established that it can allocate a maximum of Euros 2 billion to buying back treasury shares, capped at Euros 400 million per year. As a consequence of the impact caused by COVID-19 and the level of uncertainty associated with future energy demand and other key variables, Naturgy decided to interrupt its own share buyback programme during 2020, to preserve greater flexibility and financial strength during the health crisis.

4.3. Implementation of the Strategic Plan 2018-2022

At present, Naturgy is working on the elaboration of a new Strategic Plan that reflects, among other things, the deterioration contrasted in the second half of the year derived from COVID-19 and with an impact on demand, macroeconomic scenario and commodity prices.

During 2020 Naturgy has continued to implement the strategic pillars established in the 2018-2022 Plan.

It has deepened to optimise and automate core processes and strengthen the company's position, focused on the financial structure and progress in the ESG commitments.

The main progress achieved in this connection includes:

Business portfolio

Throughout 2020, Naturgy deepened its transformation strategy through asset rotation with the aim not only of streamlining the portfolio but also of advancing determinedly in reducing risk profile and becoming a leader in the Energy Transition.

In November 2020, Naturgy reached an agreement to sell its 96.04% stake in Chilean company Compañía General de Electricidad (CGE) to Chinese state-owned company State Grid International Development Limited (SGI) for a total of Euros 2,570 million, fixed in euros and payable in cash once the transaction is completed.

In December 2020, Naturgy reached an agreement to amicably resolve the disputes affecting Unión Fenosa Gas (UFG), a company owned 50% each by Naturgy and ENI. The parties ratified the agreement whereby Naturgy will receive a series of cash payments and most of the assets outside Egypt, excluding UFG's commercial activities in Spain.

These agreements evidence Naturgy's ability to simplify and reduce the risk of its business position in order to allocate capital and resources to those businesses that maximise value creation for all its stakeholders.

Reducing the group's risk profile

During the first half of the year, Naturgy began taking steps to reduce risk in its business portfolio by renegotiating its gas procurement contracts based on the ordinary and extraordinary review mechanisms contained in the contracts. Ultimately, this process will lead to a better alignment between the contracts and current market conditions.

The company also increased its liquidity to approximately Euros 10,000 million at the end of December, nearly Euros 2,000 million more than at the end of 2019. That figure, coupled with operating cash-flow, enables the group to comfortably meet its financial obligations in the foreseeable future.

Strengthening the team and adapting the organisation

Continuing with the transformation process, in 2020 Naturgy reorganised its businesses into three strategic areas: Energy and Networks, Renewables and New Businesses, and Supply. This new organisation provides greater visibility on business performance, and Naturgy hired three world-class executives with a proven track record and experience to manage them.

Redefining and optimising operations

The efficiency plan 2018-2022 was also accelerated. Naturgy currently expects to achieve its goal of Euros 500 million in efficiencies by the end of 2020, two years ahead of schedule. These efforts will partly offset the difficulties in the energy market and the impact of COVID-19.

Strengthening the ESG commitments (Environmental, Social, Governance)

In addition to efforts to support and protect stakeholders during the COVID-19 pandemic, Naturgy made decisive moves to implement its ESG commitments.

The Environment Plan adopted in December 2019 established new goals for reducing greenhouse gas emissions (cutting the CO_2 intensity of power generation and increasing the proportion of power generated from renewable sources). The closure of the company's coal-fired power plants in June 2020 and the plans to replace them with new renewable plants will contribute to these objectives.

The company also created a Sustainability Committee at Board level to monitor progress and the company's role in the energy transition, together with all aspects and indicators related to the environment, health and safety and social responsibility.

5. Sustainable innovation

Management vision and approach

Innovation is one of Naturgy's key growth levers, as it enables it to adopt new or best practices, new business models and technologies that make the company more efficient and competitive. Always to the fore, putting the customer at the centre of what it does.

The approach to innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation.

Naturgy considers that innovation is indispensable in order to achieve its strategic objectives.

In 2020, Naturgy's innovation model evolved and was integrated into the Renewables and New Businesses division, which will foreseeably expedite the process of implementing more disruptive business models.

Investment in innovation (million euro)

In 2020, a total of Euros 37 million were spent on innovation (Euros 36 million in 2019), as indicated below:

	2020	2019
Investment in innovation	37	36

Innovation governance

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets in both the short and long term, which contribute to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

- Renewable generation and storage.
- Advanced management of distribution assets.
- Renewable gas and hydrogen.
- Distributed generation and storage.
- Sustainable mobility.
- Customer solutions.

Renewable generation and storage

Naturgy has a clear vision: to fulfil the commitment to combating climate change, the company's energy mix must evolve steadily towards an emissions-free model while always guaranteeing security and quality of supply.

Renewable energies will play a very important role in this new zero-emissions model and, to ensure continuity of supply, they must be supported by reliable storage systems. Consequently, the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2020 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the project to hybridise the La Vega I & II wind farm with storage facilities; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid; the facility was energised in the autumn of 2020.

Advanced management of distribution assets

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

SPIDER 2.0 was the most emblematic project in 2020 in the area of advanced management of electricity network assets. The project seeks to develop a sophisticated platform to aggregate information from conventional network devices, new IoT devices and weather, property and traffic data to achieve advanced network operation.

In the field of gas networks, and on a more global scale, Ris3CAT was completed in 2020. It encompassed 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

Renewable gas and hydrogen

Activities in the area of renewable natural gas were focused on developing green hydrogen and biomethane.

Biomethane is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of CO_2 emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the “circular economy” since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanisation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the Public-Private Renewable Gas Unit, developed with EnergyLab and the Public Sewage Treatment Company in the municipality of Bens (A Coruña, Spain), which obtained funding in order to continue research and development. This new phase will see completion of the work done to date on the combined biogas/biomethane research unit, which has achieved major results such as commissioning of a membrane based scrubber at the Bens wastewater plant and the first biological methanisation plant in Spain. There will also be a focus on other renewable gases, such as green hydrogen and bio-syngas, so as to assess their impact on existing infrastructure and end users.

Another success was the construction of a biomethane upgrading plant at the "Elena" landfill, a sealed landfill producing biogas located at the emblematic Parc de L’Alba development in Cerdanyola del Vallès. Installation of the plant makes it possible to stop flaring the biogas and make use of the renewable gas in the gas grid.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility of joint ownership of autoproduction facilities offered by that Royal Decree. In 2020, a number of projects to explore new business models related to energy communities and the energy aggregator model were explored.

Sustainable mobility

During 2020, the company began a plan to install electric car charging stations along main roads in order to position itself as a national leader in sustainable mobility. It also continued to focus on the national rollout of a network of natural gas filling stations open to the public. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, undertaking research in order to introduce storage technologies into both electric and natural gas filling stations.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tanker trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the Internet of things (IoT). During 2020, work was done on the Start4Big open innovation initiative (Smart IoT Labs) to develop a pilot project for identifying business opportunities in processing data from home sensorisation.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. The pilot test concluded in 2020 and Pepe, Naturgy's virtual assistant based on natural language processing driven by artificial intelligence, was deployed to automate customer care processes.

6. Non-financial information statement

The non-financial information statement for the year 2020, referred to in Articles 262 of the Capital Companies Law and 49 of the Commercial Code, is presented in a separate report called “Sustainability report and Non-financial information statement 2020”, in which it is indicated, expressly, that the information contained in said document is part of the Naturgy Group's Consolidated Directors’ Report (Appendix II).

This document is subject to verification by an independent verification service provider and is subject to the same approval, deposit and publication criteria as the Naturgy Group's Consolidated Directors’ Report.

7. Additional information

7.1. Treasury shares

Movements during 2020 and 2019 involving the Company's treasury shares are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2019	**5,397,737**	**121**	**0.5**
Share Acquisition Plan	332,382	7	-
Delivered to employees	(310,812)	(7)	-
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
At 31 December 2019	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	-
Delivered to employees	(455,797)	(8)	-
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**-**

There were no gains or losses on transactions with treasury shares in 2020 and 2019.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within at most five years, in one or more operations, for good and valuable consideration, shares of the company that are fully paid-up, provided that the nominal value of the shares acquired directly or indirectly, added to those already held by the Company and its subsidiaries, does not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be less than the par value of the shares nor higher than their listed market price.

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

Transactions with the Company's treasury shares relate to:

2020

- Share Ownership Plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In 2020, 470,000 treasury shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 share buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019), which were allocated to reducing capital.

- Capital reduction: At a meeting on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the Annual General Meeting of Shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by at most Euros 21,465,000, as follows:

  a. The 465,000 treasury shares held by the Company at market close on 24 July 2019.

  b. The 21,000,000 additional shares, with par value of Euro 1 each, which had been acquired and could continue to be acquired for cancellation by the Company under the share buyback programme ("Buyback programme") approved by the Company in accordance with Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280,517), with a deadline for acquisition of 30 June 2020, inclusive.

     In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares as at 30 June 2020 under the approved buyback programme referred to in paragraph (b), the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and resolved to implement this reduction. The Capital Reduction was carried out through the cancellation of 14,508,345 treasury shares with a par value of Euro 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction, share capital stood at Euros 970 million, made up of 969,613,801 shares with a par value of Euro 1 each.

2019

- Share Ownership Plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 20 April 2017, the Share Ownership Plan 2017-2018-2019 for Naturgy employees in Spain who voluntarily applied was implemented for 2019. The Plan enables participants to collect part of their 2019 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. In 2019, 332,382 treasury shares were purchased for Euros 7 million and 310,812 were delivered, leaving a remainder of 21,570 treasury shares.

- 2018 share buyback programme: Within the Strategic Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be cancelled if so decided by the shareholders at the Annual General Meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, i.e. a total cost of Euros 400 million, which were allocated to reducing capital.

- Capital reduction: At a meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the Annual General Meeting of Shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of Euro 1 each which had been acquired at the close of trading on 6 December 2018.

b. The aggregate par value, up to a maximum of Euros 16 million, corresponding to the amortisation of the up to 16,000,000 additional shares with a par value of Euro 1 each acquired for amortisation under the share buyback programme approved under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the cancellation of 16,567,195 treasury shares with a par value of Euro 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the capital reduction share, capital stood at Euros 984 million, made up 984,122,146 shares with a par value of Euro 1 each.

- 2019 share buyback programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Note 11 of the Notes to the Annual Accounts contains full information on treasury shares.

7.2. Disclosure of delays in payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010 of 5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of July 5, which laid down measures against late payment, is as follows:

	2020	2019
	Amount	Amount
Total payments (thousand euro)	458,021	1,947,320
Total outstanding payments (thousand euro)	18,284	18,540
Average supplier payment period (days)(1)	32	18
Transactions paid ratio (days)(2)	32	17
Transactions pending payment ratio (days)(3)	38	30

(1) Calculated on the basis of amounts paid and pending payment.
(2) Average payment period in transactions paid during the year.
(3) Average age, suppliers pending payment balance.

7.3. Subsequent events

Events subsequent to the end of the period are described in Note 30 of the Notes to the Annual Accounts.

8. Annual Corporate Governance Report

A. Ownership structure

A.1. Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
21/07/2020	969,613,801	969,613,801	969,613,801

Please indicate if there are different types of shares with different rights associated:

YES ☐ NO ☒

Class	Number of shares	Face value	Number of voting rights	Rights and obligations conferred by

A.2. List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Global Infrastructure Management LLP		20.6%			20.6%
Société Nacionale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures	4.1%				4.1%
Fundación bancaria Caixa d'estalvis i Pensions de Barcelona (La Caixa)		24.8%			24.8%
CVC Capital Partners Sicav-Fis S.A.		20.7%			20.7%

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
Global Infrastructure Management LLP	Gip III Canary 1, S.À.R.L.	20.6%		20.6%
Fundacion Bancaria Caixa D'estalvis i Pensions de Barcelona (La Caixa)	Criteria Caixa S.A.U.	24.8%		24.8%
CVC Capital Partners Sicav-Fis S.A.	Rioja Acquisition S.À.R.L.	20.7%		20.7%

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction

A.3. Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights <ins>that can be transferred</ins> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. Francisco Reynés Massanet		0.008			0.008		
Rioja S.À.R.L.	0				0		
Theatre Directorship Services Beta, S.À.R.L.	0				0		
Mrs. Lucy Chadwick	0				0		
Mr. Pedro Sainz de Baranda Riva		0.002			0.002		
Mr. Ramón Adell Ramón	0.002				0.002		
Mrs. Isabel Estapé Tous	0.0005				0		
Mr. Claudio Santiago Ponsa	0				0		
Mr. Marcelino Armenter Vidal	0.001				0.001		
Mr. Francisco Belil Creixell	0.001				0.001		
Mrs. Helena Herrero Starkie	0				0		
Mr. Rajaram Rao	0				0		

% total voting rights held by the Board of Directors	0.014%

Detail of the indirect holding

Name or company name of Director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights that can be transferred through financial instruments
Mr. Francisco Reynés Massanet	Frinvyco, S.L.	0.008			
Mr. Pedro Sainz de Baranda Riva	Inversores de Tornón S.L.	0.002			

Observations:

A.4. Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6.:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A.7.

A.5. Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Criteria Caixa S.A.U.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2. and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2. and in the annual accounts.
GIP III Canary 1, S.À.R.L.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2. and in the annual accounts.

A.6. Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
Mr. Marcelino Armenter Vidal	Criteria Caixa S.A.U.	Criteria Caixa S.A.U.	Proprietary/Managing Director
		Caixa Capital Risc, S.G.E.I.C. S.A.	Vice-President – Managing Director
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman and Managing Director
		Saba Infraestructuras, S.A.	Director
		Caixa Innvierte Industria, S.C.R., S.A.	Physical Person representing the Sole Administrator
		Criteria Industrial Ventures, S.A.	Physical Person representing the Sole Administrator
		Criteria Venture Capital, S.I.C.C. S.A.	Physical Person representing the Sole Administrator
Mrs. Isabel Estapé Tous	Criteria Caixa S.A.U.	Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona	Proprietary/Patroness
		Criteria Caixa S.A.U.	Director
Mrs. Lucy Chadwick	Global Infrastructure Management LLP		Proprietary/Employee
Mr. Rajaram Rao	Global Infrastructure Management LLP		Proprietary/Shareholder
Mr. Javier de Jaime Guijarro	CVC Capital Partners SICAV-FIS S.A.		Proprietary
Mr. José Antonio Torre de Silva López de Letona	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7. Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES [X] NO [ ]

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one
Criteria Caixa, S.A.U. GIP III Canary 1, S.À.R.L.	45.4%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
Alba Europe S.À.R.L. Rioja Capital Research and Management Company Investment S.À.R.L.	20.7%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions S.À.R.L. replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions S.À.R.L., 2.- The adoption of decisions on the Board at the Meeting, and 3. -The system for transfer of shares.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES [ ] NO [X]

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

Not applicable

A.8. Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES ☐ NO ☒

Name or company name

Observations

A.9. Complete the following table on the company’s treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
35,733	8,639,595	0.895%

Observations

Explain the significant changes over the year:

Details of significant changes
On 21 July 2020, the Company's Board of Directors agreed to implement the capital reduction agreement, approved by the Company's Annual General Meeting held on 26 May 2020, through the amortisation of 14,508,345 own shares with a par value of one euro each.

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders on 26 May 2020, in item 8 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2020 through redemption of a maximum of 21,465,000 own shares by implementing a Share Buy-Back programme.

"**Eight.-** Reduce the amount of share capital of Naturgy Energy Group, S.A. (hereinafter, "the Company") up to a maximum of Euros 21,465,000, corresponding to (i) 465,000 Own Shares held by the Company on close of the Market on 24 July 2019; and (ii) 21,000,000 additional shares, each with a nominal value of one euro acquired or to be acquired for redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter the "Buy-Back Programme"), approved by the Company under the EU Regulation Nº 596/2014 on market abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.

As a result, the maximum amount of the reduction in share capital (the "Share Capital Reduction") is Euros 21,465,000, through the redemption of up to a maximum of 21,465,000 Own Shares with a nominal value of one euro each, proportional, approximately 2.18% of the share capital of the Company at the time of the adoption of the resolution. Accordingly, on 22 April 2020 the Company held in Own Shares 14,508,345 shares, acquired under the terms of the aforementioned Programme for redemption.

The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section."

3.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

"**Fourteen.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein, and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.

1. Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of five hundred million three hundred and forty-four thousand six hundred and seventy euros (Euros 500,344,670) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount

that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.

2. The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital."

A.11. Estimated floating capital:

	%
Estimated floating capital	29.7

A.12. Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES [X] NO [ ]

Description of the restrictions
As a Company that incorporates certain regulated and quasi-regulated assets and activities into its group, the acquisition of Naturgy Energy Group S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 3/2013, of 4 June, governing the National Commission on Markets and Competition. Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets. Royal Decree-Laws 8/2020, 11/2020 and 34/2020 have established certain restrictions on foreign investment - including intra-Community investment - which affect Naturgy Energy Group S.A., both because it is a listed company and because it operates in a sector subject to investment control.

A.13. Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES ☐ NO ☒

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14. Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES ☐ NO ☒

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B. General meeting of shareholders

B.1. Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act ("LSC" in Spanish).

YES ☐ NO ☒

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2. Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act ("LSC" in Spanish):

YES ☐ NO ☒

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		

Describe the differences

B.3. Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds convertible into shares or bonds that give bondholders a share in company profits, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

1.- The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

2.- The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

3.- The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.

4.- Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4. Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

	Attendance data				
			% remote voting		
Date of General Meeting of Shareholders	% physical presence	% represented	Electronic Vote	Other	Total
27/06/2018	68.69%	15.13%	0%	0%	83.82%
Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%
05/03/2019	72.12%	13.06%	0%	0%	85.18%
Of the floating capital 2019	2.55%	13.06%	0%	0%	15.61%
26/05/2020	64.07%	11.39%	0%	0%	75.46%
Of the floating capital 2020	1.40%	11.39%	0%	0%	12.79%

B.5. Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

YES ☐ NO ☒

Agenda items that have not been approved	% of votes against (*)

(*) If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column.

B.6. Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES ☐ NO ☒

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

Observations

B.7. Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES ☐ NO ☒

Explanation of the decisions that must be submitted to the board other than those established by law

B.8. Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C. Structure of the company's management

C.1. Board of Directors

C.1.1. Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2. Complete the following table with Board members' details:

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08/04/1963
Mr. Ramón Adell Ramón		Independent	Coordinating Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09/01/1958
Mrs. Isabel Estapé Tous		Proprietary	Director	16/03/2020	26/05/2020	Agreement General Meeting of Shareholders	05/04/1957
Mr. Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	26/05/2020	Agreement General Meeting of Shareholders	02/06/1957
Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of Shareholders	24/05/1946
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	26/05/2020	Agreement General Meeting of Shareholders	13/06/1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	26/05/2020	Agreement General Meeting of Shareholders	03/04/1971
RIOJA S.À.R.L.	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	26/05/2020	Agreement General Meeting of Shareholders	26/11/1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20/09/1956
Mr. Pedro Sainz de Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 06/07/2018)	Agreement General Meeting of Shareholders	23/03/1963
Mrs. Lucy Chadwick		Proprietary	Director	16/03/2020	26/05/2020	Agreement General Meeting of Shareholders	11/02/1967
Theatre Directorship Services Beta, S.À.R.L.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23/10/1971

Total number of directors	12

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the mandate
Mr. Enrique Alcántara García Irazoqui	Proprietary	20/04/2017	16/03/2020	CAU	YES
Mr. Scott Stanley	Proprietary	05/03/2019	16/03/2020	CNR	YES

Reason for the dismissal, when it has occurred before the end of the term of office and other observations; information on whether the director has sent a letter to the other members of the board and, in the case of dismissals of non-executive directors, an explanation or opinion of the director who has been dismissed by the AGM

Mr. Stanley resigned from his position as a director of the Company and member of the Appointments and Remuneration Committee, by means of a communication sent to the Chairman of the Board, with effect from 16 March. Mr. Stanley did not send any specific communication to the other members of the Board but the President informed the Board members that the reason he had communicated was to enable a greater presence of women in the Board.

Mr. Alcántara presented his resignation as a proprietary director and member of the Audit and Control Committee at the beginning of the Board meeting held on 16 March 2020. Mr. Alcántara explained his reasons to the other members of the Board during that meeting which included encouraging a greater presence of women on the Board.

C.1.3. Complete the following tables on board members and their respective categories:

Executive directors

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

Observations

External proprietary directors

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mrs. Isabel Estapé Tous	Criteria Caixa S.A.U.	Economic and business profile: Graduate in Economics and Business Studies. Notary Public. Director of Criteria Caixa and Patron of la Caixa. She is also a full member of the Royal Academy of Economic and Financial Sciences.
Mr. Marcelino Armenter Vidal	Criteria Caixa S.A.U.	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Rajaram Rao	GIP III Canary 1 S.À.R.L.	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Mrs. Lucy Chadwick	GIP III Canary 1 S.À.R.L.	International business and economic profile: She is a member of GIP's senior management. Formerly Director General of International and Environment at the UK Department for Transport.
Rioja S.À.R.L (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions S.À.R.L., S.L.U.	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Theatre Directorship Services Beta, S.À.R.L. (Mr. José Antonio Torre de Silva López de Letona)	Rioja Acquisitions S.À.R.L.	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarra (IESE).

Total number of proprietary directors	6
% of the entire board	50.00%

Observations

External independent directors

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Lawyer. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudi Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

Observations

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director many perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

Other external directors

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

Observations

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

Observations

C.1.4. Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3
Executive	0	0	0	0	0	0	0	0
Proprietary	2	0	0	0	33.33%	0	0	0
Independent	1	1	1	3	20%	20%	20%	50%
Other external	0	0	0	0	0	0	0	0
Total:	3	1	1	3	25%	8.33%	8.33%	17.65%

Observations

C.1.5. Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

YES ☐ NO ☐ PARTIAL POLICIES ☒

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why.

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained

Naturgy's Director Selection Policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said Policy is applied with full respect to the right of proportional representation legally recognised to shareholders.

The Appointments and Remuneration Committee ensures that the selection procedures do not include any implicit bias that could involve any discrimination whatsoever.

During the Shareholders' Meeting of 26 May 2020, it was made public the Company's commitment to implement measures that favour gender diversity in the composition of the Board of Directors and announced at the General Shareholders' Meeting the objective of achieving 30% by the end of 2020 and 40% by the end of 2021 of female presence.

Throughout 2020, the resignation of some of the proprietary directors allowed substantial progress to be made in terms of gender diversity, with all vacancies being filled by women: Mrs. Isabel Estapé to fill the vacancy of Mr. Alcántara and Mrs. Lucy Chadwick to fill the vacancy of Mr. Stanley. Both appointments were made by co-option at the Board meeting held on 16 March 2020 and subsequently ratified and appointed at the Shareholders' Meeting held on 26 May 2020.

The same Shareholders' Meeting agreed to appoint Mrs. Helena Herrero, whose term of office had expired, for a new term.

In conclusion, 100% of the vacancies produced during 2020 have been filled by women.

C.1.6. Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates and to achieve a balanced presence of women and men. Also indicate whether these measures include encouraging the company to have a significant number of senior managers:

Explication of the measures

The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought.

In February 2020, the Board of Directors approved a modification to the Director Selection Policy, incorporating a competence matrix that reflects the Company's needs in terms of the skills, knowledge and experience required on the Board. This matrix should be used in the selection processes for board members.

Following the approval in June 2020 by The National Securities Market Commission (CNMV) of the amendment of the Code of Good Governance for listed companies, at its meeting on 24 November the Board of Directors once again reviewed the Director Selection Policy, in order to consider the implementation by the Company of measures that encourage the appointment of a significant number of top executives.

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons

In 2020 the Company has made a significant effort to increase the number of female directors. Thus, the three vacancies that occurred during the year were filled by women.

However, it is important to consider that the Company's Appointments and Remuneration Committee is bound to respect the legally recognised right to proportional representation of its shareholders. To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director whose mandate had expired.

C.1.7. Explain the Appointments Committee's conclusions on the verification of compliance with the policy aimed at promoting an appropriate composition of the Board of Directors.

The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition, of an imperative character. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

The percentage of female profiles among independent directors represents 20% of the total. The Commission's conclusion is that it should be further increased as new vacancies are filled.

C.1.8. Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES ☐ NO ☒

Name or company name of shareholder	Explanation

C.1.9. Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10. List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11. Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on regulated stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automoción, S.A.	Director
Mrs. Lucy Chadwick	Nuovo Transport Viaggiatori (NTV) Italo SpA	Director

C.1.12. Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES ☐ NO ☒

Explanation of the rules and identification of the document where it is regulated

C.1.13. Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousand euro)	7,404
Cumulative amount of rights of current directors in pension scheme (thousand euro)	7,568 (*)
Cumulative amount of rights of former directors in pension scheme (thousand euro)	0

Observations
(*) It includes the amount corresponding to the variable remuneration 2018, 2019 and 2020 that are settled as a contribution to the Executive Chairman´s Social Security Plan as it is beneficiary.

C.1.14. Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Francisco Vecino Montalvo	Marketing Manager
Mr. Pedro Larrea Paguaga	Manager Energy Management and Networks
Mr. Jorge Barredo Lopez	Manager Renewables, Innovation and New Business
Mr. Enrique Tapia Lopez	People and Organisation Manager
Mr. Rafael Blesa Martinez	Information Systems Manager
Mr. Manuel García Cobaleda	General and Board Secretary
Mr. Jordi Garcia Tabernero	Sustainability, Reputation and Institutional Relations Manager
Mr. Steven Fernández	Financial Market Manager
Mr. Jon Ganuza Fernández De Arroyabe	Manager Planning, Control and Administration

Total remuneration of senior management (thousand euro)	23,821

Observations
The executives who report directly to the Executive Director have been listed.
Mr. Manuel Fernández Álvarez, Mr. Carlos Javier Álvarez Fernández and Mrs. Rosa Mª Sanz García ended their employment relationship with the company on 31 July 2020 and Mr. Carlos Ayuso Salinas left his position as Internal Audit Director on that date.

C.1.15. Indicate whether or not there has been any modification to the regulations of the board during the year:

YES [X] NO [ ]

Description of modifications
At the meeting of 24 November 2020, Articles 10, 11, 24, 25, 26 were amended and a new Article 27 was added to (i) adapt it to the new Good Governance recommendations of the CNMV (ii) update the name of the Board's committees and incorporate the new Sustainability Committee.

C.1.16. Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

1.- Appointment and re-election:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure and the proposals which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018 will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date had a term of three (3) years).

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d. When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk.

e. When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, the Directors selection policy as revised on February 2020 incorporates a Competency Matrix to be used in all processes for covering the position of Director and which has already been used in the process of covering the position of 1 independent director and 2 proprietary directors whose re-election/appointment whose re-election/appointment was submitted for approval to the General Meeting of Shareholders held on 26 May 2020.

In this regard, the Board of Directors approved on 24 November 2020 a new modification to the Director Selection Policy to expressly include the Company's commitment to gender diversity, providing for the implementation by the Company of measures that encourage the appointment of a significant number of female senior executives.

C.1.17. Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications

In June 2020, the CNMV published new Good Governance recommendations. Some of these were already being complied with by the Company, but others required the adaptation of some policies or the approval of new ones, which were agreed by the board on 24 November 2020:

- General policy on the communication of economic, financial, non-financial and corporate information.
- Policy for the selection of Directors on aspects related to the promotion of diversity in senior management.
- Risk policy.
- Shareholder and investor communication policy.

In addition, the Board Regulations were modified and the distribution of powers among the three Board Committees was reviewed.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
In the year 2020 the Board's evaluation was carried out by an external consultant. As part of this evaluation process, the directors have completed a series of questionnaires regarding the operation of the Board and its committees and have held personal interviews with the external consultant. Following the evaluation process, the external consultant concluded that the Council and the Committees are functioning to a high degree of satisfaction, but that there are a number of views on the Council that require further reflection. With regard to the exceptional situation resulting from the health crisis caused by the Covid-19, the advisor stressed that all the directors have highly valued the Board's performance during the most critical months of the crisis, highlighting in particular the holding of weekly meetings of the Company's top management body, which, in turn, has been constantly informed of the Company's situation in all relevant aspects, thus facilitating decision-making by the Board during a large part of this exceptional financial year 2020. In relation to the composition of the governing bodies, in general terms, it has been satisfactorily qualified in the understanding that the Board and the committees have an adequate degree of knowledge and experience that favours their appropriate functioning and correct decision-making and this despite the fact that the sector in which the Company carries out its activity is highly regulated and extremely complex. Some of the recommendations, such as the allocation of clear competences to each of the Committees, have already been implemented in 2020 and others, such as the reinforcement of training plans, will be implemented in 2021.

C.1.18. Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the advisor or any group company maintains with the company or any group company.

None

C.1.19. Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d. When circumstances arise that may affect the credit or reputation of the Company or in any other way jeopardise the interests of the Company.

e. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20. Are qualified majorities other than those prescribed by law required for any type of decision?

YES ☒ NO ☐

Where appropriate, describe the differences.

Description of the differences
Article 7.4 of the Regulations of the Board of Directors states the following: "4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority. In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable: a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one. d) The subscription, modification, renewal, nonrenewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000. e) The subscription, modification, renewal, nonrenewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts. f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. h) Capital investments (Capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000. i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21. Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES ☐ NO ☒

Description of requirements

C.1.22. Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES ☐ NO ☒

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23. Indicate whether the Articles of Association or the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES ☐ NO ☒

Additional requirements and/or maximum number of years of in office

C.1.24. Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association "Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary."

In addition, Article 7.3 of the Regulations of the Board states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman's Office or the Board Secretary before the beginning of the session".

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25. Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	24
Number of board meetings without the Chairman attending	0

Observations

During the months of March, April and May, the frequency of the Board of Directors' meetings was increased to weekly in order to better monitor the COVID crisis.

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0

Observations

Since the Coordinating Director is also the Chairman of the Appointments, Remuneration and Corporate Governance Committee and had held this position on the Audit and Control Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Control Committee	10
Number of meetings of the Appointments and Remuneration Committee	9
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the Sustainability Committee	4

Observations

C.1.26. Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	23
% of attendance over the total number of votes during the year	99.3%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	23
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	99.3%

Observations

C.1.27. Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously:

YES ☒ NO ☐

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer, until July 31
Mr. Jon Ganuza	Director of Planning, Control and Administration, since July 31

C.1.28. Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, and of the competences attributed by the Board of Directors, the Audit and Control Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit and Control Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that in financial year 2020 no accounting qualifications have been made.

C.1.29. Is the Secretary of the Board also a Director?

YES ☐ NO ☒

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30. Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit and Control Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit and Control Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

It is also the function of the Audit and Control Committee to issue, prior to the issuance of the audit report, an annual report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit and Control Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31. Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES ☐ NO ☒

Outgoing auditor	Incoming auditor

Observations
The company has agreed to propose to the shareholders' meeting to be held in March 2021, the appointment of KPMG as the auditor for the 2021 ditches, replacing E&Y which has been the external auditor of the accounts for the period 2018-2020.

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES ☐ NO ☒

Explanation of the disagreements

C.1.32. Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES ☒ NO ☐

	Company	Group	Total
Amount of tasks other than auditing activities (thousand euro)	127	110	237
Amount of tasks other than auditing/ Amount billed by the audit company (%)	14.50%	3.20%	5.50%

Observations

C.1.33. Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit and Control Committee to explain the content and scope of the said reservations or exceptions.

YES ☐ NO ☒

Explication of the reasons and direct link to the document made available to shareholders at the time of the call in relation to this matter

C.1.34. Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated
Number of years without interruption	3	3

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	10%	10%

Observations

C.1.35. Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES [X] NO [ ]

Details of the procedure

Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: "2.Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting, the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held."

The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting. The rest of the documentation is sent as it becomes available - normally 5 days in advance, except for those that, for example, for reasons of urgency do not allow such advance notice.

To this end, the Board's documentation is made available to the directors through an electronic platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc.) through the platform.

Furthermore, the matters dealt with by the Board are usually presented by the managers responsible for the proposals, so that the Board Members can directly request clarifications, data or opinions from them in relation to the points dealt with in the session and can directly appreciate their qualifications for the position.

Finally, the Directors may request the additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36. Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and resign when situations occur that affect them, whether or not they are related to their actions in the company itself, which may damage the company's credit and reputation:

YES [X] NO [ ]

Explain the rules
In accordance with Article 11.4 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.4, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency. Also, the Article 10.2 of the Board Regulations establishes that Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases: a. When Executive Directors step down from their executive positions. b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations. c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company. d. When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk. e. When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37. Unless there are special circumstances that have been recorded in the minutes, indicate whether the Board has been informed of or has otherwise become aware of any situation that affects a director, whether or not it is related to his or her actions in the company, that could damage the company's credit and reputation:

YES [ ] NO [X]

Director's name	Criminal Case	Observations

In the above case, indicate whether the board of directors has examined the case. If the answer is affirmative, explain in a reasoned manner if, in view of the specific circumstances, any measure has been adopted, such as the opening of an internal investigation, requesting the resignation of the director or proposing his dismissal.

Indicate also whether the Board's decision has been supported by a report from the Appointments Committee.

YES ☐ NO ☒

Decision taken/action taken	Reasoned explanation

C.1.38. Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the other hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies; the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 8.941 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 1.765 billion, linked almost entirely to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases.

C.1.39. Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	19
Beneficiary type	**Description of the agreement**
Executive Chairman	The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan. The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established. The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.
Executives	The contracts signed with 13 executives contain a clause that establishes a minimum compensation two full years of compensation in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years. In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of two full years of compensation in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting of Shareholders
Body that authorises the clauses	Yes	No

	Yes	No
Is the General Meeting of Shareholders informed of the clauses?	X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration Committee and the Board are informed of their terms and beneficiaries. The main terms of the contracts of the executives who report directly to the executive director are approved by the Board.

C.2. Committees of the Board of Directors

C.2.1. Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

Executive committee

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
It does not apply as the executive committee no longer exists.

Explain the committee's duties, other than those already described in section C.1.9. and describe the procedures and rules for the organisation and operation of the organisation. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, whether by law, by the Articles of Association or by other corporate agreements.

Not applicable

Audit committee

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mrs. Isabel Estapé Tous	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mrs. Lucy Chadwick	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit and Control Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted the Audit Committee with the following functions:

1.- Drawing up the report on the functioning of the Audit and Control Committee.

2.- To supervise related-party transactions.

3.- To ensure that the Board of Directors endeavours to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit and Control Committee clearly explains to the General Meeting the opinion of the Audit and Control Committee on its content and scope, making a summary of said opinion available to the shareholders at the time of publication of the notice of the meeting, together with the rest of the proposals and reports of the Board.

4.- Approval of the annual work plan of the Internal Audit Unit, and supervision, on an annual basis, of the activities of the said Unit.

5.- In relation to the information and control systems:

a. Supervise the process of preparation and the integrity of financial and non-financial information, as well as the systems of control and management of financial and non-financial risks relating to the company and, where appropriate, to the group, including operational, technological, legal, social, environmental, political and reputational risks or risks related to corruption, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

b. Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the budget for that service; approve or propose approval to the board of the internal audit orientation and annual work plan, ensuring that its activity is focused primarily on relevant risks, including reputational risks; receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

c. Establish and supervise a mechanism which, while guaranteeing confidentiality and even anonymity, enables employees and other persons related to the company to report any potentially significant irregularities, including financial, accounting or any other type of irregularity related to the company that they may notice within the company or its group, (d) In general, ensure that the policies and systems established for internal control are effectively applied in practice.

6.- In relation to the external auditor:

a. In the event of resignation of the external auditor, to examine the circumstances giving rise to such resignation.

b. Ensure that the external auditor's remuneration for his work does not compromise his quality or independence.

c. Supervise that the company notifies the CNMV of the change of auditor and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.

d. Ensure that the external auditor holds an annual meeting with the full board of directors to report to it on the work performed and on developments in the company's accounting and risk situation.

e. Ensure that the company and the external auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on auditor independence.

7.- To summon any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

8.- To analyse and inform the Board of Directors on the economic conditions and accounting impact and, in particular, if appropriate, on the exchange ratio, in relation to the structural and corporate modifications that the Company plans to carry out.

9.- Supervision of the exercise of the functions of the internal risk control and management department.

10.- In relation to the supervision of compliance with the Codes of Conduct:

a. Supervision of compliance with the company's internal codes of conduct.

b. Supervision of the application of the general policy relating to the communication of economic-financial and non-financial information.

c. Assessing all aspects of the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

d. Coordination of the reporting of non-financial and diversity information in accordance with applicable regulations and international benchmarks.

b) Procedures and organisational and operational rules

In accordance with Article 26 of the Regulations of the board

The Audit and Control Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from among the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- External audit of the individual and consolidated annual accounts.
- Supervision of the process of preparing economic information.
- Tax and litigation situation.
- Independence of the Auditor.
- Related operations.
- Verification of the criminal prevention system.
- Supervision of risk control systems and specific risk analysis.
- Supervision of internal control and internal audit systems.
- Naturgy insurance programme.
- Monitoring of treasury stock operations.
- Compliance Action Plan.
- Supervision of Internal Audit and selection of the new manager.
- Proposal for the appointment of an external auditor for the period 2021-2023.

Identify the Directors who are Members of the Audit and Control Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	Mr. Ramón Adell Ramón
Date of appointment as Chairman	27/06/2018

Observations

Appointments and remuneration committee

Name	Position	Category
Mr. Ramón Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudi Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Rajaram Rao	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments, Remuneration and Corporate Governance Committee

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

1.- Make proposals and report on Corporate Governance initiatives.

2.- Prepare the report on the operation of the Appointments and Remuneration Committee.

3.- Verify the policy for the selection of Board members and report on it in the Annual Corporate Governance Report.

4.- Prepare a report in the event of the separation of an independent board member, before the statutory period for his/her appointment has expired.

5.- Prepare a report in the event that the Board of Directors proposes the adoption of measures when it is aware that the actions of a Board member could damage the credit and reputation of the company or when he/she is considered to be under investigation in a criminal case R-22, Organise and coordinate the periodic evaluation of the Board of Directors and of the Chief Executive Officer of the Company.

6.- Verify the independence of the external consultant selected to carry out the evaluation of the Board and its committees.

7.- Propose to the Board of Directors the basic conditions of senior management contracts.

8.- Verify compliance with the remuneration policy established by the Company.

9.- Periodically review the remuneration policy applied to board members and senior management, including the share based remuneration systems and their application, as well as ensuring that their individual remuneration is proportionate to that paid to the other board members and senior management of the company.

10.- Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the committee.

11.- Verify the information on directors' and senior executives' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

12.- Supervise compliance with the company's corporate governance rules, ensuring that the corporate culture is aligned with its purpose and values.

13.- The evaluation and periodic review of the adequacy of the company's system of corporate governance, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.

14.- Prepare a report on the remuneration systems that award shares, options or financial instruments when the director requests their sale before the three-year period from their award in order to deal with extraordinary situations that may arise.

b) Procedures, and organisational and operational rules

In accordance with Article 25 of the Regulations of the Board:

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

i. Corporate governance: i) The modifications made by the CNMV to its corporate governance recommendations published in June 2020 have been analysed in detail and proposals for measures to adapt to its recommendations have been drawn up. The Board has approved all of these proposals. ii) The Committee has worked intensively on the Board's assessment process, which this year was carried out with the help of an external advisor. iii) Different measures have been proposed to amend the Board's regulations to advance alignment with best corporate governance practices.

ii. Remuneration: the Committee has been responsible for implementing the Directors' Remuneration Policy approved by the 2020 General Shareholders' Meeting, as well as for supervising the management team's remuneration policy.

iii. Appointments: the Committee (i) proposed the re-election of Director Helena Herrero and reported favourably on the incorporation of Director Lucy Chadwick and Isabel Estapé and (ii) examined the profile of the three new executives who have joined the company, reporting directly to the executive director.

Appointments committee

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Observations

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

Remuneration committee

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

Sustainability committee

Name	Position	Category
Helena Herrero Starkie	Chairwoman	Independent
Claudi Santiago Ponsa	Board Member	Independent
Isabel Estapé Tous	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L represented by Don Jose Antonio Torre de Silva Lopez de Letona	Board Member	Proprietary
Lucy Chadwick	Board Member	Proprietary

% of proprietary directors	60%
% of independent directors	40%
% of other external directors	0

Explain the committee's duties, describe the procedure and organisation and operational rules. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you either by law or by the statutes or other corporate resolutions.

In accordance with Article 27 of the Rules of Organization of the Board of Directors and its committees, the Sustainability Committee will be made up of a minimum of three and a maximum of six Board Members, appointed by the Board of Directors from among the non-executive Board Members, taking into account the knowledge, skills and experience of the Board Members and the tasks of the Committee.

Its members will resign when they cease to be Board members or when the Board of Directors so decides.

In full compliance with the principle of proportional representation, the majority of the members of the Sustainability Committee will be considered to be independent directors. If this is not possible, at least two of the members of the Sustainability Committee will be considered to be independent directors. The Board of Directors will elect the Chairman of the Committee who will have the category of Independent Board Member and will not have a casting vote. The Secretary of the Committee will be the Secretary of the Board of Directors although the Vice-Secretary, if any, may act as Secretary of the Committee.

The Sustainability Committee will have the powers assigned to it by the Board of Directors.

The Committee, called by its Chairman, will meet when necessary to issue the reports or proposals within its competence or when deemed appropriate by its Chairman or at the request of two of its members and at least three times a year. The Commission may invite any manager or employee it considers appropriate to attend its meetings.

The powers granted to it by the Board of Directors are as follows:

1.- To propose to the Board of Directors the approval of a Sustainability Policy.

2.- To propose to the Council the objectives and guidelines of the group in the field of environment, health and safety and social responsibility, included in the Sustainability Plan.

3.- Periodically analyse indicators in the field of environment, health and safety and social responsibility.

4.- The review of the information published by Naturgy to the market in relation to sustainability.

5.- The supervision of compliance with the policies and rules of society in environmental and social matters.

6.- The evaluation and periodic review of the environmental and social policy of the society, in order that they fulfil their mission of promoting the social interest and take into account, as appropriate, the legitimate interests of other stakeholders.

7.- Monitoring that society's environmental and social practices are in line with the set strategy and policy.

8.- Monitoring the implementation of the general policy on communication with shareholders and investors, proxy advisors and other stakeholders, as well as monitoring how the institution communicates and engages with small and medium-sized shareholders.

The most relevant actions in 2020 were:

i. Health and safety: the Commission has reviewed the incidents and accidents that occurred during the exercise, with a view to drawing lessons from the incidents.

ii. Sustainability: the Commission has reviewed the sustainability plan and in particular the environmental plan.

iii. External verification: the Commission has examined the way in which third parties appreciate Naturgy's efforts in this field, as well as the acknowledgements received by Naturgy.

iv. Naturgy Foundation: The Commission has supervised the performance of the Naturgy Foundation.

v. 2021-2025 projections: The Commission has supervised the preparation of the medium-term projections - 2021-2025 period - for sustainability.

C.2.2. Complete the following table on the number of female directors on the various board committees at the end of the past four years:

	Number of female directors							
	Financial Year 2020		Financial Year 2019		Financial Year 2018		Financial Year 2017	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	-	-	1	10%
Audit Committee	3	42.86%	1	14.28%	1	14.28%	2	28.57%
Appointments and Remuneration Committee	0	0%	0	0%	0	0%	1	20%
Appointments Committee	-	-	-		-	-	-	-
Remuneration Committee	-	-	-		-	-	-	-
Sustainability Committee	3	60%	-		-	-	-	-

C.2.3. Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of Naturgy and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors →Corporate governance →Corporate governance standards.

The Audit and Control Committee, the Appointments, Remuneration and Corporate Governance Committee and the Sustainability Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D. Related-party transactions and intra-group transactions

D.1. Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions

In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit and Control Committee, of the operations that the Company or its group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.

In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit and Control Committee every year.

D.2. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or Company Name of Significant Shareholder	Name or Company Name of the Company or Entity of the group	Nature of the Relationship	Type of Operation	Amount (thousand euro)
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Provision of Services	23
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Commercial	Purchase of goods (manufactured or not)	9,085
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Sales of goods (manufactured or not)	2,362
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Sales of goods (manufactured or not)	272
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	339,625
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	283,813
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	282,795

Observations

D.3. Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousand euro)
Pedro Sainz de Baranda Riva	Internacional Olivarera S.A.	Shareholder	Commercial - Sales of goods (manufactured or not)	178

Observations

D.4. Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousand euro)

Observations

D.5. Detail the significant transactions carried out between the company or entities of its group and other related parties, which have not been reported in the previous sections.

Company Name of the Entity of the Group	Short description of the operation	Amount (thousand euro)

Observations

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

- The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

  - In accordance with the regulations, the Director must inform the other members of the Board of his or her conflict of interest and must abstain from participating in the vote.
  - In the cases in which a situation of conflict of interest has been observed, the affected Board Member(s) have been absent from the meeting when the point on the agenda they have a conflict of interest with has been dealt with and the Secretary has ensured that these Board Members have not been able to access the affected information either.

2.- Directors and executives:

On the other hand, pursuant to Article 3 and 4 of the Internal Code of Conduct in Matters relating to the Securities Markets and Treasury Stock Policy (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities (i) Transferable securities issued by companies of the Naturgy Group, which are traded on a secondary market or other regulated markets, in multilateral trading systems or in other organised secondary markets, or for which an application for admission to trading on one of these markets or systems has been made. (ii) financial instruments and contracts of any kind giving the right to acquire or sell the securities referred to in (i) above (iii). The financial instruments and contracts whose underlying are the securities indicated in (i)(iv). For the sole purpose of the rules of conduct regarding privileged information contained in Title III of these Regulations, the securities and financial instruments issued by other companies or entities other than the Naturgy Group, regarding which there is Privileged Information.

The Supervisory Body, upon written request, describing and justifying the Personal Operation to be carried out and that the specific operation cannot be carried out at any other time than a limited period may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. The Supervisory Body will inform the Audit and Control Committee at least once a year about the authorisations that have been requested.

For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest.

3.- Significant shareholders:

It will be the responsibility of the Board of Directors, pursuant to a report from the Audit and Control Committee, to approve transactions carried out by the company or the companies in its group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

D.7. Indicate whether the company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

YES ☐ NO ☒

Indicate whether the respective areas of activity and any business relationships between the listed company or its subsidiaries, on the one hand, and the parent company or its subsidiaries on the other have been publicly defined:

YES ☐ NO ☐

Report on the respective areas of activity and any business relationships between, on the one hand, the listed company or its subsidiaries and, on the other hand, the parent company or its subsidiaries, and identify where these aspects have been publicly reported

Indicate the mechanisms laid down to solve possible conflicts of interests between the other parent company of the listed company and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E. Control systems and risk management

E.1. Describe the control and risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

Following the organisational change in the Company, the Audit and Control Committee has started to examine an update of the risk assessment and monitoring system.

E.2. Identify the bodies responsible for preparing and implementing the control and risk management system, including fiscal risks.

Audit Committee
A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

Risk Committee
It is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks.

Risk Control Units
Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include the Corporate Units of: Planning and Risks and Internal Audit and the Business Units of Risk Management and Business Planning and Risks.

Business Units and Corporate Areas
They are responsible for the application of the main principles of the Control and Risk Management Global Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

E.3. **Indicate the main risks, including fiscal, to the extent that those derived from corruption are significant (the latter being understood to be within the scope of Royal Decree Law 18/2017) which may prevent the company from achieving its business targets.**

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management.
Electricity price	Volatility in electricity markets in Iberia and Europe.	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of renewable production.	Optimisation of commercialisation /generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.
Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Legal	Uncertainty arising from the potential outcome of litigation, arbitration or open legal claims.	Analysis and mitigation of legal risks affecting the company's operations and corporate governance. Hiring of top-level legal firms. Provisioning with criteria of prudence.
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Admission and collection process.

Continues ›

Operational risks		
Operational: image and reputation	Deterioration in perception of stakeholders regarding the company's reputation as a result of the behaviour of the company or its employees, including those related to corruption, and their influence on results.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable	Accidents, damages or non-availabilities in assets of Naturgy.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational: environment	Exceeding environmental limits or damage to ecosystems and biodiversity produced naturally or by human action.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Uncertainty arising from the energy transition (regulation, market, technologies, ...) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environmental Plan, which strengthen governance in climate issues and set emission reduction targets.
Operational: cybersecurity	Malicious attacks or accidental events affecting data, computer networks or technology.	Implementation of security measures. Analysis of events and application of remedies. Training.
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of Naturgy.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Training.
Third-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure.

E.4. Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Control Units to ensure proper identification of all risk exposures whether current or future.

It is the Risk Control Unit's responsibility to assess the risks identified, based on:

a. Risk position: definition and characteristics.

b. Impact variables.

c. Qualitative and quantitative severity of the risk occurring.

d. Probability of risk occurring.

e. Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5. Identify any risks, including tax risks, which have occurred during the year.

The risks that have materialised during the financial year have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange, interest, credit or counterparty rates.

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.

E.6. Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Corporate Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment and Social Responsibility, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F. Internal systems of control and risk management with regard to the internal control systems over financial reporting (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1. The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model of the same. This model revolves around the following seven areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit and Control Committee.

  The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- Audit and Control Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit and Control Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit and Control Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit and Control Committee is supported by the Internal Auditing Unit.

- Planning, Control and Administration Unit: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the corporate Internal Control of Financial Reporting team.

- Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function, it is supported by the team responsible for the Internal Control of Financial Reporting of the business.

- Internal Auditing Unit: In general, it is responsible for assisting the Audit and Control Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.

- Compliance Unit, responsible of the Crime Prevention Model at NATURGY, provides information and support to the Audit and Control Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information.

- Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed, evaluate them, with the established periodicity, and carry out the Annual Certification of the SCIIF.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control of Financial Information, the responsibilities, previously centralised in the Planning, Control and Administration Department, have been decentralised to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Planning, Control and Administration Department is responsible for establishing the criteria and principles for the design and organisation of the operation of the SCIIF (with the Internal Financial Information Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.).

In this process, the Administration and Operational Monitoring units of the businesses are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organisational changes, where each business is involved in the preparation of its financial information, there is no longer a single Naturgy Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business, done under the supervision of the Internal Control of Corporate Financial Information team, which also prepares the Interrelationship Maps for the transversal and corporate processes.

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

i. The information required to prepare the financial reporting;

ii. The parties in charge that are either the source or recipient of the financial reporting and

iii. The distribution of tasks among the different organisational units.

iv. The scope of this distribution to all group companies.

v. The frequency of information transfer.

vi. The information systems that are involved in the drafting process and for the issue of the financial reporting.

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter "Code of Ethics"), which was approved by the Board of Directors. This code is mandatory for all employees of Naturgy Energy Group S.A. and for all investee companies in which Naturgy holds management control.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation. The governing criteria and conduct guidelines are mandatory for all employees and administrators.of Naturgy.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1):
  "Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)"

- Processing of information and knowledge (Section 4.11):
  "All employees that enter any kind of information in the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts."

Naturgy has also established an Anti-Corruption Policy, which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The Anti-Corruption Policy is understood to be an extension of Chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and remedy of any corrupt practice within the organisation.

Likewise, to reinforce this commitment to compliance, since January 2019, Naturgy has a Compliance Policy whose objectives are: to promote a culture of compliance and zero tolerance to regulatory breaches; as well as to ensure, through prevention, detection, supervision, training and response activities, the organisation's compliance in all its activities and operations with all applicable regulations, both external regulations and the internal regulatory system, thus avoiding possible sanctions, economic losses and reputational damage.

The Code of Ethics Committee of Naturgy has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanctionary regime, where necessary, is established by the collective bargaining agreement and the Workers' Statute.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in the languages of the countries where Naturgy operates:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy are developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration, Anti-Corruption Policy, Conflict of Interest and Compliance Policy to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

Whistleblowing channel, which enables communication to be sent to the Audit and Control Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential whether it allows for anonymous communications while respecting the rights of the complainant and the accused.

Naturgy has a Whistleblowing Channel, accessible to all its employees and third parties at the website www.naturgy.ethicspoint.com.

The aforementioned Whistleblowing Channel corresponds to an open channel (web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this regard, the Compliance unit has access, in the first instance, to all the information on all the queries and notifications received from the group through the procedure for operating the code of ethics channel.

Naturgy's Corporate Responsibility Report 2020 provides more detailed information on the Code of Ethics, the Anti-Corruption Policy, the Compliance Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel.

Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for the strategic management of Training and Management Talent, with the People units of each business being responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2020 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

Naturgy's strategic plan is a challenge for the whole organisation. In this context, the Corporate University is one of the transformation levers, at the service of people and business, to contribute to the creation of value and the achievement of the company's objectives.

In 2020, we continue to evolve our organisational model, adapting to strategic objectives and priorities, with greater accountability for business and a governance role for corporate areas.

The relevant programmes performed in 2020 included:

- Those related to increasing the company's digital profile. Programmes such as the one called, Digital Culture through The Valley platform and different asynchronous resources, the science analyst programme, oriented to the technification of digital profiles, or the digital skills programme, where different programming languages (SQL, Phyton...) and different platforms (AWS and Azure) are worked on.

- Those that attend to future challenges and market trends, such as innovation strategy, new forms of data visualisation where training has been given in Power BI and other visualisation tools, new forms of work organisation with SCRUM, SaFe training or the Productivity Programme, oriented to the best practices to be more efficient and effective.

- Those who promote leadership with the role of a lever for transformation and the group's vision, programmes such as take the lead, aimed at female and inclusive leadership, influencing distance, the leader's journey, focused on the drive for transformational leadership or various communication actions that work on the great challenges of communication in the current environment.

On the other hand, transversal programmes have been implemented, which promote and develop the culture and values of the company, through high impact focused programmes: Safety in our daily life, emotional fitness, safe return, code orange, sustainability week, etc.

The specific knowledge for the economic-financial area has several objectives, among them, to homogenise the economic-financial processes developed in any area of the organisation; to update the accounting and financial criteria, risk management, management control, international regulations and technical knowledge of the tax area; as well as to provide sufficient knowledge on company valuation, financial derivatives and financial statement analysis.

In total, in 2020 more than 300 professionals from the economic-financial areas dedicated nearly 1,500 hours to training in specific contents, highlighting, among other things, financing of renewable energies, tax innovations, analysis of taxes, accountability, finance, remuneration of distribution and regulation applicable to generation technologies and cybersecurity.

F.2. Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

If the process exists and it is documented.

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities.

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for defining scope of financial reporting of Naturgy".

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and subprocesses associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks matrix of financial reporting of Naturgy".

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support.

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018 and 2019, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.
- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.
- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.

- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.
- It allows both external and internal information required for reporting on the ICFR to be obtained and support.

Since 2013, the control evaluation requests have been performed in the following years according to the established schedules in SAP GRC Process Control, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called “Consolidated closing cycle of Naturgy”. Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

Which governing body of the company supervises the process.

The Audit and Control Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit and Control Committee uses the Internal Audit Unit and the External Audit (see section F.5).

F.3. Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable and certify the reasonableness of the individual annual accounts.

Ultimately, the responsible for Planning, Control and Administration certifies the reasonability of the individual and consolidated annual accounts of Naturgy Energy Group, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the "Global Policy for the Internal Control System of Financial Reporting (ICFR)" of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
    - General control activities.
    - Processes control activities.

- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1). In the case of not having the tool, the certification is done manually guaranteeing the same premises.

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR).

a. Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and anti-virus (signature and behaviour based) to internally reinforce control against threats.

Email and other information repositories are in the cloud (O365), where a layer of anti-malware protection (signatures and behaviour) is deployed, as well as a cloud security tool (CASB).

At the computer level, all PCs and servers have deployed a state-of-the-art anti-virus (EPP) and a detection and response tool (EDR).

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after a period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance. The MFA is being deployed in O365, IOM, external and internal VPN, in the latter there is already an equipment certificate control implemented.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location…), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change. In 2020, the team has been increased by adding a Threat Hunting service, so that possible commitments that have not yet generated alerts are proactively and continuously identified.

Likewise, the Company is working on the creation and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b. Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committee and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.

- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c. Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d. Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e. Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f. Regulatory compliance: GDPR.

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than the one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to guarantee compliance with data protection regulations.

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessments, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the "Global Policy for External Contracting", Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes, an additional level of control is required, that is referred to as "certification", which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and, furthermore, also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high-risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to suppliers/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy has subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain processes in the Sales area.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution networks.
- Certain generation activities.

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In addition it will be carried out from suppliers with a commercial relationship with Naturgy by using a screening tool to detect the exposure to reputational risk of the counterparties and make decisions based on the risk detected in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4. Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the Planning, Control and Administration Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the “Naturgy Accounting Plan”, which includes the group’s accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The “Naturgy Accounting Plan” is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group’s accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group’s subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an online alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (Lean Corporate Services) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows:

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses;

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

The use of these two systems help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy's consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

In 2020, the Single European Electronic Format (SUEF) has been adopted for the preparation of the individual and consolidated Annual Financial Report in accordance with the European Commission Delegated Regulation 2019/815 of 17 December 2018.

F.5. Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit and Control Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit and Control Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.

- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.

- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.

- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.

- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.

- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.

- Ensuring the independence of the unit handling the internal audit function.

In order to be able to comply with its responsibilities, the Audit and Control Committee has the information and documentation provided by the Internal Audit, Control of the Planning, Control and Administration Unit, the Business Administration and Operational Monitoring Units and the External Auditor.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit Unit, reports to the Audit and Control Committee of Naturgy Energy Group S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates. Likewise, it is responsible for the report of the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the risks and controls associated to these processes (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the company's processes the risk areas included in the Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

In accordance with the group policies, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

The methodology for the assessment of risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations if the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).
- Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).
- Within the scope defined, inform the Audit and Control Committee of the results and the weaknesses identified in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2020 were as follows:

- Gas Networks: Network Construction, Collection and Commissioning, Network Maintenance, Billing, Reading, Emergency Care, Home Operations, Irregularity Management.
- Electricity Networks: Network Development, Network Maintenance, Logistics, Reading, TPA Contracting, TPA Invoicing.
- Generation: Operation and Maintenance of Generation Assets, Development and Start-up of New Projects, Management of Generation Assets, Management of Warehouses. Dismantling and Closing of Assets.
- Marketing (Gas, Electricity and Services): Attraction and Contracting, Product Management, Construction and Commissioning of Energy Facilities.
- Gas Supply: Invoicing and Payment of Gas Purchases, Negotiation and Contracting.
- LNG: Technical management of ships.
- Customer Service: Invoicing, Collection, Unpaid Management, Customer Service, TPA Invoicing.
- Energy Management: Demand Estimation and Gas Procurement.
- Management of Physical Resources: Approval of Suppliers.
- Internal Control Management: Follow-up of corrective actions, SCIIF.
- Information Systems Management: Cybersecurity, Business Continuity Plan.
- Management of Economic and Financial Resources: Treasury Stock, Economic-Administrative Management of Operations, Processing of Expenses and Investments.
- Human Resources Management: Administration and People Services.
- Review of the group's regulatory system.

- Ethical Code Channel.
- Criminal Prevention Model.
- General Data Protection Regulations.
- Continuous Audit.

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information were reviewed in accordance with the work methodology described above.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit and Control Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As set out in Article 6 of the Council Regulation:

The Board shall meet at least eight times a year and, at the Chairman's initiative, as many times as he deems appropriate for the proper functioning of the Company or when at least 1/3 of the Board members request it.

In order to obtain the necessary information for the exercise of their duties, the members of the Board of Directors have the Audit and Control Committee, whose functions include knowledge and supervision of the process of preparing the regulated financial information, as well as the effectiveness of the internal control system.

In accordance with the Company's By-Laws and the Code of Conduct for the Board of Directors and its Committees, the Audit and Control Committee will be made up of a minimum of three and a maximum of seven Board members, appointed by the Board of Directors from among the non-executive directors, and at least one of these will be appointed taking into account his or her knowledge and experience in accounting and/or auditing matters. Its members shall leave the Board when they cease to be directors and when the Board of Directors so decides. The majority of the committee members shall have the status of independent directors. At 31 December 2020, the Committee is made up of seven directors, three proprietary and four independent, one of whom is also the Chairman.

The Board of Directors will elect the Chairman of the Committee, who will not have a casting vote. The Secretariat of the Committee will correspond to the Secretariat of the Board of Directors.

The Committee, which is convened by its Chairman, meets when necessary to issue the reports for which it is responsible or when deemed appropriate by its Chairman or requested by two of its members and at least four times a year. The Commission may invite any manager or employee it deems appropriate to attend its meetings.

The internal auditor reports functionally to the Audit and Control Committee and attends all meetings of said Committee and thus has a direct relationship with it.

The sphere of activity of the Audit and Control Committee extends to:

- Naturgy Energy Group, S.A.
- Companies controlled by Naturgy Energy Group, S.A.

However, the Audit and Control Committee of Naturgy Energy Group S.A. respects the functions of the Audit and Control Committees of the investee companies and therefore does not exercise functions with respect to the areas of the latter, which have, for example, their own internal audit service that reports directly to them. In these cases, the Audit and Control Committee of Naturgy Energy Group S.A. has supervisory functions, but not direct control.

The Internal Audit Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the group.

The relationship between the Internal Auditor and the Audit and Control Committee is as follows:

- The Chief Internal Auditor reports fully to the Audit and Control Committee (setting the annual budget, approving the annual audit plan and supervising its monitoring, setting the fixed remuneration, setting and evaluating the variable remuneration and proposing it to the Executive Chairman for dismissal and appointment) and reports only to the General Secretariat for administrative and management purposes.
- The same scheme applies to the internal auditors in their full functional dependence on the Chief Internal Auditor, to whom they also report hierarchically.
- This has an exception in those group companies that have their own Audit Committee. In these cases, the functional and hierarchical dependence will be on these committees, but the chief internal auditor must be able to give them instructions to ensure that the internal audit function is carried out in a homogeneous manner in all the companies of the group, must be consulted on the dismissal and appointment and the variable remuneration of these auditors must be consistent with the variable remuneration of the other auditors.

The internal auditor in particular presents to the Audit and Control Committee:

- The Annual Internal Audit Plan for the committee's approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment of the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit and Control Committee.

The external auditor may at any time approach both the management team (normally through the Director of Planning, Control and Administration) and the Audit and Control Committee (normally through the Chairman or Secretary of the Committee).

The External Auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit and Control Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

The Director of Compliance also has the ability to address the Audit and Control Committee or the Management Committee directly if he deems it necessary. He may also address the management team as the Director of Compliance chairs the Ethics and Compliance Committee whose members are members of the Management Committee.

F.6. Other relevant information

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2020 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main magnitudes of this process, relating to ongoing activities, were as follows:

	Spain	International	Total
Business and corporate units	206	179	385
Processes identified	55	147	202
Controls certified	872	1,020	1,892

The discontinued activity of the electricity distribution business in Chile covers a total of 33 critical processes of consolidated scope in Naturgy, with a total of 272 controls certified by 25 organisational business units.

Likewise, action plans have been identified due to weaknesses in the evidence of controls, which amount to 10, of which 3 are in Spain. During financial year 2020, 33% of the action plans identified in 2019 were resolved, with new plans emerging during 2020. In the discontinued activity of the electricity distribution business in Chile, 17% of the action plans identified in 2019 have been resolved, leaving a total of 29 action plans at December 2020. In any event, the subprocesses affected by these action plans do not significantly affect the quality of financial information.

F.7. Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annexe. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G. Decree of compliance with the corporate governance recommendations

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. **The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.**

Compliant [X] Explain [ ]

2. **When the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:**

a. The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.

b. The mechanisms established to resolve any conflicts of interest that may arise.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

3. **During the annual general meeting, the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

a. Changes taking place since the previous annual general meeting.

b. The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant [X] Partially compliant [ ] Explain [ ]

4. **The company should define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.**

Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

Compliant [X] Partially compliant [ ] Explain [ ]

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant [X] Partially compliant [ ] Explain [ ]

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:

a. Report on auditor independence.

b. Reports on the operation of the Audit and Control Committee and the Appointments and Remuneration Committee.

c. Audit Committee report on related party transactions.

Compliant [X] Partially compliant [ ] Explain [ ]

7. The company should broadcast its general meetings on the corporate website

The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

Compliant [X] Explain [ ]

8. The Audit and Control Committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases where the auditors include any qualification in its report, the chairman of the Audit and Control Committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.

Compliant [X] Partially compliant [ ] Explain [ ]

9. The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant [X] Partially compliant [ ] Explain [ ]

10. When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:

a. Immediately circulate the supplementary items and new proposals.

b. Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.

c. Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.

d. After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

11. In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant [X] Partially compliant [ ] Explain [ ]

13. **The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant ☒ Explain ☐

14. **The board of directors should approve a policy aimed at promoting an appropriate composition of the board that:**

a It is concrete and verifiable.

b Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.

c Favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The Appointments Committee should run an annual check on compliance with this Policy and set out its findings in the annual corporate governance report.

Compliant ☒ Partially compliant ☐ Explain ☐

15. **Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

Compliant ☐ Partially compliant ☒ Explain ☐

The number of executive directors is 1 and therefore meets the minimum requirement. Finally, with regard to the number of female directors, the policy for the selection of directors ensures that the selection procedures are not subject to any implicit bias that could imply any discrimination, within the framework of full respect for the shareholders' right to proportional representation as recognised by law. The policy for selecting Board members is aimed at ensuring adequate diversity in the composition of the Board of Directors, which means that Board members have different and complementary professional profiles and careers, in the conviction that this diversity will result in a better functioning of the Board. Within this framework the Board pays attention to gender diversity issues.

The Company shares the objective of increasing the presence of women on the Board to at least 30% in 2020 and 40% in 2021, and to this end 100% of the vacancies (three) that have arisen during 2020 have been filled by female directors, reaching 25%.

16. **The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

This criterion can be relaxed:

a. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b. In companies with a plurality of shareholders represented on the Board but not otherwise related.

Compliant [X] Explain [ ]

17. **Independent directors should be at least half of all Board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant [ ] Explain [X]

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 66.1% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. **The companies should publish the following information about their directors on their website and keep the said information up to date:**

a. Background and professional experience.

b. Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c. Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.

d. Dates of their first appointment as Board member and subsequent re-elections.

e. Shares held in the company, and any options on the same.

Compliant [X] Partially compliant [ ] Explain [ ]

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant [X] Explain [ ]

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, related or not to their actions within the company, and tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

When the board is informed or becomes aware of any of the situations mentioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, decide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

Compliant [X] Partially compliant [ ] Explain [ ]

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

24. Directors who give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.

This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

Compliant [ ] Partially compliant [X] Explain [ ]

Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

26. **The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

Compliant [X] Partially compliant [ ] Explain [ ]

27. **Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

Compliant [X] Partially compliant [ ] Explain [ ]

28. **When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

29. **The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant [X] Partially compliant [ ] Explain [ ]

30. **Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant [X] Explain [ ] Not applicable [ ]

31. **The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

Compliant [X] Partially compliant [ ] Explain [ ]

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its group.**

Compliant [X] Partially compliant [ ] Explain [ ]

33. **The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.**

Compliant [X] Partially compliant [ ] Explain [ ]

34. **When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, among others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

35. **The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant [X] Explain [ ]

36. The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:

a. The quality and efficiency of the Board's operation.

b. The performance and composition of its Committees.

c. The diversity of the composition and competence of the Board of Directors.

d. The performance of the Chairman of the Board of Directors and the Company's Chief Executive.

e. The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detail in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

37. When there is an executive committee, there should be at least two non-executive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

39. All members of the Audit and Control Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters, both financial and non-financial.

Compliant [X] Partially compliant [ ] Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit and Control Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit and Control Committee.

Compliant ☐ Partially compliant ☒ Explain ☐

The company considers it more appropriate for the functional unit to be of the Commission as a whole and not of the President of the Commission, since the functions that make up such a unit are preached from the Commission as a whole and not only from the President.

Thus, this Committee sets the annual budget, approves the annual audit plan and supervises its monitoring, and proposes its termination and appointment to the Executive Chairman. Finally, together with the Appointments, Remuneration and Corporate Governance Committee, it sets the fixed remuneration of the Chairman, and determines, after evaluation, the variable remuneration.

It reports to the General Secretariat for administrative and management purposes only.

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit and Control Committee, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, and submit an activities report at the end of each year.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

42. The Audit and Control Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a. Monitor and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b. Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the priorities and annual work programme of the internal audit unit, ensuring that it focuses primarily on the main risks the company is exposed to (including reputational risk); receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c. Establish and supervise a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report irregularities of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.

d. In general, ensure that the internal control policies and systems established are applied effectively in practice.

2. With regard to the External Auditor:

a. In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.

b. Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c. Ensure that the company notifies any change of external auditor through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d. Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.

e. Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant [X] Partially compliant [ ] Explain [ ]

43. The Audit and Control Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant [X] Partially compliant [ ] Explain [ ]

44. The Audit and Control Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

45. The risk control and management policies should identify at least:

a. The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b. A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regulations provide or the company deems it appropriate.

c. The level of risk that the company considers acceptable.

d. The measures in place to mitigate the impact of identified risk events should they occur.

e. The internal control and reporting systems to be used to control and manage the above risks, including the contingent liabilities and off-balance sheet risks.

Compliant [X] Partially compliant [ ] Explain [ ]

46. That, under the direct supervision of the Audit and Control Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

a. Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.

b. Participate actively in the preparation of risk strategies and in key decisions about their management.

c. Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant [ ] Explain [X] Not applicable [ ]

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, one of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of

Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit and Control Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

In addition, in the financial year 2020, the Board of Directors has decided to create a new Committee, the Sustainability Committee, which reaffirms the inappropriateness of splitting the Appointments, Remuneration and Corporate Governance Committee.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant [X] Partially compliant [ ] Explain [ ]

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

a. Propose to the Board of Directors the standard conditions for Senior Executive contracts.

b. Monitor compliance with the remuneration policy set by the Company.

c. Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.

d. Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e. Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

Compliant [X] Partially compliant [ ] Explain [ ]

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a. Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.

b. **Committees should be chaired by an Independent Director.**

c. **The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**

d. **They may engage external advice when they feel it necessary for the discharge of their functions.**

e. **Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

53. The task of supervising compliance with the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the Audit and Control Committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of self-organisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions:

Compliant [ ] Partially compliant [X] Explain [ ]

The Audit and Control and Appointments, Remuneration and Corporate Governance Committees carry out some of the supervisory functions referred to in this recommendation and are made up of a majority of independent directors.

In addition, the Company's Board of Directors created the Sustainability Committee in financial year 2020, which has been entrusted with the exercise of supervision and control functions in environmental and social matters.

The Commission is composed of 5 members, of whom 2 are independent and one of whom chairs the Commission. This number is considered to be sufficient in view of the Committee's functions and in order not to overburden the independent directors by belonging to more than 2 Committees simultaneously.

54. The minimum functions referred to in the previous recommendation are as follows:

a. **Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.**

b **Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.**

c Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d. Ensure the company's environmental and social practices are in accordance with the established strategy and policy.

e. Monitor and evaluate the company's interaction with its stakeholder groups.

Compliant [X] Partially compliant [ ] Explain [ ]

55. Environmental and social sustainability policies should identify and include at least:

a. The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.

b. The methods or systems for monitoring compliance with policies, associated risks and their management.

c. The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.

d. Channels for stakeholder communication, participation and dialogue.

e. Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant [X] Partially compliant [ ] Explain [ ]

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant [X] Explain [ ]

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant [X] Partially compliant [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a. Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b. Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c. Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant ☐ Partially compliant ☒ Explain ☐ Not applicable ☐

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or others, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

62. Following the award of shares, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation.

Compliant [ ] Partially compliant [ ] Explain [X] Not applicable [ ]

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provision that permits the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

H. Other information of interest

1. **If there is any other relevant aspect in corporate governance in the company or in the group companies which have not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**

2. **In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. **The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

The Board of Directors, at its meeting on 17 September 2010, agreed to the adhesion of NATURGY to the Code of Good Tax Practice. In accordance with the provisions of this Code, it is expressly stated that NATURGY has effectively complied with its content and, in particular, that at the meeting held on 2 February 2021, the Board was informed, through the Audit and Control Committee, of the situation and the tax policies followed by the group during financial year 2020.

Likewise, the Board of Directors, at its meeting on 29 January 2019 and with the favourable report of the Audit and Control Committee, approved the Tax Strategy and Policy for the Control and Management of Tax Risks, which regulates the basic principles that should guide NATURGY's tax function, as well as the main lines of action to mitigate and guide the correct control of tax risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on 2 February 2021.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

YES ☐ NO ☒

Name and Company Name of the Members of the Board that have voted against approving this report	Reasons (against, abstention, non-attendance)	Explain the reasons

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