

ORDINARY GENERAL SHAREHOLDERS MEETING

17 MARCH 2020

PROPOSAL BY THE BOARD OF DIRECTORS OF NATURGY ENERGY GROUP, S.A. IN RELATION TO THE REMUNERATION POLICY OF THE DIRECTORS.

1.- Justification

This Report has been drawn up by the Board of Directors of NATURGY ENERGY GROUP, S.A. in compliance with article 529.19.2 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital or "LSC").

Act 31/2014, of 3 December incorporated significant changes with respect to remunerations of Members of the Board of Directors of listed companies. Of particular significance is Article 529.19.1 of the Spanish Corporate Enterprises Act, drafted by said Act 31/2014, which states that the General Meeting of Shareholders is tasked with approving the Director Remuneration Policy, at least every three (3) years. In view of this provision, the decision was reached at the General Meeting of Shareholders of NATURGY ENERGY GROUP, S.A. held in June 2018 to approve the Company's remuneration policy for financial years 2018, 2019 and 2020. Thereafter, the same was amended by the General Meeting of Shareholders of NATURGY ENERGY GROUP, S.A. in a meeting held in March 2019 to adapt it to the principles in terms of remuneration duly incorporated in the Articles of Association of the Company also approved in the General Meeting of Shareholders in 2018.

The proposal continues along the same lines as that approved by the General Meeting of Shareholders in 2019 proposing two specific changes of the same: i) in the remuneration of the Directors for their capacity as such, respecting the payment scheme of a yearly fixed amount, being the traditional remuneration scheme for Directors, it was deemed desirable introduce a component linked to the dedication of the Directors for being Members of the Board, so that a part of the remuneration shall continue being fixed and annual, while that linked to being Member of the Committee(s) shall be linked to attending their meetings, and ii) in regard to the annual variable remuneration of the Executive Director, Recommendation N°. 60 of the Good Governance Code shall be acted upon verbatim with respect to there being any qualifications stated in the External Auditor's report of the Company.



In view of the foregoing, the Board of Directors of Naturgy Energy Group, S.A. propose the following to the General Meeting of Shareholders:

2.- Remuneration Policy

REMUNERATION POLICY OF THE DIRECTORS OF NATURGY ENERGY GROUP, S.A.

I. Objective and principles of the Remuneration Policy.

The objective of the Remuneration Policy herein is to establish the remuneration framework applicable to Directors of NATURGY ENERGY GROUP, S.A. (hereinafter, "NATURGY", "the Business" or "the Company") for years 2020, 2021 and 2022. Said remuneration framework is orientated towards promoting the long-term profitability and sustainability of the Company whilst at the same time being aligned with the principles of the Strategic Plan in force.

A. Considerations common to Executive and Non-Executive functions.

In the establishing of its remuneration policy, directed specifically at its Directors, as well as being directed at its Employees in general, the objective of the Company is to attract, retain and motivate the best management talent on the market, under the principles of promoting the long-term profitability and sustainability of the Company set forth in Article 9 of the Articles of Association, as well as acting in a fair manner with respect to the results obtained. This shall facilitate value creation for the entire Business Group fronted by NATURGY in a sustainable timely way, assuring transparency and competitiveness in their Remuneration Policy.

In accordance with the specific system of the remuneration of the Directors of the listed companies, a distinction is made between the remuneration of Directors for their non-executive functions and the same Directors for their executive or delegated functions.



B. Considerations specific to the remuneration of Directors for exercising non-executive functions.

The remuneration of the Directors is based on the following principles:

- It must be sufficient to compensate their dedication, experience and responsibility, without compromising their independence, adapting itself annually to market conditions to remain competitive.
- It must be on a par with market standards and reflect the remuneration paid to Directors of peer-listed companies of similar stature to the Company.
- It should facilitate the Company having access to the best talent possible available at any moment in time and include enough motivational elements so as to retain them.

C. Considerations specific to the remuneration of Directors for exercising their executive or delegated functions.

The Directors Remuneration Policy for their executive and delegated functions shall take into consideration, additionally and specifically, the following principles:

- Provide suitable compensation through a range of monetary and in-kind pay items that recognise, attract, retain and motivate the best management talent on the market as well as being fair with respect to the results obtained, and at the same time be a communication tool for organisational and company objective purposes.
- Align the objectives of the Group in the different time horizons in such a way that they drive the sustainability of the results.
- Recognise the capacity of the Professional for their impact on the Group's value creation and their expertise and personal qualities.
- Encourage a feeling of commitment within the Company, where both personal contribution and teamwork is essential.
- Systematically assess the results of their actions and the extent to which they



are able to adapt to the competency required of them at all times.

- Align the remuneration with the long-term interests of the Shareholders.
- Remunerate in a fair and competitive way, recognising the responsibilities and the criticality of the job position applying a flexible market benchmark adapted to the prevailing circumstances so as to attract and retain the best professionals.
- Review the remuneration system periodically ratifying and modifying it to reflect results of the same as and when needed.

Accordingly, remuneration payable to Directors as consideration for their executive functions seeks:

- To offer an overall package that proves competitive when compared to the remuneration offered by peer companies operating within and outside the sector (such companies being comparable in terms of stock market capitalisation, size, shareholding structure and international presence).
- To maintain a variable annual pay component linked to the attainment of measurable objectives aligned with the interests of Shareholders, including control and measurement systems, that determine the payment of the variable remuneration based on assessments that measure performance on an individual level and the Company as a whole. In this respect the annual budget of the Company is taken as the main benchmark. All this, without prejudice to components that underpin the way in which the objectives are met (quality, efficiency, safety, etc.) that may need to be added.
- To incorporate multi-annual variable remuneration systems that encourage the attainment of longer-term objectives aligned with the interests of the Shareholders.
- To establish a compliment to social welfare schemes and competitive benefits.



II. Directors remuneration policy.

A. Directors remuneration policy for Directors exercising non-executive functions.

The remuneration of the Directors exercising non-executive functions shall consist of:

- i) An annual fixed payment for being a Member of the Board of Directors to be paid in proportion to the exercising period of the functions.
- ii) A fixed payment for attending each of the meetings of the Committee(s), up to the annual limit as determined in the Policy herein.

The annual fixed payment as well as the fixed payment for attending Committee(s) will be different depending on the responsibility and functions that each Director assumes on the Board or on their Committee(s). It may also be in the form of remuneration in shares or reference them, in the terms established in the current legislation.

It will be left to the discretion of the Board of Directors to address other circumstances, provided they are objective and applied transparently, and the frequency with which the annual fixed provision is to be paid over the course of the year. Amongst other matters, the dedication required for exercising the functions shall be assessed, guaranteeing in all cases the independence of the Directors.

Without prejudice to that set forth in this section and in relation to the annual maximum amount, the Board shall be free to review or update the Directors for the exercising of non-executive functions within the bounds of the Law, subject to the same, in compliance with the provision set forth in Article 217.4 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital).

The Directors shall be named as Insured Parties under the civil liability insurance policy for Administrators and Directors of the Group under the terms established in section D below.

B. Maximum remuneration limit of the Directors for attending Committee(s).

A maximum amount of €150,000 has been set for the remuneration Directors may receive per year as fixed remuneration for attending Committee(s).



Said amount shall be reviewed annually as provided for in section E.

C. Remuneration policy for Directors for exercising executive or delegated functions.

The Directors Remuneration Policy for the exercising of executive or delegated functions will include:

C.1. Annual Fixed Base Remuneration and Total Annual Fixed Monetary Remuneration.

The annual fixed base remuneration payment will be determined by the Board of Directors upon the proposal of the Appointments and Remuneration Committee to which the fixed remuneration paid for being a Member of the Board is added (see section II.A, amounting to €1,100,000 in 2020). The amount of the annual fixed base remuneration for the exercising of executive or delegated functions is fixed for 2020 at €960,000 and will be updated yearly as provided for in section E.

The sum of both constitutes the total annual fixed monetary remuneration for 2020 amounting to €2,060,000.

C.2. Variable remuneration.

Represents a significant part of the total remuneration and shall be aligned with the value created for the Shareholders with different time horizons.

It may also be in the form of remuneration in shares or reference them, in the terms established in the current legislation.

C.2.1 Annual variable remuneration.

The annual variable remuneration will be based on a yearly assessment of the extent to which pre-defined, specific and measurable objectives have been attained in relation to economic and financial variables, efficiency and growth variables, and matters of quality and safety. This remuneration is linked directly to the fulfilment of those objectives.



The attainment metrics shall be fixed beforehand, and thereafter assessed by the Appointments and Remuneration Committee (who will report them) and by the Board of Directors (who will approve them). These metrics include a minimum attainment threshold below which there is no entitlement to receive the incentive payment as well as an over-attainment maximum. The objectives set for Executive Directors will be based on the indicators and weightings set by the Board of Directors, upon the proposal of the Appointments and Remuneration Committee, with the main benchmark being the budget for the Company approved by the Board of Directors.

The annual variable remuneration will be based on an amount equivalent to the annual monetary remuneration to which a percentage based on the attainment metric shall be applied.

The annual variable remuneration payment may be replaced every year in its entirety or in part by a contribution to a social welfare scheme subject to mutual agreement of the same.

A claw back clause will be included during the following 18 months when collecting the annual variable remuneration

The amount of the annual variable remuneration, the part that is related to the results of the Company, shall be set once the audited Annual Accounts are available and the fixing of the same shall take into account any qualifications stated in the External Auditor's report on the Company that reduce said results.

C.2.2 Multi-annual variable remuneration.

The Company shall establish in a coordinated way with the Strategic Plan in force at all times, multi-annual incentive plans for Executive Directors linked to the return obtained for the Shareholders within the scope of the corresponding Plan, with the objective of promoting the retention and motivation of the Executive Directors when executing the same and an alignment with the maximisation of the return for the Shareholders. The Board of Directors may include as beneficiaries of this remuneration scheme Directors of the Company that are not considered to be Executive Directors but whose participation is considered to be essential in the attainment of the objectives of the Strategic Plan.

In particular, the Company may establish long-term incentive schemes, whose



duration may exceed that of the Policy in force, using as criteria the total return for the Shareholders. These can be instrumented through a specific share-holding company of Naturgy shares. To facilitate the buying of these shares, said company, with an appropriate capital structure, shall receive initially the necessary resources that must be returned at the end of the Plan. The holding company shall remain wholly-owned by Naturgy during the entire period and shall make the most efficient decisions to ensure the maximum return on investment, acting as a diligent Investor at all times. The monetary value of the net amount left in the vehicle, derived from dividends, trading revaluations and other income and expenses, mainly financial, shall be the multi-year variable remuneration for all participants in the Plan.

A minimum return threshold shall be set below which the remaining amount will not be paid out, despite being available, and a claw-back clause shall be included for the next 18 months effective from the start of the Plan.

C.2.3. Other variable remunerations.

For special transactions, the Board of Directors may establish remunerations linked to specific, pre-set objectives that act as an incentive to attaining objectives linked to said special transactions. Likewise, the Board of Directors may also, in exceptional cases, establish remuneration for attaining one-off achievements that have made a decisive contribution to the Company's results.

C.3. Social welfare systems and social benefits.

Additionally, the Executive Directors may be granted a remuneration scheme in kind similar to that of the company's Directors' pension entitlements and other benefits complimentary to the Protection Action of the Social Security, regardless of whether they are channelled through different instruments according to the type of business relationship the Executive Directors have with the Company: saving schemes, temporary incapacity insurance, etc.

C.4. Main clauses contained in the contracts of Executive Directors.

The remuneration, rights, obligations and other financial compensation intended for Executive Directors will be set out in a contract to be approved by the Board of Directors.



The contracts of Executive Directors must contain a clause requiring advance notice of at least six (6) months except for cases of *force majeure*. They also feature an exclusivity clause for as long as the Director remains with the Company and a non-disclosure undertaking which will remain binding even after the contract has ended.

Likewise, without prejudice to the payment of any ongoing remuneration, a compensation amount may be determined in the event of any severance or termination of the contractual relationship in certain cases, which will be equivalent to twice the sum of the following three amounts: (i) total annual fixed monetary remuneration, (ii) annual variable remuneration and, (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 125% of the annual fixed monetary remuneration; this last concept may be conditioned, in part, on the attainment of the minimum return objective for Shareholders in line with those expected in the Strategic Plan. Under no circumstances will any such compensation be payable in the event of any material breach deemed wilful or negligent of the professional obligations of Executive Directors, insofar as the breach causes serious harm to the interests of the Company.

Furthermore, as a post-contractual non-compete clause binding for one (1) year, compensation equivalent to a maximum of one (1) year's total fixed monetary remuneration may be established.

D. Coverage of civil liability for Directors.

The Company will arrange and pay the relevant premiums under a civil liability insurance policy intended for the Directors of NATURGY, including Executive Directors, in which the Directors are named as Insured Parties, to cover any liability they may incur when discharging their duties as Directors, except in the case of wilful misconduct.

The Company may do so by taking out and paying a global premium for a joint civil liability insurance policy for all Board Members and Directors, extending to both the parent company and all Group subsidiaries and affiliates.



E. Remuneration update.

Directors shall only receive from the Company the remuneration linked to the responsibility that they exercise. The remuneration amounts set in this Policy may be reviewed and updated by the Board of Directors, pursuant to a report from the Audit Committee, within the maximum limit established in section III taking into consideration information on the evolution of the market, the growth forecast for each year, and market research and analysis that may be conducted in a timely manner. Said variations shall be disclosed in the Annual Remuneration Report.

III. Annual maximum overall amount of the Directors' remuneration

The annual maximum overall amount to pay for the totality of the Directors for the exercising of their non-executive, executive and delegated functions will be the greater of 3% of the consolidated net profit of the corporate Group for the immediate preceding year and 3% of the actual dividend paid in said year to the Shareholders.

IV. Period of the Remuneration Policy.

This Remuneration Policy, aligned with the objectives of the current Strategic Policy, shall be in force during years 2020, 2021 and 2022 and replaces any other Remuneration Policy approved previously. Article 9 of the Articles of Association of the Company establishes that the remuneration system must be orientated towards the long-term profitably and sustainability of the Company.

Given that the Company have considered appropriate establish a multi-annual variable remuneration plan that may extend more than five years in duration and therefore exceeds the 3-year time horizon of this Policy, the remuneration principles contained in this Policy in sections II.C.2.2. and III shall inspire the year 2023.



Madrid, Spain, on 04 February 2020.

The Board of Directors of NATURGY ENERGY GROUP, S.A.