Auditor's Report on Naturgy Energy Group, S.A.

(Together with the annual accounts and directors' report of Naturgy Energy Group, S.A. for the year ended 31 December 2022)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Naturgy Energy Group, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Naturgy Energy Group, S.A. (the "Company"), which comprise the balance sheet at 31 December 2022, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Key Audit Matters

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

Recoverable amount of non-current investments in Group companies and associates See notes 3.3, 3.19, 4 and 7 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2022 the Company has recognised non-current investments in Group companies and associates amounting to Euros 28,957 million. The recoverable amount of these investments in Group companies and associates is determined, for those companies in which there is objective evidence of impairment, by applying valuation techniques which often require the exercising of judgement by the Directors and the use of assumptions and estimates. Due to the significance of the investments and the uncertainty associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: – Evaluating the design and implementation of the key controls related to the process of calculating the recoverable amount. – Assessing the existence of evidence of impairment, as well as the reasonableness of the methodology and assumptions used to estimate the recoverable amount, with the involvement of our specialists. – Assessing whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors' Report

Other information solely comprises the 2022 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility regarding the information contained in the directors’ report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors’ Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2022, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, 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 and control committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 legislation regulating the audit of accounts 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 annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual accounts, 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 entity'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 annual accounts 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 annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with Naturgy Energy Group, S.A.'s audit and control committee 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 entity's audit and control committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit and control committee of the entity, we determine those that were of most significance in the audit of the annual accounts of the current period and which 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.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Naturgy Energy Group, S.A. for 2022 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual accounts for the aforementioned year, which will form part of the annual financial report.

The Directors of Naturgy Energy Group, S.A. are responsible for the presentation of the 2022 annual financial report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

Our responsibility consists of examining the digital file prepared by the Company's Directors, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the annual accounts included in the aforementioned digital file fully corresponds to the annual accounts we have audited, and whether the annual accounts have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit and control committee dated 20 February 2023.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 9 March 2021 for a period of three years, from the year ended 31 December 2021.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

20 February 2023

Naturgy Energy Group, S.A.
Annual Report
2022

Annual Accounts

This 2022 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Energy Group, S.A.
Balance sheet

	Note	31.12.2022	31.12.2021
			(million euro)
NON-CURRENT ASSETS	**Note**	**29,321**	**31,809**
Intangible assets	5	2	2
Patents, licences, trademarks and other		1	1
Other intangible assets		1	1
Property, plant and equipment	6	102	110
Land and buildings		90	98
Other property, plant and equipment		12	12
Long-term investments in group companies and associates	7	28,957	31,284
Equity instruments		14,960	16,138
Loans to companies		13,997	15,146
Long-term investments	8-14	77	9
Equity instruments		5	4
Derivatives		69	—
Other financial assets		3	5
Other non-current assets	9-14	63	231
Derivatives		63	231
Deferred tax assets	17	120	173
CURRENT ASSETS		**4,286**	**6,927**
Trade and other receivables	9-14	981	2,282
Trade receivables for sales and services		67	56
Trade receivables, group companies and associates		184	213
Derivatives		710	1,865
Other sundry receivables		—	12
Current tax assets		16	134
Other amounts receivable to Public Administrations		4	2
Short-term investments in group companies and associates	7	294	2,379
Loans to companies		292	2,376
Other financial assets		2	3
Short-term investments	8-14	28	57
Derivatives		16	—
Other financial assets		12	57
Short-term prepayments and accrued expenses		2	1
Cash and cash equivalents	10	2,981	2,208
Cash at banks and in hand		1,336	889
Other cash equivalents		1,645	1,319
TOTAL ASSETS		**33,607**	**38,736**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Balance sheet			**(million euro)**
	Note	**31.12.2022**	31.12.2021
EQUITY	11	**18,306**	**18,858**
SHAREHOLDERS' FUNDS		**18,240**	**18,901**
Capital		970	970
Authorised capital		970	970
Share premium		3,808	3,808
Reserves		10,377	11,304
Legal and statutory		300	300
Other reserves		10,077	11,004
Treasury shares		(1)	(4)
Profit/(loss) for the year		1,435	1,706
Retained earnings		2,320	1,778
Interim dividend		(679)	(679)
Other equity instruments		10	18
VALUE CHANGE ADJUSTMENTS		**66**	**(43)**
Hedging operations		66	(43)
NON-CURRENT LIABILITIES		**10,560**	**12,335**
Long-term provisions	12	270	309
Long-term post-employment obligations		187	242
Other provisions		83	67
Long-term borrowings	13	1,939	2,434
Bank borrowings		1,938	2,372
Derivatives	14	—	61
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	15	8,013	9,110
Deferred tax liabilities	17	275	250
Other liabilities	14-16	63	232
Derivatives		63	232
CURRENT LIABILITIES		**4,741**	**7,543**
Short-term borrowings	13-14	559	421
Bank borrowings		534	402
Derivatives		25	19
Amounts owing to group companies and associates falling due in less than one year	15	3,125	4,823
Trade and other payables	16	1,056	2,298
Trade payables		240	259
Trade payables, group companies and associates		71	103
Derivatives	14	711	1,873
Other sundry payables		—	12
Personnel (outstanding remuneration)		18	33
Other amounts payable to Public Administrations		16	18
Short-term prepayments and accrued expenses		1	1
TOTAL EQUITY AND LIABILITIES		**33,607**	**38,736**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Income statement

		2022	2021
		(million euro)	
Revenue	18	2,628	2,082
Sales		718	802
Income from equity instruments of group companies and associates	7	1,474	932
Income from marketable securities and other financial instruments of group companies and associates		436	348
Raw materials and consumables	19	(713)	(803)
Consumption of goods		(713)	(803)
Other operating income	22	75	81
Supplementary income and other operating income		75	81
Personnel expenses	20	(70)	(126)
Wages, salaries and related expenses		(57)	(112)
Social Security		(8)	(9)
Provisions		(5)	(5)
Other operating expenses	21	(136)	(110)
External services		(135)	(109)
Taxes		(1)	(2)
Impairment losses and variation in trade provisions		—	1
Fixed asset depreciation/amortisation	5-6	(12)	(13)
Impairment and results on disposals of fixed assets		(4)	871
Gain/(loss) on disposals of tangible fixed assets	6	—	1
Impairment of and losses from equity instruments of group companies and associates	4-7	1	869
Gain/(loss) on disposals of equity interests in Group companies and associates	7	(5)	1
OPERATING PROFIT/(LOSS)		**1,768**	**1,982**
Financial income		12	3
Equity instruments		1	—
- In third parties		1	—
Negotiable securities and other financial instruments		11	3
- In third parties		11	3
Financial expenses		(300)	(349)
Borrowings from group companies and associates		(245)	(303)
Borrowings from third parties		(55)	(46)
Impairment and gains/(losses) on disposals of financial instruments		—	(1)
Impairments and losses		—	(1)
NET FINANCIAL INCOME	23	**(288)**	**(347)**
PROFIT/(LOSS) BEFORE TAXES		**1,480**	**1,635**
Income tax	17	(45)	71
PROFIT FOR THE YEAR		**1,435**	**1,706**
Basic and diluted earnings per share in euro		1.49	1.77

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE	**Note**		**(million euro)**
		2022	2021
PROFIT FOR THE YEAR		1,435	1,706
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		140	38
Cash flow hedges		128	27
Actuarial gains and losses and other adjustments	12	58	22
Tax effect	17	(46)	(11)
RELEASES TO INCOME STATEMENT		13	14
Cash flow hedges		17	19
Tax effect	17	(4)	(5)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**1,588**	**1,758**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Statement of changes in equity

B) TOTAL STATEMENT OF CHANGES IN EQUITY **(million euro)**

	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 1.1.2021	**970**	**3,808**	**11,291**	**(1)**	**—**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**
Total recognised income and expense	—	—	14	—	—	—	1,706	—	4	34	1,758
Operations with shareholders or owners											
- Capital reduction	—	—	—	—	—	—	—	—	—	—	—
- Dividend distribution	—	—	—	—	(611)	—	—	(679)	—	—	(1,290)
- Trading in treasury shares	—	—	—	(3)	—	—	—	—	—	—	(3)
Other changes in equity	—	—	(1)	—	611	(1,298)	(98)	785	—	1	—
Balance at 31.12.2021	**970**	**3,808**	**11,304**	**(4)**	**—**	**1,778**	**1,706**	**(679)**	**18**	**(43)**	**18,858**
Total recognised income and expense	—	—	44	—	—	—	1,435	—	—	109	1,588
Operations with shareholders or owners											
- Capital reduction	—	—	—	—	—	—	—	—	—	—	—
- Dividend distribution	—	—	—	—	—	(485)	—	(679)	—	—	(1,164)
- Trading in treasury shares	—	—	—	3	—	—	—	—	—	—	3
Other changes in equity	—	—	(971)	—	—	1,027	(1,706)	679	(8)	—	(979)
Balance at 31.12.2022	**970**	**3,808**	**10,377**	**(1)**	**—**	**2,320**	**1,435**	**(679)**	**10**	**66**	**18,306**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Cash flow statement **(million euro)**

	Note	31.12.2022	31.12.2021
Profit for the year before tax		**1,480**	**1,635**
Adjustments to results		**(1,615)**	**(1,790)**
Fixed asset depreciation/amortisation	5-6	12	13
Impairment adjustments	4-7	(1)	(869)
Change in provisions		(4)	(2)
Profit/(loss) on write-offs and disposals of fixed assets		—	(1)
Profit/(loss) on write-offs and disposals of financial instruments	7	5	(1)
Financial income		(1,923)	(1,283)
Financial expenses	23	300	349
Other income and expenses		(4)	4
Changes in working capital		**173**	**(416)**
Debtors and other receivables		261	(2,280)
Other current assets		(1)	—
Creditors and other payables		(87)	1,863
Other current liabilities		—	1
Other cash flows from operating activities		**2,125**	**2,157**
Interest paid		(253)	(318)
Dividends received		2,044	1,749
Interest collected		425	344
Income tax collections/(payments)		(91)	382
Cash flows from operating activities		**2,163**	**1,586**
Amounts paid on investments		**(1,084)**	**(3,392)**
Group companies and associates		(1,079)	(3,255)
Intangible assets		(1)	—
Property, plant and equipment		(4)	(10)
Other financial assets		—	(127)
Amounts collected from divestments		**2,239**	**847**
Group companies and associates		2,194	845
Property, plant and equipment		—	2
Other financial assets		45	—
Cash flows from investing activities		**1,155**	**(2,545)**
Collections and payments on equity instruments		**3**	**(3)**
Acquisition of own equity instruments		—	(3)
Disposal of own equity instruments		**3**	**—**
Collections and payments financial liability instruments		(1,384)	1,842
Issuance		1,521	5,195
Bank borrowings		103	52
Payables to Group companies and associates		1,418	5,046
Other payables		—	97
Repayment/redemption of		(2,905)	(3,353)
Bank borrowings		(405)	(255)
Payables to Group companies and associates		(2,483)	(3,086)
Other payables		(17)	(12)
Dividend payments		**(1,164)**	**(1,290)**
Cash flow from financing activities		**(2,545)**	**549**
NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS		**773**	**(410)**
Cash and cash equivalents at the beginning of the year		2,208	2,618
Cash and cash equivalents at the year end		2,981	2,208

Notes 1 to 30 form an integral part of these annual accounts.

Contents of the notes to the annual accounts for 2022

Notes to the annual accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2022

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. América 38, 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. In addition, the Company had long-term contracts to supply gas to other Naturgy companies, which were cancelled in 2021. At 31 December 2022, the Company had a short-term gas supply contracts.

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

On 10 February 2022, Naturgy communicated the decision of its Board of Directors in relation to the launch of the Geminis project, consisting of a very significant reorganisation of the group of companies of which Naturgy Energy Group, S.A. is the parent company. Specifically, that project consists of a spin-off from Naturgy Energy Group, S.A. under the provisions of Title III (Articles 68 et seq.) of Law 3/2009, of 3 April, on structural modifications of commercial companies (the "LME") so as to create two large groups that would be listed on the Spanish Stock Exchanges and have clearly differentiated business profiles but the same shareholder composition, at least initially, as a result of the proposed transaction.

The first of the groups resulting from the proposed spin-off would be headed by the Company itself (MarketsCo, after the spin-off), as the surviving company, and would encompass, in an integrated manner, the deregulated businesses comprising the development of renewable energies, the portfolio of energy customers and associated services, the conventional generation fleet, and trading in wholesale energy markets. The second of the groups resulting from the proposed spin-off would be headed by a newly-created company (NetworksCo), as the beneficiary of the spin-off, encompassing all the businesses involved in managing regulated gas and electricity distribution and transmission infrastructures.

The Géminis project was designed to simplify and focus the management of each business group in order to accelerate the Group's Strategic Plan, driving growth and their contribution to the energy transition. However, at year-end the Gemini project had been delayed and no information on the related time-frame can be provided. The analysis carried out to date confirms the suitability and strategic sense of the Géminis project, although its implementation schedule will have to be adjusted to the current volatile market environment, developments in the European energy industry and regulatory uncertainties, many of which have yet to be defined.

As a result, the Board of Directors does not consider, at 31 December 2022, that the conditions for the materialisation of the Géminis project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders.

On 26 January 2021, Global InfraCo O (2), S.à.r.l., wholly owned by the Australian fund IFM (IFM GIF), announced the terms and conditions of the partial voluntary offer to acquire shares in Naturgy Energy Group, S.A. for a maximum of 220 million shares, equivalent to 22.689% of Naturgy's share capital ("the Offer"). On 18 February 2021, it was admitted for processing by the Spanish National Securities Market Commission (CNMV).

The Offer price of 23 €/share was adjusted to 22.37 €/share due to the supplementary dividend of 0.63 €/share paid by Naturgy on 17 March 2021 and finally to 22.07 €/share due to the supplementary dividend of 0.30 €/share paid by Naturgy on 4 August 2021.

On 18 March 2021, the Mexican Federal Competition Commission (COFECE) unanimously and unconditionally authorised the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

On 8 September 2021, the CNMV authorised the partial voluntary offer. Previously, on 3 August 2021 the offeror obtained authorisation from the Council of Ministers for the foreign direct investment in Spain, subject to certain conditions which were accepted by the offeror.

On 14 October 2021 the acceptance level of the offer was released, consisting of 105,021,887 shares which represented 10.83% of Naturgy's share capital, and the offeror decided to waive the 17% minimum acceptance condition. The offer was settled on 19 October 2021 and IFM GIF became a significant shareholder of Naturgy.

Note 2. Basis of presentation, comparative information and accounting policies

2.1. Basis of presentation

The Company’s annual accounts for 2021 were approved at the annual general meeting of shareholders on 15 March 2022.

The annual accounts for 2022, which were drawn up and signed by the Company’s Board of Directors on 14 February 2023, and subsequently reformulated on 20 February 2023, will be submitted to the general shareholders’ meeting for approval; they are expected to be approved without any changes.

The Company's Annual Accounts have been reformulated on 20 February 2023, with the aim of harmonizing the reformulation of Naturgy's Consolidated Annual Accounts made on that date for the reasons set forth in note 2.1 of Naturgy's 2022 Consolidated Annual Accounts .

The accompanying annual accounts are presented in accordance with current mercantile legislation and with the rules laid down in the National Chart of Accounts approved by Royal Decree 1514/2007 of 16 November and the amendments incorporated therein by Royal Decree 1159/2010 of 17 September, Royal Decree 602/2016 of 2 December, and Royal Decree 1/2021 of 12 January, as well as by the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of income from sales of goods and services.

These annual accounts have been prepared based on the Company's accounting records in order to fairly present its equity and financial position at 31 December 2022, as well as the Company's results, changes in equity and cash flows for the year then ended.

At 31 December 2022, the Company’s working capital was negative by Euros 455 million (Euros 616 million in 2021). In this respect, the Company’s liquidity statements envisaged for this year together with the amounts available under credit lines (Note 14) will ensure coverage of the goodwill.

The figures set out these annual accounts are expressed in million euros, which is the Company’s functional and presentation currency, unless otherwise stated.

2.2 Comparative information

The annual accounts present for comparative purposes, with each of the balance sheet items, the income statement, the statement of changes in equity, the cash flows statement and the contents of the notes to the Annual Accounts, in addition to the figures for the period ended at 31 December 2022, those corresponding to the previous financial year, which were part of the Annual Accounts for 2021.

2.3 Accounting principles and main measurement standards

The accounting principles and the main measurement standards used by the Company to prepare the annual accounts for the year are the same as those applied in the Company's annual accounts for the year ended 31 December 2020, except for the adoption of Royal Decree 1/2021 and the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing, which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of income from sales of goods and services.

The main changes essentially concern the transposition to local accounting regulations of a major part of the standards contained in IFRS-EU 9, IFRS-EU 15, IFRS-EU 7 and IFRS-EU 13.

The impacts on the Company resulting from the adoption of Royal Decree 1/2021 in 2021 were as follows:

Financial instruments

In relation to financial assets and liabilities, new policies are introduced for their classification, measurement and derecognition, and new rules for hedge accounting are introduced.

In the first application of this standard at 1 January 2021, the Company has opted for the practical solution of not restating comparative information for 2020, opting for prospective application for hedge accounting and the classification of financial instruments.

The option of changing the classification of 2020 assets and liabilities without affecting their valuation had been applied. There had been no adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2021.

The impacts derived from initial application have been as follows:

Classification of financial assets

Investments in equity instruments classified as available-for-sale financial assets at 31 December 2020 have been classified as financial assets carried at cost, as their fair value cannot be determined by reference to a quoted market price. In addition, in relation to financial assets that are debt instruments and are not derivatives, the Company holds such assets mainly in order to obtain contractual cash flows and therefore they continue to be measured at amortised cost as from 1 January 2021.

The only impact on the Company arising from the adoption of Royal Decree 1/2021 relates to the classification and valuation of financial assets. In accordance with transitional provision two of Royal Decree 1/2021, the Company has applied the new criteria for the classification and valuation of financial assets and liabilities retroactively, in accordance with the provisions of recognition and measurement standard 22 "Changes in accounting policies, errors and accounting estimates" of the Spanish National Chart of Accounts.

The equivalence between the amounts classified by category of financial assets as of 31 December 2020 and 1 January 2021 is as follows:

	31.12.2020	**01.01.2021**
Trade and other receivables	16,164	
Financial assets at amortised cost		16,164
Other fair value financial assets through profit or loss	379	
Fair value financial assets through profit or loss		379
Investments in the equity of Group companies and associates	15,417	
Available-for-sale financial assets	5	
Financial assets at cost		15,422
Total	**31,965**	**31,965**

Except for the changes in the designations of the financial asset categories, Royal Decree 1/2021 has had no impact on equity.

The classification of the Company's financial liabilities for valuation purposes has not changed with respect to that included in the Annual accounts for 2020, with the exception of "Debts and payables", which have been reclassified as "Liabilities at amortised cost", without affecting the valuation criteria previously applied.

Accordingly, financial assets classified by class and category at 1 January 2021 beak down as follows:

At 1 January 2021	Amortised cost	At cost	Assets at fair value through profit and loss	Total
Equity instruments	—	15,417	—	15,417
Loans	15,177	—	—	15,177
Investments in group companies and associates	**15,177**	**15,417**	**—**	**30,594**
Equity instruments	—	5	—	5
Other financial assets	4	—	—	4
Non current investments	**4**	**5**	**—**	**9**
Derivatives (Note 14)	—	—	136	136
Other non-current assets	**—**	**—**	**136**	**136**
Total non current assets	**15,181**	**15,422**	**136**	**30,739**
Derivatives (Note 14)	—	—	123	123
Other assets	189	—	—	189
Trade and other receivables	**189**	**—**	**123**	**312**
Loans	628	—	—	628
Other financial assets	115	—	—	115
Investments in group companies and associates	**743**	**—**	**—**	**743**
Other financial assets	51	—	120	171
Current investments	**51**	**—**	**120**	**171**
Total current investments	**983**	**—**	**243**	**1,226**

Financial liabilities classified by class and category at 1 January 2021 break down as follows:

At 1 January 2021	Fair value through profit and loss	Amortised cost	Hedging derivatives	Total
Bank borrowings	—	2,720	—	2,720
Derivatives (Note 14)	—	—	108	108
Other financial liabilities	—	1	—	1
Non-current borrowings	**—**	**2,721**	**108**	**2,829**
Payable to group companies and associates	**—**	**9,530**	**—**	**9,530**
Derivatives (Note 14)	136	—	—	136
Other non-current financial liabilities	**136**	**—**	**—**	**136**
Total non-current borrowings	**136**	**12,251**	**108**	**12,495**
Bank borrowings	—	257	—	257
Derivatives (Note 14)	—	—	21	21
Other financial liabilities	—	121	—	121
Current borrowings	**—**	**378**	**21**	**399**
Payable to group companies and associates	**—**	**2,560**	**—**	**2,560**
Derivatives (Note 14)	123	—	—	123
Other financial liabilities	—	338	—	338
Trade and other payables	**123**	**338**	**—**	**461**
Total Current borrowings	**123**	**3,276**	**21**	**3,420**

Hedge accounting

The Company has chosen to apply hedge accounting under the standard. However, it has not made any substantial changes in its hedging model, confirming that its current hedging relationships qualify as hedges in accordance with the adoption of the new standard. The Company will record, in a separate equity item, the temporary value of the option contracts, the forward element of forward contracts and the base exchange rate differential in financial instruments in the event of their being excluded from the hedging relationship.

Revenue recognition

The standard has brought in a new model for the recognition of revenue derived from contracts with customers whereby revenue is recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services.

In addition, an asset (or inventory item) is recognised for the costs of fulfilling a contract with a customer and an expense accrual is recognised for the incremental costs of obtaining a contract with a customer, in both cases if they are expected to be recovered.

The Company has chosen the practical solution of applying the new standard for new contracts as from 1 January 2021 as the first-time application method at that date, opting not to restate comparative information for 2020.

In addition, the Company decided to apply the practical solution of not considering the financing component to be material when the payment period is less than one year, and recognising the incremental costs of obtaining contracts as an expense when their expected period of allocation to profit and loss is one year or less.

The impacts derived from the initial application of the standard are as follows:

a. The internal revenue recognition policies for the different types of contracts with customers were analysed, identifying the performance obligations, the determination of a schedule for meeting these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them, or performance obligations that could lead to the recognition of liabilities due to contracts with customers, were detected.

b. The standard requires the recognition of an accrual for the expense associated with the incremental costs of obtaining a contract with a customer. Based on the evaluations carried out at the date of entry into force of the new standard, no such expenses have been detected in the Company.

The consolidated annual accounts of Naturgy for 2022 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	40,390
Equity attributed to the parent company	7,574
Non-controlling interests	2,405
Revenue	33,965
Profit after tax attributed to the parent company	1,649

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 an acquisition over the fair value of the net identifiable assets of the subsidiary, jointly-controlled entity or associate acquired at the date of acquisition. 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 on acquisitions of subsidiaries or joint arrangements is included in Intangible assets while goodwill related to acquisitions of associates is recorded under Investments using the equity method.

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. Computer software

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.

c. Other intangible assets

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. Major maintenance expenditures are capitalised and amortised over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

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, the CGUs associated with each holding are considered.

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 extension by the additional years to reach a period of ten years for the cash flow projections or by the remaining useful life of the assets and concessions is explained by the fact that in many cases long-term energy sale agreements have been concluded, long-term estimated price curves are available that are used in the Group's ordinary operations (for contracts, hedging, etc.), the electricity and gas supply business is influenced by long-term government policies and is based on stable customer relations, there are lengthy regulatory periods and, in the case of electricity and gas transport and distribution concessions, because the mechanism for calculating the new tariff that the relevant regulator will use at the beginning of the new regulatory period is foreseen.

Naturgy believes that its projections are reliable and that it can reliably predict additional cash flows beyond the initial projections.

The cash flows after the ten-year projected period are extrapolated using the growth rates estimated for each CGU, 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: analyst consensus (Bloomberg), International Monetary Fund (IMF), OECD, Central Banks and other government agencies, European Commission for the period 2022-2025 and from 2026 onwards the Economist Intelligence Unit (EIU).

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

- Risk-free rate: Based on the sovereign bond market and CGU benchmark term as well as studies or other sources of information (Damodaran, EIU and others).
- Market risk premium: Premium based on studies and other sources of information (Kroll, Damodaran, Pablo Fernández and others).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).
- .Cost of financial debt: comprises the functional currency interest rate swap, with a term of 10 to 30 years, plus a spread for credit risk.
- Debt-equity ratio: Based on industry comparables.

The impairment loss of an asset, individually considered, is recognised in the income statement, reducing the carrying value of the asset to its recoverable amount. The depreciation charges for the asset are adjusted in future periods in order to apportion the revised carrying amount of the asset, less its residual value, in a systematic manner over its remaining useful life.

An impairment loss is recognised for an asset if its recoverable amount is less than the carrying amount. The carrying amount of an asset is not reduced below the higher of its recoverable value and zero.

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.

Impairment of financial assets measured at amortised cost

Impairment loss on financial assets at amortised cost is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. For financial assets at variable interest rates, the effective interest rate corresponding to the measurement date according to the contractual conditions is used. The impairment loss, and its reversal when the loss decreases due to a subsequent event, is recognised in profit or loss. The reversal of the loss is capped at the amortised cost that the assets would have had if the impairment loss had not been recognised.

3.4 Financial assets and liabilities

Financial assets

The Company classifies its financial assets based on their valuation category, which is determined on the basis of the business model and the characteristics of the contractual cash flows, and it reclassifies financial assets if and only if it changes its business model for managing those assets.

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

a. Financial assets at cost

This category includes investments in the equity of group companies and associates, as well as investments in equity instruments whose fair value cannot be determined by reference to a quoted price in an active market for an identical instrument or cannot be estimated reliably.

They are carried at the lower of acquisition cost, which is equivalent to the fair value of the consideration provided plus directly-attributable transaction costs, or fair value in the case of investments acquired through business combinations, and recoverable value. The recoverable value is determined as the higher of fair value minus selling costs and the present value of the cash flows generated by the investment. If there is no better evidence of recoverable value, it is taken to be the equity of the investee company adjusted by any unrealised capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recognised in the income statement in the year in which it takes place.

b. Financial assets at amortised cost

These are non-derivative financial assets held to collect contractual cash flows when such cash flows represent only payments of principal and interest. They include current assets, except for those maturing after twelve months as from the balance sheet date, which are classified as non-current assets.

They are initially recorded at fair value and subsequently at amortised cost using the effective interest rate method. Interest revenues on these financial assets are recognised as financial revenues, any gain or loss arising on their derecognition is recognised directly in profit or loss, and impairment losses are presented as a separate item in the income statement.

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.

Equity instruments in this category are recognised at fair value, and fair value changes or the proceeds from their sale are recognised in profit or loss.

The fair values of listed investments are based on current listed prices (Level 1). 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 (Level 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

d. Equity instruments at fair value through equity

These are equity instruments for which the company has made an irrevocable choice at the time of initial recognition to account for them in this category. They are recognised at fair value, and fair value changes are recognised in equity. Nevertheless, impairment losses and the dividends from such investments are recognised in profit or loss. At the time of sale, gains or losses are reclassified to profit or loss.

The fair value measurements made in these Annual Accounts are classified using a fair value hierarchy that reflects the materiality of the inputs used to perform these measurements. This hierarchy consists of three levels:

- Level 1: Valuations based on the quoted price of identical instruments in an active market. Fair value is based on quoted market prices at the balance sheet date.

- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets in this category is determined by using valuation techniques. The valuation techniques maximise the use of available observable market data and place as little reliance as possible on specific estimates made by the company. If all significant inputs required to calculate fair value are observable, the instrument is classified as Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is classified as Level 3.

- Level 3: Valuations based on variables that are not based on observable market data.

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.

Contracts for the assignment of receivables are classified as non-recourse factoring provided that they entail a transfer of the risks and rewards inherent in ownership of the transferred financial assets.

Impairment of financial assets is based on their recoverable value. The company recognises impairment of financial assets at each reporting date.

Financial liabilities

a. Financial liabilities measured at amortised cost

Borrowings are initially recognised at fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in profit or loss over the debt repayment period using the effective interest rate method, and the financial liabilities are classified as being measured subsequently at amortised cost.

In the event of contractual modifications to a liability at amortised cost that do not result in derecognition, any transaction costs or fees incurred are adjusted in the carrying amount of the financial liability. Thereafter, the amortised cost of the financial liability is determined by applying the effective interest rate that matches the carrying amount of the financial liability with the cash flows payable under the new terms.

The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit renewal clauses at the Company's election.

Additionally, trade and other current payables are financial liabilities that fall due in less than twelve months, are recognised initially at fair value and do not accrue explicit interest are recognised at their nominal value. Those maturing in more than twelve months are considered non-current payables.

b. Financial liabilities at fair value through profit or loss

These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated, both initially and in subsequent remeasurements, at fair value, and fair value changes are recognised in profit or loss.

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 (Level 1).
- 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 (Level 2 and 3).

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 hedge

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 hedge

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.

When options contracts are used to hedge forecast transactions, the Group only designates the intrinsic value of the options contract as the hedging instrument.

Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects the gain or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps is recognised in the financial expense at the same time as the interest expense in the hedged loans.

- When a hedging instrument covers a forecast transaction, the accumulated amounts remain in equity until the forecast transaction takes place. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

However, if this amount is a loss, and for an amount that is not expected to be recovered, it will be immediately reclassified in the income statement as a reclassification adjustment.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.

c. Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried in the Balance sheet under “Value change adjustments”. The gain or loss from the non-effective part is recognised immediately under “Exchange differences” in the income statement. The accumulated amount of the valuation recorded under “Value change adjustments” is released to the income statement as the foreign investment that gave rise to it is sold.

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.

Additionally, commodity derivatives not classified as hedges for accounting purposes are recognised inside the operating profit since they essentially constitute an economic hedge because the critical terms of the derivative coincide with those of its hedged item.

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, they are available for sale in their current situation, and the sale is highly likely to take place within the following twelve months.

Likewise, Naturgy classifies as assets held for distribution to shareholders all assets and related liabilities when it has a commitment to distribute the assets to shareholders. In this respect, the assets must be available in their current condition for distribution and the distribution must be highly probable, and therefore actions to complete the distribution must have been initiated and must be expected to be completed within one year from the date of classification.

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 and for distribution to shareholders.

In the event of delays caused by events or circumstances beyond the Company's control and if there is sufficient evidence that the commitment to the plan to sell, or distribute to shareholders, non-current assets 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 and Reserves

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. In addition, the effects of changes that increase the fair value of share-based payment arrangements will be recognised.

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. The unavoidable costs of the contract will reflect the lower net costs of terminating the contract, i.e. the lower of the cost of complying with the terms of the contract and the compensation derived from non-compliance.

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

Revenue derived from contracts with customers is recognised based on compliance with performance obligations with customers.

Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services.

Five steps are established for the recognition of revenue:

1. Identify the customer's contract(s).
2. Identify the performance obligations.
3. Determine the price of the transaction.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue according to the fulfilment of each obligation.

Based on this recognition model, 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.

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

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)".

Revenue from a contract is recognized as control over the promised goods or services is transferred to the customer.

Revenue derived from the commitments (in general, of provision of services) that are fulfilled over time are recognized based on the degree of progress or progress towards the complete fulfillment of the contractual obligations.

When, at a given date, the stage of fulfilment of the obligation cannot be reasonably measured, revenue and the related consideration are recognised only to the extent of the costs incurred up to that date.

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

Dividend income is recognised when the right to collect the dividend is established. If the dividends are unequivocally derived from reserves generated prior to the acquisition, the value of the investment is adjusted.

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 the Company.

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 has 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 judgments

The preparation of annual accounts requires the use of estimates and judgments. The measurement standards that require a large number of estimates are set out below:

a. Impairment of investments in group companies and associates (Note 3.3)

In accordance with applicable accounting regulations, the Company performs impairment tests on investments in group companies and associates that show impairment indicators. These impairment tests require an estimate of future business performance and the most appropriate discount rate in each case. The Company believes that the estimates made are appropriate and consistent with the current market situation.

Note 4 details the main assumptions used to determine the recoverable value of investments in group companies and associates.

b. 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.

c. 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.

d. Provisions (Note 3.11)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, onerous contracts, 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, as well as the result of the negotiations associated with the gas supply contracts.

e. 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 judgment. 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.

f. COVID-19

The spread of COVID-19 has entailed significant challenges for commercial activities and has introduced a high degree of uncertainty concerning world-wide business activity and energy demand, particularly during 2020 and 2021.

The global recovery that commenced in the second half of 2021 continued in 2022. Some impacts have continued to be felt, however, such as those arising from the measures imposed in China under its "zero COVID" policy, leading to disruptions in the supply chain of technology components in Europe which are necessary, for instance, for maintaining strong investment growth in renewable energy.

During 2022, countries have also gradually lifted the mobility restrictions imposed to curb the spread of the pandemic. While this has boosted business activity it has also led to a certain resurgence of infections, such as in China towards the end of the year. This has resulted in certain countries considering, or already implementing, restrictions on the entry of travellers from China. This increase in infections could negatively impact China's economic growth and again put pressure on global supply chains.

Naturgy tracks the impact of the COVID-19 health crisis on the economic cycle in the short and long term, with the aim of minimising the possibility of any further deterioration or sudden recovery in the economic conditions in the markets in which it operates having material adverse effects on the Group's business, prospects, financial situation and results.

In making the estimates and assumptions necessary for the preparation of the annual accounts, these prospects have been taken into account and analysed in the notes to the accounts.

g. Climate change and the Paris Agreement

Naturgy's 2021-2025 Strategic Plan includes a number of goals set by the Group in order to comply with the objectives of the Paris and Glasgow Summits for restricting the global temperature increase to below 2 ºC and achieving climate neutrality by 2050, and with the Sustainable Development Goals (SDGs) of the United Nations. Upon completion of the Strategic Plan, the Group's greenhouse gas emissions are expected to be reduced by 24% (Scope 1, 2 and 3 emissions) compared with 2017.

The key factors envisaged for achieving these goals include the following:

a. No coal-fired electricity has been generated in 2022 or 2021 due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants, which implies a significant reduction in emissions of CO2 and other atmospheric pollutants.
b. The Strategic Plan provides for investments in renewable energies, in particular in solar photovoltaic, onshore wind and storage technology, as well as the development of innovation projects for distributed generation, biogas and hydrogen, and sustainable mobility
c. Investments are also envisaged to adapt existing grid infrastructures that will play an essential role in the energy transition.

These investments will contribute to the future objective of transforming the energy mix envisaged in the PNIEC, which is also aligned with the European objective of achieving climate neutrality by 2050.

These annual accounts have been prepared taking into account the decarbonisation commitments undertaken by Naturgy, in addition to the risks and uncertainties related to climate change and the decarbonisation of the economy.

The main estimates and accounting judgements made by the Company's management and directors when preparing the 2022 annual accounts related to the expected effects of climate change and the energy transition are described below.

1. Recoverability of assets

As described in Note 3.3, the cash-flow projections used in the impairment tests of the investments in group companies and associates are based on the best available forward-looking information and reflect the investment plans in place at the time for maintaining the CGUs' operating capacity of investee companies. These projections are in line with the Company's strategy that takes into consideration the objectives of the Paris Agreement and have therefore been prepared based on the range of economic conditions that might exist in the foreseeable future in relation to climate change and the energy transition. The projections have taken into account the expected impact on wholesale and retail electricity market prices resulting from the entry into operation of new renewable generation facilities and developments in gas, oil and emission allowance prices, as well as expected demand.

Regarding emission rights, most of Naturgy's thermal electricity generation facilities in Spain are regulated by the European Emission Trading Directive. Naturgy carries out comprehensive portfolio management for the acquisition of emission allowances equivalent to the verified emissions of its combined cycle and cogeneration facilities, regulated by the European Emissions Trading Directive, Phase IV 2021-2030. This phase takes into account the CO_2 emission reduction target of 55% by 2030 compared with 1990, in line with the 2050 goal of zero net emissions set out in the European Green Deal. For this supply, Naturgy actively participates in both the primary market, through auctions, and in the secondary market. These emissions relate mainly to the combined cycle gas plants in Spain and represent 90.9% of Naturgy's direct emissions (scope 1) in 2022.

The CO_2 prices considered in the impairment test are detailed in Note 4.

The Company will continue to update its operational plans and pricing outlook to take into account changes in the economic environment and the pace of the energy transition.

2. Main assets of the Company subject to climate change and energy transition risk

The holdings in group companies and associates that may be most affected by climate risk are detailed below:

Naturgy Generación Térmica, S.L.U.

In 2022 and 2021 Naturgy has not generated any coal-fired electricity due to the closure in the first half of 2020 of all its coal-fired power plants. These facilities are fully depreciated/provisioned at 31 December 2022. The plants' decommissioning commenced following the closure and is expected to be completed by the end of the first quarter of 2025.

At 31 December 2022, this holding has a carrying value of Euros 13 million.

Naturgy Ciclos Combinados, S.L.U.

In Spain, it is important to bear in mind that the operation of these plants is included in the Integrated National Energy and Climate Plan (PNIEC), aligned with the European objective of achieving climate neutrality by 2050, and that they are an essential factor in ensuring the growth of renewable energies in the national electricity system since they form the back-up for ensuring the electricity supply in the event of any lack of wind, sunlight or water. Naturgy's gas-fired combined cycle plants currently represent the most eco-efficient generation technology available to provide the necessary back-up for renewable energies and enable their widespread implementation, which is key to the energy transition.

At 31 December 2022, this holding has a carrying value of Euros 761 million.

The use of external projections based on lower energy prices compared with the assumptions used by the Company and indicated in Note 4 could have an impact on the recoverability of this holding recognised in the Balance Sheet at 31 December 2022. See the sensitivity analysis in Note 4 of these annual accounts.

Naturgy Generación, S.L.U. (hydroelectricity generation CGU in Spain)

At 31 December 2022, this holding has a carrying value of Euros 859 million. The recoverable value of this holding could be affected by a larger than expected hypothetical future reduction in hydroelectricity due to climate change, especially in run-of-river plants. Among the assumptions used for the Company's impairment analysis, the evolution of hydraulicity and its impact on hydrographic flows and, therefore, on production are considered.

Naturgy Renovables, S.L.U.

At 31 December 2022 the carrying value of this holding stands at Euros 1,141 million. The main perceived risk in this business is the potential negative future evolution of solar and wind resources, which are the key variables in the performance of this line of business. There may also be reductions in the remuneration arrangements for renewable energies and lower prices in marginal wholesale markets due to an increase in renewable production with reduced variable costs. In the impairment tests for 2022, no changes in the remuneration arrangements yet to be approved have been considered and the forecasts for solar and wind resources have been taken into account.

Holdings in electricity and gas distribution

At 31 December 2022, the shareholdings in Holding de Negocios Gas and Holding Negocios de Electricidad had a carrying value of Euros 4,475 million and Euros 3,678 million, respectively. These regulated assets are considered to be resilient to the energy transition. Increases in temperature and a higher frequency of extreme weather events could lead to increased technical losses, deterioration in service quality levels, higher operating and maintenance costs and higher annual investments, albeit in volumes that can be easily assumed via the multi-year tariff reviews of these regulated businesses. The investment and response plans already in place, accumulated experience and network design (meshing and undergrounding of lines) would act as mitigating measures. A potential massive development of distributed generation would be partially offset by the increasing electrification of the economy (e.g. electric cars) and investments in smart grids.

Holdings in supply companies

The Company records holdings with a carrying value of Euros 515 million in Gas Natural Comercializadora, S.A., Euros 494 million in Naturgy Iberia, S.A., and Euros 121 million in Comercializadora Regulada de Gas & Power . The impact of climate change and the energy transition on the supply business is considered to be minor, as potential negative impacts from efficiency measures and temperature changes could be offset by the higher growth that is expected to result from the electrification of the economy.

In terms of transition risks, the Company's current positioning, resulting from its investment focus on renewables and grids, provides it with favourable situation for facing these risks. The Group considers that the opportunities arising from the decarbonisation of the global economy (growth in renewables, investment in smart integrating grids, transport electrification, green hydrogen, etc.) outweigh the risks.

3. Recoverability of deferred tax assets

Sufficient taxable profits are expected to be generated within the planning period to ensure the recovery of the deferred tax assets recognised for accounting purposes at 31 December 2022. The estimate of the recoverability of these assets has been made using the same judgements and assumptions as those used to calculate the recoverable amount of non-financial assets.

4. Regulation

The Paris Agreement has had a major impact on the development of new climate policies and the adoption of new regulations. The European Union (EU), having assumed the commitment to climate neutrality by 2050 and "The European Green Deal" which embodies the EU's new growth strategy, has approved various regulations in this area. Spain has also issued regulations relating to these matters and therefore climate change and energy transition rules are constantly evolving and could have future negative effects on the Company's activities.

5. Distribution of dividends

Climate change risks are not expected to affect the Company's capacity to pay dividends to shareholders due to strong cash generation and existing reserves.

In the case of regulated lines of business, a scenario in which the conditions for maintaining the current rate of investment continue to exist is compatible with the levels of dividend payments that may be observed to date. However, in the case of deregulated lines of business, their future capacity to pay dividends is difficult to foresee due to unknown risks and uncertainties that could cause actual results, performance or events to differ substantially from those envisaged in the Group's projections.

In the long term, the Company's business portfolio is expected to evolve in line with the energy transition. Decision-making on the future business portfolio will be guided by the pace of the Company's progress as it moves towards meeting the objectives of the Paris Agreement. Setting the energy system on the path to net zero emissions will require unprecedented coordinated action between energy suppliers, consumers and, above all, governments.

h. Armed confrontation between Russia and Ukraine

On 24 February 2022, the armed conflict between Russia and Ukraine commenced. The invasion of a European country is unprecedented since the middle of the last century in Europe, with devastating humanitarian consequences and major implications for the global economy and financial markets.

Following Russia's invasion of Ukraine, the European Union and countries such as the United States, Australia, Japan and the United Kingdom have imposed unprecedented measures and sanctions on Russia. These measures, as well as the sanctions introduced by Russia as a response, have had a global impact, leading to rises in commodity prices, inflationary pressures, supply chain constraints and volatility in financial and commodity markets.

One of the most deeply affected sectors is the energy industry, with significant increases in oil and gas prices. Faced with a possible gas shortage caused by the conflict, prices in the European gas market have risen sharply and the seriousness of the situation has also generated considerable market volatility, with the corresponding impact on electricity prices. These difficulties have also increased due to the higher level of technological risk to which companies and governments are exposed, which has also led to the adoption of defensive measures and stringent internal controls to protect digital infrastructures.

Considering the scenario in question and in compliance with the recent recommendations by the European Securities and Markets Authority (ESMA) dated 13 May 2022 and 28 October 2022, respectively, Naturgy is monitoring the status and evolution of the situation generated by the crisis in order to manage potential risks. The analyses carried out aim to assess the indirect impacts of the conflict on business activity, the financial situation and economic performance, with particular reference to the generalised increase in commodities prices and the reduced availability of material supplies from areas affected by the conflict. In this context, as part of its diversified portfolio, Naturgy is party to a long-term contract concluded in 2013 with an international consortium for the supply of gas originating in Russian formed by Novatek (50.1%), TotalEnergies (20%), CNPC (20%) and Silk Road Fund (9.9%) which is not affected by any sanctions. In 2022, volume under this contract accounted for 14% of Naturgy's global supply. In addition, Naturgy has no counterparties potentially affected by the sanctions.

Likewise, Naturgy has no holdings in companies operating in Russia or Belarus, or investments in these countries. Nor does it record any cash or cash equivalent balances that are unavailable as a result of the above measures and sanctions. For further details on interest rate, commodity price, credit and liquidity risks, see Note 14.

As this scenario is constantly evolving and as it is difficult to predict the extent or duration of the conflict's impact, Naturgy constantly monitors the relevant macroeconomic and business variables in order to obtain the best estimate of potential impacts in real time, also taking into account recommendations by national and international supervisory bodies on the matter.

Note 4. Asset impairment

In the impairment test of the holdings in group companies and associates, the recoverable value is determined based on the cash flows of the CGUs that comprise them (note 3.3).

At 31 December 2022 and 2021, the Cash Generating Units (CGUs) have been grouped and renamed following the business structure organisation implemented by Naturgy in 2020.

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 and Mexico and the regulated electricity distribution business in Argentina, Panama and Chile (until July 2021).
- 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.

- Gas pipelines: Includes the CGU which manages the Maghreb-Europe gas pipeline (until October 2021), 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 and combined cycle).

- 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.

- USA: One CGU is considered which encompasses all projects in the country.

- 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.

- New business: One CGU is considered encompassing new technology projects.

Supply:

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

The grouping of assets considered in the above CGUs has not changed since the previous estimate of their recoverable amount in 2021.

Information on tests performed

Naturgy has evaluated the recoverable value of investments in group companies and associates based on the Strategic Plan 2021-2025, approved by the Board of Directors and presented on 28 July 2021, taking into account the investment plans that maintain the productive capacity of the businesses involved and the market conditions in which they operate. As indicated in Note 3.3, this period has been extended by an additional five years or by the remaining useful life for certain assets and concessions. Various potential future scenarios have also been considered when estimating cash flows, if they provide more relevant information to reflect possible future economic developments.

In general, the flows reflect Naturgy's current positioning to drive the energy transition and decarbonisation with a focus on digital transformation, with increasing investments in networks and renewables located in stable geographies and regulatory frameworks.

The current macroeconomic environment has also been considered, resulting from a combination of pandemic-related effects, inflation, rising interest rates, geopolitical risks and uncertainties. Naturgy's management model ensures that any signs of deterioration that could arise as a result of the current macroeconomic environment are identified in a timely manner, allowing action to be taken accordingly.

In particular, the following aspects should be highlighted for their relevance in the tests:

Effects of the Ukraine invasion and economic environment (Note 3.19):

Cash flows have taken into account volatility in international gas markets and transitory high electricity prices. In particular, the regulatory and fiscal measures derived from the response to the economic and social consequences of the war in Ukraine, the reduction in gas prices internalised for calculating prices in the electricity market, the mechanism for adjusting the production costs of marginal fossil fuel technologies in the production market (Iberian mechanism), the temporary energy tax established in Law 38/2022 as well as the commercial proposals to avoid high pool prices, have been considered in Spain.

With regard to the economic environment, rising interest rates and increased risk perception have particularly affected discount rates which have increased with respect to 2021, while rising inflation has been factored into cash flows with mainly short-term repercussions.

Climate change impact:

In the cash flows projected in the impairment tests, the targets for reducing greenhouse gas emissions are considered, as well as the impacts of climate change on the recoverability of non-financial assets. It is analysed in detail in Note 3.19.

Information on recognised impairments (Note 7)

At 31 December 2022 a net income for the impairment reversal of holdings in Group companies and associates amounting to Euros 1 million has been recognised (Euros 869 million at 31 December 2021 as income from impairment reversal) under the heading "Impairment of and losses from equity instruments of Group companies and associates" in the income statement, detailed below:

	31.12.2022	31.12.2021
Naturgy Participaciones, S.A.U	8	13
Naturgy Engineering, S.L.	7	(8)
Gas Natural Exploración, S.L.	1	(1)
Petroleum, Oil & Gas España, S.A.	1	(1)
Unión Fenosa Gas, S.A.	—	784
Naturgy Almacenamientos Andalucía, S.A	—	(7)
Lignitos de Meirama, S.A	(1)	—
Naturgy Informática, S.A.	(2)	(9)
Naturgy LNG, S.L	(3)	(49)
Naturgy Nuevas Energías, S.L.U.	(4)	(8)
Naturgy Generación, S.L.U.	(5)	154
Other	(1)	1
Total	**1**	**869**

– Naturgy Generación, S.L.U.:

The impairment charge for this holding, which relates to the Spain hydroelectric power generation CGU following the spin-off detailed in Note 7, amounts to Euros 5 million (income from impairment reversal of Euros 154 million at 31 December 2021).

The assumptions and projections affecting the Hydroelectric power generation CGU are based on the best forward-looking information available to date.

The assumptions taken into consideration are the following:

	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Pool price €/MWh	167.7	172.4	144.1	149.5	120.1	91.7	83.2	81.0	81.0	81.6

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. For the Hydroelectricity generation CGU, the evolution of hydraulicity and its impact on hydrographic flows and, therefore, on production are considered.
- 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 development of the energy scenario on the basis of futures curves, and analysts' forecasts. In addition, impacts derived from existing contracts with the Group's supply companies are included in the estimate.
- The projected flows take into account the most relevant extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:

– The estimated impact of the reduction in the remuneration of non-emitting installations for an amount proportional to the gas price quotation.

– The measures envisaged to regulate water impounded for hydroelectric use.

– The temporary energy tax provided for in Law 38/2022, defined as a temporary public benefit, of 1.2% of revenue for 2022 and 2023.

- Operation and maintenance costs. Estimated from historical costs of the managed park.
- Taxes established by Law 15/2012 and extraordinary temporary suspensions.
- Investments: those required to maintain the regular use of the facilities have been taken into account.

The accumulated impairment at 31 December 2022 relating to the holding in Naturgy Generation, S.L.U. following the demerger mentioned in Note 7 amounts to Euros 2,191 million (Euros 2,186 million at 31 December 2021).

– Unión Fenosa Gas (UFG):

Following the merger by absorption described in Note 7, the interest in Unión Fenosa Gas (UFG) was derecognised at 31 December 2022.

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting UFG. As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. Simultaneously, the remaining 50% holding in UFG was acquired for Euros 466 million, bringing Naturgy's holding to 100%. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

In 2021, Euros 784 million was recognised for the reversal of the impairment of the interest in Unión Fenosa Gas, Euros 108 million for the valuation of the previous 50% interest in UFG and Euros 676 million for the valuation of the expected flows relating to the gas supply contract with Oman that expires in 2025 and the estimated dividends for its 7.36% holding in Qalhat LNG S.A.O.C. The update of the impairment test on the holding in UFG as of 30 June 2022, basically due to the expected cash flows from the gas supply contract with Oman, generated an impairment reversal income of Euros 633 million that was subsequently as a consequence of the merger by absorption described in Note 7 has been eliminated.

A pre-tax discount rate of 12.2% in 2021 (12.3% in June 2022) was used to discount the expected cash flows from the UFG holding.

– Naturgy Nuevas Energías, S.L.U.:

An impairment of Euros 4 million has been recorded. The accumulated impairment at 31 December 2022 is Euros 12 million (Euros 2 million at 31 December 2021). In 2022, as a result of the contribution described in Note 7, the provision for future risks amounting to Euros 6 million recorded under "Other long-term provisions" was reclassified to the provision for impairment of investments in Group companies.

– Naturgy LNG, S.L:

The Euros 3 million impairment is due to the company's unfavourable performance. The accumulated impairment at 31 December 2022 relating to the holding in Naturgy LNG, S.L. amounts to Euros 62 million (Euros 59 million at 31 December 2021).

– Naturgy Informática, S.A:

An impairment charge of Euros 2 million has been recorded for the holding in Naturgy Informática, S.A. in 2022. The accumulated impairment at 31 December 2022 amounts to Euros 157 million (Euros 155 million in 2021).

– Lignitos de Meirama, S.A.:

An impairment of Euros 1 million has been recorded in 2022. The accumulated impairment at 31 December 2022 amounts to Euros 30 million (Euros 29 million at 31 December 2021).

In addition, in 2022 income from the reversal of impairment of the following investments has been recognised:

– Naturgy Engineering, S.L:

An impairment reversal of Euros 7 million has been recorded for the holding in Naturgy Engineering, S.L. The accumulated impairment at 31 December 2022 amounts to Euros 5 million (Euros 12 million at 31 December 2021).

– Naturgy Participaciones, S.A.U:

At 31 December 2022, the entire accumulated impairment of this investment amounting to Euros 8 million was reversed.

– Gas Natural Exploración, S.L:

An impairment reversal of Euros 1 million has been recorded. The accumulated impairment at 31 December 2022 relating to the holding in Gas Natural Exploración, S.L. amounts to Euros 213 million (Euros 214 million in 2021).

– Petroleum Oil&Gas España, S.A:

An impairment reversal of Euros 1 million has been recorded. The accumulated impairment at 31 December 2022 relating to the holding in Petroleum Oil&Gas España, S.A. amounts to Euros 73 million (Euros 74 million in 2021).

– Other:

This relates to the impairment of various holdings in Group companies.

Information on other impairment tests performed:

As regards the remaining shareholdings in Group companies and associates at 31 December 2022 and 31 December 2021 the recoverable amounts, calculated according to the methodology described in Note 3.3, were higher than the carrying amounts of holdings in Group companies recorded in these annual accounts.

The most sensitive matters included in the impairment tests updated to 31 December 2022 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 2022, 2021 and 2020 on the remuneration methodology for the regulated electricity and gas distribution activity.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Considering the investments required to maintain the regular use of the network and the quality of supply, as well as the digitalisation of electricity networks and the estimated investment in line with sector requirements and the digital transition in the operation of gas networks.

- In the case of LPG distribution assets, as there is evidence of impairment a fair value less costs to sell estimate has been considered to determine the recoverable amount of these assets.

Latin American networks: for gas networks CGUs in Brazil, Chile, Argentina and México 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. Additional consideration has been given to the implications for distributors of new regulations in the countries arising from volatility in gas and electricity prices.

- 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 supply quality and safety.

Thermal generation Spain:

The assumptions and projections affecting this 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 NECP in the Climate Change and Energy Transition Law. The above-mentioned projections reflect a production path based on the NECP projections, which envisage the need for the total installed capacity of the combined cycle generation units in the projection timeframe (2031).

The assumptions taken into consideration are the following:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Pool price €/MWh	167.7	172.4	144.1	149.5	120.1	91.7	83.2	81.0	81.0	81.6
Brent (USD/bbl)	101.2	83.5	78.5	74.5	78.6	80.6	81.6	83.2	85.0	86.9
Gas Henry Hub (USD/MMBtu)	6.4	4.5	4.3	4.4	4.9	5.2	5.2	5.1	4.9	4.9
CO_2 €/t	80.9	82.7	86.6	91.8	100.3	108.7	117.1	125.5	131.3	136.7

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. The trend in demand has been estimated on the basis of projections by the CNMC and analysts, also considering existing contracts with Naturgy's suppliers. The share has been estimated on the basis of Naturgy's market share in each technology and the expected performance of each technology's share in the total market, in line with the expected future evolution of the generation mix, maintaining the forecast decline in thermal production, offset by a mechanism that remunerates the firm capacity provided, which is expected to be established when the market penetration of renewable energy increases.

- 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 development of the energy scenario on the basis of futures curves, and analysts' forecasts. In addition, impacts derived from existing contracts with the Group's supply companies are included in the estimate.

- The projected flows take into account the extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:

  - The estimated impact of the reduction in the remuneration of non-emitting installations for an amount proportional to the gas price quotation.

  - The production cost adjustment mechanism for the reduction of electricity prices regulated in RDL 10/2022 of 13 May, and the European Council regulation for the application of a Market Correction Mechanism due to excessive gas prices.

  - The temporary energy tax provided for in Law 38/2022, defined as a temporary public benefit, of 1.2% of revenue for 2022 and 2023.

- Fuel costs. Estimated on the basis of market prices.

- Operation and maintenance costs. Estimated from historical costs of the managed park.

- Taxes established by Law 15/2012 and extraordinary temporary suspensions.

Thermal generation Latin American:

For thermal electricty generation CGUs in México and the Dominican Republic:

- Thermal generation in Mexico is carried out over most of its useful life under energy sale-purchase contracts through stable business models 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.

- Operating and maintenance costs. Estimated from historical costs of the managed park.

In the case of the Puerto Rico Generation CGU:

- The main estimates considered in the flows generated relate to the contract with Puerto Rico Electric Power Authority (PREPA), which will remain in force until the end of 2032.

Renewables Spain:

The assumptions and projections affecting the renewable power generation CGU are based on the best forward-looking information available to date.

The assumptions concerning changes in GDP and the Pool price coincide with those considered in the Thermal Generation Spain CGU.

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

- Electricity generated. For the Renewable power generation 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 development of the energy scenario on the basis of futures curves, and analysts' forecasts. In addition, impacts derived from existing contracts with the Group's supply companies are included in the estimate.

- The projected flows take into account the extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:

  – The estimated impact of the reduction in the remuneration of non-emitting installations for an amount proportional to the gas price quotation.

  – The reduction in the remuneration of facilities subject to the specific remuneration regime of RD 413/2014 approved for the 2022 regulatory period, as well as its estimate for subsequent years.

  – The temporary energy tax provided for in Law 38/2022, defined as a temporary public benefit, of 1.2% of revenue for 2022 and 2023.

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period.

- Operating and maintenance costs. Estimated from historical costs of the managed park.

- Taxes established by Law 15/2012 and extraordinary temporary suspensions.

- Investments. The investments required to maintain the regular use of the facilities are taken into account.

Renewables USA:

Management of the portfolio acquired in 2021 of 8 GW of solar projects together with 4.6 GW of energy storage projects commenced in 2022, and in particular construction of the first facility has begun.

Renewables Latin America:

The recoverable value of the electricity generation CGUs for Brazil, Costa Rica, Mexico, Panama and Chile has been updated.

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

- Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models 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 the case of Renewables Chile, due to the situation in the electricity market in Chile the company Ibereólica Cabo Leones II S.A. has requested the suspension of the long-term electricity sale contract, and it has been suspended as a market operator since 8 October 2022 due to its failure to comply with the long-term contract. In this context, for the valuation of the recoverability of the assets, two weighted scenarios have been considered, considering, on the one hand, the suspension of the long-term electricity sale contract and the sale of the energy produced under market conditions and, on the other hand, the non-suspension of the long-term electricity sales contract.

Renewables Australia:

- Electricity generation in Australia is carried out over most of its useful life under energy sale-purchase contracts through stable business models 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 generation pool and taking into account expected supply and demand, and 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.

Supply:

- 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.

Discount rates and growth rates used

The pre-tax discount rates and the growth rates, determined as indicated in note 3.19, considered for 2022 and 2021 are as follows:

Discount rate	**2022**	2021
Energy and network management		
Gas and electricity distribution Spain	6.4 %-6.7 %	4.7 %-5.4 %
Gas and electricity distribution Latin America	8.9 % - 22.8 %	7.7 % - 18.1 %
Gas distribution Argentina (1)	22.8 %	18.1 %
Thermal generation Spain	8.2 %	7.1 %
Thermal Generation Latin America (Mexico and Dominican Republic)	10.2%-13.1 %	9.0 %-12.5 %
Renewables and new business		
Spain renewable electricity generation	7.1 %	5.4 %
Hydroelectric generation Spain	6.8 %	6.0 %
Latin America Renewables	9.8 %-16.4 %	8.4 %-14.6 %
Australia Renewables	8.8 %	7.7 %
Australia USA	6.5 %	— %
New business	7.8 %	— %
Supply	7.4 %	6.5 %

(1) Rate determined in USD

Growth rate	**2022**	2021
Energy and network management		
Gas and electricity distribution Spain	1.0 %-2.0 %	0.5 %-2.0 %
Gas and electricity distribution Latin America	2.1 %-12.6 %	2.0 %-8.8 %
Gas distribution Argentina (1)	12.6 %	8.8 %
Thermal generation Spain	2.0 %	2.0 %
Thermal Generation Latin America (Mexico and Dominican Republic)	2.0 %	2.0 %
Renewables and new business		
Spain renewable electricity generation	2.0 %	2.0 %
Hydroelectric generation Spain	2.0 %	2.0 %
Latin America Renewables	2.1 %-3.3 %	2.0 %-3.3 %
Australia Renewables	2.9 %	2.8 %
Australia USA	2.1 %	— %
New business	2.0 %	— %
Supply	0.3 %	0.5 %

Sensitivity analysis

A sensitivity analysis has been carried out for the holdings in group companies, in which their net book value coincides with the results of the impairment tests described. For each of the following variations of its key hypotheses, the impact on the recoverable value of the holdings in companies of the Company's group has been considered, with the following result:

Naturgy Ciclos Combinados, S.L.U. and Naturgy Generación Térmica, S.L.U.: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would mean an increase in impairment provisions of Euros 38 million.
- a decrease in the growth rate of 50 basis points would mean an increase in impairment provisions of Euros 7 million.
- a 5% decrease in electricity produced would mean an increase in impairment provisions of Euros 90 million.
- a decrease in the average price of electricity during the remaining life of the installation of 1 euro/MWh, together with the variation in the cost of related gas and CO_2, would mean an increase in impairment provisions of Euros 38 million.

Naturgy Generación, S.L.U.: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would mean an increase in the impairment provision of Euros 38 million.
- a decrease in the growth rate of 50 basis points would mean an increase in the impairment provision of Euros 7 million.
- a 5% decrease in electricity produced would mean an increase in the impairment provision of Euros 61 million.
- a decrease in the average price of electricity during the remaining life of the installation of 1 euro/MWh would mean an increase in the impairment provision of Euros 7 million.

For the remaining CGUs, in 2022 the Company has carried out a sensitivity analysis of unfavourable variations that, based on historical experience, may reasonably suffer from the aforementioned sensitive aspects in the on which the determination of the recoverable amount has been based. 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 of each of these CGUs.

Note 5. Intangible assets

This heading breaks down as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	1	6	7	815	822
Accumulated amortisation	—	(4)	(4)	(815)	(819)
Carrying value at 1.1.2021	1	2	3	—	3
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2021	1	1	2	—	2
Cost	1	6	7	815	822
Accumulated amortisation	—	(5)	(5)	(815)	(820)
Carrying value at 1.1.2022	**1**	**1**	**2**	**—**	**2**
Investment	—	1	1	—	1
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2022	1	1	2	—	2
Cost	1	2	3	815	818
Accumulated amortisation	—	(1)	(1)	(815)	(816)
Carrying value at 31.12.2022	**1**	**1**	**2**	**—**	**2**

Goodwill derived 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 has been fully amortised since 2019.

Licences for fully amortised software amounting to Euros 5 million were derecognised in 2022 (in 2021 there were no derecognitions of fully amortised assets).

Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2022 and 2021:

	Land and buildings	Other property, plant and equipment	Total
Cost	177	34	211
Accumulated depreciation	(76)	(22)	(98)
Carrying value at 1.1.2021	**101**	**12**	**113**
Investment	9	2	11
Divestment	(2)	—	(2)
Amortisation charge	(10)	(2)	(12)
Carrying value at 31.12.2021	**98**	**12**	**110**
Cost	169	25	194
Accumulated depreciation	(71)	(13)	(84)
Carrying value at 1.1.2022	**98**	**12**	**110**
Investment	2	1	3
Amortisation charge	(10)	(1)	(11)
Carrying value at 31.12.2022	**90**	**12**	**102**
Cost	161	24	185
Accumulated depreciation	(71)	(12)	(83)
Carrying value at 31.12.2022	**90**	**12**	**102**

Fully depreciated assets totalling Euros 12 million were derecognised in 2022, of which Euros 10 million related to buildings (Euros 24 million at 31 December 2021, of which Euros 17 million related to buildings). In addition, in 2021 various properties and vehicles were sold resulting in net asset disposals of Euros 1 million with a profit of Euros 1 million recorded under "Impairment and gains/losses on fixed asset disposals" in the income statement.

Property, plant and equipment includes fully depreciated assets in use at 31 December 2022 amounting to Euros 19 million, of which Euros 11 million relates to buildings (Euros 17 million in 2021, of which Euros 10 million related to buildings).

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 2022 and 31 December 2021, the Company had no investment commitments.

Note 7. Investments in Group companies and associates

The classification of investments in Group companies and associates by category at 31 December 2022 and 31 December 2021 is as follows:

At 31.12.2022	**Financial assets at cost**	**Financial assets at amortised cost**	**Total**
Equity instruments	14,960	—	14,960
Loans	—	13,997	13,997
Non-current	**14,960**	**13,997**	**28,957**
Loans	—	292	292
Other financial assets	—	2	2
Current	**—**	**294**	**294**
TOTAL	**14,960**	**14,291**	**29,251**

At 31.12.2021	**Financial assets at cost**	**Financial assets at amortised cost**	**Total**
Equity instruments	16,138	—	16,138
Loans	—	15,146	15,146
Non-current	**16,138**	**15,146**	**31,284**
Loans	—	2,376	2,376
Other financial assets	—	3	3
Current	**—**	**2,379**	**2,379**
TOTAL	**16,138**	**17,525**	**33,663**

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

	Holdings in group companies	**Loans to group companies**	**Holdings in associates**	**Total**
Balance at 01.01.2021	**15,413**	**15,177**	**4**	**30,594**
Additions	550	578	—	1,128
Divestments	(706)	(577)	—	(1,283)
Reclassification	—	(32)	—	(32)
Charge/reversal provisions	877	—	—	877
Balance at 31.12.2021	**16,134**	**15,146**	**4**	**31,284**
Additions	391	5	—	396
Divestments	(1,564)	(26)	—	(1,590)
Reclassification	(6)	(1,128)	—	(1,134)
Charge/reversal provisions	1	—	—	1
Balance at 31.12.2022	**14,956**	**13,997**	**4**	**28,957**

The main corporate transactions carried out by the Company were as follows:

2022

- Cash contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 321 million.
- Cash contribution to offset losses incurred by Naturgy Informática,S.A. in the amount of Euros 19 million.

- Cash contribution to offset losses incurred by Naturgy Energías,S.L.U. in the amount of Euros 14 million.
- Acquisition from Naturgy Ciclos Combinados, S.L. of a holding in La Propagadora del Gas, S.A. for Euros 12 million.
- New subscription of shares in Naturgy InnovaHub, S.A. for an amount of Euros 1 million.
- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million.
- The distribution of a supplementary dividend for 2021 has been recorded as a decrease in the carrying value of the interest in Naturgy Generación, S.L.U., in the amount of Euros 64 million.
- Part of the distribution of the share premium has been recorded as a decrease in the carrying value of the interest in Holding Negocios de Gas, S.A., in the amount of Euros 245 million.
- Part of the distribution of the share premium has been recorded as a decrease in the carrying value of the interest in Holding Negocios de Electricidad, S.A., in the amount of Euros 167 million.
- Part of the distribution of a supplementary dividend for 2021 and the share premium, amounting to Euros 94 million, was recorded as a decrease in the carrying amount of the holding in Naturgy Inversiones Internacionales, S.A.
- After achieving a 100% shareholding in Unión Fenosa Gas (UFG) as a result of the operation carried out in 2021, on 4 October 2022 the merger plan for the absorption of Unión Fenosa Gas, S.A. by Naturgy Aprovisionamientos, S.A. was approved.The date from which the operations of the absorbed company are considered carried out by the absorbing company is 1 January 2022.

  The Company, as the sole shareholder of both these companies, has approved the simplified merger operation and has recorded its impact on the relevant equity holdings. As a result of the dissolution without liquidation of UFG and the transfer en bloc of all its assets and liabilities to Naturgy Aprovisionamientos, S.A., the interest in UFG has been derecognised and the increase in value of the interest in Naturgy Aprovisionamientos, S.A. has been recorded at the value of the absorbed company's net assets in the consolidated balance sheet under NOFCAC criteria. These movements in shareholdings resulted in a decrease of Euros 971 million in "Other reserves" in the balance sheet. The carrying value of the holding in Naturgy Aprovisionamientos, S.A. following the merger is Euros 408 million at 31 December 2022.
- Monetary contribution to offset losses of the company Naturgy Almacenamientos Andalucía, S.A. (company engaging in the regulated activity of underground gas storage) in the amount of Euros 23 million and subsequent sale of 100% of the holding following an agreement concluded in November 2021 with a third party, giving rise to a loss of Euros 5 million recorded under the heading "Gain/(loss) on disposals of equity interests in Group companies and associates".

2021

- In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting UFG. As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. Simultaneously, Naturgy completed the acquisition of the remaining 50% holding in UFG for Euros 466 million, bringing Naturgy's holding to 100% and enabling it to obtain control. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

  In addition, the distribution of an interim dividend of Euros 218 million for 2021 was recorded as a reduction in the carrying amount of the holding.
- Cash contribution to offset losses incurred by Naturgy LNG, S.L. in the amount of Euros 82 million.
- The distribution of the share premium has been recorded as a decrease in the carrying value of the interest in Holding Negocios de Gas, S.A., in the amount of Euros 396 million.
- The distribution of an interim dividend for 2021 amounting to Euros 91 million has been recorded as a decrease in the carrying amount of the shareholding in Holding Negocios de Electricidad, S.A.
- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million.

– Disposal of 60% of the shareholdings in Lean Corporate Services, S.L., Lean Customer Services, S.L, Lean Grids Services, S.L and Naturgy IT, S.L. already announced in November 2020 to provide the corresponding strategic partners in the provision of the various services involved with an equity interest without any relevant impact on results. At 31 December 2021 the Company holds a 15% interest in all these companies and therefore they have been reclassified to long-term investments (Note 8).

– As a result of the spin-off in 2021 of Naturgy Generación, S.L.U. in favour of Naturgy Ciclos Combinados, S.L.U. and Naturgy Generación Térmica, S.L., Euros 774 million of the net shareholding of Naturgy Generación, S.L.U. was reclassified, giving rise to a valuation of Euros 761 million in Naturgy Ciclos Combinados, S.L.U and Euros 13 million in Naturgy Generación Térmica, S.L.

– A provision/reversal of provisions for holdings in Group companies of Euros 877 million (expense reduction) was recorded (Note 4).

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 2,753 million at 31 December 2022 (Euros 4,153 million at 31 December 2021), relating basically to the following companies (Note 4):

	2022	2021	Variation
Naturgy Generación, S.L.U.	2,191	2,186	5
Gas Natural Exploración, S.L.	213	214	(1)
Naturgy Informática, S.A.	157	155	2
Petroleum, Oil & Gas España, S.A.	73	74	(1)
Naturgy LNG, S.L	62	59	3
Lignitos de Meirama, S.A.	30	29	1
Naturgy Nuevas Energías, S.L.U.	12	2	10
General de Edificios y Solares, S.L.	9	9	—
Naturgy Engineering, S.L.	5	12	(7)
Unión Fenosa Gas, S.A.	—	1,395	(1,395)
Naturgy Participaciones, S.A.U	—	8	(8)
Naturgy Almacenamientos Andalucía, S.A	—	8	(8)
Other	1	2	(1)
Total	**2,753**	**4,153**	**(1,400)**

Financial income for dividends received from investments in equity instruments of group companies and associates during 2022 and 2021, correspond to the following companies:

	2022	2021
Naturgy Inversiones Internacionales, S.A.	342	70
Holding Negocios Gas, S.A.	276	125
Naturgy Distribución Latinoamérica S.A.	252	—
Holding Negocios Electricidad, S.A.	201	208
Unión Fenosa Gas, S.A.	137	82
Naturgy Ciclos Combinados, S.L.U.	113	—
Sagane, S.A.	76	124
Global Power Generation, S.A.U.	71	116
Naturgy Finance, B.V.	4	4
Naturgy Capital Markets, S.A.	1	1
Naturgy Iberia, S.A.	—	200
Naturgy Engineering, S.L.	—	1
Other	1	1
Total	**1,474**	**932**

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

			Data at 31 December 2022										
					% interest			Equity					
Company	Registered Office	Activity	Carrying value 2022	Carrying value 2021	Direct	Indirect	Total	Capital	Reserves (1)	Profit/(loss)	Interim dividend	Other (2)	EQUITY
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	408	85	100.0	—	100.0	1	655	474	—	(37)	1,093
Naturgy LNG, S.L.	Spain	Gas supply	35	38	100.0	—	100.0	2	36	(1)	—	(2)	35
Sagane, S.A.	Spain	Gas supply	42	42	100.0	—	100.0	95	22	18	—	—	135
Unión Fenosa Gas, S.A.	Spain	Gas supply	—	1,294	—	—	—	—	—	—	—	—	—
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	—	100.0	—	100.0	—	—	—	—	—	—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	515	195	100.0	—	100.0	3	11	532	—	4	550
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	121	100.0	—	100.0	2	7	37	—	2	48
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11	100.0	—	100.0	11	17	(14)	—	—	14
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	494	100.0	—	100.0	3	208	33	—	5	249
Naturgy Clientes, S.A	Spain	Gas and electricity supply	—	—	100.0	—	100.0	—	—	—	—	—	—
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,678	3,845	100.0	—	100.0	—	3,417	258	—	—	3,675
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,475	4,720	80.0	—	80.0	—	5,385	186	—	—	5,571
Naturgy Generación, S.L.U.	Spain	Electricity generation	859	928	100.0	—	100.0	732	135	(9)	—	1	859
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	1,141	100.0	—	100.0	90	274	108	—	11	483
Global Power Generation, S.A.	Spain	Electricity generation	648	648	75.0	—	75.0	20	616	54	—	112	802
Toledo PV A.I.E.	Spain	Electricity generation	—	—	33.3	—	33.3	—	—	1	—	—	1
La Propagadora del Gas	Spain	Electricity generation	12	—	100.0	—	100.0	10	2	—	—	—	12
Naturgy Ciclos Combinados, S.L.U	Spain	Electricity generation	761	761	100.0	—	100.0	320	451	236	(75)	—	932
Naturgy Generación Térmica, S.L	Spain	Electricity generation	13	13	100.0	—	100.0	—	19	20	—	3	42
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	8	100.0	—	100.0	8	16	—	—	(16)	8
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	2	—	32.3	67.7	100.0	4	(1)	3	—	—	6
Liginitos de Meirama, S.A.	Spain	Mining	16	17	100.0	—	100.0	23	(7)	—	—	—	16
Natural Re, S.A.	Luxembourg	Insurance	9	9	100.0	—	100.0	5	51	2	—	—	58
General de Edificios y Solares, S.L.	Spain	Services	54	54	100.0	—	100.0	34	20	—	—	—	54
Naturgy Capital Markets, S.A.	Spain	Financial services	—	—	100.0	—	100.0	—	—	1	—	—	1
Naturgy Finance, B.V.	Netherlands	Financial services	7	7	100.0	—	100.0	—	5	4	—	—	9
Naturgy Participaciones, S.A.	Spain	Financial services	110	102	100.0	—	100.0	—	103	29	—	—	132
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	—	100.0	—	100.0	—	1	—	—	—	1
Naturgy Informática, S.A.	Spain	IT services	18	1	100.0	—	100.0	20	—	(2)	—	—	18
Naturgy Innovahub, S.L.U.	Spain	IT services	1	—	100.0	—	100.0	1	—	—	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	16	9	100.0	—	100.0	—	12	4	—	(1)	15
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	1	100.0	—	100.0	—	1	—	—	—	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	557	100.0	—	100.0	402	165	194	—	—	761
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	4	—	100.0	—	100.0	2	6	(5)	—	1	4
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	89	100.0	—	100.0	—	202	10	—	—	212
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	850	944	100.0	—	100.0	250	274	(63)	—	(113)	348
TOTAL			**14,956**	**16,134**									

(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 2021								
					% interest			Equity					
Company	**Registered Office**	**Activity**	**Carrying value 2021**	**Carrying value 2020**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves (1)**	**Profit/(loss)**	**Interim dividend**	**Other (2)**	**EQUITY**
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	85	100.0	—	100.0	1	181	(49)	—	1	134
Naturgy LNG, S.L.	Spain	Gas supply	38	5	100.0	—	100.0	2	94	(59)	—	(3)	34
Sagane, S.A.	Spain	Gas supply	42	42	100.0	—	100.0	95	22	76	—	3	196
Unión Fenosa Gas, S.A.	Spain	Gas supply	1,294	262	100.0	—	100.0	33	398	437	(300)	(341)	227
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	—	100.0	—	100.0	—	—	—			—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	195	195	100.0	—	100.0	3	6	(319)	—	175	(135)
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	121	100.0	—	100.0	2	4	3	—	—	9
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11	100.0	—	100.0	10	6	11	—	—	27
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	494	100.0	—	100.0	3	167	140	(100)	405	615
Naturgy Clientes, S.A.	Spain	Gas and electricity supply	—	—	100.0	—	100.0	—	—	—	—	—	—
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,845	3,936	100.0	—	100.0	—	3,666	124	—	—	3,790
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,720	5,115	80.0	—	80.0	—	5,958	79	—	—	6,037
Naturgy Generación, S.L.U.	Spain	Electricity generation	928	1,548	100.0	—	100.0	732	53	143	—	(113)	815
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	1,141	100.0	—	100.0	90	208	73	—	(228)	143
Global Power Generation, S.A.	Spain	Electricity generation	648	648	75.0	—	75.0	20	552	158	—	25	755
Toledo PV A.I.E.	Spain	Electricity generation	—	—	33.3	—	33.3	—	—	1	—	—	1
Naturgy Ciclos Combinados, S.L.U.	Spain	Electricity generation	761	—	100.0	—	100.0	320	445	42	—	(4)	803
Naturgy Generación Térmica, S.L.U.	Spain	Electricity generation	13	—	100.0	—	100.0	—	23	(4)	—	(208)	(189)
Naturgy Almacenamientos Andalucía S.A.	Spain	Gas infrastructures	—	5	100.0	—	100.0	—	5	2	—	—	7
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	8	9	100.0	—	100.0	8	16	—	—	(16)	8
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	—	—	32.3	67.7	100.0	4	(2)	(2)	—	—	—
Liginitos de Meirama, S.A.	Spain	Mining	17	15	100.0	—	100.0	23	(7)	1	—	—	17
Natural Re, S.A.	Luxembourg	Insurance	9	9	100.0	—	100.0	5	56	1	—	—	62
General de Edificios y Solares, S.L.	Spain	Services	54	54	100.0	—	100.0	34	20	—	—	—	54
Naturgy Capital Markets, S.A.	Spain	Financial services	—	—	100.0	—	100.0	—	—	1	—	—	1
Naturgy Finance, B.V.	Netherlands	Financial services	7	7	100.0	—	100.0	—	5	4	—	—	9
Naturgy Participaciones, S.A.	Spain	Financial services	102	89	100.0	—	100.0	—	90	13	—	(1)	102
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	—	100.0	—	100.0	—	1	1	(1)	110	111
Naturgy Informática, S.A.	Spain	IT services	1	10	100.0	—	100.0	20	(10)	(9)	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	9	19	100.0	—	100.0	—	15	(3)	—	1	13
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	1	100.0	—	100.0	—	1	(1)	—	—	—
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	557	100.0	—	100.0	402	221	196	—	—	819
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	—	2	100.0	—	100.0	2	—	(8)	—	—	(6)
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	89	100.0	—	100.0	—	199	3	—	—	202
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	944	100.0	—	100.0	250	346	363	—	(142)	817
TOTAL			**16,134**	**15,413**									

(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.

Non-current loans to Group companies which at 31 December 2022 total Euros 13,997 million (15,146 million at 31 December 2021), with maturities as follows:

Maturity	**At 31.12.2022**	At 31.12.2021
2024	3,362	7,471
2025	3,623	1,000
2026	1,000	1,000
2027	1,725	1,324
2028	1,350	1,350
2029	1,000	1,000
2030	1,000	1,000
2037	362	388
2040	575	613
Total	**13,997**	15,146

Set out below are movements during 2022 and 2021 in loans and other current financial assets:

	Loans to group companies	**Other financial assets**	**Total**
Balance at 01.01.2021	**628**	**115**	**743**
Additions	2,127	—	2,127
Divestments	(266)	(112)	(378)
Reclassifications and transfers	(113)	—	(113)
Balance at 31.12.2021	**2,376**	**3**	**2,379**
Additions	694	—	694
Divestments	(1,057)	(1)	(1,058)
Reclassifications and transfers	(1,721)	—	(1,721)
Balance at 31.12.2022	**292**	**2**	**294**

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 215 million (Euros 224 million in 2021) and accrued interest pending collection amounting to Euros 77 million (Euros 68 million in 2021). Cash pooling balances with investee companies amounting to Euros 2,084 million were also recorded in 2021 as manager of Naturgy's centralised cash pool.

At 31 December 2022, loans to Group companies and associates have borne interest at a rate of 3.86% (2.15% in 2021) in the case of non-current loans and 1.5% (1% in 2021) in the case of current loans.

Note 8. Investments

Investments by class and category at 31 December 2022 and 31 December 2021 break down as follows:

At 31 December 2022	Financial assets at amortised cost	At cost	Hedging derivatives	Total
Equity instruments	—	5	—	5
Derivatives (Note 14)	—	—	69	69
Other financial assets	3	—	—	3
Non-current investments	**3**	**5**	**69**	**77**
Derivatives (Note 14)	—	—	16	16
Other financial assets	12	—	—	12
Current investments	**12**	**—**	**16**	**28**
Total	**15**	**5**	**85**	**105**

At 31 December 2021	Financial assets at amortised cost	At cost	Total
Equity instruments	—	4	4
Loans to third parties	1	—	1
Other financial assets	4	—	4
Non-current investments	**5**	**4**	**9**
Other financial assets	57	—	57
Current investments	**57**	**—**	**57**
Total	**62**	**4**	**66**

Financial assets recognised at fair value at 31 December 2022 and at 31 December 2021 are classified as follows:

	31.12.2022				31.12.2021			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Hedging derivatives	—	85	—	85	—	—	—	—
Total	**—**	**85**	**—**	**85**	**—**	**—**	**—**	**—**

The movement in equity instruments in 2022 and 2021, based on the method applied for calculating their fair value, is as follows:

	2022				2021			
	Level 1 (quoted price in an active market)	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**
At 1 January	—	—	—	—	120	—	—	120
Increase	—	85	—	85	—	—	—	—
Decrease	—	—	—	—	(120)	—	—	(120)
At 31 December	**—**	**85**	**—**	**85**	**—**	**—**	**—**	**—**

Financial assets at cost

All financial assets at cost relate to unlisted shareholdings at 31 December 2022 and 31 December 2021.

This heading includes the shareholdings in Naturgy IT, S.L, Lean Customer Services, S.L, Lean Corporate Services, S.L and Lean Grids, S.L. Following the sale of 60% of these holdings in 2021, described in Note 7, the percentage shareholding was reduced to 15%.

Financial assets at amortised cost

The balance at 31 December 2022 and 2021 is as follows:

	At 31.12.22	At 31.12.21
Loans to companies	—	1
Deposits and guarantee deposits	3	4
Non- current	**3**	**5**
Deposits and guarantee deposits	12	57
Current	**12**	**57**
Total	**15**	**62**

The fair values and carrying amounts of these assets do not differ significantly.

The breakdown by maturities at 31 December 2022 and 31 December 2021 is as follows:

Maturities	**31.12.2022**	31.12.2021
Before 1 year	12	57
Between 1 and 5 years	—	1
More than 5 years	3	4
Total	**15**	**62**

Note 9. Other non-current assets and Trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2022 and 31 December 2021, classified by nature and category, are as follows:

At 31.12.2022	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	63	—	63
Other non-current assets	**63**	**—**	**63**
Derivatives (Note 14)	710	—	710
Other assets	—	271	271
Trade and other receivables	**710**	**271**	**981**
Total	**773**	**271**	**1,044**

At 31.12.2021	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	231	—	231
Other non-current assets	**231**	**—**	**231**
Derivatives (Note 14)	1,865	—	1,865
Other assets	—	417	417
Trade and other receivables	**1,865**	**417**	**2,282**
Total	**2,096**	**417**	**2,513**

Fair value through profit and loss

Financial assets recognised at fair value at 31 December 2022 and at 31 December 2021 are classified as follows:

	At 31.12.2022				At 31.12.2021			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss	—	773	—	773	—	2,096	—	2,096
Total	**—**	**773**	**—**	**773**	**—**	**2,096**	**—**	**2,096**

This heading includes gas price operating derivatives contracted by the Company with third parties and with other Naturgy companies amounting to Euros 773 million (31 December 2021: Euros 2,096 million), of which Euros 63 million is classified as non-current (31 December 2021: Euros 231 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.22	At 31.12.21
Trade receivables	93	83
Trade receivables, Group companies and associates	184	213
Sundry receivables	—	12
Provision	(26)	(27)
Current income tax asset	16	134
Other amounts receivable from Public Administrations	4	2
Total	**271**	**417**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 30 days.

At 31 December 2022 the Company recorded unmatured balances totalling Euros 305 million(31 December 2021: Euros 262 million) which have been included in non-recourse factoring operations. These amounts have therefore been derecognised from “Current tax assets” in the balance sheet.

Movements in the bad debt provision are as follows:

	2022	2021
At 1 January	**(27)**	**(28)**
Net charge for the year	—	1
Retirement	1	—
At 31 December	**(26)**	**(27)**

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.2022	At 31.12.2021
Cash at banks and in hand	1,336	889
Other cash equivalents	1,645	1,319
Total	**2,981**	**2,208**

The "Cash equivalents" mainly relate to short-term investments in deposits associated with CO_2 emission allowances with a maturity of less than three months and an assured return, and the cash pooling balances with Group companies and their associated interest, following the conclusion of the new financing agreement in 2022 (Note 7).

Note 11. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during 2022 and 2021 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 2021	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2021	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2022	**969,613,801**	**970**	**3,808**	**4,778**

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

There were no movements in the number of shares or in the accounts "Share capital" and "Share premium" during 2021 and 2022.

The Company's Board of Directors, for a maximum term of five years as from 15 March 2022, is empowered to increase share capital by a maximum of 50% of the Company's share capital at the time of the authorisation, 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. Likewise, on the basis of this authorisation and when appropriate, it will take the necessary steps and actions before national or foreign securities market regulators to apply for admission to trading, continued listing and/or the delisting of the shares issued, as the case may be.

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 2022 and 31 December 2021, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	% interest in share capital	
	2022	2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.7	26.7
-Global Infrastructure Partners III (2)	20.6	20.6
-CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infraestructure Fund (4)	14.0	12.2
- 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) Through Global InfraCo O (2) S.à.r.l.

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 2022 was Euros 24.31 (Euros 28.63 at 31 December 2021).

Reserves

"Reserves" includes the following reserves:

	2022	2021
Legal reserve	200	200
Statutory reserve	100	100
Voluntary reserves	9,731	10,702
Capital redemption reserve	31	31
Other reserves	315	271
Total	**10,377**	**11,304**

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.

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 284 million in Voluntary reserves.

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 at 31 December 2022 and 2021.

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.

A downward variation of Euros 971 million has been included in 2022 due to the accounting record of the merger by absorption of the investee companies Unión Fenosa Gas, S.A. and Naturgy Aprovisionamientos, S.A. described in note 7.

Share-based payments

On 31 July 2018 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. This incentive covered the period of the Strategic Plan 2018-2022.

On 25 November 2021, the Board of Directors of Naturgy decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, to extend the ILP plan 2018-2022 with a new expiration date of 31 December 2025 for current executives, in order to contribute to the achievement of the Strategic Plan 2021-2025. The entry into force of the extension of the ILP was approved by Naturgy's shareholders in general meeting on 15 March 2022.

This extension altered the ILP that had been approved under the Strategic Plan 2018-2022, which expired in July 2023. It maintains the direct relationship with the total return obtained by the Company's shareholders in the period concerned.

The ILP was arranged through the acquisition of shares in Naturgy Energy Group, S.A. by an investee company that may generate a surplus. This surplus, if any, is the incentive that will be handed over 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 ILP expires and assuming that all the dividends provided for in the Strategic Plan 2021-2025 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.

In order to compensate for the delay in collection derived from the extension of the ILP, Naturgy's Board of Directors provided in 2021 a compensation consisting of a cash payment to beneficiaries that accepted the extension of the term until 2025.

The fair value of the equity instruments granted based on the ILP 2018-2022 was determined at the grant date using a Monte Carlo simulation valuation model based on the share price on the grant date, with the following assumptions:

Forecast share price volatility (1)	17.73 %
Plan duration (years)	5
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.

At the date of approval of the ILP extension, the ILP 2018-2022 and ILP 2018-2025 had been measured using a Monte Carlo simulation valuation model. The incremental value is recognised for accounting purposes over the period running from the date of approval of the change, i.e. 15 March 2022, to 31 December 2025. The assumptions used in these valuations are as follows:

	ILP2018-2022	ILP2018-2025
Forecast share price volatility (1)	25.32 %	25.32 %
Plan duration (years)	1.38	3.80
Expected dividends	5.24 %	5.03 %
Risk-free interest rate	0.71 %	1.06 %

(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 and the incremental value associated with the above-mentioned extension, an amount of Euros 5 million (Euros 3 million at 31 December 2021) (Note 20) has been recorded in the income statement at 31 December 2022 under "Personnel expenses", credited to "Other equity instruments" in the balance sheet.

Treasury shares

Movements during 2022 and 2021 involving the treasury shares of the Company are as follows:

	Number of shares	**In million euro**	**% Capital**
At 1 January 2021	**35,773**	**1**	**—**
Share Acquisition Plan	127,453	3	—
At 31 December 2021	**163,226**	**4**	**—**
Share Acquisition Plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
At 31 December 2022	**55,898**	**1**	**—**

In 2022 and 2021, no gains or losses were made on transactions involving the Company’s treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted 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 involving the Company's treasury shares relate to:

2022

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in December 2021. 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. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares has been added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

2021

- Share acquisition plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan in January 2022.

Dividends

Set out below is a breakdown of the payments of dividends made in 2022 and 2021:

	2022			2021		
	% of Nominal	Euros per share	Amount	% sobre Nominal	Euros per share	Amount
Ordinary shares	**120 %**	**1.20**	**1,164**	**133 %**	**1.33**	**1,290**
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividens paid	**120 %**	**1.20**	**1,164**	**133 %**	**1.33**	**1,290**
a) Dividends charged to income statement or retained earnings	120 %	1.20	1,164	133 %	1.33	1,290
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

2022

On 3 February 2022, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2021 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 1,706
Retained earnings.. 1,778
Distribution base.. 3,484

DISTRIBUTION:

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

i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2021 paid by Naturgy Energy Group, S.A., jointly equivalent to 0.70 euros per share for 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 accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2021, and

ii. The amount obtained by multiplying 0.50 euros 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.

Euros 679 million of said dividend had already been paid on 4 August and 15 November 2021. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The dividend will be paid to shareholders as from 22 March 2022.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

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

TOTAL DISTRIBUTED 3,484

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 0.50 per share for each qualifying share outstanding at the proposed date of payment.

Finally, the general meeting of shareholders held on 15 March 2022 approved a supplementary dividend of 0.50 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 22 March 2022.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 2,320 million.

On 11 August 2022, the Company’s Board of Directors resolved to pay an interim dividend of 0.30 euros per share out of 2022 results, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 18 August 2022.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 June 2022 drawn up by the Directors on 11 August 2022 was as follows:

Profit after tax		1,816
Reserves to be replenished		—
Maximum amount distributable		1,816
Forecast maximum interim dividend payment (1)		291
Cash resources	1,984	
Undrawn credit facilities	5,342	
Total liquidity		7,326

(1) Amount considering total shares issued

On 3 November 2022, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros out of 2022 results for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 18 November 2022.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 September 2022 drawn up by the Directors on 3 November 2022 was as follows:

Profit after tax		1,921
Reserves to be replenished		—
Maximum amount distributable		1,921
Interim dividend 2022 profits		291
Forecast maximum interim dividend payment (1)		388
Cash resources	3,678	
Undrawn credit facilities	5,354	
Total liquidity		9,032

(1) Amount considering total shares issued

On 14 February 2023, the Board of Directors approve the following proposal for the distribution of the Company's net profit for 2022 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 1,435
Retained earnings.. 2,320
Distribution base.. 3,755

DISTRIBUTION:

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

i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2022 paid by Naturgy Energy Group,S.A., jointly equivalent to 0.70 euros per share for 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 accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2022, and

ii. The amount obtained by multiplying 0.50 euros 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.

   Euros 679 million of said dividend had already been paid on 18 August and 18 November 2022. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The dividend will be paid to shareholders as from 4 April 2023.

   The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

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

TOTAL DISTRIBUTED 3,755

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 0.50 per share for each qualifying share outstanding at the proposed date of payment, 4 April 2023. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2022 dividend (Euros 0.50 per share) the same number of treasury shares is maintained as at the 2022 year end (55,898 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 2,592 million.

2021

On 2 February 2021, the Board of Directors approved the proposal submitted to the general meeting of shareholders for the distribution of the Company's net profit for 2020 and retained earnings from previous years, detailed in Note 11 of the notes to the accounts for the year ended 31 December 2020.

Subsequently, the general meeting of shareholders held on 9 March 2021 approved a supplementary dividend of 0.63 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 17 March 2021. Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors resolved to pay a first interim dividend of 0.30 euros per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 4 August 2021.

Finally, on 3 November 2021, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2021 results, paid on 15 November 2021, for shares not classified as direct treasury shares on the date on which the dividend was paid.

Note 12. Provisions

The breakdown of provisions at 31 December 2022 and 2021 is as follows:

	At 31.12.2022	At 31.12.2021
Provisions for employee obligations	187	242
Other provisions	83	67
Non-current provisions	**270**	**309**

Provisions for employee obligations

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

	2022			2021		
	Pensions and other similar obligations	**Other obligations with personnel**	**Total**	**Pensions and other similar obligations**	**Other obligations with personnel**	**Total**
At 1 January	**236**	**6**	**242**	**253**	**5**	**258**
Appropriations/reversals charged to income	4	6	10	3	1	4
Payments during the year	(10)	(5)	(15)	(10)	—	(10)
Changes recognised directly in equity	(57)	—	(57)	(19)	—	(19)
Transfers and other applications	4	3	7	9	—	9
At 31 December	**177**	**10**	**187**	**236**	**6**	**242**

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 2022 and 31 December 2021, 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.
- Health care 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	**2022**	2021
At 1 January	**842**	**917**
Service cost for the year	—	1
Interest cost	13	4
Changes recognised directly in equity	(176)	(34)
Benefits paid	(62)	(56)
Transfers and other	5	10
At 31 December	**622**	**842**

Fair value of plan assets		
At 1 January	**606**	**664**
Expected yield	9	2
Contributions	(3)	—
Changes recognised directly in equity	(119)	(15)
Benefits paid	(49)	(46)
Transfers and other	1	1
At 31 December	**445**	**606**
Provisions for pensions and similar obligations	**177**	**236**

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

	2022	2021
Service cost for the year	—	1
Interest cost	4	2
Total charge to the income statement	**4**	**3**

Benefits for pensions and similar obligations, depending on the duration of the above commitments, are as follows:

	2022	2021
1 to 5 years	—	—
5 to 10 years	26	23
More than 10 years	151	213
Provisions for pensions and similar obligations	**177**	**236**

The plan assets expressed as a percentage of total assets are as follows:

% of total	**2022**	2021
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are positive in the amount of Euros 37 million at 31 December 2022 (negative in the amount of Euros 6 million at 31 December 2021).

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

	2022	2021
Financial assumptions	(66)	(43)
Demographic assumptions	—	39
Experience	9	(15)
At 31 December	**(57)**	**(19)**

Actuarial assumptions applied are as follows:

	At 31.12.2022	At 31.12.2021
Discount rate (p.a.)	3.25 to 4.07%	0.0 to 1.38%
Expected return on plan assets (p.a.)	3.25 to 4.07%	0.0 to 1.38%
Future salary increases (p.a.)	2.00%	2.00%
Future pension increases (p.a.)	2.00%	2.00%
Inflation rate (annual)	2.00%	2.00%
Mortality table	PER2020 Col 1st order	PER2020 Col 1st order
Life expectancy:		
Men		
Retired during the year	24.82	24.64
Retiring within 20 years	45.79	45.59
Women		
Retired during the year	28.55	28.37
Retiring within 20 years	49.98	49.82

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 health care 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 2022 and 31 December 2021, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2022 and 2021.

Other obligations with personnel

Within the framework of the Strategic Plan 2018-2022, a long-term incentive plan had been implemented for Naturgy executives not included in the plan mentioned in Note 11. The purpose of this plan was to align shareholders' interests, the materialisation of the Strategic Plan, and executives' multi-year variable remuneration.

As a result of the approval of the Strategic Plan 2021-2025, the extension was approved of the long-term incentive plan implemented with the approval of the Strategic Plan 2018-2022 for Naturgy executives not included in the plan mentioned in Note 11. This change maintains the aim of aligning shareholders' interests, the materialisation of the Strategic Plan and executives' multi-year variable remuneration. The plan amendment extends the term of the plan until 31 December 2025 for certain serving beneficiaries in order to contribute to the achievement of the Strategic Plan 2021-2025.

In order to compensate for the delay in collection derived from the extension of the plan, a cash compensation was established in 2021 which was paid upon the acceptance of the amendment and approval of the new LTI plan by the general meeting on 15 March 2022.

The provision for this commitment at 31 December 2022 amounted to Euros 10 million (Euros 6 million at 31 December 2021).

Other non-current provisions

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

	2022	2021
At 1 January	**67**	**115**
– Appropriations	24	9
– Reversals	(2)	(6)
Transfers and other	(6)	(51)
At 31 December	**83**	**67**

“Other non-current provisions” mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17).

No provision for business contracts was deemed necessary at 31 December 2022 or 2021.

At 31 December 2022, the estimated payment dates for these obligations are Euros 83 million between one and five years (2021: Euros 67 million between one and five years).

Note 13. Borrowings

Set out below is a breakdown of financial liabilities, excluding “Trade and other payables”, at 31 December 2022 and 31 December 2021, by nature and category:

At 31.12.2022	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	1,938	—	1,938
Other financial liabilities	1	—	1
Non-current borrowings	**1,939**	**—**	**1,939**
Borrowings from financial institutions	534	—	534
Derivatives (Note 14)	—	25	25
Current borrowings	**534**	**25**	**559**
Total	**2,473**	**25**	**2,498**

At 31.12.2021	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	2,372	—	2,372
Derivatives (Note 14)	—	61	61
Other financial liabilities	1	—	1
Non-current borrowings	**2,373**	**61**	**2,434**
Borrowings from financial institutions	402	—	402
Derivatives (Note 14)	—	19	19
Current borrowings	**402**	**19**	**421**
Total	**2,775**	**80**	**2,855**

Financial liabilities recognised at fair value at 31 December 2022 and at 31 December 2021 are classified as follows:

	At 31.12.2022				At 31.12.2021			
Financial liabilities	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Headging derivatives	—	25	—	25	—	80	—	80
Total	**—**	**25**	**—**	**25**	**—**	**80**	**—**	**80**

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

	Carrying amount		**Fair value**	
	At 31.12.2022	At 31.12.2021	**At 31.12.2022**	At 31.12.2021
Bank borrowings, derivatives and other financial liabilities	1,939	2,434	1,937	2,439

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 2022 and 31 December 2021 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	Bank borrowings	**Derivatives**	**Other financial liabilities**	**Total**
At 01.01.2021	**2,977**	**129**	**122**	**3,228**
Increase	50	—	—	50
Decrease	(253)	(49)	(121)	(423)
At 31.12.2021	**2,774**	**80**	**1**	**2,855**
Increase	103	6	1	110
Decrease	(405)	(61)	(1)	(467)
At 31.12.2022	**2,472**	**25**	**1**	**2,498**

The following tables describe borrowings and maturities at 31 December 2022 and 2021, taking into account the impact of derivatives.

	2023	2024	2025	2026	2027	2028 and beyond	**Total**
At 31 December 2022:							
Fixed	291	92	192	91	92	776	1,534
Floating	268	516	178	1	1	—	964
Total	**559**	**608**	**370**	**92**	**93**	**776**	**2,498**

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 31 December 2021:							
Fixed	151	280	91	191	91	870	1,674
Floating	270	304	565	40	1	1	1,181
Total	**421**	**584**	**656**	**231**	**92**	**871**	**2,855**

Setting aside the impact of derivatives on borrowings, of the total debt, the fixed-rate debt would amount to Euros 175 million at 31 December 2022 (Euros 169 million at 31 December 2021); variable-rate debt would amount to Euros 2,298 million at 31 December 2022 (Euros 2,606 million at 31 December 2021).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2022 and 31 December 2021 and their maturities, taking into account the impact of the derivative hedges:

	2023	2024	2025	2026	2027	2028 and beyond	**Total**
At 31 December 2022:							
Euro debt	559	608	370	92	93	776	2,498
Total	**559**	**608**	**370**	**92**	**93**	**776**	**2,498**

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 31 December 2021:							
Euro debt	421	584	656	231	92	871	2,855
Total	**421**	**584**	**656**	**231**	**92**	**871**	**2,855**

Borrowings bore an average effective interest rate in 2022 of 1.22% (1.05% in 2021) including the derivatives assigned to each transaction.

At 31 December 2022, Bank borrowings includes Euros 9 million in interest pending payment (Euros 8 million at 31 December 2021).

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:

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 140 million (Euros 160 million in 2021).

The European Investment Bank (EIB) has granted financing to Naturgy which at 31 December 2022 is fully drawn down, in the amount of Euros 1,153 million maturing between 2023 and 2037 (Euros 1,336 million drawn down at 31 December 2021). 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.

Other bank borrowings

At 31 December 2022, payables to non-institutional credit institutions amount to Euros 1,175 million (31 December 2021: Euros 1,270 million).

The Group continues to work on strengthening its financial profile and in this respect the most relevant financing operations with credit institutions completed in 2022 and 2021 were the refinancing of credit lines and loans in Spain for Euros 4,517 million (Euros 3,483 million in 2021), which basically include:

2022

- Exercising of the one-year extension to 2025 of a Euros 2,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.
- Exercise of the one-year extension to 2024 of a Euros 1,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.
- Additionally, lines of credit and bilateral loans have been renegotiated for an amount of Euros 1,517 million.

2021

- Refinancing of the undrawn syndicated credit facility, increasing the ceiling from Euros 1,750 million to Euros 2,000 million, with a 3-year maturity (with an option to extend the term until 2026) at Euribor +0.30% and with ESG metrics in the price calculation. Credit facilities and bilateral loans amounting to Euros 1,483 million were also renegotiated.

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.

Of total bank borrowings, Euros 1,094 million (Euros 1,215 million at 31 December 2021) 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.
- Appropriately segregating risk management functions at the operating level.
- Assuring that the level of risk exposure assumed by Naturgy in its business is in line with the objective global risk profile and with the achievement of its annual and strategic objectives.
- 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 2022 and 2021 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.2022	At 31.12.2021
Fixed interest rate	1,534	1,674
Floating interest rate	964	1,181
Total	**2,498**	**2,855**

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**
31 December 2022	50	(5)	(19)
	-50	5	19
31 December 2021	50	(6)	(31)
	-50	6	31

Following the outbreak of the Ukraine conflict, the European Central Bank decided to reduce its bond-buying stimulus plan launched in March 2020 in response to rising inflation and to raise interest rates. Further increases may raise the cost of debt and limit access to capital markets.

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 2022, 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 fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.

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 has not a significant impact at 31 December 2022 and 31 December 2021.

Commodity price risk

An important part of Naturgy's profits are linked to the purchase of gas for supplying a diversified portfolio of customers.

These gas supply contracts are mostly 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 hubs.

However, selling prices to final customers are generally agreed on a short/medium term basis and are conditioned by the supply/demand balance existing at a given time in the gas market. This may imply a decoupling from gas supply prices.

Therefore, Naturgy is exposed to the risk of gas price fluctuations with respect to the selling price to end customers. Exposure to this risk is managed and mitigated by natural hedging, seeking to balance the commodity exposures of both prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and repricing mechanisms.

When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price decoupling risk, generally through hedging instruments. However, inefficiencies could occur in these hedges caused by the modification of the expected dates of the purchase and sale operations, by the reduction with respect to the volumes covered and by the decoupling with respect to the indices covered in the purchase and sale operations.

The Company also purchases gas in the market to be supplied to other Naturgy companies.

In the integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/marketing positioning and by the final sales pricing policies in electricity marketing.

Throughout 2022, raw materials prices have increased significantly due to the energy crisis resulting from the scarcity of raw materials caused the international blockade on Russia after the outbreak of war in Ukraine.

Finally, Naturgy is exposed to fluctuations in the price of CO_2 emission allowances, allocated to generation in its combined cycle plants. Naturgy invests part of its cash surpluses in CO_2-linked notes.

Naturgy does not have any material investments in upstream businesses or raw materials 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.

- 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. Supplementary to the above-mentioned policy, Naturgy has mechanisms for ordinary and extraordinary price reviews, by means of the relevant clauses, with a large part of its supply portfolio. These clauses allow, in the medium term, the modulation of impacts in the event of any decoupling between Naturgy's selling prices in its markets and the evolution of prices in its 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.

With regard to credit risk in relation to trade receivables, these are reflected in the balance sheet net of provisions for impairment due to expected credit losses (Note 9) estimated by the Company based on the age of the debt and the experience of previous years 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. Significant amounts do not accumulate individually 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 2022 or 2021.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2022 and 2021.

The aging analysis of financial assets and their expected loss as of 31 December 2022 and 31 December 2021 is as follows:

31.12.2022	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	28.0 %	—	—	—	100.0 %
Trade receivables for sales and services	93	67	—	—	26
Expected loss	26	—	—	—	26

31.12.2021	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	32.5 %	—	—	—	100.0 %
Trade receivables for sales and services	83	56	—	—	27
Expected loss	27	—	—	—	27

The expected loss ratio is calculated as the quotient of the expected loss among customers for sales and services rendered.

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 2022 and 2021 the Company did not have significant concentrations of credit risk.

At 31 December 2022, Naturgy has updated its credit risk management model based on economic forecasts in the main countries in which it operates, taking into account various factors including the war in Ukraine. The Group's financial statements have not been significantly impacted by changes in its debtors' payment behaviour.

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 2022, available cash totalled Euros 8,271 million (Euros 7,484 million in 2021), including cash and cash equivalents of Euros 2,981 million described in Note 10 (Euros 2,208 million in 2021) together with undrawn bank financing and credit lines totalling Euros 5,290 million (Euros 5,276 million in 2021).

In an international context that is deeply influenced by the war in Ukraine, and within the framework of the Group's financial policy, the Company has maintained the availability of funds to meet its obligations and to implement its business plans, guaranteeing at all times the optimum level of liquid resources and seeking to maximise efficiency in the management of financial resources.

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:

	2022	2021
Standard & Poor's	BBB (*)	BBB
Fitch	BBB (*)	BBB

(*) S&P: Negative outlook, Fitch: Stable outlook

Derivative financial instruments

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

	At 31.12.2022		At 31.12.2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivative financial instruments	**69**	**—**	**—**	**61**
Interest rate hedges				
Cash flow hedges	69	—	—	38
Interest and exchange rate hedges				
Cash flow hedges	—	—	—	23
Other financial instruments	**63**	**63**	**231**	**232**
Price of commodities	63	63	231	232
Derivative financial instruments – non current	**132**	**63**	**231**	**293**
Hedging derivative financial instruments	**16**	**25**	**—**	**19**
Interest rate hedges				
Cash flow hedges	16	—	—	19
Interest and exchange rate hedges				
Cash flow hedges	—	25	—	—
Other financial instruments	**710**	**711**	**1,865**	**1,873**
Price of commodities	710	711	1,865	1,873
Derivative financial instruments - current	**726**	**736**	**1,865**	**1,892**
Total	**858**	**799**	**2,096**	**2,185**

The fair value of derivatives is determined based on the quoted price in an active market (Level 1) and observable variables in an active market (Level 2) .

"Other financial instruments" includes derivatives not qualifying for hedge accounting.

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

	2022		2021	
	Operating profit	**Net financial income/ (expense)**	**Operating profit**	**Net financial income/ (expense)**
Cash flow hedge	—	(17)	—	(19)
Other financial instruments	5	—	(6)	—
Total	**5**	**(17)**	**(6)**	**(19)**

The breakdown of derivatives at 31 December 2022 and 2021, their fair value and maturities of their notional values is as follows:

	At 31.12.2022							
	Fair value	**Notional value**						
		2023	**2024**	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	85	191	70	498	48	329	198	1,334
INTEREST AND EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(25)	101	—	—	—	—	—	101
OTHER:								
Price of commodities Derivatives (EUR)	(1)	1	—	—	—	—	—	1
	59	**293**	**70**	**498**	**48**	**329**	**198**	**1,436**

	At 31.12.2021							
	Fair value	**Notional value**						
		2022	**2023**	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(57)	91	191	70	498	48	527	1,425
INTEREST AND EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(23)	—	101	—	—	—	—	101
EXCHANGE RATE HEDGES:								
Fair value hedges:								
Foreign exchange insurance (USD)	—	9	—	—	—	—	—	9
OTHER:								
Price of commodities derivatives (EUR)	(9)	—	—	—	—	—	—	—
	(89)	**100**	**292**	**70**	**498**	**48**	**527**	**1,535**

Note 15. Payables to Group companies and associates

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

Maturity	At 31.12.2022	At 31.12.2021
2022	—	4,823
2023	3,125	629
2024	1,634	1,619
2025	1,199	1,197
2026	1,593	1,591
2027	1,490	1,488
Subsequent years	2,097	2,586
Total	**11,138**	**13,933**

Payables to Group companies mainly relate to debts recorded at amortised cost related 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 1,000 million (Euros 1,500 million at 31 December 2021) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million at 31 December 2021) are also included. In 2021, following the acquisition of 50% of the interest in UFG and the merger of UFG and Naturgy Aprovisionamientos, S.A. described in Notes 4 and 7, Euros 862 million of debt with Naturgy Aprovisionamientos, S.A. derived from UFG has been included (Euros 329 million at 31 December 2021).

Also included is accrued unmatured interest amounting to Euros 132 million (Euros 135 million in 2021) and balances with Group companies relating to cash pooling balances for Euros 1,222 million, bearing interest at a rate of 0.5% (Euros 3,429 million in 2021 which did not bear any interest), as well as balances with Group companies relating to consolidated corporate income tax amounting to Euros 283 million (Euros 476 million at 31 December 2021).

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 2022

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	Euro	1,000	—	1,000	300
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	7,656	4,344	—

At 31 December 2021

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	Euro	1,000	—	1,000	280
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	8,110	3,890	—

The bonds issued, in a volume of Euros 7,656 million (Euros 8,110 million at 31 December 2021), 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 2022 and 2021 are:

2022

During 2022, no issuances were made under the EMTN programme.

In 2022 a bond matured for a total amount of Euros 454 million and with an average coupon of 3.88%.

In 2022, issues under the Euro Commercial Paper (ECP) programme totalling Euros 300 million (Euros 280 million in 2021) were carried out. There were no outstanding issues at 31 December 2022 or 31 December 2021.

2021

In 2021 two bonds matured for a total amount of Euros 831 million and with an average coupon of 4.58%.

In 2021, issues under the Euro Commercial Paper (ECP) programme totalling Euros 280 million were carried out. There were no outstanding issues at 31 December 2021.

In November, Naturgy Finance B.V. issued subordinated perpetual bonds for an amount of Euros 500 million, redeemable at the issuer's choice as from February 2027 and with an annual return of 2.374%. As part of the operation, a Euros 500 million repurchase of the subordinated perpetual bonds redeemable as from November 2022 was carried out. The repurchase price of 104.211% was determined on the basis of the purchase performance up to the first optional purchase date based on a settlement date of 24 November 2021.

Following the settlement of the Company's debt with Naturgy Finance B.V. due to this repurchase, Euros 22 million was recorded in "Other financial expenses" under Net financial income/(expense) at 31 December 2021 (Note 23).

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

Note 16. Other non-current liabilities and Trade and other payables

The headings “Other non-current liabilities” and “Trade and other payables” at 31 December 2022 and 31 December 2021, classified by nature and category, are as follows:

At 31.12.2022	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	63	—	63
Other non-current liabilities	**63**	**—**	**63**
Derivatives (Note 14)	711	—	711
Other liabilities	—	345	345
Trade and other payables	**711**	**345**	**1,056**
Total	**774**	**345**	**1,119**

At 31.12.2021	At fair value through profit and loss	Amortised cost	**Total**
Derivatives (Note 14)	232	—	232
Other non-current liabilities	**232**	**—**	**232**
Derivatives (Note 14)	1,873	—	1,873
Other liabilities	—	425	425
Trade and other payables	**1,873**	**425**	**2,298**
Total	**2,105**	**425**	**2,530**

Fair value through profit and loss

Financial liabilities recognised at fair value at 31 December 2022 and at 31 December 2021 are classified as follows:

	At 31.12.2022				At 31.12.2021			
Financial liabilities	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss		774		774	—	2,105	—	2,105
Total	**—**	**774**	**—**	**774**	**—**	**2,105**	**—**	**2,105**

This heading includes gas price operating hedging derivatives hired by the Company with third parties and with other Naturgy companies amounting to Euros 774 million (31 December 2021: Euros 2,105 million), of which Euros 63 million is classified as non-current (31 December 2021: Euros 232 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.2022	At 31.12.2021
Trade payables	240	259
Trade payables, Group companies and associates	71	103
Other payables	—	12
Personnel (outstanding remuneration)	18	33
Public Administrations	16	18
Total	**345**	**425**

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 the average supplier payment period

The average payment period is calculated in accordance with Law 15/2010, which establishes measures to combat late payment in commercial operations, as well as the modifications established in Law 18/2022, of September 28, creation and growth of companies.

Pursuant to the above regulations, the information to be included in the Annual Accounts report in relation to the average payment period to suppliers in commercial operations is as follows:

	2022	2021
	Amount	**Amount**
Total payments (thousand euro)	1,291,884	615,883
Total outstanding payments (thousand euro)	21,081	13,528
Average supplier payment period (days) (1)	26	38
Transactions paid ratio (days) (2)	27	38
Transactions pending payment ratio (days) (3)	23	40
Total payments within the period established in the default regulations (thousands of euros) (4)	1,183,136	—
% of the amount paid within the period established in the default regulations with respect to the total amount paid (4)	91.58 %	—
Number of invoices paid within the period established in the default regulations (4)	11,785	—
% of invoices paid within the period established in the default regulations with respect to the total invoices paid (4)	91.67 %	—

(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.

(4) Information requirement established by Law 18/2022.

In 2021, Group company suppliers were not included in the calculation. If these suppliers were included, the average payment period would be 30 days.

Note 17. Tax situation

Naturgy Energy Group, S.A. 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 2022 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 2022 and 2021 to taxable income is as follows:

	At 31.12.2022	At 31.12.2021
Accounting profit before tax	**1,480**	**1,635**
Permanent differences	**(1,411)**	**(1,772)**
Temporary differences:		
Arising during current year	11	55
Arising in prior years	(58)	(46)
Taxable income	**22**	**(128)**

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 1,426 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 908 million in 2021), the impairment reversal of shareholdings in Group companies and associates and other equity interests amounting to Euros 1 million (impairment reversals of Euros 868 million in 2021), gains on sales of holdings in Group companies and associates totalling Euros 5 million and the upward adjustment for donations and other minor adjustments amounting to Euros 11 million (Euros 4 million in 2021).

In 2022 the Company recorded a taxable profit of Euros 22 million (loss of Euros 128 million in 2021 which was recovered from the tax group companies due to the taxable income generated during the same period).

Income tax expense is as follows:

	2022	2021
Current-year tax	6	58
Deferred tax	(51)	13
Total	**(45)**	**71**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied by the Company in 2022 amounted to Euros 12 million (Euros 26 million in 2021) and no tax losses were offset.

At 31 December 2022, advance payments of Euros 129 million (Euros 98 million in 2021) have been made on account of corporate income tax of the consolidated tax group.

In 2022 and 2021 there were no adjustments for tax differences from the previous year.

On 31 December 2020, Law 11/2020 on the General State Budget for 2021 was published in the Official State Gazette, under which, among other measures, certain articles of Law 27/2014 on Corporate Income Tax were amended. The most relevant amendments relate to the limitation of the exemption of dividends and capital gains such that, with effect from 1 January 2021, only those derived from holdings of more than 5% of share capital will be exempt at 95%, thus eliminating those relating to holdings with an acquisition cost exceeding Euros 20 million (although a transitional regime is established for such holdings).

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in which a percentage of 5% or more is held, without prejudice to whether the distributing company and the receiving company belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is equal to or greater than 5% will be considered, eliminating from the calculation those dividends from holdings in which the acquisition value of the holding was greater than Euros 20 million.

The National Budget Law for 2022 approved the amendment of Corporate Income Tax Law 27/2014, establishing a minimum tax rate of 15% of taxable income. Naturgy does not expect this change to have any impact on the Group as the deductions applied do not entail a reduction in the effective rate below this percentage.

Anticipating the implementation of the rules included in OECD Pillar Two, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union was adopted on 14 December 2022. The rules laid down by this Directive, which have yet to be transposed by Member States, will apply to financial years beginning on or after 31 December 2023 and establish a minimum taxation of 15% for all group companies in each country in which the group operates. If in any country the minimum 15% rate is not complied with, the difference must be paid in the country of residence of the parent company, Spain in our case. The impact of these regulations on the Group is considered to be negligible, as taxation in the various jurisdictions in which the Group operates is almost always above an effective rate of 15%.

On 28 December 2022, the Official State Gazette published Law 38/2022 approving, inter alia, the Temporary Energy Tax which consist of an extraordinary charge of 1.2% of the revenue of energy groups that are considered to be the main operator in any of the various energy sectors, in order to address the additional energy costs to be borne by the economy as a whole due to the extraordinary circumstances caused by the Russian invasion of Ukraine and the volatility of the energy markets.

It stipulates that, in the case of groups taxed under the tax consolidation regime, the obligation must be understood to refer to the consolidated group as a whole. It is also laid down that the amounts pertaining to the regulated natural gas distribution, electricity distribution and electricity generation activities will be eliminated from revenue.

The energy tax is payable in 2023 on the basis of the 2022 figures and in 2024 on the basis of the 2023 figures, with a partial payment of 50% between 1 and 20 February and the final payment between 1 and 20 September.

The Company is analysing, together with its advisors, the adequacy of this extraordinary tax to the current legislation, reserving, where appropriate, the possibility of resorting to the courts of justice in the event that this analysis determines that said legality has been violated. This charge is treated as a tax and its accounting record will take place on 1 January 2023 and 2024, to the extent that these are the accrual dates of the same, and for the entire annual amount to be paid in each year.

Law 38/2022 also brings in a change in the tax consolidation system with effects limited to fiscal year 2023, whereby the tax base of groups taxed under the consolidation scheme may only include 50% of individual tax losses, while the remaining 50% is to be applied over the following 10 years. We do not expect this amendment to have a material impact on the Group's effective taxation.

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	20	442
2003	39	39	20	—	20
2004	292	292	177	11	166
2005	432	432	300	2	298
2006	310	310	226	—	226
2009	161	161	87	—	87
2010	752	752	551	—	551
2011	468	468	394	1	393
2012	38	38	32	—	32
Total	**3,409**	**3,409**	**2,249**	**34**	**2,215**

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 31.12.2022			At 31.12.2021		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	(145)	36	(109)	(46)	11	(35)
Actuarial gains and losses and other adjustments	(65)	14	(51)	(22)	5	(17)
	(210)	**50**	**(160)**	**(68)**	**16**	**(52)**

A breakdown of deferred taxes is as follows:

	At 31.12.2022	At 31.12.2021
Deferred tax assets:	120	173
- Achievable within one year	11	11
- Achievable in more than one year	109	162
Deferred tax liabilities:	(275)	(250)
- Achievable in more than one year	(275)	(250)
Net deferred tax	**(155)**	**(77)**

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 1.1.2021	**116**	**38**	**26**	**11**	**2**	**193**
Creation (reversal)	3	—	—	(1)		2
Movements linked to equity adjustments	(5)	—	(11)	—	—	(16)
Transfers and other	(5)	—	—	—	(1)	(6)
At 31.12.2021	**109**	**38**	**15**	**10**	**1**	**173**
Creation (reversal)	(13)	(10)	—	(1)	—	(24)
Movements linked to equity adjustments	(13)	—	(15)	—	—	(28)
Transfers and other	(1)	—	—	—	—	(1)
At 31.12.2022	**82**	**28**	**—**	**9**	**1**	**120**

Deferred tax liabilities	**Differences Depreciation**	**Deferred gains**	**Valuation of liabilities and financial instruments**	**Other**	**Total**
At 1.1.2021	**2**	**207**	**—**	**2**	**211**
Creation (reversal)	—	—	—	(11)	(11)
Transfers and other	—	—	—	50	50
At 31.12.2021	**2**	**207**	**—**	**41**	**250**
Creation (reversal)	—	—	—	27	27
Movements linked to equity adjustments	—	—	22	—	22
Transfers and other	—	—	—	(24)	(24)
At 31.12.2022	**2**	**207**	**22**	**44**	**275**

In 2015, the demerger of the nuclear 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.

In July 2021 tax inspection proceedings were instigated against the Company 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. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The periods under inspection for corporate Income Tax purposes (tax consolidation regime) are 2016 to 2019 and for VAT purposes (corporate group regime) from September 2017 to December 2020.

This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT Group for VAT purposes.

In addition, as part of the same inspection procedure, personal income tax withholdings and payments on account from earned income for the period September 2017 to December 2020, and non-resident income tax withholdings on investment income for the period April 2018 to December 2020 have been subject to a limited scope verification.

In accordance with Spanish tax legislation, at the date of preparation of these Annual Accounts, the Company's returns for the last four year 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 29 September 2022 the ruling was received from the Central Economic-Administrative Court (TEAC) on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2011-2015, which were contested and which basically regularised the deduction for international double taxation. The TEAC rejected the appeal in its entirety. A contentious-administrative appeal has been lodged against that ruling with the National High Court, and the relevant complaint had yet to be formalised at the date of these Annual Accounts.

The enforceability of the assessments has been suspended and the provision for the full amount of the liability is recorded under "Provisions" (Note 12) and has been updated at 31 December 2022 and 31 December 2021 for the late payment interest accrued while the suspension continues.

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).

Note 18. Revenue

Revenue breaks down as follows:

	2022	2021
Electricity sales	—	1
Natural gas sales and other	718	801
Income from equity instruments of Group companies and associates (Note 7)	1,474	932
Income from marketable securities and other financial instruments of Group companies and associates	436	348
Total	**2,628**	**2,082**

	2022	2021
Domestic market	2,064	1,442
Foreign market:	564	640
- European Union	563	639
- Other countries	1	1
Total	**2,628**	**2,082**

Gas sales are made basically in the domestic market and relate to gas sales to other Naturgy companies, and where the Company acts as principal agent.

Note 19. Raw materials and consumables

Includes gas purchases related to the activity of selling gas to other Naturgy companies and where the Company acts as principal agent.

Note 20. Personnel expenses

A breakdown of this heading in the income statement for 2022 and 2021 is as follows:

	2022	2021
Wages and salaries	50	58
Termination benefits	2	54
Share-based payments (Note 11)	5	3
Social security costs	5	6
Other social costs	3	3
Other	5	2
Total	**70**	**126**

In May 2021, the workers' union representatives and the representatives of Company management adopted a Voluntary Redundancy Plan for the Naturgy Group to be implemented before 31 December 2021. “Compensation for termination” includes the costs associated with said Voluntary Redundancy Plan corresponding to effective terminations and the agreements confirmed between the parties until 31 December 2021 and which make the commitment irrevocable. As at 31 December 2022, additional redundancies amounting to Euros 2 million have taken place.

The average number of Company employees in 2022 and 2021 is as follows:

	2022	2021
Executives	32	34
Middle management	86	105
Specialists	164	172
Operational staff	22	44
Total	**304**	**355**

The average number of Company employees during 2022 and 2021 with a disability equal to or greater than 33% is as follows:

	2022		2021	
	Men	**Women**	**Men**	**Women**
Executives	—	—	—	—
Middle management	—	—	—	—
Specialists	2	1	3	3
Operational staff	—	1	1	1
Total	**2**	**2**	**4**	**4**

The number of Company employees at the end of 2022 and 2021 broken down by category and gender is as follows:

	2022		2021	
	Men	**Women**	**Men**	**Women**
Executives	27	7	26	6
Middle management	46	45	42	39
Specialists	80	95	68	73
Operational staff	3	19	4	25
Total	**156**	**166**	**140**	**143**

Note 21. Other operating expenses

A breakdown of this heading in the income statement for 2022 and 2021 is as follows:

	2022	2021
Leases, royalties, operation and maintenance	26	23
Professional services and insurance	17	17
Advertising and other commercial services	16	12
Contribution Naturgy Foundation	6	5
Banking services	6	6
Supplies	10	7
Taxes	1	2
Impairment losses and changes in trade provisions (Note 9)	—	(1)
Other	54	39
Total	**136**	**110**

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 69 million in transactions with group companies and associates in 2022 (Euros 71 million in 2021), and basically corresponds to the repercussion of costs incurred.

Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2022 and 2021 is as follows:

	2022	2021
Income from equity instruments	1	—
Income from marketable securities and other financial instruments	11	3
Total financial income	**12**	**3**
Cost of borrowings	(278)	(313)
Interest expense on pensions (Note 12)	(4)	(2)
Other financial expense	(18)	(34)
Total financial expense	**(300)**	**(349)**
Impairment and gains/(losses) on disposals of financial instruments	—	(1)
Net financial income/(expense)	**(288)**	**(347)**

Other financial expenses include sundry commissions and other expenses (in 2021 this heading also included expenses for the settlement of the debt associated with the repurchase of Naturgy Finance, B.V. bonds in the amount of Euros 22 million) (Note 15).

Note 24. Foreign currency transactions

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

	2022	2021
Sales	515	401
Other operating income	1	8
Income from marketable securities and other financial instruments of group companies and associates	17	16
Supplies	(515)	(396)
Services received	(1)	(6)
Financial expenses by borrowings from group companies and associates	(5)	(5)
Total	**12**	**18**

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, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.) and IFM Global Infrastructure Fund (IFM) (through IFM Global InfraCo O (2), 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.

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

	2022				2021			
Income and expense (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**
Receipt of services	1	—	—	—	1	—	—	—
Total expenses	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**
Total income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other transactions (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**
Dividends and other profits distributed	310,752	241,030	240,165	157,387	319,676	267,142	266,183	42,743

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

	2022		2021	
Expenses, income and other transactions	**Group companies**	**Jointly-controlled entities and associates**	**Group companies**	**Jointly-controlled entities and associates**
Financial expenses	(245)	—	(303)	—
Lease expenses	—	—	(1)	—
Receipt of services	(10)	—	(12)	—
Purchases of goods	(553)	—	(419)	—
Total expenses	**(808)**	**—**	**(735)**	**—**
Financial income	432	4	343	5
Dividends received	2,044	—	1,639	—
Sale of goods	3,198	—	1,046	—
Other income	69	—	71	—
Total income	**5,743**	**4**	**3,099**	**5**

In 2022 and 2021, "Purchases of goods" relates mainly to purchases of natural gas from Group companies.

The heading "Dividends received" includes the supplementary dividend payments made against the share premium account and reserves, recorded as a Euros 570 million decrease in investments in group companies (Euros 707 million in 2021) (Note 7).

The heading "Sales of goods" includes sales of natural gas derived from supply contracts, as well as gas commodity settlements passed on to group companies, considered at their net amount as part of Revenue.

The heading "Other income" basically includes income from the repercussion of costs incurred (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 15 March 2022 and is periodically 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 Bylaws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Audit and Control Committee (ACC), Appointments, Remuneration and Corporate Governance Committee (ARGC) and Sustainability Committee (SC), totalled Euros 3,762 thousand (Euros 3,955 thousand in 2021). The amount for 2022 is detailed below (expressed in euros):

	Office	Board	ACC	ARGC	SC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	—	1,100,000
Ms. Helena Herrero Starkie (1)	Coordinating Director	201,607	44,000	—	66,000	311,607
Mr. Ramón Adell Ramón (1)	Director	178,393	44,000	7,464	—	229,857
Mr. Enrique Alcántara-García Irazoqui	Director	175,000	—	44,000	—	219,000
Ms. Isabel Estapé Tous	Director	175,000	4,976	—	44,000	223,976
Ms. Lucy Chadwick	Director	175,000	4,976	—	44,000	223,976
Mr. Rajaram Rao	Director	175,000	—	44,000	—	219,000
Mr. Francisco Belil Creixell (2)	Director	19,792	7,464	4,976	—	32,232
Mr. Claudi Santiago Ponsa	Director	175,000	58,536	44,000	4,976	282,512
Mr. Pedro Sainz de Baranda Riva	Director	175,000	44,000	63,512	—	282,512
Mr. Jaime Siles Fernández-Palacios (3)	Director	155,208	—	—	39,024	194,232
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	44,000	—	219,000
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	44,000	—	4,976	223,976
		3,055,000	**251,952**	**251,952**	**202,976**	**3,761,880**

(1) Until 10 February 2022 Mr. Ramón Adell Ramón received remuneration as Coordinating Director. From this date, Ms. Helena Herrero Starkie succeeds him in that position

(2) Until 10 February 2022

(3) Since 11 February 2022

In 2022, as in 2021, no amounts were received for other items.

At 31 December 2022 the Board of Directors comprised 12 members (12 members at 31 December 2021), the Audit and Control Committee had 5 members (7 members at 31 December 2021), the Appointments, Remuneration and Corporate Governance Committee had 5 members (7 members at 31 December 2021) and the Sustainability Committee had 4 members (5 members at 31 December 2021).

The members of the Board of Directors of Naturgy Energy Group, S.A., excluding the Executive Chairman, have not received remuneration from profit sharing, bonuses or indemnities, and have not been granted any 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 2022 by Naturgy Energy Group, S.A. amounted to Euros 766 thousand (Euros 614 thousand in 2021).

Management Committee Remuneration

For the sole purposes of the information contained in this section, the Management Committee is considered to be the Executive Chairman in relation to his executive functions, the directors reporting directly to the Executive Chairman and the Internal Audit Director.

At 31 December 2022, nine persons make up this group, excluding the Executive Chairman and the Internal Audit Director (nine persons at 31 December 2021). During 2022 there have been no movements in the Management Committee.

The amounts accrued by the Management Committee in 2022 with respect to fixed remuneration, variable remuneration and other items amounted to Euros 11,261 thousand (Euros 5,356 thousand, Euros 5,666 thousand and Euros 239 thousand, respectively) and to Euros 10,311 thousand in 2021 (Euros 5,106 thousand, Euros 4,997 thousand and Euros 208 thousand, respectively). As in 2021, the amount relating to the annual variable remuneration of the Executive Chairman will be settled as a voluntary contribution to the retirement pension plan of which he is a beneficiary, in accordance with the terms of the relevant agreement

As described in note 11, at 25 November 2021, the Naturgy Board of Directors decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, the temporary extension of the ILP 2018-2022 (the original plan ended in July 2023), establishing its expiration at 31 December 2025 for current managers, in order to contribute to the achievement of the 2021-2025 Strategic Plan. The temporary extension of the ILP came into force with the approval of the Naturgy Shareholders' Meeting at 15 March 2022. In order to compensate for this temporary extension, the Board of Directors established in 2021 a payment to account on the value that would be received for the period of 5 years elapsed, which has meant Euros 1,159 thousand per year. This amount was made available to employees in two tranches, part of which was set aside in 2021, as indicated in note 11 of the 2021 Annual accounts, and the rest in 2022. Additionally, in November 2022 advances were paid for an amount of Euros 238 thousand.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,471 thousand in 2022 (Euros 1,458 thousand in 2021). The funds accrued for these contributions, including in the case of the Executive Chairman the amounts contributed voluntarily since 2018 together with the annual variable remuneration accrued in 2022 which will be settled as a contribution to a pension plan, amount to Euros 21,302 thousand at 31 December 2022 (Euros 16,916 thousand at 31 December 2021).

In 2022, as in 2021, Naturgy has not provided any new guarantees for loans to senior management personnel. No indemnities were received for departures from the Management Committee in 2022 (none in 2021).

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.

The Chairman's contract provides for an indemnity in the event of the termination or non-renewal of his directorship amounting to two years' total remuneration: total fixed remuneration, annual variable remuneration and the annualised part of long-term remuneration (equivalent to 1.25 times the 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 with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

The contracts concluded with the members of the Management Committee (9) contain a clause providing for compensation equivalent to the legally established indemnity, which varies, depending on seniority, between two and three and a half years' salary. This clause applies to cases of unfair dismissal, as well as those referred to in Articles 40, 41 or 50 of the Workers' Statute, and in one of the contracts to certain situations involving a change in control. In addition, the 9 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting up to two years.

Transactions with members of the Board of Directors and the Management Committee

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 involving directors must be reported in the Annual accounts.

In 2022 and 2021 the Directors of Naturgy Energy Group, S.A. have not notified the Board of Directors of any general situation of conflict of interest.

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 2022 and 2021, the members of the Board of Directors and the Management Committee have not carried out related-party transactions outside the ordinary course of business or transactions that have not been conducted under normal market conditions with Naturgy Energy Group, S.A. or Group companies.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2022 and 2021 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 11 million (Euros 23 million at 31 December 2021).

- Guarantees provided to public bodies mainly for tax obligations amounting to 75 million euros (78 million euros as of December 31, 2021).

- 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 8,767 million (Euros 9,720 million at 31 December 2021).

- Guarantees for long-term obligations (20 to 25 years) under gas purchase and transport contracts and the chartering of gas tankers of group companies Naturgy LNG Marketing Ltd, Naturgy LNG, S.L., Naturgy LNG GOM Limited and Naturgy Aprovisionamientos, S.A. As of 31 December 2022, these contracts amounted Euros 10,265 million (Euros 9,437 million at 31 December 2021) valued based on the current market conditions of the raw materials and the currencies to which they are referenced.

- Parent Company Guarantees (PCGs) associated with the derivative instruments contracted amounting to Euros 1,267 million (Euros 779 million as at 31 December 2021).

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 remote. Naturgy estimates that the liabilities not foreseen at 31 December 2022 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The Company was party to several gas supply contracts with "take or pay" clauses negotiated for "own use" (Note 3.5), by virtue of which it held gas purchase rights for the period 2021-2024 which were terminated during 2021. At 31 December 2022 and 2021 the Company has no long-term gas purchase commitments.

Operating lease commitments break down as follows:

	2022	2021
Up to one year	19	18
Between 1 and 5 years	63	68
Between 5 and 10 years	26	28
	108	**114**

In 2022 this mainly includes operating leases without purchase options on five 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
Avda. Diagonal, 525	Barcelona	2031	2 periods of 5 years

Contingent liabilities for litigation and arbitration

At the date of authorisation for issue of these Annual accounts, the Company is not involved in any legal or extrajudicial disputes that might result in the recognition of provisions for litigation in the Balance sheet.

Note 28. Auditors' fees

The fees accruing in 2022 and 2021 were as follows:

	2022			2021		
	KPMG Auditores, S.L	**Rest KPMG network**	**Total**	**KPMG Auditores, S.L**	**Rest KPMG network**	**Total**
Auditing services	1,172	—	**1,172**	565	—	565
Assurance services and services related to the audit (1)	898	312	**1,210**	131	—	131
Tax services	—	167	**167**	—	92	92
Other services	—	86	**86**	15	127	142
Total fees	**2,070**	**565**	**2,635**	**711**	**219**	**930**

(1) Includes Euros 1,165 thousand for the review/audit of the condensed interim consolidated financial statements as of June 2022, associated with the Geminis project. This amount is considered as audit work for the purposes of calculating the ratio "amount of non-audit work/amount of audit work" included in Naturgy's 2022 Annual Corporate Governance Report.

Note 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the Group pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. The Global Environmental Policy, which applies to all countries and businesses, and the Company's highest-ranking policy in favour of sustainable environmental development, the Corporate Responsibility Policy, define Naturgy's environmental action around eco-efficiency, the rational use of natural and energy resources, the minimisation of environmental impact, the promotion of innovation and the use of the best available technologies and processes. They also establish Naturgy's voluntary commitment to be a key player in the energy transition towards a circular and decarbonised economy model which, in line with the objectives of the Paris Agreement, drives climate action and biodiversity protection while promoting a fair and inclusive transition by generating and improving employment opportunities.

Naturgy's most immediate, specific and measurable responsibility towards the environment is set out in the Sustainability Plan, which lays down the objectives that guide the Group in its daily performance, in line with the SDGs set by the United Nations and the Strategic Plan defined for the period 2021-2025. Looking farther into the future, with a view to achieving climate neutrality by 2050 the company is committed to investing now in sustainable activities, many of which are eligible under the European Taxonomy:

- Constructing new renewable generation facilities to reach an installed capacity of close to 60% by 2025.
- Focusing on carbon-neutral renewable gases with a target of producing or injecting at least 1 TWh into gas networks by 2025.
- Protecting biodiversity, which is partly affected by the climate challenge, and overcoming the risk of a net loss of natural capital as a strategic priority.

In this respect, as stated in the Environmental Policy, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular and decarbonised economy model, in line with the objectives of the Paris Agreement. Naturgy is therefore committed to becoming carbon neutral by 2050, reducing total Scope 1, 2 and 3 emissions in accordance with the 1.5 ºC - 2 ºC pathways of the Paris Agreement. To this end, Naturgy will focus on four strategic environmental axes:

- Environmental governance and management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Biodiversity and natural capital.

Although the Sustainability Report and Statement of Non-Financial Information 2022, in the chapter "The opportunity of environmental challenges", includes detailed information on the performance and results of the company's environmental management, the most noteworthy milestones are summarised below.

Governance and environmental management

- As reflected in the Environmental Policy, Naturgy goes beyond compliance with legal requirements in environmental matters and adopts more ambitious actions and objectives to ensure respect for the environment. After identifying significant impacts, Naturgy conducts its environmental management based on the principle of prevention, taking the entire business value chain into account. For years, the company has had an integrated management system (IMS) for quality, environment, safety and health, with the environmental component being certified in line with the requirements of ISO 14001 and audited annually. This system aims to prevent pollution and reduce environmental impacts throughout the value chain, involving employees, suppliers and other stakeholders. In 2022, 97.9% of EBITDA derived from certified industrial activities.

- Naturgy continuously monitors environmental regulations in order to ascertain their potential repercussions on its business in advance. This makes it easier to define its position and adapt to new requirements. Monitoring is implemented through consultation and public information processes in the international, European and domestic spheres. We should highlight that there were no significant environmental sanctions (higher than Euros 10,000) in 2022.

- Concerning 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.

- The company has obtained various external recognitions in environmental matters. It was classified by CDP as A- for its climate management in 2022 and has remained at the top of this index since 2011. It also won a business award for the Best Environmental Integration Initiative in the industry from "El Periódico de la Energía" for the Meirama Lake mining environmental recovery project.

Climate change and energy transition

- Naturgy is committed to being one of the key players in the energy transition towards a circular and decarbonised economy, as stated in the Environmental Policy. Naturgy operates at all times on the basis of a business model aligned with the maximum level of ambition under the Paris Agreement.

- In 2022, the total carbon footprint (scopes 1, 2 and 3) has been reduced by 16.5%. Scope 1 emissions (direct emissions) were 14.7 million tCO_2eq, higher than the previous year due mainly to the increase in electricity production from combined cycle plants in Spain, as 2022 was a very dry hydraulic year. Indirect Scope 2 emissions were 0.4 million tCO_2eq and Scope 3 emissions were 110.1 million tCO_2eq. The latter have fallen by 19% for a number of reasons, the most relevant being the drop in demand for natural gas among end consumers.

- Renewable gases (biomethane and hydrogen) are the key lever for decarbonising Naturgy's gas business. In 2022, the company participated in biomethane projects, reaching a production or grid injection capacity of 0.22 TW.

- Approximately 9.9 TWh of renewable electricity was supplied in Spain with guarantees of origin certified by the CNMC under 1.3 million contracts, representing 49% of the energy purchased and an increase of 43% on the previous year. Neutral gas has also been sold, for which total direct and indirect emissions (generated from extraction to the point of consumption) have been offset in the voluntary market through the acquisition and voluntary offset of Certified Emission Reductions (CERs). The process for offsetting emissions using CERs is conducted in the European Emissions Registry and will be verified and certified by AENOR. The energy offset certificate for the previous calendar year can be consulted by calling customer service from April of the following year. By the end of 2022, 487,460 CERs certificates (tCO_2eq) have been available, which is almost 3 times more than in the previous year.

Circular economy

- Concerning materials consumption, the volume of fuels used in 2022 has increased by 16% while the amount of other non-fuel materials has been reduced by 15% compared to 2021, the total amounts being 5.3 million tonnes and 6.7 thousand tonnes, respectively.

- Water is a natural resource used in the Company's processes to which particular attention is paid, through analyses of the risks related to water use, discharge quality control, ecological reservoir management, eco-efficiency and the reuse of water in processes, for instance through the integration of wastewater from other activities. On a global level, 921 hm^3 have been collected, of which 19 hm^3 have been consumed, and 902 hm^3 have been returned to the environment in the form of discharges. In absolute terms, water abstraction (6%), consumption (24%) and discharge (5%) increased in 2022. This was mainly due to the very dry year in Spain, which meant that the combined cycle plants had to cover the shortfall in hydroelectric generation, producing 43% more electricity. To further interpret these results, and given that electricity generation is the activity that uses 99.9% of water resources, specific abstraction, consumption and discharge ratios have been calculated. These indicators, which reflect the amount of water needed to generate one unit of electricity, have improved compared to the previous year. Therefore, although in absolute terms abstraction, consumption and discharges have increased due to higher electricity generation, there has been a gain in eco-efficiency. In other words, less water is required to generate one unit of electricity.

- There has been a decrease compared to the previous year, in absolute terms, in emissions of the atmospheric pollutants SO_2 (-33%) and particulate matter (-50%). Absolute NOx emissions have increased by 3% due to the increased operation of combined cycle plants, although in relative terms eco-efficiency has improved as specific emissions of this pollutant have decreased by 11%.

- In 2022, there has been a 4% reduction in total waste generated, mainly due to non-hazardous waste, which has decreased by 5%. Moreover, the percentage of recycled or recovered waste has increased significantly to 92%.

Biodiversity and natural capital

- In 2022, Naturgy implemented numerous actions in the natural capital and biodiversity area, all of which were aligned with the prevention, reduction in and compensation for our impacts, in order to progress in the commitment towards zero net loss in biodiversity and the enhancement of the value of the natural surroundings. Specifically, 345 biodiversity initiatives have been carried out on an international level, 20% of which are voluntary.

- 200 environmental studies have been carried out, particularly in relation to generation facilities (thermal, hydraulic and wind) and electricity distribution, in order to ascertain and monitor the environmental and ecological status of the environment. In the case of thermal and hydraulic power plants, sampling campaigns have been carried out to determine the physiochemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). The latest studies confirm the normality observed throughout the sample series and conclude that the facilities analysed have an acceptable impact on the environment.

- In 2022, environmental restoration actions were carried out on 49.74 hectares. 31% of this area pertained to protected areas, habitats or species.

Environmental investment and expenditure

The environmental actions undertaken in 2022 totalled Euros 2.6 million (Euros 1.3 million in 2021), of which Euros 0.3 million relates to environmental investments and Euros 2.3 million to expenses incurred in environmental management of the facilities and buildings (Euros 0.2 million relates to environmental investments and Euros 1.1 million to expenses incurred in environmental management of the facilities in 2021).

Emissions

In 2022, total consolidated CO_2 emissions from Naturgy's cogeneration and combined cycle plants subject to regulations governing the European emission trading system totalled 7.4 million tonnes of CO_2 (4.9 million tonnes of CO_2 in 2021).

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 14 February 2023, the Board of Directors approved the proposal for the distribution of the Company's net profit for 2022 and retained earnings, which will be submitted to the General Shareholders' Meeting, as described in Note 11.

Apart from this, there have been no other material events after the reporting date.

****

APPENDIX I. NATURGY TAX GROUP COMPANIES

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Generación Térmica, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Generación, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Iberia, S.A.
Energías Ambientales de Somozas, S.A.	Naturgy Informática, S.A.
Energías Especiales Alcoholeras, S.A.	Naturgy Infraestructuras Emea, S.L.
Eólica Tramuntana, S.L.	Naturgy Ingeniería Nuclear, S.L.
Europe Magreb Pipeline Limited	Naturgy Innovahub, S.L.U.
Gas Natural Comercializadora, S.A.	Naturgy Inversiones Internacionales, S.A.
Gas Natural Exploración, S.L.	Naturgy LNG GOM, S.L.
Gas Natural Redes GLP, S.A.	Naturgy , S.L.
Gas Natural Transporte SDG, S.L.	Naturgy Nuevas Energías, S.L.U.
General de Edificios y Solares, S.L.	Naturgy Participaciones, S.A.
Global Power Generation, S.A.	Naturgy Renovables Canarias, S.L.U.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Naturgy Renovables Ruralia, S.L.U.
GPG México Wind, S.L.U.	Naturgy Renovables, S.L.U.
GPG México, S.L.U.	Nedgia Andalucía, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Aragón, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Balears, S.A.
Infraestructures Elèctriques de la Terra Alta, S.L.U.	Nedgia Castilla La Mancha, S.A.
JGC Cogeneración Daimiel, S.L.	Nedgia Catalunya, S.A.
La Propagadora del gas, S.A.	Nedgia Cegas, S.A.
Lignitos de Meirama, S.A.	Nedgia Madrid, S.A.
Naturgy Acciones, S.L.U.	Nedgia Navarra, S.A.
Naturgy Alfa Investments, S.A.U.	Nedgia, S.A.
Naturgy Aprovisionamientos, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Capital Markets, S.A.	Parque Eólico Nerea, S.L.
Naturgy Ciclos Combinados, S.L.U.	Parque Eólico Peñarroldana, S.L.
Naturgy Clientes, S.A.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Commodities Trading, S.A.	Sagane, S.A.
Naturgy Distribución Latinoamérica, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Naturgy Electricidad Colombia, S.L.	Tratamiento Cinca Medio, S.L.
Naturgy Engineering, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Future, S.L.U.	Unión Fenosa Preferentes, S.A.U.

Naturgy Energy Group. S.A.
2022 Report

DIRECTORS' REPORT

Naturgy

Directors' Report for the year ended 31 December 2022

Contents

1. Main aggregate performances

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

	2022	2021	%
Net turnover	2,628	2,082	26.2
Operating profit	1,768	1,982	(10.8)
Profit of the year	1,435	1,706	(15.9)
Shareholders' equity	18,240	18,901	(3.5)
Net equity	18,306	18,858	(2.9)
Financial debt (1)	2,498	2,855	(12.5)

(1) According to the definition of Alternative Performance Metrics (APM) used, Financial debt corresponds to the sum of the Balance Sheet headings "Long-term Financial Debt" (Euros 1,939 million at 31 December 2022 and Euros 2,434 million at 31 December 2021) and "Short-term financial debt" (Euros 559 million at 31 December 2022 and Euros 421 million at 31 December 2021). The relevance to use corresponds to the measure of the company's indebtedness, which includes current and non-current items. This indicator is widely used in capital markets to compare different companies.

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 bellow 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.

Main financial aggregates

	2022	2021	%
Net sales	33,965	22,140	53.4
Ebitda	4,954	3,529	40.4
Ebit	3,083	2,101	46.7
Income attributable to equity holders of the parent	1,649	1,214	35.8
Investments	1,907	1,484	28.5
Net borrowings (at 31/12)	12,070	12,831	(5.9)
Free cash flow after non-controlling interests	1,914	2,113	(9.4)

Key financials & metrics

	2022	2021
Leverage	54.7%	59.1%
EBITDA/Net financial debt cost	9.9x	7.2x
Net financial debt/EBITDA	2.4x	3.6x

Main stock market ratios and shareholder remuneration

	2022	2021
Total no. of shares ('000)	969,614	969,614
Average no. of shares ('000)[1]	960,908	960,935
Share price at 31/12 (Euros)	24.31	28.63
Market capitalisation at 31/12 (Euros million)	23,571	27,760
Earnings per share (Euros)[1]	1.72	1.26
Dividend paid	1,164	1,290

[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).

Key operating aggregates

Distribution	**2022**	2021
Gas distribution (GWh)	386,479	459,878
Electricity distribution (GWh)	34,033	36,411
Gas supply points ('000)	11,050	11,036
Electricity supply points ('000)	4,827	4,776
Gas distribution network (km)	136,272	135,640
Length of electricity transmission and distribution network (km)	155,060	153,981

Gas	**2022**	2021
Supply (GWh)	217,183	239,780
International LNG (GWh)	125,053	141,748
Total gas supply (GWh)	**342,236**	**381,528**

Electricity	**2022**	2021
Thermal installed capacity (MW)	10,675	10,675
Renewable installed capacity (MW)	5,513	5,221
Total installed capacity (MW)	**16,188**	**15,896**
Thermal net production (GWh)	37,485	30,891
Renewable net production (GWh)	9,544	10,863
Total net production (GWh)	**47,029**	**41,754**

Environmental and social performance

Environment	2022	2021
Power generation emission factor (t CO2/GWh)	279	261
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	15.1	13.5
Emissions-free installed capacity (%)	37.5	36.3
Emissions-free net production (%)	29.4	35.4

Interest in people	2022	2021
No. of employees at year-end[2]	7,112	7,366
Training hours per employee	35.9	28.8
Men/women (%)[3]	32.7	32.0

Health and safety	2022	2021
No. of accidents leading to time lost	8	8
Frequency of accidents with time lost	0.12	0.10

Commitment to society and integrity	2022	2021
Economic value distributed (Euros million)	32,089	22,470
No. of complaints received by the Ethics Committee	43	61

[1] GHG: greenhouse gases, measured as tCO_2 equivalent (scope 1 and 2).
[2] Does not include the number of employees at discontinued operations (21 persons in 2022 and 24 persons in 2021).
[3] Does not include employees at discontinued operations.

1.2. Executive summary

- Naturgy's EBITDA amounted to €4,954 million in 2022, i.e. 40.4% higher than in the previous year. It has been a volatile period in the energy market and commodity prices have soared, in both gas and electricity.

- The Networks business in Spain and LatAm reported EBITDA of €2,475 million in the period, which represents an increase of 8.7% compared to 2021 due to the operating efficiencies achieved in Spain after the completion of the 2021 restructuring plan and, in Latin America, to the tariff update that factors in inflation from prior periods, as well as positive exchange rate effects.

- The robust performance by the deregulated business drove the sharp increase in the Group's EBITDA, with the Energy Management and Supply businesses contributing the most growth in the period, while Renewables and New Businesses was affected by low hydroelectric power generation in Spain.

- Naturgy is committed to supporting its clients, particularly through challenging times, and it strives to anticipate society's needs and to provide stability in energy prices in the current context of volatility. As such, Naturgy was a first mover in contributing innovative solutions for its stakeholders, launching its Electricity Commitment initiative at a fixed price for three years, aimed at offsetting the volatility of electricity prices in the pool, and most recently in gas, offering a stable three year price for industrial customers, and a two year price for communities & SMEs. Furthermore, as the leading company in gas supply through regulated tariffs in Spain, with close to 1.3 million customers and a market share of around 75%, the company is committed to helping its consumers to benefit from the most competitive energy prices available. With this objective, the company has reinforced customer service means to attend consumers interested in the changing to the Last Resort tariff (TUR), multiplying by 12x the number of service agents. More than 60% of the company's customer base has taken advantage of the long-term price initiatives launched by Naturgy in 2022.

- Prudent financial management and capital discipline have been key to tackling market volatility and regulatory uncertainty in 2022. On the one hand, Naturgy has been able to maintain high liquidity during the period and, on the other, it reduced its net financial debt from €12,831 million at the end of 2021 to €12,070 million at the end of 2022, while investing €1,907 million and meeting its shareholder remuneration commitment of €1.2/share per year, as set out in the 2021-2025 Strategic Plan.

- Capex totalled €1,907 million in 2022, i.e. 28.5% higher than in the previous year. The Networks business and Renewables and New Businesses absorbed approximately 88% of this growth. Harnessing its cash flow generation capacity and the strength of its balance sheet, Naturgy plans to ramp up its investment programme in the next few years.

- Naturgy remains committed to developing renewable energies and reached more than 5.5 GW of installed capacity in the period. In Spain, Naturgy is developing projects to build approximately 30 wind farms and photovoltaic plants, equivalent to almost 1 GW of additional renewable capacity, which are expected to come on stream in the coming months.

- Lastly, with regard to shareholder remuneration, the Board of Directors will propose a final dividend of €0.50/share, subject to approval by shareholders at the General Meeting, in addition to the first and second interim dividends of €0.30/share and €0.40/share, respectively, paid in cash during 2022. In accordance with the 2021-2025 Strategic Plan, the total dividend will amount to €1.20/share in 2022.

- The energy transition is a major opportunity for Naturgy, and the company is committed to achieve carbon neutrality by 2050 at the latest. The company aims to restore natural capital and biodiversity through multiple initiatives, related to the prevention, reduction and compensation of its impacts. Accordingly, a total of 345 biodiversity initiatives were implemented in 2022.

Macroeconomic growth and energy demand

In 2022, demand for energy by the group's activities in Spain, Brazil and Mexico declined, reflecting different macroeconomic environments, weather conditions and energy trends in the countries where the group operates.

Electricity and gas demand in Spain decreased by an average of -9.2% and -15.3%, respectively, compared to 2021, to below pre-pandemic levels. Similarly, average demand in gas distribution activities in Mexico and Brazil experienced a downturn of -12.4% and -50.9%, respectively, compared to 2021. Conversely, demand for gas and electricity grew in the rest of the Latin American economies where the group operates, by 1.8% in Chile, 6.5% and 7.2% in Argentina (gas and electricity, respectively), and 3.9% in Panama (electricity).

In 2022, Latin American currencies performed differently than in 2021. The US dollar, Mexican peso and Brazilian real appreciated, while the Argentinian and Chilean pesos continued to depreciate against the euro. The performance of Latin American currencies generated a positive effect of Euros 76 million on the group's EBITDA and Euros 2 million on consolidated results in the year.

Evolution of commodity prices

Meanwhile, commodity prices have followed a more uniform, global trend across all regions, logging an unprecedented increase in both the gas and electricity markets, which has been exacerbated by the ongoing conflict between Russia and Ukraine.

Average Brent prices were 43% higher than in 2021, while gas prices at major hubs saw unprecedented increases, in particular TTF and JKM, which increased by ~3.4x and 2.3x, respectively, on average vs. 2021.

Meanwhile, wholesale electricity prices increased by ~1.5x on average compared to 2021, to record highs. These increases led to significant regulatory changes and continued uncertainty in Spain in the period.

Regulatory developments

In 2022, the Group was affected by intense regulatory activity and the publication of measures adopted by the Spanish government to mitigate the impact of high energy prices on consumers. See Appendix IV for more information. Regulatory framework of the consolidated annual accounts.

Gemini proyect

On 10 February 2022, Naturgy reported the decision by its Board of Directors concerning the launch of the Géminis project, consisting of a very significant reorganisation of the corporate group of which Naturgy Energy Group, S.A. is the parent company. This project specifically envisages the partial spin-off of Naturgy Energy Group, S.A. under the provisions of Title III (Article 68 et seq.) of Law 3/2009 of 3 April on structural modifications in trading companies (LME), which will give rise to two large groups listed on the Spanish Stock Exchanges with clearly differentiated business profiles and with the same shareholder composition, at least initially, as a result of the proposed operation.

The first of the groups resulting from the proposed spin-off would be headed by Naturgy itself (MarketsCo after the spin-off) as the spun-off company, and would bring together on an integrated basis the deregulated businesses encompassing renewable energies development, the portfolio of energy customers and associated services, conventional generation facilities and management of wholesale energy markets. The second of the groups resulting from the proposed spin-off is to be headed by a newly created company and beneficiary of the operation (NetworksCo) which will bring together all the businesses engaging in the management of regulated gas and electricity distribution and transport infrastructures.

The Gemini project was designed to simplify and focus the management of each business group in order to accelerate the Group's Strategic Plan, driving growth and their contribution to the energy transition. However, at the date of preparation of these consolidated annual accounts the Gemini project had been delayed and no information on the related time-frame can be provided. The analysis carried out to date confirms the suitability and strategic sense of the Gemini project although its implementation schedule will have to be adjusted to the current volatile market environment, developments in the European energy industry and regulatory uncertainties, many of which have yet to be defined.

As a result, the Board of Directors does not consider, at 31 December 2022, that the conditions for the materialisation of the Gemini project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders

COVID-19 update

The spread of COVID-19 has entailed significant challenges for commercial activities and has introduced a high degree of uncertainty concerning world-wide business activity and energy demand, particularly during 2020 and 2021.

The global recovery that commenced in the second half of 2021 continued in 2022. Some impacts have continued to be felt, however, such as those arising from the measures imposed in China under its "zero COVID" policy, leading to disruptions in the supply chain of technology components in Europe which are necessary, for instance, for maintaining strong investment growth in renewable energy.

During 2022, countries have also gradually lifted the mobility restrictions imposed to curb the spread of the pandemic. While this has boosted business activity it has also led to a certain resurgence of infections, such as in China towards the end of the year. This has resulted in certain countries considering, or already implementing, restrictions on the entry of travellers from China. This increase in infections could negatively impact China's economic growth and again put pressure on global supply chains.

The Group tracks the impact of the COVID health crisis on the economic cycle in the short and long term, with the aim of minimising the possibility of any further deterioration or sudden recovery in the economic conditions in the markets in which it operates having material adverse effects on the Group's business, prospects, financial situation and results.

2. Main risks, opportunities and uncertainties

2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable within an acceptable bounded range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in all aspects that are of importance to its stakeholders.

Core goals of the risk measurement and management model include ensuring that material risk factors are correctly identified, assessed and managed. The final objective is 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.

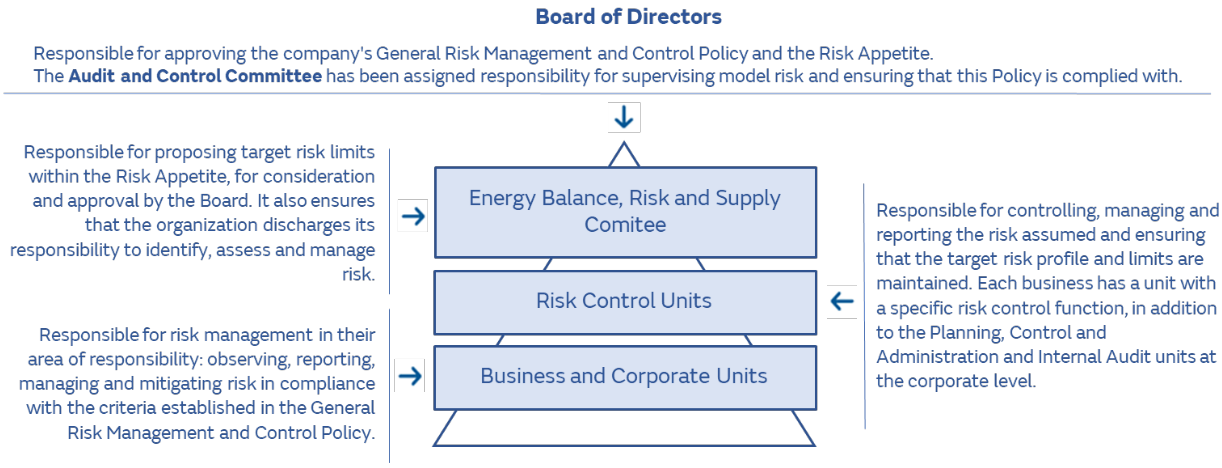
The Integrated Risk Management and Control System is structured as follows:

- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk type and by business, as a function of the targets.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business Units, Corporate 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 360-degree 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 delimit the predictability and ensure the sustainability of the company's operational and financial performance.



Energy Balance, Risk and Supply Committee

Since the energy crisis at the beginning of 2022, the main risk for the group is the variation of the different energy commodities and their indices. For this reason, an Energy Balance, Risk and Supply Committee was created, made up of most of the members of the management committee and part of the managers directly dependent on them, in order to monitor the evolution of energy commodities, both in the field of gas and electricity, the evolution of the indices. Said Committee, in addition to monitoring, has assumed the role of making purchase, sale or hedging decisions that corresponded to the management level or has made proposals in the event that, due to the level of competence, they correspond to the Board of Directors. Finally, said Committee monitors the open position of the group as a whole in a combined manner for gas and electricity and for purchase, sale and hedging positions.

A key task of the Risk Control Units within the risk control and management function is modelling the annual accounts to identify their main sensitivities, anticipate possible negative impacts, and adopt corrective or mitigating actions.

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 in order to manage it appropriately .

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

- Global Risk Control and Management Policy: the most recent version was 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 each year by the corporate-level Planning, Control and Administration unit.
- Other risk maps: these are developed by Naturgy's Business and Corporate units at their discretion following a common methodology, and they serve as the basis for the Corporate Risk Map .
- Risk Measurement System: The metrics used to assess risk depend on the nature of the risk:
    - Stochastic/probabilistic: a probabilistic simulation of price deviations within a confidence interval.
    - Deterministic/scenarios: expected impact of an event based on its probability.

- Heatmaps: qualitative analysis of the risk on a factor basis.

Risk categories

Naturgy defines five risk types in its Corporate Risk Map: Economic, Financial, Operational, Reputational/ Sustainability, and Strategic.

Types of economic and financial risk

Economic and financial risk are assessed by quantitative modelling.

Categories of economic risk

Risk factors with an impact on business results, caused by the volatility of exogenous factors, amendments to regulatory frameworks, or changes in demand with an impact on short-term results.

- **Commodity risk**, the uncertainty caused by variability in the prices of the energy and other commodities that the company uses.
- **Exchange rate risk**, the uncertainty associated with changes during the year in the exchange rates of the currencies in which Naturgy's businesses are denominated.
- **Regulatory risk**, the risk associated with reviews of the remuneration frameworks for the regulated businesses and/or updates to the specific remuneration parameters and/or amendments to the regulatory framework under which Naturgy businesses operate.
- **Volume risk**, risk associated with the variation of volumes produced, distributed and/or supplied due to variations in temperature, changes in customer behaviour as a result of climate change, and the macroeconomic or competitive environment with respect to the base scenario considered in the projections.
- **Margin/Price Risk**, understood as the price risk not contemplated under commodity risk created by changes in competitive pressure or unachieved margin assumptions.
- **Legal risk,** related to the eventual outcome of litigation, arbitration or legal claims against Naturgy in the year of analysis.
- **Operational risk**, associated with events of force majeure or accidents affecting persons, and with accidents, damage or non-availability of the company's operating assets, after coverage by Naturgy's insurance programme.

Financial risk categories

Risk factors with an impact on the company's cash flow and balance sheet caused by the volatility of financial variables, potential impact of counterparties, amendments to tax frameworks, and provisioning.

- **Credit risk**, unexpected loss due to uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.
- **Interest rate risk**, variability of the company's financial expenses caused by changes in interest rates and in refinancing needs in the currencies in which Naturgy's debt is denominated .
- **Tax risk**, associated with the proper application of tax regulations, the complexity of their interpretation, and possible amendments, with a potential economic impact on the company's accounts.
- **Liquidity and solvency risk,** risk associated with a potential increase in the financing needs required to maintain the company's target rating.
- **Rating risk**, risk of a downgrade of the company's credit rating, considering that the company targets an anchor BBB rating.
- **Provisions risk**, risk of maintaining an excessive volume of provisions on the balance sheet, resulting in the risk that they may materialize and their effect on cash outflows.

Types of operational, reputational/sustainability and strategic risk

Operational, reputational/sustainability and strategic risk are generally assessed using heat maps.

Operational risk categories

Risk factors derived from operating the company's human and material assets.

- **Security risk**, understood as the residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.
- **Business continuity and crisis management risk**, the risk of a service-level breach as a result of inadequacy or failure of processes, systems or performance by in-house or third-party staff.
- **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.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Data protection risk**, the risk associated with breach of data protection obligations that may result in an administrative sanction or civil judgement.
- **Environmental risk**, associated with the possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Customer satisfaction risk**, risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation.
- **Health and safety risk,** understood as the risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.

Reputational/Sustainability risk categories

Risk factors associated with behaviours that constitute a departure from good practices in the area of reputation, ESG commitment, compliance, people and climate change.

- **Reputational and ESG risk,** uncertainty in the evolution of stakeholders' perception of the company's reputation and its capacity to engage in business sustainably from an environmental, social and governance point of view.
- **Compliance risk,**risk of Naturgy suffering penalties, financial loss or loss of reputation as a result of non-compliance with legal obligations, as well as regulations, policies and other internal regulations applicable to its activities.
- **Climate change risk**, arising from the energy transition (changes to regulations, markets or technologies) and the physical impacts of climate change (acute and chronic).

Strategic risk categories

Risk factors associated with the company's business portfolio: Alignment with the energy transition, long-term commodity exposure, capital employed by geography (soft vs. hard currencies), business risk profile (exposure to regulated vs. merchant businesses).

2.2. Description of the main risks

Commodity risk

Electricity and gas volatility

A large portion of Naturgy's operating results are linked to gas purchased for supply to a diversified portfolio of customers.

Most gas procurement contracts are arranged on a long-term basis with purchase prices based on a combination of commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sale prices to end customers are generally arranged on a short/medium term basis and depend on the supply-demand balance in the gas market at any given time. This may result in decoupling with respect to gas procurement prices.

Consequently, Naturgy is exposed to variations in gas procurement prices with respect to the sale price to end customers. This exposure is managed and mitigated by natural hedging, as an attempt is made to balance the commodity exposures of both prices. Additionally, the main long-term procurement contracts allow us to manage this exposure through volume flexibility and price review mechanisms.

When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, through derivatives (generally designated as hedging instruments) to reduce exposure to price decoupling risk. Nevertheless, ineffectiveness could occur in these hedges caused by the modification of the expected dates of the purchase and sale operations, the reduction with respect to the volumes covered and the decupling with respect to the indexes covered in the purchase and sale operations.

In the vertically integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/supply positioning and by the final sale pricing policies in electricity supply.

The company is also exposed to the evolution of the price of CO_2 emission allowances which are purchased for allocation to power generation by its combined cycle plants, and to spot investments of cash surpluses in CO_2-linked notes.

Exchange rate risk

Naturgy has interests in several countries and is exposed to the exchange rate in each of their currencies, as well as to the US dollar.

Exchange rate risk is largely mitigated by financing investments in local currency. Naturgy tries to match costs and revenues in the same currency, as well as amounts and maturities of assets and liabilities arising from transactions denominated in non-Euro currencies.

Additionally, the exchange rate risk is managed by arranging financial derivatives within the limits approved for hedging instruments, the level of exposure and the risk appetite approved each year.

Margin/price risk

Liberalisation processes in Spain and other major markets have had a significant impact in terms of competitive pressure on final market prices, and on the definition of market shares.

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, and might have an effect on the performance of the electricity supply and generation businesses.

Naturgy monitors and quantifies the sales margins of all its businesses, identifies material deviations from its spread assumptions and mitigates the risk by adapting sale and purchase formulas to all terms.

Gas and electricity volume risk

Some purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts that include clauses under which Naturgy is obliged to buy certain volumes of gas each year (take-or-pay clauses). In the event of a reduction in gas demand, Naturgy might be obliged by contract to pay the minimum amount to which it is bound under such clauses.

Moreover, in an alternative scenario where there is a shortage of gas or excess demand, the additional cost of short-term procurements might have a material adverse effect on the group's operating costs.

All volume risks are measured, monitored and quantified each year, and the company assesses the adequacy of hedges for those linked to climate (temperature, precipitation, etc.), which are managed in accordance with the approved policies and risk appetite.

In the area of electricity generation, Naturgy's earnings are exposed to volume variability, driven by electricity demand and the generation mix in the market, which is being particularly affected by the growing share of renewable energy production.

Naturgy manages its contracts and assets in an integrated manner, optimizing the energy balance.

Regulatory risk

Regulated and non-regulated activities coexist in the gas and electricity distribution businesses. The legislation applicable to the natural gas and electricity industries is typically subject to regular review by the competent authorities, which might have an impact on the remuneration for regulated activities, affecting Naturgy's business operations and financial position.

As a result of both the COVID-19 crisis and Russia's invasion of Ukraine, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

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.

Operational risk

Naturgy's activities are exposed to various operational risks, such as breakdowns in the distribution network, accidents at electricity generation facilities, accidents in methane tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, and breaches of contract.

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.

Naturgy has an extensive insurance program to cover its operational exposure.

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 unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.

Naturgy has cybersecurity policies that establish vigilance, contingency and security plans, and has arranged insurance to cover this exposure.

Environmental risk

Environmental risk, associated with the possibility that natural phenomena or human action may result in obligatory regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity. Naturgy pays special attention to environmental protection and the efficient use of natural resources, going beyond compliance with the legal requirements and involving suppliers and stakeholders, as well as promoting the responsible use of energy at both its own facilities and those of its customers.

Naturgy has identified the environmental risks at its facilities based on the reference standard: UNE 150008 in Spain. To prevent these risks, it has implemented a certified integrated management system that includes operational control and environmental management procedures. Naturgy has also implemented emergency plans at facilities and warehouses at risk of environmental accidents, including an action plan, means of containment, and regular drills. Naturgy arranges specific insurance policies to cover risks of this type.

Reputational and ESG 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 in the environmental, social and governance dimensions.

Naturgy has developed a Sustainability Plan that determines is commitments and lines of action in 2021-2025, accompanies the transformation of the company and is aligned with the Strategic Plan 2021-2025, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs). To ensure the reliability of information on environmental, social and governance aspects, Naturgy is implementing a system of Internal Control over Non-Financial Reporting (ICNFR).

As regards environmental aspects, the commitments of the Corporate Responsibility Policy are expanded upon in the global Environmental Policy, applicable to all geographies and businesses, which establishes four strategic environmental pillars:

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

Climate change risk

In order to integrate the climate variable into Naturgy's strategic planning, climate change risks and opportunities are identified, measured and managed in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process is the incorporation of a series of goals into the new Strategic Plan 2021-2025, aligned with the Paris and Glasgow Summit objectives of limiting the global temperature increase to below 2ºC and achieving climate neutrality by 2050, and with the United Nations Sustainable Development Goals (SDGs).

Following the TCFD taxonomy, climate change risk is derived from two risk factors: the energy transition, arising from changes in regulations, the market or technology, and the physical impacts of climate change, classified into acute physical impacts (increase in extreme weather events) and chronic physical impacts (sustained increase in average temperatures, and sea level rise).

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy in advance to new regulatory developments, and it participates in clean development projects aimed at reducing CO2 emissions.

In 2022, the EC published the REPowerEU Plan, aimed at reducing dependence on fossil fuels from Russia and accelerating the green transition. Naturgy is aligned with the EU's plan and sees the REPowerEU's investment drive as a meaningful opportunity to advance the energy transition.

Climate change risk is discussed in detail in note 2.4.25.k of the Consolidated Annual Accounts and in chapter 6 "The Opportunity of Environmental Challenges" of the Sustainability Report and Non-Financial Information Statement.

Other risks

Financial risks (interest rate, credit, liquidity and rating risk) and legal risks are discussed in Notes 18 and 36, respectively, to the Consolidated accounts.

Tax, compliance, data protection, business continuity, security and fraud risks are discussed in Chapter 5 "Integrity and Trust" of the Sustainability Report and Non-Financial Information Statement. Health & safety and Customer satisfaction risks are discussed in chapter 8 "Commitment and Talent" and chapter 7 "Customer Experience", respectively, of that same report.

Main risks: management, measurement and trends

Risk type		**Description**	**Management approach**	**Metric**		**Trend**
Commodity risk						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Management of the procurement and sale portfolio.	Stochastic	↑↑	Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet and supply structure.	Stochastic	↑↑	Penetration by renewables with zero marginal cost and intermittent production.
Exchange rate risk						
Exchange rate		Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives.	Stochastic	↑	Uncertainty about growth and inflation prospects in Latin America.
Regulatory risk						

Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities and/or regulatory measures to mitigate emerging macroeconomic situations.	Step up communication with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Volume risks						
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic / Stochastic	↑↑	Aggregate demand pressure. Risk of curtailment or interruption of
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume due to resource variability.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Margin/price risk						
Margin/price		Risk created by changes in competitive pressure or margin optimisation scenarios.	Portfolio management by adapting long-term purchase and sale formulas.	Scenarios	↑	Reviews of long-term gas contracts
Legal risk						
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	⇆	The business units are affected by different laws in each country.
Operational risk						
Insurable risks		Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of the total cost of risk and hedges.	Stochastic	↑	Growing tension in the insurance market in the face of the rising frequency and severity of extreme weather events, and cybersecurity claims.
Credit risk						

Credit	Uncertainty associated with the probability of non-payment of monetary obligations and/ or deterioration of the credit quality of end customers and counterparties.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑↑	Increase in expected and unexpected losses due to the probability of default, given the inflation situation and the global energy crisis.
Interest rate risk					
Interest rates	Interest rate volatility on borrowings, both existing debt and refinancing.	Financial hedges. Diversification of funding sources.	Stochastic	↑↑	Uncertainty about interest rate scenarios.
Tax risk					
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same. Approval of unexpected fiscal measures.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Good Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	↑	Different business units are affected by different taxes.
Liquidity, solvency, rating and provision risks					
Liquidity, rating and provision risks	Financial risks associated with maintaining the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of funds due to maintaining provisions.	Establishment of a target rating and ensuring sufficient liquidity to maintain it in the event of a potential adverse scenario.	Scenarios	⇆	Ratification of the target of an investment grade rating in the Business Plan 2021-2025
Security risk					
Security	Residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructures (CI). Engagement with the businesses, Centro Nacional para la Protección de Infraestructuras Críticas (CNPIC), Instituto Nacional de Ciberseguridad (INCIBE-CERT) and other bodies.	Heatmap/ Scenarios	⇆	Certification audits by the regulator (CNPIC) of critical operators, in which technology is of great importance.
Business continuity and crisis management risk					

Business continuity and crisis management risk	Risk of failing to maintain service levels as a result of a shortcoming or failure in processes, systems or staff performance.	Annual internal audit plan Weakness detection. Implementation of improvement actions. Audit and Control Committee.	Heatmap/ Scenarios	↑	Increase in the percentage of material recommendations that are implemented.
Fraud risk					
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.	Control mechanisms through the Global Policy of the Internal Control System over Financial Reporting. Arrangement of hedges in the insurance market	Scenarios	⇆	Maintain low levels of fraud at Naturgy
Cybersecurity risk:					
Cybersecurity	Malicious attacks or accidental events that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios/ Heatmaps	↑	The cybernetic situation is becoming more demanding.Threat protection plan to mitigate the likelihood of these risks and their associated impact.
Data protection risk					
Data protection	Uncertainty associated with breaches of data protection obligations that may result in an administrative sanction or civil judgement.	Action Plan by business area to mitigate the risk associated with each obligation based on priority and criticality. The company operates in line with the requirements of the General Data Protection Regulation (GDPR). Internal audit plan in connection with regular compliance reviews.	Heatmap/ Scenarios	↑	Uncertainty and tightening regulatory requirements.
Environmental risk					

Environment	Possibility that natural phenomena or human action may result in binding regulatory environmental limits being exceeded, resulting in damage to ecosystems or biodiversity.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios/ Heatmaps	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Health and safety risk					
Health and safety	Risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.	Health and safety management system. Safety plan aimed at controlling the six most critical risk factors in terms of accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, load handling, and road safety.	Heatmap/ Scenarios	⇆	Accident rates at partner firms.
Reputational and ESG risk					
Reputational and ESG	Impairment of stakeholders' perception of Naturgy due to environmental, social and governance issues.	Identification and tracking of potential reputation events. Transparency. Control mechanism through the system of Internal Control over Non-Financial Reporting.	Scenarios/ Heatmaps	⇆	Stabilisation of the RepRisk index scores.
Compliance risk					
Reputational and crime risk	Administrative and criminal penalties. Impairment of Naturgy's reputation.	Crime prevention policy, Code of Ethics and Anticorruption Policy. Whistleblower channel. Training.	Heatmap/ Scenarios	↑	Commission of criminal offenses, penalties, financial losses, loss of reputation, contracts and customers.
Counterparty risk	Administrative and criminal penalties. Harm arising from breach of contract.	Counterparty Due Diligence Procedure. Training			
Climate change risk					

Climate change	Uncertainty arising from the energy transition (regulation, markets and/or technologies) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environment Plan, which strengthen governance in climate issues and energy transition targets.	Stochastic/ Scenarios/ Heatmaps	↑	Future technology uncertainty. Increased requirements in connection with the coherence of financial reporting with the company's objectives in connection with mitigating climate change risk.

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.
- Heatmap: the main risk factors for each risk category are assessed to quantify the impact and probability of the identified risks.

2.3. Main opportunities and uncertainties

Naturgy views the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. In this context, and based on the 2021-2025 Strategic Plan, Naturgy's main opportunities are as follows:

- **A focus on stable geographies**, with low risk and strong currencies, making it possible to capture energy demand growth and maximise business opportunities in new markets.
- **Renewable generation**: growth in renewable generation capacity in line with the global energy transition.
- **Operation and growth in Networks,** based on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation**: development of innovation projects in hydrogen and hydrogen blending in gas grids, renewable gas, energy efficiency, sustainable mobility and the just transition.
- **Portfolio of natural gas and LNG procurements**: continuous review and optimization of procurement contracts, continuous risk management to ensure predictable cash flows, and adaptation of the LNG carrier fleet to enhance its flexibility.

There are horizontal uncertainties, such as the macroeconomic context and geopolitical exposure, which materialize and have an impact on many of the risk types described in the previous section.

Uncertainty in the macroeconomic context

In recent years, the global macroeconomic situation has been profoundly altered by the concatenation of two events of unprecedented complexity and depth. First was the emergence and development of the COVID-19 pandemic, and then came the increase in geopolitical tension in Europe as a result of Russia's invasion of Ukraine. Both events triggered a global crisis, and energy was one of the industries most affected, with significant increases in the price of natural gas and oil, the former to well above pre-war levels and with extreme volatility from day to day.

Naturgy is monitoring the current situation by constantly tracking macroeconomic and business variables in order to manage potential risks. The analyses carried out for this purpose assess the indirect impacts of the conflict on the business activity, financial situation and economic performance, with particular reference to the generalized increase in commodity prices and the reduced availability of material supplies from conflict-affected areas.

Naturgy has also taken the appropriate decisions to protect its customers' solvency and that of society as a whole by adopting price containment measures. With respect to gas contracts, a significant portion of the company's long-term procurements have entered their ordinary price review period; in the course of negotiations, the company seeks the best long-term interests of its shareholders, creditors and other stakeholders.

On the regulatory front, both European and national governments have issued regulations to mitigate the consequences of the war on end users of energy. The regulatory framework is described in Appendix IV of the Consolidated Accounts as of 31 December 2022.

External geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments, including notably three main geographies outside the European Union:

– Latin America
Uncertainty factors related to investment and business in Latin America include the influence of national governments on the economy, fluctuating economic growth rates, high levels of inflation and devaluation, depreciation or overvaluation of local currencies, a changing interest rate environment, as well as social tensions and political instability.

– Middle East and Maghreb
Naturgy has 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.

– China and Taiwan
The Asian market is emerging as a major source of geopolitical uncertainty, given the current heavy dependence of processed renewable component supply chains on Chinese exports. Interruptions in the supply of these components, due to transportation and distribution problems or direct import restrictions, might lead to an increase in material costs and delays in the commissioning of renewable energy projects in progress.

3. Corporate governance

Attached as an Appendix and forming an integral part of this Directors' Report are the Annual Report on Corporate Governance 2022 and the Annual Report of Director Remuneration 2022, as required by article 538 of the Capital Companies Act.

Corporate governance model

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

The corporate governance terms of reference comprise basically:

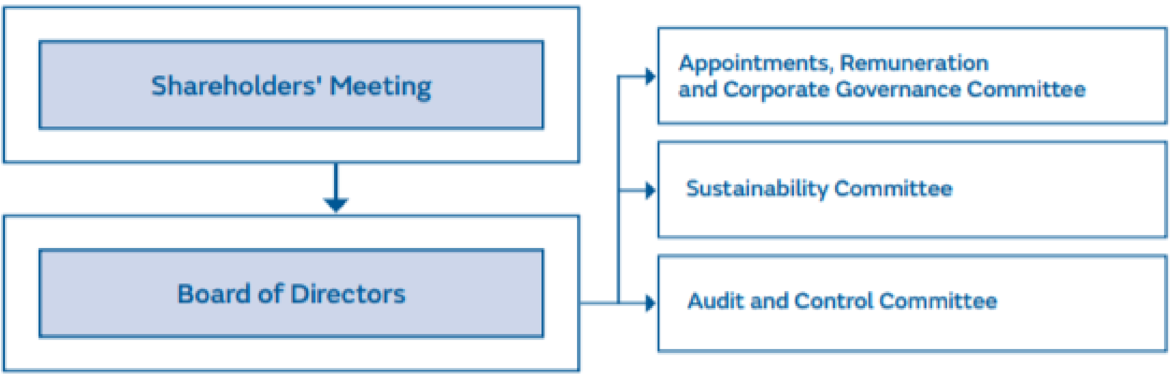
- Articles of Association (adopted in 2018, updated in 2022).
- Regulations of the Board of Directors and its committees (updated in 2022).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2022).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021)

As of 31 December 2022 and 2021, the main shareholders of Naturgy are as follows:

	% interest in share capital	
	2022	2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa" (1)	**26.71**	26.7
- Global Infrastructure Partners III (2)	**20.6**	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	**20.7**	20.7
- IFM Global Infrastructure Fund (4)	**14.0**	12.2
- Sonatrach	**4.1**	4.1

(1) Holding 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 Acquisition S.à.r.l.
(4) Through Global InfraCo O (2) S.à. r.l.

Naturgy's governance structure is as follows:



Shareholders' Meeting

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

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the provisions of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainable Committee, whose functions are substantially as set out in the Act. Independent directors make up the majority of the Audit and Control Committee. All of the Board committees are chaired by independent directors.

The Board of Directors and its committees engage in preventive risk management and consider aspects linked to corporate responsibility. The Board of Directors is highest body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by authorising the respective reports, it reviews and approves the information on risks and opportunities in those areas.

The main issues considered by the Board of Directors and its committees in 2022, in the course of discharging their duties are as follows:

- Monitoring, on an almost biweekly basis, of the trend in gas and electricity commodities in order to adapt the commercial, the procurement and the hedging policy to a changing reality.
- Promotion and supervision of the analysis work on the Gemini Project.
- Specific oversight of investments in renewable generation and regulatory changes.
- Supervision of the financial reporting process.
- Verification of the crime prevention system.
- Supervision of risk control systems and analysis of specific risks.
- Supervision of internal control and internal audit systems.
- The process of filling vacancies through proportional representation of the significant shareholders.
- The new configuration of the Board of Directors' committees in view of the reduction in the number of independent directors.
- Oversight of the sustainability plan with a focus on the climate action plan.
- Implementation of the Internal Control over Non-Financial Reporting (ICNFR) system.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 5 members, the Appointments, Remuneration and Corporate Governance Committee has 5 members, and the Sustainability Committee has 4 members.

The composition of the Board of Directors and its sub-committees on 31 December 2022 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	6/02/2018
Lead director	Ms. Helena Herrero Starkie	Director		Chairman	Independent	04/05/2016
Director	Mr. Enrique Alcántara-García Irazoqui		Director		Proprietary	13/05/2021
Director	Ms. Lucy Chadwick			Director	Proprietary	16/03/2020
Director	Ms. Isabel Estapé Tous			Director	Proprietary	16/03/2020
Director	Mr. Ramón Adell Ramón	Director			Proprietary	11/02/2022
Director	Mr. Rajaram Rao		Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Director		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Director	Chairman		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa	Chairman	Director		Independent	27/06/2018
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director			Proprietary	18/05/2018
Director	Jaime Siles Fernández-Palacios			Director	Proprietary	11/02/2022
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

Management structure

There is only one executive director, to whom the Board has delegated all its functions except those that the law or the Regulation of the Board of Directors do not permit to be delegated.

The executive director has organized Naturgy's management into three business units (Energy and Network Management, Renewables and New Businesses, and Supply) and several corporate units that deal with common and control matters.

As of 31 December 2022, the Management Committee is comprised of the Executive Chairman and the following:

Energy and Network Management Department, headed by Mr. Pedro Larrea Paguaga.
Renewables and New Businesses Department, headed by Mr. Jorge Barredo López.
Supply Department, headed by Mr. Carlos Francisco Vecino Montalvo.
Information Systems Department, headed by Mr. Rafael Blesa Martínez.
Financial Markets Department, headed by Mr. Steven Fernández Fernández.
Planning, Control and Administration Department, headed by Mr. Jon Ganuza Fernandez de Arroyabe.
Company Secretariat and Secretariat of the Board of Directors, headed by Mr. Manuel García Cobaleda.
Sustainability, Reputation and Institutional Relations Department, headed by Mr. Jordi García Tabernero.
People and Organization Department, headed by Mr. Enrique Tapia Lopez.

Additionally, there are specific Committees for different matters, highlighting the Energy Balance, Risk and Marketing Committee, made up of most of the members of the management committee and part of the managers directly dependent on them, in order to monitor the evolution of energy commodities, both in the field of gas and electricity, the evolution of the indices. Said Committee, in addition to monitoring, has assumed the role of making purchase, sale or hedging decisions, which corresponded to the management level or has made proposals in the event that, due to the level of competence, they corresponded to the Board of Directors.

4. Forecast Group Performance

4.1. Vision

Strategic pillars

On July 28, 2021, Naturgy presented the **2021-2025 Strategic Plan**, which addresses a new stage that aims to promote our industrial growth while maintaining financial discipline and taking advantage of the opportunities of the energy transition; and to become a best-in-class reference operator through the digitization of processes.

The new plan is based on five solid pillars to promote Naturgy's transformation:

1. Growth
2. Focus
3. *Best-in-class*
4. ESG (**E**nvironment, **S**ociety and **G**overnance)
5. Culture

Growth

Our growth aims to be mainly organic, consistent with the energy transition and capable of taking advantage of asset rotation to accelerate the transformation.

- Mainly organic, maintaining capital discipline.
- Consistent with the energy transition.
- Opportunistic asset rotation to accelerate transformation.

Focus

We focus on renewable projects in early stages of development and stable geographies; also in network projects, with a prominent role of digitization and a stable regulatory framework.

- Renewables and networks.
- Stable geographies and regulatory frameworks.
- Volatility reduction in procurement commitments.

Best-in-class

We are committed to continuous improvement, increasing the digital footprint and reinventing relationships with our customers.

- Continuous improvement.
- Increasing digital footprint.
- Reinventing customer relationships.

ESG

We have a firm commitment to environmental and social matters. Our roadmap includes a Sustainability Plan with solid objectives in the environmental, social and governance fields, thus integrating ESG into the core of the company.

- Embedded at the core
- Aligned with SDG (sustainable development goals).
- Tangible targets to meet commitments.

Culture

Our corporate culture must intensify the passion of our professionals, allow us to establish our values and be aligned with our stakeholders.

- Fueling passion on our employees.
- Solidifaying core values.
- Aligned with stakeholders.

Key investment objectives

In economic matters, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of **14,000 million euros.**

This investment is established by maintaining financial discipline as a pillar and focusing on projects with predictable returns. On the other hand, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance, thus being aligned with the energy transition.

The investment is distributed as follows:

Renewables

Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
  - Distributed generation.
  - Biogas and hydrogen.
  - Sustainable mobility.

Networks

Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adapting existing infrastructures to play a key role in energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitments to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse ourselves as a responsible company with the energy transition.

Our 2025 objectives in ESG are the following:

Environment

Net Zero by 2050

- Reduce total CO_2 emissions by 24% (2025 vs 2017).
- Protect Biodiversity, reaching a figure of more than 350 projects to preserve ecosystems.

Social

Gender parity by 2030

- Enhace diversity, reaching more than 40% of women in management positions.
- Extending ESG throughout supply chain up to 95%.

Governance

Management compensation aligned with ESG

- Variable pay of 10% linked with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leadership positions in the sustainability indices.

4.2. Roadmap

Based on these strategic pillars, a roadmap is developed that is specified in economic objectives for each of the businesses.

Renewables

It is defined for the renewable business a growth strategy based on:

1. 1. Stable geographies

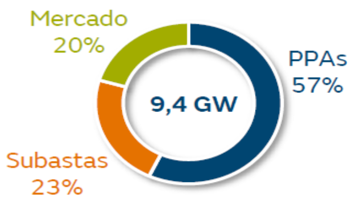
- Low risk and hard currency
- Solid regulatory frameworks
- Long-term visibility

2. 2. Proven technologies

- Solar PV, onshore wind and storage
- 14 GW in operation by 2025
- Tangible pipeline with visibility

3. Customer base as a natural hedge

Balancing risks with new capacity (4.6 GW in 2020 to 14.0 GW in 2025)



New installed capacity

Networks

The following key transformation initiatives are defined for the network business:

1. Spain Electricity networks

- At the forefront of electricity networks digitalization
- Increasing investment commitments in line with sector requirements

2. Spain gas networks

- Networks digital transition to ensure bes-in-class operations
- Commercial repositioning
- Accelerating contribution to decarbonization

3. LatAm networks

- portfolio management
- Investments to guarantee maintenance and safety standards

Energy management

The following key transformation initiatives are defined for the energy management business:

1. Markets and procurements

- Progressive downsizing of procurements commitments
- Ongoing review and optimization of procurement contracts (oil to hub indexation transition)

2. International LNG

- Risk management to ensure predictable cash flows
- Downsizing of LNG tanker fleet under time charter
- Exploring value alternatives

3. Spain thermal generation

- Remote operation and bottom-up process review of CCGT fleet
- Mothballing of non-performing CCGTs
- Working on hybridization alternatives
- Proactive regulatory management (system back-up)

4. LatAm thermal generation

- New opportunities for excess capacity over PPAs
- Cost and investments efficiency
- Exploring value alternatives for Mexico CCGTs

Supply

The following key transformation initiatives are defined for the marketing business:

1. Boost competitiveness

- Market positioning
- Integrated energy offering
- Refocusing of distribution channel strategy, including additional third party agreements
- Enhance profitability

2. Reinvent customer relationships

- Redefined customer service
- Enhanced data analysis and customer segmentation
- Increased loyalty through customer value management

3. Accelerate digital transformation

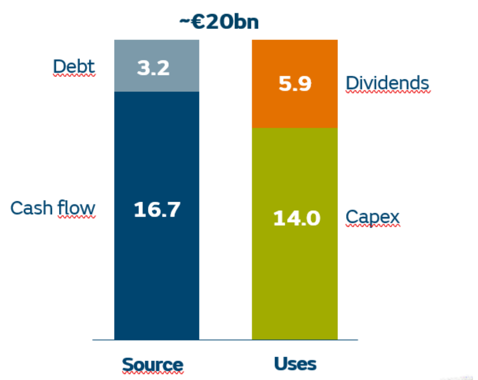
- Transition to a new, simpler and integrated digital platform
- Enhanced efficiency in every single operating process

4.3. Summary

Dividend policy and capital allocation

The dividend policy is set with the aim of maintaining a solid BBB rating throughout the period. In this way, a dividend of 1.20 euros per share per year is established, which will be reassessed in 2023 depending on the performance and execution of the transformation.

The allocation of capital for the period 2021-2025 detailed between origins and uses is as follows:



5. Sustainable innovation

Management vision and approach

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It enables us to reduce our dependence on imported energy, improve our trade balance and move towards a prosperous modern economy. In this global context, meeting the challenge of climate neutrality requires the energy system to be transformed. Achieving this objective calls for a cross-cutting vision, moving from the conventional approach, in which the main energy uses (electricity, space heating, industrial heat, transportation) were analysed and managed individually, to a smart industry integration that flexibly combines renewable generation, storage, demand-side management and renewable fuel generation to optimize energy resources. This new energy model must be supported by:

- **Innovation**, which is a key lever for growth as it enables the adoption of best practices, new business models and technological solutions that contribute to process digitalization, automation and optimization, guaranteeing security and operational improvement and facilitating access to information for better decision-making, the aim being to create value and ensure the company's competitiveness over the long term. Always at the forefront and putting the customer at the centre of all its efforts.
- **Optimization of renewable energy generation** through innovative systems due to their superior energy efficiency; their ability to be integrated into the environment at a lower cost or with greater reliability. This will attract new players into the system to cover part of the energy needs of households, SMEs and public administrations.
- The **direct use of energy through** manageable **electricity consumption that provides flexibility i**n, for example, air conditioning and mobility, as well as through **storage** for use later as electricity or heat, in daily or seasonal storage systems.
- The generation of **renewable gases**, such as **renewable hydrogen and biomethane**, for end uses where electrification is neither technically nor economically feasible. Hydrogen is an efficient and immediate decarbonization solution for intensive industry and transportation. In addition, the fact that it is an energy vector gives it great potential for energy storage and sectoral integration. Similarly, biomethane can replace natural gas without incurring abatement costs to adapt infrastructures or equipment.
- The **response to increasingly atomized markets**, with small, fast competitors, in both supply and generation, through smaller renewable plants that are closer to the point of consumption.

On this basis, Naturgy is undertaking an extensive investment program in renewable energies as a result of the 2021-2025 Strategic Plan and developing new lines of business in areas such as renewable gases, hydrogen and biomethane, storage and sustainable mobility; all of this to provide a broad range of value-added services and promote sustainable innovation as a driver of development. One example are the additional investment opportunities under the Next Generation EU programme focused on renewable gases, with projects such as La Robla and Meirama (green hydrogen plants), a network of hydrogen stations along Spain's main heavy goods transport routes, and the blending of hydrogen and natural gas in turbines and cogeneration engines.

Investment in innovation

In 2022, a total of Euros 58.9 million were spent on innovation (Euros 59 million in 2021), as indicated below:

	2022	2021
Investment in innovation	58.9	59

Main lines of innovation

The main lines of innovation on which Naturgy is currently working are described below:

Renewable gases

Basing the decarbonization of the economy predominantly on a high level of electrification supported by renewable energies presents technical limitations in certain energy-intensive industries, such as manufacturing and transportation.

Since electrification cannot cover the total energy demand, further integration of the electricity and gas sectors is an effective solution to achieve the decarbonization goals through the complementarity of renewable gases, gas infrastructure and electricity. The gas grid currently has considerable storage capacity and a reach and capillarity that enable it to transport large amounts of energy to where it is consumed; these aspects are essential for using renewable gases to decarbonize energy end-use at all points where natural gas is currently consumed.

The development of renewable gases, biomethane and hydrogen, is one of the strategic vectors of Naturgy's business and climate action plan, the aim being to significantly reduce greenhouse gas (GHG) emissions in the company's carbon footprint, to decarbonize the economy and create jobs in the areas affected by the closure of coal-fired power plants in 2018-2020 and, finally, to decarbonize all gas-consuming sectors, such as manufacturing, the residential sector and transport, focusing on the creation of green jobs in rural areas, in line with Spain's strategy against depopulation.

Renewable gases are present in the REPowerEU Plan, which aims to rapidly reduce dependence on Russian fossil fuels and advance the ecological transition. In this energy context, as one of the main operators of basic natural gas infrastructures, Naturgy has adopted a leading role to drive the development of the renewable gas value chain.

Biomethane

The production of renewable biomethane from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a supplementary source of income for rural areas.

Naturgy is working on a portfolio of projects throughout the integrated value chain, including waste management, and biogas and biomethane production, distribution and supply.

Naturgy has experience in producing renewable gas on a commercial scale, acquired in projects conducted in recent years such as the Elena landfill, the Methamorphosis project in Vilasana (Lleida), and the Bens (A Coruña) wastewater treatment plant (WWTP).

Naturgy currently has a portfolio of 43 projects under way for producing biogas and upgrading to biomethane for injection into the natural gas grid:

- 9 projects using livestock waste (1,384 GWh/year).
- 4 projects using WWTP sludge (170 GWh/year).
- 21 industrial waste projects (673 GWh/year).
- 5 projects using the organic fraction of municipal solid waste (221 GWh/year).
- 4 projects using agricultural waste (299 GWh/year).

Hydrogen

Despite its usage difficulties, availability and technology cost, renewable hydrogen has a promising future. The REPowerEU Plan has reinforced Spain's roadmap, which sets a target of 4 GW of installed electrolysis capacity by 2030, i.e., 10% of the target set by the European Union. The support of government and the private sector will be essential for the implementation of large-scale projects to attain the expected technology path.

The renewable hydrogen value chain is at an incipient stage, with pilot projects to replace hydrogen obtained from fossil or other fuels. Not all sectors of the economy will adopt hydrogen at the same pace, due to the differences between uses and availability and to the cost of the end equipment.

Royal Decree 376/2022, which establishes a system of Guarantees of Origin (GoOs) for renewable hydrogen, their definition and the conditions for their issuance, will drive its deployment among industrial users with significant decarbonization needs, where electrification is difficult and whose location does not coincide exactly with the production site.

Green hydrogen is an energy vector capable of:

- Channelling large amounts of renewable energy from power generation to sectors where electrification is not a feasible option.
- Storing and managing energy on a massive scale over long periods of time, matching energy supply and demand.

Naturgy has been researching the development of hydrogen for years, as Spain's renewable energy potential, existing infrastructure and geostrategic position mean that the country has all the potential to become a hydrogen exporter in the future. Naturgy, an essential player in energy transmission and distribution, can contribute its global capacity and know-how throughout the value chain. This new energy can be exported via the current gas infrastructure, which would allow integration between the electricity and gas grids, resulting in a more efficient and resilient energy system.

In 2022, Naturgy worked on developing:

- Large renewable hydrogen production hubs linked to areas of just transition, especially in areas affected by the closure of thermal power plants, with the objective of driving the development of new markets for direct use by industry, injection into the gas grid for supply with guarantees of origin, mobility, and the production of H2 derivatives.
- Onsite hydrogen production projects linked to electro-intensive industries that are difficult to electrify; one project being undertaken with a cement producer proposes to capture part of the CO2 from the process and mix it with green hydrogen to produce methanol.

Storage

The geopolitical situation and the current energy crisis have further boosted renewable energy. Under Spain's Integrated National Energy and Climate Plan (PNIEC), renewables will account for 74% of the energy mix by 2030, but current European policies have triggered a revision of the PNIEC and its targets, to be released shortly, so as to step up the level of ambition, particularly in wind and photovoltaic.

This presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production, and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply, and the main challenge is managing and integrating storage in both the electricity and balancing markets. This requires the development of new operating systems that will play a vital role in those projects' optimization and economic viability.

Naturgy has a potential portfolio of projects in excess of 200 MW for the next few years, of which more than 80 MW are already in the permitting process. These projects are being developed with Spanish technology partners and research centres, the aim being to create employment and strengthen the business fabric throughout the projects' value chain.

Work advanced on a number of initiatives in 2022:

- **Hybridization projects at power plants**, mainly wind and photovoltaic farms. The hybridization of storage with generation will enable the Spanish electricity grid to manage the renewable energy that is fed in, providing flexibility and firm capacity to the system.
- Deployment of **stand-alone storage** in key areas due to grid congestion or loss of firm capacity as a result of the closure of thermal power plants. At the technological level, the challenges are similar to those of hybridization projects in wind farms, mainly managing the control system to achieve optimal performance.
- Development of a **new storage model** to optimize, both economically and technically, the implementation of hybridized systems with storage in small power plants located in close proximity. Since there is currently no regulatory framework, it will be developed in the context of a regulatory test bed.

As the energy transition is one of the pillars of the Recovery Funds, significant support is expected for this type of project in order to accelerate the implementation of this new technology.

Sustainable mobility

In 2022, Naturgy maintained its commitment to sustainable mobility based on a range of technologies.

In gas, the infrastructure of natural gas vehicle (NGV) refuelling stations for public use continued to be rolled out at a national level, oriented towards a transformation to BioGNV, which is a growth vector for the energy transition in heavy goods transport.

In relation to electric mobility, recharging products for retail and industrial customers have been expanded, and significant progress has been made thanks to regulatory support and high demand. The minimal noise production and the zero local emissions of greenhouse gases such as CO2 and other substances such as particulates and NOx make this the most suitable technology for transporting people in urban areas as it does not affect air quality.

The most notable initiatives undertaken in 2022 include:

- Signature of the first contract covering **biomethane for vehicles**. Naturgy has agreed to supply up to 2GW/year of biomethane for water-cooler service company Aquaservice's last-mile delivery fleet. This fuel substitution will contribute to reducing emissions by up to 350 tCO2/year, which is equivalent to taking 53,000 vehicles off the road in a city for one day. The biomethane comes from Naturgy's production facility at the Elena landfill.
- Supply of **renewable gas to the first bus** in Zaragoza. In partnership with the Zaragoza Area Transport Consortium, Automóviles Zaragoza, Scania and Calvera, Naturgy supplied 150 MWh of biomethane obtained by upgrading biogas from slurry digestion at the company's plant in Vilasana (Lleida). This biomethane was used to power a city bus, which ran for three months on the Zaragoza – Villamayor de Gállego route.

- Alliance for the development of **hydrogen mobility**. Signature of an agreement with Enagás subsidiary Scale Gas and Exolum to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector throughout the country. This is the first major hydrogen alliance for mobility corridors. The project will be called Win4H2. This agreement includes the development of a network of 50 hydrogen plants, which will offer homogeneous penetration of this energy vector in Spain, so that any user can opt for the green hydrogen solution with guaranteed supply at any point in mainland Spain.
- Signature of the **protocol to promote decarbonization policies in the Madrid Autonomous Region**, which seeks, among other objectives, to promote the deployment of electric recharging infrastructure.
- Collaboration with **FUTURED,** the platform of Spanish electricity grids, on electric mobility.

6. Non-financial information statement

The non-financial information statement for the year 2022, 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 2022”, 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 2022 and 2021 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2021	**35,773**	**1**	**—**
Share Acquisition Plan	127,453	3	—
At 31 December 2021	**163,226**	**4**	**—**
Share Acquisition Plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
At 31 December 2022	**55,898**	**1**	**—**

In 2022 and 2021, no gains or losses were made on transactions involving the Company’s treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted 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 involving the treasury shares of Naturgy Energy Group, S.A. relate to:

2022

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in December 2021. 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. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares has been added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

2021

- Share acquisition plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan in January 2022.

7.2. Disclosure of delays in payment to suppliers

The average payment period is calculated in accordance with Law 15/2010, which establishes measures to combat late payment in commercial operations, as well as the modifications established in Law 18/2022, of September 28, creation and growth of companies.

Pursuant to the above regulations, the information to be included in the Annual Accounts report in relation to the average payment period to suppliers in commercial operations is as follows:

	2022	2021
	Amount	**Amount**
Total payments (thousand euro)	1,291,884	615,883
Total outstanding payments (thousand euro)	21,081	13,528
Average supplier payment period (days) (1)	26	38
Transactions paid ratio (days) (2)	27	38
Transactions pending payment ratio (days) (3)	23	40
Total payments within the period established in the default regulations (thousands of euros) (4)	1,183,136	—
% of the amount paid within the period established in the default regulations with respect to the total amount paid (4)	91.58 %	—
Number of invoices paid within the period established in the default regulations (4)	11,785	—
% of invoices paid within the period established in the default regulations with respect to the total invoices paid (4)	91.67 %	—

(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.

(4) Information requirement established by Law 18/2022.

In 2021, Group company suppliers were not included in the calculation. If these suppliers were included, the average payment period would be 30 days.

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

The Annual Corporate Governance Report for the year 2022 of the Company is included as an Annex to the consolidated Management Report of Naturgy, in accordance with the provisions of Article 49.4 of the Commercial Code and in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).

9. Annual Directors' Remuneration Report

The Annual Directors' Remuneration Report for the year 2022 is included as an Annex to the consolidated Directors' Report of Naturgy, in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).