# Naturgy Energy Group, S.A.
# Annual Report
# **2019**

Naturgy

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Annual Report I **2019**

# Summary

Naturgy Energy Group, S.A.
Annual Report I **2019**

# Audit Report, Annual Accounts

# Audit Report

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Building a better working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of Naturgy Energy Group, S.A.:

## Audit report on the financial statements

### Opinion

We have audited the financial statements of Naturgy Energy Group, S.A. (the Company), which comprise the balance sheet at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

### Basis for Opinion

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

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

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

### Key audit matters

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

Assessment of the recovery of the book value of long-term investments in group companies and associates

| | |
|---|---|
| Description | As detailed in Note 7 to the accompanying financial statements, the Company shows long-term investments in group companies and associates amounting to 16,552 million euros.<br><br>The determination of the recoverable amounts of the long-term investments in group companies and associates is based on estimates that require Management to use cash flow projections based on current results. These cash flows are calculated based on the 2018-2022 Strategic Plan approved by the Board of Directors updated by the most recent budgets possible, whose key assumptions are detailed in Note 4 to the accompanying financial statements. Additionally, Management have made a sensitivity analysis of the most significant assumptions that, based on historical experience, may reasonably experience some variations.<br><br>As a result of the aforementioned analyses, Company Management have recorded a net impairment loss amounting to 320 million euros (Note 7).<br><br>Given the significance of the balance of the 'Long-term investments in group companies and associates' heading and the existence of significant estimates regarding the key assumptions used in the calculations made by Management, we consider this area a key audit matter. |
| Our response | Our audit procedures for this area consisted, among others, in:<br><br>▶ Understanding the processes established by Company Management in the determination of the impairment of long-term investments in group companies and associates, including the assessment of the design and implementation of relevant controls.<br><br>▶ Reviewing whether any indications of impairment exist and, where appropriate, reviewing the model used by Company Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Company Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Company Management.<br><br>▶ Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting. |

Transfer of UFD Distribución Electricidad, S.A.

| | |
|---|---|
| Description | As indicated in Note 7 to the accompanying financial statements, on November 27, 2019 the Company sold 100%of the shares it held in UFD Distribución Electricidad, S.A. for an amount of 5,170 million euros, in accordance with their fair value. The shares were sold to Holding Negocios de Electricidad, S.A., a wholly-owned subsidiary of the Company that was incorporated in the current year and became the parent of the electricity distribution activities in Spain. Additionally, in accordance with section 1 of Recognition and Measurement Standard 21 of the Spanish General Accounting Plan, the transaction carried out was recorded at fair value and generated profit of 3,539 million euros.<br><br>Given the significance of the amounts involved in this transaction, we have considered this area a key audit matter. |

# Audit Report

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**Our response**

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

- Reviewing the sale agreement reached for the transfer of a 100%ownership interest in the electricity distribution business in Spain.
- Reviewing, by involving our transaction experts, the valuation report prepared by the financial advisor on the fair value established for this transaction in the sale agreement.
- Reviewing the intra-group agreements associated with this transaction.
- Verifying the accounting treatment followed by the Company for recording the transaction.
- Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

## Other information: Management Report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information included in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which solely requires us to verify that said information has been included in the management report and, if not, that the reference corresponding to the separate report on non-financial information as provided for by the regulations has been included therein, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on the knowledge of the entity we obtained while auditing the financial statements, not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the information referred to in paragraph a) above is provided in the management report, and that the remaining information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

# Audit Report



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

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

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

## Report on other legal and regulatory requirements

### Additional report for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Company on February 6, 2020.

### Term of engagement

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

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

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Alfredo Eguiagaray

February 6, 2020

## Balance sheet_

(million euro)

| | **31.12.19** | 31.12.18 |
|---|---|---|
| **Non-current assets** | **33,257** | **31,317** |
| Intangible assets *(Note 5)* | 3 | 32 |
| Goodwill | -- | 27 |
| Other intangible assets | 3 | 5 |
| Property, plant and equipment *(Note 6)* | 124 | 141 |
| Land and buildings | 112 | 127 |
| Other property, plant and equipment | 12 | 14 |
| Long-term investments in Group companies and associates *(Note 7)* | 32,754 | 30,894 |
| Equity instruments | 16,552 | 15,237 |
| Loans to companies | 16,202 | 15,657 |
| Long-term investments *(Note 8)* | 10 | 17 |
| Equity instruments | 5 | 5 |
| Other financial assets | 5 | 12 |
| Other non-current assets *(Note 14)* | 189 | 81 |
| Deferred tax assets *(Note 17)* | 177 | 152 |
| **Current assets** | **2,708** | **2,225** |
| Trade and other receivables *(Note 9)* | 843 | 661 |
| Trade receivables for sales and services | 54 | 101 |
| Trade receivables, Group companies and associates | 255 | 366 |
| Sundry receivables | 350 | 129 |
| Current tax assets | 183 | 65 |
| Other amounts receivable to Public Administrations | 1 | -- |
| Short-term investments in Group companies and associates *(Note 7)* | 666 | 797 |
| Loans to companies | 527 | 740 |
| Other financial assets | 139 | 57 |
| Short-term investments *(Note 8)* | 24 | 44 |
| Derivatives | 1 | 8 |
| Other financial assets | 23 | 36 |
| Short-term prepayments and accrued expenses | 1 | 1 |
| Cash and cash equivalents *(Note 10)* | 1,174 | 722 |
| Cash at banks and in hand | 474 | 722 |
| Other cash equivalents | 700 | -- |
| **Total assets** | **35,965** | **33,542** |

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

## Balance sheet_

(million euro)

| | 31.12.19 | 31.12.18 |
|---|---|---|
| **Equity *(Note 11)*** | **19,853** | **17,226** |
| **Shareholders' funds** | **19,914** | **17,253** |
| Capital | 984 | 1,001 |
| Authorised capital | 984 | 1,001 |
| Share premium | 3,808 | 3,808 |
| Reserves | 11,573 | 8,009 |
| Legal and statutory | 300 | 300 |
| Other reserves | 11,273 | 7,709 |
| Treasury shares | (121) | (121) |
| Profit/(loss) for the year | 4,415 | 5,282 |
| Interim dividend | (754) | (730) |
| Other equity instruments | 9 | 4 |
| **Value change adjustments** | **(61)** | **(27)** |
| Hedging operations | (61) | (27) |
| **Non-current liabilities** | **11,892** | **13,085** |
| Long-term provisions *(Note 12)* | 459 | 478 |
| Long-term post-employment obligations | 272 | 256 |
| Other provisions | 187 | 222 |
| Long-term borrowings *(Note 13)* | 1,835 | 2,040 |
| Bank borrowings | 1,744 | 1,985 |
| Derivatives | 90 | 54 |
| Other financial liabilities | 1 | 1 |
| Amounts owing to Group companies and associates falling due in more than one year *(Note 15)* | 9,197 | 10,273 |
| Deferred tax liabilities *(Note 17)* | 211 | 212 |
| Other liabilities | 189 | 81 |
| Long-term accruals and deferred income | 1 | 1 |
| **Current liabilities** | **4,220** | **3,231** |
| Short-term borrowings *(Note 13)* | 271 | 246 |
| Bank borrowings | 253 | 233 |
| Derivatives | 16 | 9 |
| Other financial liabilities | 2 | 4 |
| Amounts owing to Group companies and associates falling due in less than one year *(Note 15)* | 3,168 | 2,283 |
| Trade and other payables *(Note 16)* | 780 | 701 |
| Trade payables | 237 | 249 |
| Trade payables, Group companies and associates | 131 | 267 |
| Sundry payables | 355 | 129 |
| Personnel (outstanding remuneration) | 36 | 29 |
| Other amounts payable to Public Administrations | 21 | 27 |
| Short-term prepayments and accrued expenses | 1 | 1 |
| **Total equity and liabilities** | **35,965** | **33,542** |

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

## Income statement _

(million euro)

| | **2019** | 2018 |
|---|---|---|
| Revenue *(Note 18)* | 3,496 | 4,527 |
| Sales | 1,745 | 3,464 |
| Income from equity instruments of Group companies and associates *(Note 7)* | 1,361 | 547 |
| Income from marketable securities and other financial instruments of Group companies and associates | 390 | 516 |
| Raw materials and consumables *(Note 19)* | (1,743) | (3,470) |
| Consumption of goods | (1,738) | (3,464) |
| Raw materials and other consumables | (5) | (6) |
| Other operating income *(Note 22)* | 255 | 380 |
| Supplementary income and other operating income | 255 | 379 |
| Operating grants released to the income statement | -- | 1 |
| Personnel expenses *(Note 20)* | (173) | (262) |
| Wages, salaries and related expenses | (148) | (215) |
| Social Security | (17) | (33) |
| Provisions | (8) | (14) |
| Other operating expenses *(Note 21)* | (202) | (315) |
| External services | (200) | (304) |
| Taxes | (1) | (2) |
| Impairment losses and variation in trade provisions | (1) | (9) |
| Fixed asset depreciation/amortisation *(Notes 5 and 6)* | (48) | (98) |
| Impairment and results on disposals of fixed assets | 3,241 | 5,025 |
| Gain/(loss) on disposals of tangible fixed assets *(Note 6)* | 1 | 1 |
| Impairment of and losses from equity instruments of Group companies and associates *(Note 7)* | (320) | (4,565) |
| Gain/(loss) on disposals of equity interests in Group companies and associates *(Note 7)* | 3,560 | 9,589 |
| **Operating profit/(Loss)** | **4,826** | **5,787** |
| Financial income | 11 | 30 |
| Negotiable securities and other financial instruments | 11 | 30 |
| - In third parties | 11 | 30 |
| Financial expenses | (483) | (536) |
| Borrowings from Group companies and associates | (444) | (464) |
| Borrowings from third parties | (39) | (72) |
| Variation in fair value of financial instruments | (5) | 8 |
| Investments | (5) | 8 |
| Exchange differences | (2) | (8) |
| Impairment and gains/(losses) on disposals of financial instruments | -- | 1 |
| Impairment due to disposals of financial instruments | -- | 1 |
| **Net financial income *(Note 23)*** | **(479)** | **(505)** |
| **Profit/(Loss) before taxes** | **4,347** | **5,282** |
| Income tax *(Note 17)* | 68 | -- |
| **Profit of the year** | **4,415** | **5,282** |
| Basic and diluted earnings per share in euro | 4.52 | 5.29 |

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

## Statement of changes in equity_

(million euro)

**A) Statement of recognised income and expense**

| | **2019** | 2018 |
|---|---|---|
| **Profit for the year** | **4,415** | **5,282** |
| **Income and expense recognised directly in equity** | **(75)** | **(2)** |
| Cash-flow hedges | (54) | (28) |
| Actuarial gains and losses and other adjustments *(Note 12)* | (48) | 24 |
| Tax effect *(Note 17)* | 27 | 2 |
| **Releases to income statement** | **6** | **1** |
| Cash-flow hedges | 8 | 1 |
| Tax effect *(Note 17)* | (2) | -- |
| **Total income and expense recognised in equity** | **4,346** | **5,281** |

**B) Total statement of changes in equity**

| | Share capital | Share premium | Reserves | Treasury shares | Profit or loss brought forward | Profit for the year | Interim dividend | Other instruments | Value change adjustments | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1.1.2018** | **1,001** | **3,808** | **7,971** | **--** | **--** | **1,023** | **(330)** | **--** | **(7)** | **13,466** |
| Total recognised income and expense | -- | -- | 15 | -- | -- | 5,282 | -- | 4 | (20) | 5,281 |
| Operations with shareholders or owners | | | | | | | | | | |
| - Dividend distribution *(Note 11)* | -- | -- | -- | -- | (670) | -- | (730) | -- | -- | (1,400) |
| - Trading in treasury shares *(Note 11)* | -- | -- | -- | (121) | -- | -- | -- | -- | -- | (121) |
| Other changes in equity *(Note 11)* | -- | -- | 23 | -- | 670 | (1,023) | 330 | -- | -- | -- |
| **Balance at 31.12.2018** | **1,001** | **3,808** | **8,009** | **(121)** | **--** | **5,282** | **(730)** | **4** | **(27)** | **17,226** |
| Total recognised income and expense | -- | -- | (40) | -- | -- | 4,415 | -- | 5 | (34) | 4,346 |
| Operations with shareholders or owners | | | | | | | | | | |
| - Capital reduction *(Note 11)* | (17) | -- | (383) | 400 | -- | -- | -- | -- | -- | -- |
| - Dividend distribution *(Note 11)* | -- | -- | -- | -- | (565) | -- | (754) | -- | -- | (1,319) |
| - Trading in treasury shares *(Note 11)* | -- | -- | -- | (400) | -- | -- | -- | -- | -- | (400) |
| Other changes in equity *(Note 11)* | -- | -- | 3,987 | -- | 565 | (5,282) | 730 | -- | -- | -- |
| **Balance at 31.12.2019** | **984** | **3,808** | **11,573** | **(121)** | **--** | **4,415** | **(754)** | **9** | **(61)** | **19,853** |

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

## Cash-flow statement_

(million euro)

| | 2019 | 2018 |
|---|---|---|
| **Profit for the year before tax** | **4,347** | **5,282** |
| **Adjustments to results** | **(4,500)** | **(5,461)** |
| Fixed asset depreciation/amortisation *(Notes 5 and 6)* | 48 | 98 |
| Impairment adjustments | 320 | 4.574 |
| Change in provisions | (35) | 11 |
| Profit/(loss) on write-offs and disposals of fixed assets | (1) | (2) |
| Profit/(loss) on write-offs and disposals of financial instruments | (3,560) | (9,589) |
| Financial income | (1,762) | (1,093) |
| Financial expenses | 483 | 536 |
| Exchange differences | -- | 8 |
| Variation in fair value of financial instruments | 5 | (8) |
| Other income and expenses | 2 | 4 |
| **Changes in working capital** | **(279)** | **(180)** |
| Debtors and other receivables | (380) | (110) |
| Creditors and other payables | 101 | (70) |
| **Cash-flows from operating activities** | **2,206** | **1,292** |
| Interest paid | (395) | (523) |
| Dividends received | 1.967 | 1.172 |
| Interest collected | 402 | 539 |
| Income tax collections/(payments) | 232 | 104 |
| **Cash-flows from operating activities** | **1,774** | **933** |
| **Amounts paid on investments** | **(7,568)** | **(14,894)** |
| Group companies and associates | (7,452) | (14,883) |
| Intangible assets | -- | (1) |
| Property, plant and equipment | (4) | (10) |
| Other financial assets | (112) | -- |
| **Amounts collected from divestments** | **8,383** | **17,709** |
| Group companies and associates | 8,372 | 17,675 |
| Property, plant and equipment | 2 | 5 |
| Other financial assets | 9 | 29 |
| **Cash-flows from investing activities** | **815** | **2.815** |
| **Collections and payments on equity instruments** | **(406)** | **(110)** |
| Acquisition of own equity instruments | (406) | (416) |
| Disposal of own equity instruments | -- | 306 |
| **Collections and payments financial liability instruments** | **(412)** | **(3.069)** |
| Issuance | 6,639 | 8,431 |
| Bank borrowings | 3 | 178 |
| Payables to Group companies and associates | 6,528 | 8,252 |
| Other payables | 108 | 1 |
| Repayment/redemption of | (7,051) | (11,500) |
| Bank borrowings | (226) | (2,083) |
| Payables to Group companies and associates | (6,807) | (9,381) |
| Other payables | (18) | (36) |
| **Dividend payments** | **(1,319)** | **(1,400)** |
| **Cash-flow from financing activities** | **(2,137)** | **(4,579)** |
| **Net increase/decrease in cash or cash equivalents** | **452** | **(831)** |
| Cash and cash equivalents at the beginning of the year | 722 | 1,553 |
| Cash and cash equivalents at the year-end | 1,174 | 722 |

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

# Notes to the Annual Accounts for 2019_

# Notes to the Annual Accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2019_

## Note 1. General information

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

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

> 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.
>
> 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 is, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

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

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

## Note 2. Basis of presentation

The Company's Annual Accounts for 2018 were approved at the annual general meeting of shareholders on 5 March 2019.

The Annual Accounts for 2019, which were drawn up and signed by the Company's Board of Directors on 4 February 2020, will be submitted to the general shareholders' meeting for approval; they are expected to be approved without any changes.

The accompanying Annual Accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) and Royal Decree 602/2016 (2 December), so as to present fairly the Company's equity and financial position at 31 December 2019, and the results, changes in equity and cash-flows of the Company for the year then ended.

At 31 December 2019, the Company recorded goodwill which was negative by Euros 1,512 million. In this respect, the Company's liquidity statements envisaged for the coming year together with the amounts available under credit lines will ensure coverage of the goodwill.

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

The Consolidated Annual Accounts of Naturgy for 2019 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) No. 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** | 41,138 |
| Equity attributed to the parent company | 10,551 |
| Non-controlling interests | 3,425 |
| Revenue | 23,035 |
| Profit after tax attributed to the parent Company | 1,401 |

## Note 3. Accounting policies

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

### 3.1. Intangible assets

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

#### a) Goodwill

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

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

The impairment of goodwill cannot be reversed.

#### b) Other intangible assets

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

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

Research expenditure is recognised in the income statement when incurred.

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

## 3.2. Property, plant and equipment

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

### a) Cost

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

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

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

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

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

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

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

### b) Depreciation

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

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

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

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

## 3.3. Asset impairment

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

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

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

For investments in Group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), which have required an analysis of potential impairment losses, the cash-flows employed are based on the Strategic Plan approved by the Company, updated where appropriate by the most recently approved budgets and extended to a maximum total of five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash-flows after the five-year projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business and country in which they operate. In all cases, they are lower than the growth rates stated in the Strategic Plan. 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 estimated inflation for the period 2021 to 2045 according to 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: Taking into account the 10-year bond in the CGU reference market and studies by the European Central Bank and the Bank of Spain, among others.
- Market risk premium: Premium based on studies by the European Central Bank and the Bank of Spain, among others.
- Deleveraged Beta: According to average of each sector in each case, obtained from Bloomberg.
- Local current interest rate swaps: 10-year swap, obtained from Bloomberg.
- Debt-equity ratio: Sector average.

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

## 3.4. Financial assets and liabilities

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

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

### Investments in the equity of Group companies, jointly-controlled entities and associates

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

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

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

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

### Investments

#### a) Loans and receivables

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

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

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

#### b) Held-to-maturity financial assets

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

#### c) Fair value financial assets through profit or loss

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

### d) Available-for-sale financial assets

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

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

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

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

### Cash and cash equivalents

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

### Borrowings

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

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

### Trade and other payables

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

## 3.5. Financial derivatives and other financial instruments

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

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

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

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

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

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

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

For accounting purposes, the operations are classified as follows:

### 1. Derivatives eligible for hedge accounting

#### a) Fair value 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 hedges

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

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

#### c) Hedges of net foreign investments

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

### 2. Derivatives that do not qualify for hedge accounting

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

### 3. Energy purchase and sale agreements

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

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

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

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

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

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

## 3.7. Share capital

Share capital is represented by ordinary shares.

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

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

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

## 3.8. Share-based payments

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

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

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

## 3.9. Borrowings and equity instruments

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

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

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

## 3.10. Provisions for employee obligations

### a) Post-employment pension obligations and similar

- Defined contribution plans

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

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

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

- Defined benefit plans

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

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

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

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

### b) Other post-employment benefit obligations

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

### c) Termination benefits

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

## 3.11. Provisions

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

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

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

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

## 3.12. Leases

### a) Finance leases

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

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

### b) Operating leases

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

## 3.13. Corporate income tax

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

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

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

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

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

## 3.14. Recognition of income and expense

### a) General

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

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

Sales are stated net of tax and discounts.

### b) Other income and expenses

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

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

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

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

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

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

## 3.15. Foreign currency transactions

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

## 3.16. Transactions between related parties

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

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

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

## 3.17. Business combinations

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

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

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

## 3.18. Cash-flow statement

The cash-flow statement has been prepared using the indirect method and contains 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) Property, plant and equipment (Note 3.2)

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

### b) Impairment of assets (Note 3.3)

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

Note 4 details the main assumptions used to determine the recoverable value of non-financial assets.

### c) Derivatives or other financial instruments (Note 3.5)

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

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

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

### d) Provisions for employee benefits (Note 3.11)

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

### e) Provisions (Note 3.12)

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

### f) Corporate income tax  (Note 3.14)

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 judgments. 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.

# Note 4. Asset impairment

## Definition of Cash Generating Unit

Following the approval on 27 June 2018 of the Strategic Plan 2018-2022 which introduces a new industrial and business unit model, Cash Generating Units (CGU) are defined as follows:

- Gas and Electricity:
  - Supply of gas, electricity and services: The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers with high potential for growth in services and solutions, for which there is a single CGU.
  - International LNG sales: It 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.
  - Electricity Generation Europe: It is considered that there is a CGU for conventional electricity generation (hydro, coal, nuclear, combined cycle and other plants) and another CGU for renewable electricity generation (wind, mini-hydro, solar and cogeneration) taking into account the new strategic vision of the Spanish electricity market, with a greater presence in renewables and greater volatility in hourly prices, which requires specialisation in the management of conventional and renewable generation focused, respectively, on cost adjustment and an increase in the installed capacity, in line with the reorganisation carried out.
  - International Electricity Generation: A CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama, Dominican Republic, Puerto Rico, Australia and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
- EMEA Infrastructures:
  - Gas distribution in Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
  - Electricity Distribution Spain: This makes up a single CGU since the network comprises a group of interrelated assets whose development, operation and maintenance are managed jointly.
  - Infrastructure Maghreb: Is a single CGU which manages the Maghreb-Europe gas pipeline.
- Latin America South Infrastructures: 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 Peru and the regulated electricity distribution business in Argentina and Chile.
- Latin America North Infrastructures: 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 Mexico and the regulated electricity distribution business in Panama.
- Remainder: Basically includes the Unión Fenosa Gas CGU and the gas storage business.

## Information on recognised impairments (Note 7)

In 2019 and 2018 impairments of shareholdings in Group companies and associates amounting to Euros 320 million (Euros 4,565 million in 2018) have been recognised under “Impairment of and losses from equity instruments of Group companies and associates” in the income statement, and break down as follows:

- Euros 272 million (Euros 3,401 million in 2018) for the shareholding in Naturgy Generación, S.L.U.

The assumptions taken into consideration are the following:

| | 2018 | **2019** | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Evolution of Spanish GDP | 2.7% | 2.2% | 1.8% | 1.9% | 1.8% |
| Pool price €/MWh | 58.5 | 52.7 | 55.8 | 52.8 | 49.7 |
| Brent (USD/bbl) | 75.3 | 62.9 | 56.5 | 55.5 | 60.6 |
| Gas Henry Hub (USD/MMBtu) | 2.9 | 2.7 | 2.4 | 2.4 | 2.7 |
| Coal (API2 CIF ARA) (USD/t) | 89.6 | 59.8 | 68.0 | 71.0 | 79.5 |
| $CO_2$ €/t | 14.0 | 24.4 | 25.0 | 25.4 | 25.7 |

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. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market, assuming an average year for hydro generation purposes. The main variation with respect to past projections is a decrease in conventional production in line with the expected future evolution of the conventional generation mix.

- 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. That analysis produced price paths which, as a consequence of the high uncertainty surrounding energy policy in Spain, have been adjusted on the basis of the average futures curves and analysts' forecasts.

- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience. The main variation with respect to past projections corresponds to an increase in the cost of emission allowances based on the evolution of futures curves.

- Operation and maintenance costs have been estimated from historical costs of managed park.

- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 6.6% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash-flows. In 2018, the long-term growth rate was 1.9% and the pre-tax discount rate was 7.0%.

In 2018, due to the existence of impairment evidence, following the approval of the Strategic Plan and taking into account external reports by analysts that indicate a value for the electricity business in Spain which is lower than the relevant carrying value, an impairment analysis was carried out.

The assumptions and projections were based on the Strategic Plan 2018-2022, approved by the Board of Directors following the last General Shareholders' Meeting which updated those that had been used to date, and were determined: i) in the light of the new sector variables for the next five-year period, ii) taking into account the uncertainty regarding the role of certain generation assets in the energy transition policy (coal, nuclear and combined cycles) and consequently the development of the associated risks, iii) considering the greater presence forecast in renewables, iv) considering the increasing volatility of prices in the electricity wholesale market and emission allowances and v) assessing the references provided by very recently announced transactions in conventional electricity generation assets in Spain.

The accumulated impairment at 31 December 2019 relating to the holding in Naturgy Generation, S.L.U. amounts to Euros 3,673 million (Euros 3,401 million at 31 December 2018).

- Euros 32 million (Euros 729 million in 2018) relates to the impairment of the 50% interest in Unión Fenosa Gas.

  In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas and stopped paying the utilisation fee for the Damietta liquefaction plant in Egypt. This led to the filing of various arbitration claims, the resolution of which is described in Note 27.

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

  - Gas volumes to be supplied from each supply source. The main causes of the differences between the past and current cash-flow projections are the decrease in the volumes of gas to be supplied from Egypt and to be liquefied at the plant during the Strategic Plan 2018-2022 due to the delays in coming to an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence. Naturgy continues to be confident that the resolution of the arbitration processes will enable a commercial agreement to be reached, enabling the recommencement of gas supplies to the plant as swiftly as possible.

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

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

  A long-term growth rate of 1.9% (1.9% in 2018) and a pre-tax discount rate of 13.5% (15.1% in 2018) have been used. Due to the trend in the carrying value of Unión Fenosa Gas, an impairment of Euros 32 million has been recognised during the year.

  The accumulated impairment at 31 December 2019 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 2,132 million (Euros 2,100 million at 31 December 2018). At 31 December 2019, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 309 million (Euros 340 million at 31 December 2018) (Note 7). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 17 million (Euros 16 million at 31 December 2018).

- Euros 3 million relating to the decrease in the impairment of the shareholding in Naturgy Informática, S.A. (Euros 140 million in 2018). The impairment recognised in 2018 related to the impairment of computer software resulting from the review thereof under the Strategic Plan 2018-2022 and taking obsolescence into account.

- The accumulated impairment at 31 December 2019 relating to the holding in Naturgy Informática, S.A. amounts to Euros 137 million (Euros 140 million at 31 December 2018).

- Euros 70 million in 2018 for the impairment of the 32.3% holding in Petroleum Oil & Gas España, S.A. due to the lack of feasibility of this company's projects.

- The accumulated impairment at 31 December 2019 and 2018 recognised for the holding in Petroleum Oil & Gas España, S.A. amounts to Euros 70 million.

Impairment has also been recognised with respect to the following:

- Euros 2 million (Euros 207 million in 2018) impairment of the holding in Unión Fenosa Minería, S.A. The impairment recorded in 2018 was due to the difference between the carrying value of the interest in the coalfield in South Africa (Kangra Coal (Propietary) LTD) and its fair value less costs to sell, taking into account the price and conditions agreed to for its sale.

  The accumulated impairment at 31 December 2019 relating to the holding in Unión Fenosa Minería, S.A. amounts to Euros 244 million (Euros 242 million at 31 December 2019).

- Other impairment of shareholdings in Naturgy companies amounting to Euros 17 million (Euros 18 million in 2018) recorded under equity evolution.

### Information on other impairment tests performed

As regards the remaining CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment, in 2019 and 2018 the recoverable amounts, calculated according to the methodology described in Note 3.3, have been higher than the carrying values recorded in these Annual Accounts. The most sensitive aspects that are included in the projections used and which are based on industry forecasts and historical experience are as follows:

- Supply of gas, electricity and services:
  - Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.
  - In addition, a long-term growth rate of 0.5% and a pre-tax discount rate of 6.7% have been used for this CGU. The discount rate has been determined specifically for the new CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash-flows. In 2018 the long-term growth rate for this CGU was 1.9%, while the tax discount rate applied for said CGU was 6.8%.
- Renewable electricity generation:
  - Electricity generated. 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. That analysis produced price paths which, as a consequence of the high uncertainty surrounding energy policy in Spain, have been adjusted on the basis of the average futures curves and analysts' forecasts.
  - Remuneration. For facilities with a right to specific remuneration, this has been estimated based on the remuneration parameters for the established regulated income period.
  - Operation and maintenance costs. Estimated from historical costs of managed park.
  - Taxes established by Law 15/2012.
  - In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 5.9% have been used for this CGU. The discount rate has been determined specifically for the new CGU based on the risks associated with it in a manner consistent with those considered in the estimates of future cash-flows. In 2018 the long-term growth rate for this CGU was 1.9%, while the pre-tax discount rate applied for said CGU was 6.1%.
- International Electricity Generation:
  - Operation and maintenance costs. Estimated on the basis of historical costs.
  - International electricity generation is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.
  - In addition, long-term growth rates of 1.9% - 3.5% (2.1% - 4.0% in 2018) and pre-tax discount rates of 7.1% - 16.6% (7.9% - 14.8% in 2018) have been used for these CGUs.

- Electricity and gas distribution in Spain:
  - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash-flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
  - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
  - In addition, long-term growth rates of 0.5% - 1.5% (1.2% in 2018) and pre-tax discount rates of 5.4% - 5.8% (6.0% - 6.5% in 2018) have been used for these CGUs.
- Latin America North and South Infrastructures:
  - Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
  - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
  - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
  - In addition, long-term growth rates of 0.6% - 3.5% (1.3% - 3.8 % in 2018) and pre-tax discount rates of 8.5% - 13.9% (9.9% - 17.6%) have been used for these CGUs.

The Company has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact the aforementioned sensitive parameters on which the recoverable amounts of these remaining CGUs have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

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

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for the holdings in Group companies and associates.

## Note 5. Intangible assets

This heading breaks down as follows:

| | Computer software | Other intangible assets | Subtotal | Goodwill | **Total** |
|---|---|---|---|---|---|
| Cost | 6 | 1 | 7 | 815 | 822 |
| Accumulated amortisation | (2) | -- | (2) | (706) | (708) |
| **Carrying value at 1.1.2018** | **4** | **1** | **5** | **109** | **114** |
| Investment | 1 | -- | 1 | -- | 1 |
| Amortisation charge | (1) | (1) | (2) | (82) | (84) |
| Other | 1 | -- | 1 | -- | 1 |
| **Carrying value at 31.12.2018** | **5** | **--** | **5** | **27** | **32** |
| Cost | 6 | -- | 6 | 815 | 821 |
| Accumulated amortisation | (1) | -- | (1) | (788) | (789) |
| **Carrying value at 1.1.2019** | **5** | **--** | **5** | **27** | **32** |
| Amortisation charge | (2) | -- | (2) | (27) | (29) |
| **Carrying value at 31.12.2019** | **3** | **--** | **3** | **--** | **3** |
| Cost | 6 | -- | 6 | 815 | 821 |
| Accumulated amortisation | (3) | -- | (3) | (815) | (818) |
| **Carrying value at 31.12.2019** | **3** | **--** | **3** | **--** | **3** |

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with Naturgy. It has been fully amortised at 31 December 2019.

At 31 December 2019, intangible assets include fully amortised goodwill and does not include other fully amortised assets in use (zero at 31 December 2018).

In 2019 there have been no disposals of fully-depreciated assets (Euros 2 million at 31 December 2018).

## Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2019 and 2018:

| | Land and buildings | Other property, plant and equipment | **Total** |
|---|---|---|---|
| Cost | 197 | 40 | 237 |
| Accumulated depreciation | (63) | (23) | (86) |
| **Carrying value at 1.1.2018** | **134** | **17** | **151** |
| Investment | 7 | 1 | 8 |
| Divestment | (4) | -- | (4) |
| Depreciation charge | (11) | (3) | (14) |
| Other | 1 | (1) | -- |
| **Carrying value at 31.12.2018** | **127** | **14** | **141** |
| Cost | 197 | 37 | 234 |
| Accumulated depreciation | (70) | (23) | (93) |
| **Carrying value at 1.1.2019** | **127** | **14** | **141** |
| Investment | 3 | 1 | 4 |
| Divestment | (2) | -- | (2) |
| Depreciation charge | (16) | (3) | (19) |
| **Carrying value at 31.12.2019** | **112** | **12** | **124** |
| Cost | 184 | 35 | 219 |
| Accumulated depreciation | (72) | (23) | (95) |
| **Carrying value at 31.12.2019** | **112** | **12** | **124** |

In May 2018 the Company sold the building located in Avenida Balears, Valencia, for Euros 5 million, generating a capital gain before income tax of Euros 1 million.

In 2019 there have been disposals of fully-depreciated assets totalling Euros 18 million (Euros 4 million at 31 December 2018).

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 19 million at 31 December 2019 (Euros 13 million in 2018).

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 2019 and 31 December 2018, the Company had no investment commitments.

# Note 7. Investments in Group companies and associates

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

| | At 31.12.19 | At 31.12.18 |
|---|---|---|
| Equity instruments | 16,552 | 15,237 |
| Loans | 16,202 | 15,657 |
| **Non-current** | **32,754** | **30,894** |
| Loans | 527 | 740 |
| Other financial assets | 139 | 57 |
| **Current** | **666** | **797** |
| **Total** | **33,420** | **31,691** |

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

| | Shareholdings in Group companies | Loans to Group companies | Shareholdings in associates | Total |
|---|---|---|---|---|
| **Balance at 1.1.2018** | **13,390** | **15,615** | **10** | **29,015** |
| Additions | 11,437 | 6,743 | -- | 18,180 |
| Divestments | (5,035) | (1,475) | -- | (6,510) |
| Reclassification | -- | (5,218) | -- | (5,218) |
| Charge/reversal provisions | (4,565) | -- | -- | (4,565) |
| Exchange differences | -- | (8) | -- | (8) |
| **Balance at 31.12.2018** | **15,227** | **15,657** | **10** | **30,894** |
| Additions | 3,962 | 3,364 | -- | 7,326 |
| Divestments | (2,321) | (2,415) | (6) | (4,740) |
| Reclassification | -- | (403) | -- | (403) |
| Charge/reversal provisions | (320) | -- | -- | (320) |
| Exchange differences | -- | (1) | -- | (1) |
| **Balance at 31.12.2019** | **16,548** | **16,202** | **4** | **32,754** |

## 2019

- Incorporation of Holding Negocios de Electricidad, S.A., wholly owned by the Company, which has become the head of the electricity distribution business in Spain, carrying out the following operations:
  - In November 2019, Holding Negocios de Electricidad, S.A. increased capital through the issue of 10 new shares with a par value of Euros 100 each and a share premium of Euros 393,612,443 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 3,936 million.
  - On the same date, the Company granted an intragroup loan of Euros 3,362 million to Holding Negocios de Electricidad, S.A. This loan matures in five years and bears interest at a market rate.

- On 27 November 2019, using the funds received, Holding Negocios de Electricidad, S.A. acquired from the Company 100% of the shares in UFD Distribución Electricidad, S.A. for Euros 5,170 million, which has been determined as fair value. In accordance with the provisions of paragraph 1 of Recognition and Measurement Standard 21 of the Spanish Chart of Accounts, the transaction has been accounted for at fair value and has generated a profit of Euros 3,539 million.

- The Company has also cancelled the loans it had granted to UFD Distribución Electricidad, S.A. for Euros 2,129 million. Holding Negocios de Electricidad, S.A. has granted said financing for the same amount to the acquired company.

- Cash contribution to Naturgy LNG, S.L. for Euros 13 million.

- Cash contribution to offset losses to Comercializadora Regulada, Gas & Power, S.A. for Euros 9 million.

- The distribution of the share premium has been recorded as a decrease in the carrying value of the holding in the Group company Global Power Generation, S.A., in the amount of Euros 690 million.

- Sale of 45% of the holding in Torre Marenostrum, S.L. for Euros 28 million, generating a capital gain before taxes of Euros 20 million.

- Liquidation of P.H. La Perla, S.A. without any impact on income as the interest was fully impaired.

- Constitution of new societies and other movements for Euros 4 million.

## 2018

- On 3 August 2017 the Company entered into an agreement with a consortium formed by Allianz Capital Partners and Canada Pension Plan Investment Board to sell a 20% interest in the natural gas distribution business in Spain for an amount of Euros 1,500 million, after increasing the level of debt through long-term intra-group financing on Naturgy's part amounting to Euros 6,000 million. The completion of the operation was subject to the obtainment of the relevant regulatory and competition authorisations.

  To carry out the operation, Holding de Negocios de Gas, S.A., a company wholly owned by the Company, has become the head of the natural gas distribution and transport activity and the liquefied petroleum natural gas distribution activity in Spain, carrying out the following operations:

  - On 7 February 2018, Holding de Negocios de Gas, S.A. increased capital through the issue of 15,000 new shares with a par value of Euros 1 each and a share premium of Euros 499,999 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 7,500 million.

  - On 7 February 2018 the Company granted an intragroup loan of Euros 6,000 million to Holding de Negocios de Gas, S.A. This loan matures between 7 and 12 years and bears interest at a market rate.

  - On 7 February 2018, using the funds received, Holding de Negocios de Gas, S.A. acquired 100% of the shares in Nedgia, S.A. (formerly Holding Negocios Regulados Gas Natural, S.A. and which is the holding company of the Spanish gas distribution companies) from the Company for Euros 11,518 million, an amount that has been determined as the fair value based on the same price per share set in said sale agreement with the Consortium and which has been confirmed by the fairness opinion of the investment banks J.P. Morgan and Morgan Stanley which have acted as financial advisors in this operation and which have concluded that the value is reasonable from a financial viewpoint. In accordance with the provisions of paragraph 1 of Recognition and Valuation Standard 21 of the Spanish Chart of Accounts, the transaction has been accounted for at fair value and has generated a profit of Euros 9,537 million. The Company has also cancelled the loans it had granted to the Spanish gas distribution companies amounting to Euros 1,981 million, while the company Holding de Negocios de Gas, S.A. has granted said financing for the same amount to the Spanish gas distribution companies.

- On 14 February 2018 Holding Negocios de Gas, S.A. acquired from Nedgia, S.A. 100% of the shares in Gas Natural Transporte SDG, S.L. and in Gas Natural Redes GLP, S.A. for Euros 165 million. This figure was determined as the fair value based on the price set in the above-mentioned sale agreement with the Consortium, following the payment by Nedgia, S.A. of dividends amounting to Euros 165 million by charge to the share premium.

  On 19 March 2018 the Company, after obtaining the necessary regulatory and competition approvals, transferred 20% of the interest in Holding de Negocios de Gas, S.A. to said Consortium for an amount of Euros 1,500 million in cash, without any significant impact on the income statement as the shareholding was recorded at fair value.

- Capital reduction through the reimbursement of contributions in Clover Financial and Treasury Services, D.A.C. in the amount of US Dollars 667 million (Euros 609 million). The reduction in the shareholding has generated a Euros 73 million profit due to the exchange rate effect.

- Subscription of a capital increase through a monetary contribution in Naturgy Participaciones, S.A.U. for Euros 100 million.

- Subscription of a capital increase in Naturgy Infraestructuras EMEA, S.L. in the amount of Euros 88 million.

- The distributions of reserves by Global Power Generation, S.A. and Holding de Negocios de Gas, S.A. amounting to Euros 110 million and Euros 885 million, respectively, were recorded as a decrease in the carrying value of the shareholdings.

- Sale of 98.48% of the holding in Compañía Española de Industrias Electroquímicas, S.A. for Euros 8 million, generating a capital gain before tax of Euros 3 million.

- Sale of the holding in La Propagadora del Gas, S.A. to the group company Naturgy Generación, S.L.U. for Euros 11 million, generating a capital gain before tax of Euros 1 million.

- Euros 14 million monetary contribution to offset losses to Comercializadora Regulada Gas & Power, S.A.

- Euros 136 million monetary contribution to offset losses to Naturgy Informática, S.A.

- Euros 67 million monetary contribution to offset losses to Naturgy Aprovisionamientos, S.A.

- Euros 32 million monetary contribution to offset losses to Petroleum Oil & Gas España, S.A.

- Subscription of a capital increase by Naturgy Generación, S.L.U. of Euros 3,500 million through the capitalisation of a loan.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 6,505 million at 31 December 2019 (Euros 6,185 million at 31 December 2018), relating basically to the following companies (Note 4):

| | **2019** | 2018 | Variation |
|---|---|---|---|
| Naturgy Generación, S.L.U. | 3,673 | 3,401 | 272 |
| Unión Fenosa Gas, S.A. | 2,132 | 2,100 | 32 |
| Unión Fenosa Minería, S.A. | 244 | 242 | 2 |
| Gas Natural Exploración, S.L. | 213 | 213 | -- |
| Naturgy Informática, S.A. | 137 | 140 | (3) |
| Petroleum, Oil & Gas España, S.A. | 70 | 70 | -- |
| General de Edificios y Solares, S.L. | 18 | -- | 18 |
| Other | 18 | 19 | (1) |
| **Total** | **6,505** | **6,185** | **320** |

Financial income for dividends received from investments in equity instruments of Group companies and associates during 2019 and 2018, correspond to the following companies:

| | **2019** | 2018 |
|---|---|---|
| Sagane, S.A. | 375 | 2 |
| UFD Distribución Electricidad, S.A. | 308 | 238 |
| Naturgy Distribución Latinoamérica S.A. | 243 | 23 |
| Holding Negocios Gas, S.A. | 151 | 173 |
| Naturgy Inversiones Internacionales, S.A. | 108 | -- |
| Global Power Generation, S.A.U. | 105 | 30 |
| Naturgy Iberia, S.A. | 59 | -- |
| Naturgy Finance, B.V. | 7 | 3 |
| Naturgy Capital Markets, S.A. | 4 | 6 |
| Naturgy Engineering, S.L. | 1 | -- |
| Clover Financial and Treasury Services, D.A.C. | -- | 32 |
| Naturgy Aprovisionamientos S.A. | -- | 24 |
| General de Edificios y Solares, S.L. | -- | 11 |
| Unión Fenosa Minería, S.A. | -- | 2 |
| Naturgy Almacenamientos Andalucía, S.A. | -- | 1 |
| Compañía Española de Industrias Electroquímicas, S.A. | -- | 1 |
| Other | -- | 1 |
| **Total** | **1,361** | **547** |

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

| Company | Registered Office | Activity | Carrying value 2019 | Carrying value 2018 |
|---|---|---|---|---|
| Naturgy Aprovisionamientos, S.A. | Spain | Gas supply | 85 | 85 |
| Naturgy LNG, S.L. | Spain | Gas supply | 14 | 2 |
| Sagane, S.A. | Spain | Gas supply | 42 | 42 |
| Unión Fenosa Gas, S.A. | Spain | Gas supply | 309 | 341 |
| Gas Natural Comercializadora, S.A. | Spain | Gas and electricity supply | 121 | 121 |
| Comercializadora Regulada, Gas & Power, S.A. | Spain | Gas and electricity supply | 93 | 84 |
| Naturgy Commodities Trading, S.A. | Spain | Gas and electricity supply | 11 | 11 |
| Naturgy Iberia, S.A. | Spain | Gas and electricity supply | 107 | 106 |
| Holding Negocios Electricidad, S.A. | Spain | Electricity distribution | 3,936 | -- |
| UFD Distribución Electricidad, S.A. | Spain | Electricity distribution | -- | 1,630 |
| Holding de Negocios de Gas, S.A. | Spain | Gas distribution | 5,115 | 5,115 |
| Naturgy Generación, S.L.U. | Spain | Electricity generation | 3,723 | 3,996 |
| Naturgy Renovables, S.L.U. | Spain | Electricity generation | 397 | 397 |
| Global Power Generation, S.A. | Spain | Electricity generation | 711 | 1,401 |
| Toledo PV A.I.E. | Spain | Electricity generation | -- | -- |
| Naturgy Almacenamientos Andalucía S.A. | Spain | Gas infrastructures | 8 | 8 |
| Gas Natural Exploración, S.L. | Spain | Gas infrastructures | 9 | 9 |
| Petroleum, Oil & Gas España, S.A. | Spain | Gas infrastructures | 3 | 4 |
| Natural Re, S.A. | Luxembourg | Insurance | 9 | 9 |
| General de Edificios y Solares, S.L. | Spain | Services | 45 | 63 |
| Lean Corporate Services, S.L. | Spain | Services | -- | -- |
| Lean Customer Services, S.L. | Spain | Services | -- | -- |
| Lean Grids Services, S.L. | Spain | Services | -- | -- |
| Clover Financial and Treasury Services, D.A.C. | Ireland | Financial services | -- | -- |
| Naturgy Capital Markets, S.A. | Spain | Financial services | -- | -- |
| Naturgy Finance, B.V. | Netherlands | Financial services | 7 | 7 |
| Naturgy Participaciones, S.A. | Spain | Financial services | 98 | 96 |
| Unión Fenosa Preferentes, S.A.U. | Spain | Financial services | -- | -- |
| Naturgy Informática, S.A. | Spain | IT services | 18 | 16 |
| Naturgy IT, S.L.U. | Spain | IT services | -- | -- |
| Naturgy Engineering, S.L. | Spain | Engineering services | 23 | 20 |
| Naturgy Ingenieria Nuclear, S.L. | Spain | Engineering services | 1 | -- |
| Naturgy Distribución Latinoamérica, S.A. | Spain | Holding company | 558 | 558 |
| Naturgy Gas and Power, S.L.U. | Spain | Holding company | -- | -- |
| Naturgy Infraestructuras EMEA, S.L. | Spain | Holding company | 89 | 88 |
| Naturgy Inversiones Internacionales, S.A. | Spain | Holding company | 944 | 944 |
| Unión Fenosa Minería, S.A. | Spain | Holding company | 72 | 74 |
| **Total** | | | **16,548** | **15,227** |

Appendix I to Naturgy's Consolidated Annual Accounts provides a breakdown of other indirect shareholdings.
(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 2019**

| % interest | | | | | | | | Equity |
|---|---|---|---|---|---|---|---|---|
| Direct | Indirect | Total | Capital | Reserves (1) | Profit/(loss) | Interim dividend | Other (2) | Equity |
| 100.0 | -- | 100.0 | 1 | 20 | 162 | -- | (4) | 179 |
| 100.0 | -- | 100.0 | 2 | 12 | (2) | -- | 2 | 14 |
| 100.0 | -- | 100.0 | 95 | 22 | 210 | (135) | (1) | 191 |
| 50.0 | -- | 50.0 | 33 | 582 | (56) | -- | (4) | 555 |
| 100.0 | -- | 100.0 | 3 | 80 | 13 | -- | 3 | 99 |
| 100.0 | -- | 100.0 | 2 | 15 | (16) | -- | -- | 1 |
| 100.0 | -- | 100.0 | 11 | 4 | -- | -- | -- | 15 |
| 100.0 | -- | 100.0 | 3 | 49 | 210 | -- | (25) | 237 |
| 100.0 | -- | 100.0 | -- | 3,936 | (2) | -- | -- | 3,934 |
| 100.0 | -- | 100.0 | -- | -- | -- | -- | -- | -- |
| 80.0 | -- | 80.0 | -- | 6,716 | 142 | -- | -- | 6,858 |
| 100.0 | -- | 100.0 | 1,052 | 1,742 | (243) | -- | 40 | 2,591 |
| 100.0 | -- | 100.0 | 90 | 168 | 43 | -- | 18 | 319 |
| 75.0 | -- | 75.0 | 20 | 698 | 151 | (51) | 26 | 844 |
| 33.3 | -- | 33.3 | -- | -- | 1 | -- | -- | 1 |
| 100.0 | -- | 100.0 | -- | 8 | -- | -- | -- | 8 |
| 100.0 | -- | 100.0 | 8 | 11 | -- | -- | (11) | 8 |
| 32.3 | 67.7 | 100.0 | 4 | 7 | (3) | -- | -- | 8 |
| 100.0 | -- | 100.0 | 5 | 53 | 3 | -- | -- | 61 |
| 100.0 | -- | 100.0 | 34 | 30 | (19) | -- | -- | 45 |
| 100.0 | -- | 100.0 | -- | -- | -- | -- | -- | -- |
| 100.0 | -- | 100.0 | -- | -- | -- | -- | -- | -- |
| 100.0 | -- | 100.0 | -- | (1) | -- | -- | -- | (1) |
| 100.0 | -- | 100.0 | -- | -- | -- | -- | -- | -- |
| 100.0 | -- | 100.0 | -- | -- | 3 | -- | -- | 3 |
| 100.0 | -- | 100.0 | -- | 1 | 3 | -- | -- | 4 |
| 100.0 | -- | 100.0 | -- | 96 | 3 | -- | (1) | 98 |
| 100.0 | -- | 100.0 | -- | 1 | 1 | (1) | 110 | 111 |
| 100.0 | -- | 100.0 | 20 | (6) | 5 | -- | -- | 19 |
| 75.0 | -- | 75.0 | -- | -- | -- | -- | -- | -- |
| 100.0 | -- | 100.0 | -- | 17 | -- | -- | -- | 17 |
| 100.0 | -- | 100.0 | -- | 1 | -- | -- | -- | 1 |
| 100.0 | -- | 100.0 | 402 | 238 | 211 | (70) | -- | 781 |
| 100.0 | -- | 100.0 | -- | -- | -- | -- | -- | -- |
| 100.0 | -- | 100.0 | -- | 88 | 116 | -- | -- | 204 |
| 100.0 | -- | 100.0 | 250 | 346 | 25 | -- | (230) | 391 |
| 100.0 | -- | 100.0 | 11 | 64 | (3) | -- | -- | 72 |

The non-current loans to Group companies as at 31 December 2019 amounts to Euros 16,202 million with a maturation date in 2021 (at 31 December 2018, Euros 15,657 million maturing in 2020).

Set out below are movements during 2019 and 2018 in loans and other current financial assets:

| | Loans to Group companies | Other financial assets | **Total** |
|---|---|---|---|
| **Balance at 01.01.2018** | **1,480** | **743** | **2,223** |
| Additions | 261 | 53 | 314 |
| Divestments | (5,031) | (739) | (5,770) |
| Reclassifications and transfers | 4,024 | -- | 4,024 |
| Exchange differences | 6 | -- | 6 |
| **Balance at 31.12.2018** | **740** | **57** | **797** |
| Additions | 342 | 135 | 477 |
| Divestments | (959) | (53) | (1,012) |
| Reclassifications and transfers | 405 | -- | 405 |
| Exchange differences | (1) | -- | (1) |
| **Balance at 31.12.2019** | **527** | **139** | **666** |

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 298 million (Euros 313 million in 2018) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 175 million (Euros 371 million in 2018). It also includes accrued unmatured interest of Euros 54 million (Euros 56 million in 2018).

At 31 December 2019, loans to Group companies and associates have borne interest at a rate of 2.46% (2.81% in 2018) in the case of non-current loans and 1% (1% in 2018) in the case of current loans.

Dividends pending collection at 31 December 2019 amounted to Euros 135 million, recorded under "Other current financial assets" (Euros 53 million at 31 December 2018).

# Note 8. Investments

The breakdown of investments by category is as follows:

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

| At 31 December 2018 | Available-for-sale financial assets | Loans and receivables | Assets at fair value through profit or loss | Hedging derivatives | **Total** |
|---|---|---|---|---|---|
| Equity instruments | 5 | -- | -- | -- | 5 |
| Other financial assets | -- | 12 | -- | -- | 12 |
| **Non-current investments** | **5** | **12** | **--** | **--** | **17** |
| Derivatives (Note 14) | -- | -- | 6 | 2 | 8 |
| Other financial assets | -- | 36 | -- | -- | 36 |
| **Current investments** | **--** | **36** | **6** | **2** | **44** |
| **Total** | **5** | **48** | **6** | **2** | **61** |

## Available-for-sale financial assets

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2019 and 31 December 2018.

## Loans and receivables

The breakdown of Loans and receivables is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Gas system income deficit financing | -- | 7 |
| Deposits and guarantee deposits | 5 | 5 |
| **Non-current** | **5** | **12** |
| Gas system income deficit financing | -- | 2 |
| Deposits and guarantee deposits | 23 | 34 |
| **Current** | **23** | **36** |
| **Total** | **28** | **48** |

## Other financial assets

The heading "Gas system revenue deficit financing" included temporary mismatches between gas system revenues and costs accumulated in 2017, funded by Naturgy pursuant to Law 18/2014 of 17 October. This amount was acquired by the Company in 2017 from the distribution companies of Naturgy and was expected to be recovered through gas system settlements as the right to the recovery of this amount is generated in the following five years, recognising a market interest rate. The amount of this financing was recognised based on the estimated recovery period.

Following successive settlements in 2017, the final settlement for 2017 was received on 28 November 2018. The deficit in the gas sector evolved favourably and the amount of the acquisition made from the distribution companies corresponding to the mismatch in 2017 was adjusted by Euros 9 million at 31 December 2018.

In December 2019, Naturgy received settlement 15/2018 referring to the surplus for 2018, amortising the imbalances relating to 2017 and 2015 and, partially, those for 2016 in the amount of Euros 9 million. The 2015 and 2016 mismatches had previously been externalised and therefore do not represent any impact on the Company's financial statements.

At 31 December 2019, the balance in the heading "Gas system revenue deficit financing" was zero.

# Note 9. Trade and other receivables

The breakdown of this account is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Trade receivables | 84 | 130 |
| Trade receivables, Group companies and associates | 255 | 366 |
| Sundry receivables | 6 | 23 |
| Provision | (30) | (29) |
| Derivatives (Note 14) | 344 | 106 |
| Current income tax asset | 183 | 65 |
| Other amounts receivable from Public Administrations | 1 | -- |
| **Total** | **843** | **661** |

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

Movements in the bad debt provision are as follows:

| | **2019** | 2018 |
|---|---|---|
| **At 1 January** | **(29)** | **(24)** |
| Net charge for the year (Note 21) | (1) | (5) |
| **At 31 December** | **(30)** | **(29)** |

## Note 10. Cash and cash equivalents

Cash and cash equivalents include:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Cash at banks and in hand | 474 | 722 |
| Other cash equivalents | 700 | -- |
| **Total** | **1,174** | **722** |

"Other cash equivalents" relates to short-term investments maturing in January 2020.

## Note 11. Equity

The main items of Equity are as follows:

### Share capital and share premium

The variations during 2019 and 2018 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 2018** | **1,000,689,341** | **1,001** | **3,808** | **4,809** |
| Changes: | -- | -- | -- | -- |
| **At 31 December 2018** | **1,000,689,341** | **1,001** | **3,808** | **4,809** |
| Capital reduction | (16,567,195) | (17) | -- | (17) |
| **At 31 December 2019** | **984,122,146** | **984** | **3,808** | **4,792** |

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

On 5 August 2019, capital was reduced through the redemption of 16,567,195 treasury shares with a par value of euros 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in Note 11). Following the capital reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of Euros 1 each.

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

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

The most relevant holdings in the Company's share capital at 31 December 2019 and 2018, in accordance with the public information available or the communication issued by the Company itself, are as follows:

| | % interest in share capital | |
|---|---|---|
| | **2019** [5] | 2018 [4] |
| Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" [1] | 24.4 | 25.6 |
| Global Infrastructure Partners III [2] | 20.3 | 20.0 |
| CVC Capital Partners SICAV-FIS, S.A. [3] | 20.4 | 20.1 |
| Sonatrach | 4.1 | 3.9 |

[1] In 2019, holding through Criteria Caixa, S.A.U. In 2018, 20.4% holding through Criteria Caixa S.A.U. and 5.2% indirect holding (5.0% through Energía Boreal 2018, S.A. and 0.2% through others).

[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. The company Rioja Acquisition S.À.R.L. was absorbed by Rioja Bidco Shareholdings, S.L.U. in 2019.

[4] On 22 February 2018 Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of the Company. On 18 May 2018 the transaction was completed and Repsol, S.A. ceased to be the owner of said ompany's shares.

[5] Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

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

The Company's share price at 31 December 2019 was Euros 22.40 (Euros 22.26 at 31 December 2018).

## Reserves

"Reserves" includes the following reserves:

| | 2019 | 2018 |
|---|---|---|
| Legal reserve | 200 | 200 |
| Statutory reserve | 100 | 100 |
| Goodwill reserve | 27 | 109 |
| Voluntary reserves | 10,973 | 7,305 |
| Capital redemption reserve | 17 | -- |
| Other reserves | 256 | 295 |
| **Total** | **11,573** | **8,009** |

## Legal reserve

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

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

## Statutory reserve

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

## Goodwill reserve

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

At the annual general meeting held on 5 March 2019, the shareholders agreed to the transfer to Voluntary reserves of Euros 82 million from the Goodwill reserve.

## Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 5 March 2019, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 17 million and 383 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.

## Voluntary reserve and other reserves

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

## Share-based payments

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

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

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

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

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

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

| | |
|---|---|
| Forecast share price volatility[(1)] | 17.73% |
| Plan duration (years) | 5 |
| Expected dividends | 6.26% |
| Risk-free interest rate | 0.34% |

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

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 3 million (Euros 4 million in 2018) has been recorded in the income statement for 2019 under Personnel expenses, credited to "Other equity instruments" in the balance sheet.

## Treausry shares

Movements during 2019 and 2018 involving the Company's treasury shares are as follows:

| | Number of shares | In million euro | % capital |
|---|---|---|---|
| **At 31 December 2017** | **--** | **--** | **--** |
| Acquisitions | 10,782,040 | 227 | 1.0 |
| Acquisitions LTI coverage | 8,639,595 | 200 | 0.9 |
| Delivered to employees | (354,422) | (7) | -- |
| Disposals | (13,669,476) | (299) | (1.4) |
| **At 31 December 2018** | **5,397,737** | **121** | **0.5** |
| Share Acquisition Plan | 332,382 | 7 | -- |
| Delivered to employees | (310,812) | (7) | -- |
| 2018 buyback programme | 11,169,458 | 279 | 1.1 |
| Capital reduction | (16,567,195) | (400) | (1.6) |
| Acquisitions | 5,162,320 | 121 | 0.5 |
| Disposals | -- | -- | -- |
| **At 31 December 2019** | **5,183,890** | **121** | **0.5** |

In 2019 there has been no profit or loss on transactions involving  treasury shares of the Society (profit of Euros 0.4 million in 2018 recorded in "Other reserves").

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 with the Company's treasury shares correspond to:

- Share acquisition plan: In accordance with the resolutions adopted by the Company's shareholders at the General Meeting held on 20 April 2017, the Share Acquisition Plans 2017-2018-2019 relating to the periods 2017 and 2018, aimed at Naturgy employees in Spain who decide voluntarily to take part in them, were set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in the Company, subject to an annual limit of Euros 12,000. During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 shares have been delivered, leaving a surplus of 21,570 treasury shares.
- Share buy-back programme 2018: Within the Strategic Plan 2018-2022, the Company's Board of Directors approved a treasury share buy-back programme which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, and that would be redeemed if it is ratified by the shareholders at the annual general meeting to be held on first half year of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of Euros 22.42 per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.

- Capital Reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the Company's share capital by the amount resulting from the sum of:
  - Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of Euros 1 each which had been acquired at the close of trading on 6 December 2018.
  - The aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of Euros 1 each which, where applicable, are acquired for redemption by the Company under the treasury share buy-back programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

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

- 2019 buy-back programme: The Board of Directors approved a treasury share buy-back programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 2.1% of share capital at the date of communication, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.
- Long-term Variable Incentive Plan: During 2018 the Company acquired 8,639,595 treasury shares at an average price of Euros 23.15/share for a total of Euros 200 million, the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan. These shares were sold to a company 100% owned by Naturgy.

## Dividends

Set out below is a breakdown of the payments of dividends made in 2019 and 2018:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | % of nominal | Euros per share | Amount | % of nominal | Euros per share | Amount |
| Ordinary shares | 134% | 1.34 | 1,319 | 140% | 1.40 | 1,400 |
| Other shares (without voting rights, redeemable, etc.) | - | - | - | - | - | - |
| **Total dividends paid** | **134%** | **1.34** | **1,319** | **140%** | **1.40** | **1,400** |
| a) Dividends charged to income statement | 134% | 1.34 | 1,319 | 140% | 1.40 | 1,400 |
| b) Dividends charged to reserves or share premium account | - | - | - | - | - | - |
| c) Dividends in kind | - | - | - | - | - | - |

## 2019

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

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

The Company had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 23 July 2019 was as follows:

| | |
|---|---|
| Profit after tax | 838 |
| Reserves to be replenished | -- |
| Maximum amount distributable | 838 |
| Forecast maximum interim dividend payment[1] | 294 |
| Cash resources | 1,395 |
| Undrawn credit facilities | 5,035 |
| Total liquidity | 6,430 |

[1]Amount considering total shares issued.

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

The Company had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 29 October 2019 is as follows:

| | |
|---|---|
| Profit after tax | 1,095 |
| Reserves to be replenished | -- |
| Maximum amount distributable | 1,095 |
| Interim dividend 2019 profits | 289 |
| Forecast interim dividend payment[1] | 465 |
| Cash resources | 1,238 |
| Undrawn credit facilities | 4,982 |
| Total liquidity | 6,220 |

[1]Amount considering total shares issued.

On 4 February 2020, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2019, for submission to the annual general meeting:

## Available for distribution

Available for distribution ............................................................ 4,415

**Distribution:**

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

(i) Euros 754 million relating to the two interim dividends for 2019 paid by the Company, equivalent jointly to Euros 0.767 per share by the number of shares that were not direct treasury shares on the relevant dates; and

(ii) The amount obtained by multiplying Euros 0.603 per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined (“Complementary dividend”).

The supplementary dividend will be paid through entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), and 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 (i) set the date on which the shareholders entitled to receive the dividend are determined and the date of payment; (ii) determine the definitive amount of the supplementary dividend, and (ii) 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 ........................................................... 4,415

This proposal for the distribution of profits prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.603 per share for each qualifying share outstanding at the proposed date of payment, 25 March 2020. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2019 dividend (Euros 0.603 per share) the same number of treasury shares is maintained as at the 2019 year-end (5,183,890 treasury shares, see section on Treasury shares), the amount applied to voluntary reserves would be Euros 3,071 million.

2018

The General Shareholders Meeting held on 27 June 2018 approved payment of a complementary dividend of Euros 0.670 per share for a total of Euros 670 million, paid in full in cash on 5 July 2018.

On 24 July 2018, the Company’s Board of Directors resolved to pay an interim dividend of Euros 0.28 per share out of 2018 results, for a total of Euros 280 million, which was paid on 31 July 2018.

On 31 October 2018, the Company’s Board of Directors resolved to pay an interim dividend of Euros 0.45 per share out of 2018 results for a total of Euros 450 million, which was paid on 27 November 2018 with respect to the outstanding shares at that date.

## Note 12. Provisions

The breakdown of provisions at 31 December 2019 and 2018 is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Provisions for employee obligations | 272 | 256 |
| Other provisions | 187 | 222 |
| **Non-current provisions** | **459** | **478** |

### Provisions for employee obligations

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Pensions and other similar obligations | Other obligations with personnel | Total | Pensions and other similar obligations | Other obligations with personnel | Total |
| **At 1 January** | **250** | **6** | **256** | **262** | **10** | **272** |
| Appropriations/reversals charged to income statement | 6 | 3 | 9 | 7 | (1) | 6 |
| Payments during the year | (13) | -- | (13) | (16) | -- | (16) |
| Changes recognised directly in equity | 54 | -- | 54 | (21) | -- | (21) |
| Transfers and other applications | (30) | (4) | (34) | 18 | (3) | 15 |
| **At 31 December** | **267** | **5** | **272** | **250** | **6** | **256** |

## 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 2019 and 31 December 2018, the Company held the following defined benefit obligations for certain groups of workers:

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

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

| Present value of obligations | **2019** | 2018 |
|---|---|---|
| **At 1 January** | **927** | **995** |
| Service cost for the year | 1 | 2 |
| Interest cost | 16 | 16 |
| Changes recognised directly in equity | 97 | (42) |
| Benefits paid | (61) | (66) |
| Transfers and other | (11) | 22 |
| **At 31 December** | **969** | **927** |
| Fair value of plan assets | | |
| **At 1 January** | **677** | **733** |
| Expected yield | 11 | 11 |
| Contributions | 1 | 4 |
| Changes recognised directly in equity | 43 | (21) |
| Benefits paid | (49) | (54) |
| Transfers and other | 19 | 4 |
| **At 31 December** | **702** | **677** |
| **Provisions for pensions and similar obligations** | **267** | **250** |

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

| | **2019** | 2018 |
|---|---|---|
| Service cost for the year | 1 | 2 |
| Interest cost | 5 | 5 |
| Expected return on plan assets | -- | -- |
| **Total charge to the income statement** | **6** | **7** |

Benefits to be paid in the coming years for the above-mentioned commitments are as follows:

| | **2019** | 2018 |
|---|---|---|
| 1 to 5 years | 1 | 1 |
| 5 to 10 years | 23 | 16 |
| More than 10 years | 243 | 233 |
| **Provisions for pensions and similar obligations** | **267** | **250** |

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

| **% of total** | **2019** | 2018 |
|---|---|---|
| Bonds | 100% | 100% |

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are negative in the amount of Euros 22 million at 31 December 2019 (positive in the amount of Euros 18 million at 31 December 2018).

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

| | **2019** | 2018 |
|---|---|---|
| Financial assumptions | 48 | 3 |
| Experience | 6 | (24) |
| **At 31 December** | **54** | **(21)** |

Actuarial assumptions applied are as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Discount rate (p.a.) | 0.0 to 1.33% | 0.3 to 2.39% |
| Expected return on plan assets (p.a.) | 0.0 to 1.33% | 0.3 to 2.39% |
| Future salary increases (p.a.) | 2.0% | 2.0% |
| Future pension increases (p.a.) | 2.0% | 2.0% |
| Inflation rate (annual) | 2.0% | 2.0% |
| Mortality table | PERMF 2000 | PERMF 2000 |
| Life expectancy: | | |
| Men | | |
| Retired during the year | 23.0 | 22.9 |
| Retiring within 20 years | 43.0 | 42.9 |
| Women | | |
| Retired during the year | 27.5 | 27.4 |
| Retiring within 20 years | 48.9 | 48.8 |

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

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

The costs of healthcare have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2019 and 31 December 2018, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2019 and 2018.

## Other obligations with personnel

Within the framework of the new Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 11, the aim of which is to align the shareholders' interests, the materialisation of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the Annual Accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2019 totals Euros 5 million (Euros 3 million in 2018).

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

At 31 December 2018 a provision was included relating to the remuneration programmes 2016-2018 and 2017-2019 amounting to Euros 6 million, of which Euros 3 million was classified as non-current in 2018.

### Other non-current provisions

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

| | **2019** | 2018 |
|---|---|---|
| **At 1 January** | **222** | **193** |
| Appropriations [(1)] | 3 | 16 |
| Reversals | (46) | -- |
| Transfers and other | 8 | 13 |
| **At 31 December** | **187** | **222** |

[(1)] Includes Euros 3 million and Euros 3 million in 2019 and 2018, respectively, relating to the financial update of provisions.

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

No provision for business contracts was deemed necessary at 31 December 2019 or 2018.

At 31 December 2019, the estimated payment dates for these obligations are between one and five years (Euros 11 million), between five and 10 years (Euros 161 million) and more than 10 years (Euros 15 million) (2018: Euros 21 million at between one and five years, Euros 45 million at between five and 10 years and Euros 156 million at more than 10 years).

# Note 13. Borrowings

The breakdown of borrowings at 31 December 2019 and 2018 is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Borrowings from financial institutions | 1,744 | 1,985 |
| Derivatives (Note 14) | 90 | 54 |
| Other financial liabilities | 1 | 1 |
| **Non-current borrowings** | **1,835** | **2,040** |
| Borrowings from financial institutions | 253 | 233 |
| Derivatives (Note 14) | 16 | 9 |
| Other financial liabilities | 2 | 4 |
| **Current borrowings** | **271** | **246** |
| **Total** | **2,106** | **2,286** |

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **At 31.12.19** | At 31.12.18 | **At 31.12.19** | At 31.12.18 |
| Bank borrowings, derivates and other financial liabilities | 1,835 | 2,040 | 1,835 | 2,040 |

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 2019 and 31 December 2018 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

| | **2019** | 2018 |
|---|---|---|
| **At 1 January** | **2,286** | **4,240** |
| Increase | 49 | 135 |
| Decrease | (229) | (2,089) |
| **At 31 December** | **2,106** | **2,286** |

The following tables describe borrowings and maturities at 31 December 2019 and 2018, taking into account the impact of derivatives.

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

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and beyond | **Total** |
|---|---|---|---|---|---|---|---|
| At 31 December 2018: | | | | | | | |
| Fixed | 95 | 115 | 158 | 125 | 91 | 1,143 | 1,727 |
| Floating | 151 | 184 | 90 | 69 | 36 | 29 | 559 |
| **Total** | **246** | **299** | **248** | **194** | **127** | **1,172** | **2,286** |

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 0 million of total borrowings at 31 December 2019 (Euros 95 million at 31 December 2018) and variable-rate debt would amount to Euros 2,000 million at 31 December 2019 (Euros 2,128 million at 31 December 2018).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2019 and 31 December 2018 and their maturities, taking into account the impact of the derivative hedges:

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

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and beyond | **Total** |
|---|---|---|---|---|---|---|---|
| At 31 December 2018: | | | | | | | |
| Euro debt | 246 | 299 | 248 | 194 | 127 | 1,172 | 2,286 |
| **Total** | **246** | **299** | **248** | **194** | **127** | **1,172** | **2,286** |

Borrowings bore an average effective interest rate in 2019 of 0.82% (0.87% in 2018) including the derivatives assigned to each transaction.

At 31 December 2019, Bank borrowings includes Euros 6 million in interest pending payment (Euros 7 million at 31 December 2018).

Most of the drawn-down borrowings include a clause relating to a change in control, the activation of which depends on the simultaneity of some of the following events: the non-permanence of any of the current reference shareholders in a significant percentage; the loss of investment grade status from the Rating Agencies, or the incapacity to meet the financial obligations under the contract.

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

The most relevant financial instruments are as follows:

### Other bank borrowings

At 31 December 2019 and 2018 there are no bilateral bank loans and there are no drawn-down credit facilities.

### Institutional financing

The Company maintains a loan with the Official Credit Institute (ICO) relating to instruments for a total amount of Euros 200 million (Euros 200 million in 2018).

Additionally, financing granted by the European Investment Bank (EIB) to Naturgy has been drawn down in the amount of Euros 1,791 million with maturities between 2020 and 2037 (31 December 2018: Euros 2,011 million). This loan could be subject to early repayment, in case of a change of control, also requiring a reduction of the rating and having special debt repayment terms that are longer than those in the event of early termination. Likewise, Euros 1,459 million (Euros 1,555 million at 31 December 2018) are subject to compliance with certain financial ratios.

## Note 14. Risk management and derivative financial instruments

### Risk management

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

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

On June 23, 2016, UK voters supported their country's exit from the European Union in a national referendum ("Brexit"). The date originally scheduled for departure from the United Kingdom was March 29, 2019, which was subsequently delayed until October 31, 2019 and recently until January 31, 2020. Significant insecurity is maintained about the future of relations between the United Kingdom and the European Union, including the laws and regulations that will apply since the United Kingdom will determine which European laws it will replicate or replace in case of departure. The evolution of the negotiation has had and may continue to have adverse effects on the economic and political situation of the European Union and the stability of the international financial markets. Without considering the aforementioned international impact, Naturgy's exposure to the risk arising from "Brexit" is not considered significant.

## 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 2019 and 2018 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Fixed interest rate | 1,632 | 1,727 |
| Floating interest rate | 474 | 559 |
| **Total** | **2,106** | **2,286** |

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 |
|---|---|---|---|
| **2019** | +50 | (2) | 50 |
| | -50 | 2 | (50) |
| 2018 | +50 | (3) | 51 |
| | -50 | 3 | (51) |

## Exchange rate risk

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

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

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

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits for hedging instruments 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 is as follows:

| | | **2019** | 2018 |
|---|---|---|---|
| Effect on profit before tax | +5% | -- | -- |
| | - 5% | -- | -- |
| Effect on equity before tax | +5% | -- | -- |
| | - 5% | -- | -- |

## Commodity price risk

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

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants. Therefore, Naturgy is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products and the prices of natural gas hubs.

The exposure to these risks is managed and mitigated by natural hedging through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. 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 risk, generally through hedging instruments.

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

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

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

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

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.
- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. In addition to that policy, a large portion of Naturgy's supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy's markets and prices of the supply portfolio.

## Credit risk

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

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

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

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

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2019 or 2018.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2019 and 2018.

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 2019 and 2018 the Company did not have significant concentrations of credit risk.

## Liquidity risk

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

At 31 December 2019, available cash totalled Euros 6,132 million (Euros 5,756 million in 2018), considering cash and cash equivalents of Euros 1,174 million (Euros 722 million in 2018) together with bank borrowings and undrawn credit facilities amounting to Euros 4,958 million (Euros 5,034 million in 2018).

## 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:

| | 2019 | 2018 |
|---|---|---|
| Standard & Poor's | BBB | BBB |
| Fitch | BBB | BBB |

## Derivative financial instruments

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

| | At 31.12.19 | | At 31.12.18 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Hedging derivative financial instruments** | **--** | **90** | **--** | **54** |
| Cash-flow hedge | | | | |
| - Interest rate | -- | 64 | -- | 26 |
| - Interest rate and foreign exchange rate | -- | 26 | -- | 28 |
| **Other financial instruments** | **189** | **189** | **81** | **81** |
| - Price of commodities | 189 | 189 | 81 | 81 |
| **Derivative financial instruments – non current** | **189** | **279** | **81** | **135** |
| **Hedging derivative financial instruments** | **1** | **15** | **2** | **10** |
| Cash-flow hedge | | | | |
| - Interest rate | -- | 15 | -- | 10 |
| - Interest rate and foreign exchange rate | -- | -- | 2 | -- |
| - Exchange rate | 1 | -- | -- | -- |
| **Other financial instruments** | **344** | **345** | **112** | **117** |
| - Price of commodities | 344 | 344 | 106 | 117 |
| - Exchange rate | -- | 1 | 6 | -- |
| **Derivative financial instruments - current** | **345** | **360** | **114** | **127** |
| **Total** | **534** | **639** | **195** | **262** |

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

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Operating profit | Net financial income/ (expense) | Operating profit | Net financial income/ (expense) |
| Cash-flow hedge | -- | (8) | -- | (6) |
| Other financial instruments | 2 | 4 | (1) | (2) |
| **Total** | **2** | **(4)** | **(1)** | **(8)** |

The breakdown of derivatives at 31 December 2019 and 2018, their fair value and maturities of their notional values is as follows:

**At 31.12.19**

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

At 31.12.18

| | Fair value | Notional value | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2019** | 2020 | 2021 | 2022 | 2023 | Subsequent years | **Total** |
| **Interest rate hedges:** | | | | | | | | |
| Cash-flow hedges: | | | | | | | | |
| Financial swaps (EUR) | (36) | 95 | 844 | 63 | 91 | 91 | 1,392 | 2,576 |
| **Interest rate and foreign exchange rate hedges:** | | | | | | | | |
| Cash-flow hedges: | | | | | | | | |
| Financial swaps (NOK) | (26) | -- | -- | -- | -- | 101 | -- | 101 |
| **Other:** | | | | | | | | |
| Foreign exchange insurance (USD) | 6 | 439 | -- | -- | -- | -- | -- | 439 |
| Commodities price derivatives (EUR) | (11) | 7 | -- | -- | -- | -- | -- | 7 |
| Commodities price derivatives (USD) | -- | 1 | -- | -- | -- | -- | -- | 1 |
| | **(67)** | **542** | **844** | **63** | **91** | **192** | **1,392** | **3,124** |

## Note 15. Payables to Group companies and associates

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

| Maturity | At 31.12.19 | At 31.12.18 |
|---|---|---|
| 2019 | -- | 2,283 |
| 2020 | 3,168 | 932 |
| 2021 | 828 | 1,181 |
| 2022 | 1,451 | 1,486 |
| 2023 | 627 | 736 |
| 2024 | 1,590 | 1,897 |
| 2025 | 1,195 | -- |
| Subsequent years | 3,506 | 4,041 |
| **Total** | **12,365** | **12,556** |

Payables to Group companies mainly relate to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,500 million in 2018) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million in 2018) are also included.

It also includes accrued unmatured interest of Euros 179 million (Euros 217 million in 2018) and cash-pooling balances with Group companies amounting to Euros 1,637 million (Euros 962 million in 2018).

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 2019**

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

At 31 December 2018

| Programme/Company | Country | Year formalised | Currency | Programme limit | Drawn-down nominal amount | Available | Issuances per year |
|---|---|---|---|---|---|---|---|
| **Euro Commercial Paper (ECP) programme** | | | | | | | |
| Naturgy Finance B.V. | Netherlands | 2010 | Euros | 1,000 | -- | 1,000 | 6,478 |
| **European Medium Term Notes (EMTN) programme** | | | | | | | |
| Naturgy Capital Markets, S.A. and Naturgy Finance B.V. | Netherlands/ Spain | 1999 | Euros | 15,000 | 9,708 | 5,292 | -- |

The main movements for the years 2019 and 2018 are:

2019

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

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

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

2018

In January 2018 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 850 million maturing in 10 years and with a 1.5% coupon, the proceeds of which were used in a bond buy-back offer for Euros 916 million of debentures maturing between 2019 and 2023, which entailed a net disbursement of Euros 66 million. In the first half of 2018 two bonds have matured for a total amount of Euros 1,099 million and an average coupon of 4.59%.

On 22 October 2018, the company successfully repurchased bonds under its European Medium Term Notes (EMTN) programme amounting to Euros 314 million with maturities between 2019 and 2021. Additionally, on 18 December 2018 the repurchase of Euros 19 million of the bond maturing in January 2020 with a coupon of 4.50% was completed.

Borrowings from Group companies and associates accrued an average interest rate of 2.46% in 2019 (2.81% in 2018).

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

# Note 16. Trade and other payables

The breakdown at 31 December 2019 and 2018 is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Trade payables | 237 | 249 |
| Trade payables, Group companies and associates | 131 | 267 |
| Derivatives (Note 14) | 344 | 117 |
| Other payables | 11 | 12 |
| Personnel (outstanding remuneration) | 36 | 29 |
| Public Administrations | 21 | 27 |
| **Total** | **780** | **701** |

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

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

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

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

| | **2019** | 2018 |
|---|---|---|
| | Amount | Amount |
| Total payments (thousand euro) | 1,947,320 | 4,663,208 |
| Total outstanding payments (thousand euro) | 18,540 | 52,844 |
| Average supplier payment period (days) [(1)] | 18 | 17 |
| Transactions paid ratio (days) [(2)] | 17 | 17 |
| Transactions pending payment ratio (days) (3) [(3)] | 30 | 34 |

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

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

# Note 17. Tax situation

The Company is the parent of tax group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group’s taxable income, deductions and tax credits. The tax group for 2019 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 2019 and 2018 to taxable income is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| **Accounting profit before tax** | **4,347** | **5,282** |
| **Permanent differences** | **(4,616)** | **(5,544)** |
| **Temporary differences:** | | |
| Arising during current year | 40 | 150 |
| Arising in prior years | (23) | (70) |
| **Taxable income** | **(252)** | **(182)** |

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 1,361 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 547 million in 2018), the impairment of shareholdings in Group companies and associates amounting to Euros 320 million (Euros 4,565 million in 2018) and intragroup sales of shareholdings in Group companies and associates for a negative amount of Euros 3,560 million (Euros 9,590 million in 2018).

In 2019 the Company posted a tax loss of Euros 252 million (Euros 182 million in 2018), which is recovered from the tax Group companies due to the taxable income generated by them during the year.

Income tax expense is as follows:

| | **2019** | 2018 |
|---|---|---|
| Current-year tax | 64 | (53) |
| Deferred tax | 4 | 53 |
| **Total** | **68** | **--** |

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied in 2019 amounted to Euros 4 million (Euros 8 million in 2018) and no tax losses were offset. In 2019 there were no adjustments for tax differences from the previous year (Euros 2 million decrease in the expense in 2018).

On 3 December 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances, which introduced relevant changes in the corporate income tax area. Among other matters, with effect from 1 January 2016 the obligation is laid down to reverse provisions for the impairment of shareholdings that would have been deductible before 2013 in a maximum term of five years, the offsetting of tax losses for large companies is limited to 25% of the preliminary tax base and the application of the tax credit for domestic or international double taxation generated or pending application is restricted to 50% of preliminary gross tax payable. Additionally, effective from 1 January 2017, losses on the transfer of shares will not be deductible. In 2019 and 2018 these measures did not have a significant impact on the Company's Financial Statements.

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

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

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

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

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

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

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

| | | **At 31.12.19** | | | At 31.12.18 | |
|---|---|---|---|---|---|---|
| | Gross | Tax effect | Net | Gross | Tax effect | Net |
| Cash-flow hedges | 46 | (12) | 34 | 27 | (7) | 20 |
| Actuarial gains and losses and other adjustments | 53 | (13) | 40 | (24) | 5 | (19) |
| | **99** | **(25)** | **74** | **3** | **(2)** | **1** |

A breakdown of deferred taxes is as follows:

| | **At 31.12.19** | At 31.12.18 |
|---|---|---|
| Deferred tax assets: | 177 | 152 |
| Non-current | 162 | 140 |
| Current | 15 | 12 |
| Deferred tax liabilities: | (211) | (212) |
| Non-current | (211) | (212) |
| Net deferred tax | **(34)** | **(60)** |

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 1.1.2018** | **111** | **2** | **6** | **11** | **3** | **133** |
| Creation (reversal) | 3 | -- | -- | 1 | 16 | 20 |
| Movements linked to equity adjustments | (5) | -- | 4 | -- | -- | (1) |
| **At 31.12.2018** | **109** | **2** | **10** | **12** | **19** | **152** |
| Creation (reversal) | 4 | -- | -- | -- | -- | 4 |
| Movements linked to equity adjustments | 13 | -- | 12 | -- | -- | 25 |
| Transfers and other | (5) | 2 | (1) | -- | -- | (4) |
| **At 31.12.2019** | **121** | **4** | **21** | **12** | **19** | **177** |

| Deferred tax liabilities | Differences Depreciation | Deferred gains | Other | **Total** |
|---|---|---|---|---|
| **At 1.1.2018** | **3** | **197** | **27** | **227** |
| Creation (reversal) | (1) | -- | (32) | (33) |
| Movements linked to equity adjustments | -- | -- | (2) | (2) |
| Transfers and other | -- | 10 | 10 | 20 |
| **At 31.12.2018** | **2** | **207** | **3** | **212** |
| Transfers and other | -- | -- | (1) | (1) |
| **At 31.12.2019** | **2** | **207** | **2** | **211** |

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 2018 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. The periods under inspection for CIT purposes (tax consolidation regime) are from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

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.

The inspection proceedings are not expected to significantly impact the Naturgy companies.

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.

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

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

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

## Note 18. Revenue

Revenue breaks down as follows:

| | **2019** | 2018 |
|---|---|---|
| Electricity sales | 655 | 1,845 |
| Natural gas sales | 1,085 | 1,614 |
| Other sales | 5 | 5 |
| Income from equity instruments of Group companies and associates (Note 7) | 1,361 | 547 |
| Income from marketable securities and other financial instruments of Group companies and associates | 390 | 516 |
| **Total** | **3,496** | **4,527** |

| | **2019** | 2018 |
|---|---|---|
| Domestic market | 2,974 | 4,130 |
| Export market: | 522 | 397 |
| European Union | 510 | 385 |
| OECD countries | -- | -- |
| Other countries | 12 | 12 |
| **Total** | **3,496** | **4,527** |

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

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

## Note 19. Raw materials and consumables

Includes purchases of gas and electricity related to the activity of selling gas and electricity to other Naturgy companies.

## Note 20. Personnel expenses

A breakdown of this heading in the income statement for 2019 and 2018 is as follows:

| | **2019** | 2018 |
|---|---|---|
| Wages and salaries | 91 | 150 |
| Termination benefits | 57 | 65 |
| Social security costs | 13 | 24 |
| Defined contribution plans | 5 | 12 |
| Defined benefit plans (Note 12) | 1 | 2 |
| Share-based payments (Note 11) | 3 | 4 |
| Other | 3 | 5 |
| **Total** | **173** | **262** |

The average number of Company employees in 2019 and 2018 is as follows:

| | **2019** | 2018 |
|---|---|---|
| Executives | 291 | 488 |
| Middle management | 138 | 202 |
| Specialists | 328 | 723 |
| Operational staff | 180 | 293 |
| **Total** | **937** | **1,706** |

The average number of Company employees during 2019 and 2018 with a disability equal to or greater than 33% is as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | Men | Women | Men | Women |
| Executives | 2 | 1 | 3 | 1 |
| Middle management | 1 | 1 | 2 | 1 |
| Specialists | 7 | 3 | 11 | 12 |
| Operational staff | 5 | 6 | 5 | 7 |
| **Total** | **15** | **11** | **21** | **21** |

The number of Company employees at the end of 2019 and 2018 broken down by category and gender is as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | Men | Women | Men | Women |
| Executives | 163 | 94 | 276 | 167 |
| Middle management | 62 | 65 | 93 | 93 |
| Specialists | 95 | 173 | 260 | 384 |
| Operational staff | 32 | 134 | 53 | 190 |
| **Total** | **352** | **466** | **682** | **834** |

## Note 21. Other operating expenses

A breakdown of this heading in the income statement for 2019 and 2018 is as follows:

| | **2019** | 2018 |
|---|---|---|
| Leases, royalties, operation and maintenance | 35 | 71 |
| Professional services and insurance | 23 | 35 |
| Advertising and other commercial services | 15 | 22 |
| Naturgy Foundation contributions | 6 | 7 |
| Banking services | 6 | 6 |
| Supplies | 26 | 35 |
| Taxes | 1 | 2 |
| Impairment losses and changes in trade provisions (Note 9) | 1 | 9 |
| Other | 89 | 128 |
| **Total** | **202** | **315** |

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 alleviating energy vulnerability.

## Note 22. Other operating income

This account includes Euros 206 million in transactions with Group companies and associates in 2019 (Euros 353 million in 2018).

## Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2019 and 2018 is as follows:

| | **2019** | 2018 |
|---|---|---|
| Income from marketable securities and other financial instruments | 11 | 30 |
| **Total financial income** | 11 | 30 |
| Cost of borrowings | (402) | (451) |
| Interest expense on pensions (Note 12) | (5) | (5) |
| Other financial expense | (76) | (80) |
| **Total financial expense** | **(483)** | **(536)** |
| Variation in fair value of financial instruments | (5) | 8 |
| Trading portfolio and other available-for-sale assets | (5) | 8 |
| Net exchange differences | (2) | (8) |
| Impairment and gains/(losses) on disposals of financial instruments | -- | 1 |
| **Net financial income/(expense)** | **(479)** | **(505)** |

## Note 24. Foreign currency transactions

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

| | **2019** | 2018 |
|---|---|---|
| Sales | 629 | 1,009 |
| Income from marketable securities and other financial instruments of Group companies and associates | 24 | 12 |
| Purchases | (628) | (1,006) |
| Services received | (8) | (9) |
| **Total** | **17** | **6** |

## 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 subsidiaries, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.À.R.L.) since 18 May 2018 and Repsol, S.A. (Repsol) until 17 May 2018.

- Directors and executives of the Company and their close relatives. The term "director" means a member of the

Board of Directors and the term “senior management personnel” refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and senior management personnel are disclosed in Note 26.

- Transactions between Naturgy companies form part of ordinary activities and are effected at arm’s length. Group companies includes the amount that reflects the Company’s share of the balances and transactions with companies consolidated under the equity method.

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

| | **2019** | | | 2018 | | | |
|---|---|---|---|---|---|---|---|
| Income and expense (thousand euro) | “la Caixa” Group | CVC Group | GIP Group | “la Caixa” Group (*) | Repsol Group (**) | CVC Group (***) | GIP Group |
| Receipt of services | 1 | -- | -- | 1 | 801 | -- | -- |
| **Total expenses** | **1** | **--** | **--** | **1** | **801** | **--** | **--** |
| Provision of services | -- | -- | -- | -- | 38 | -- | -- |
| Sale of goods | -- | -- | -- | -- | 293 | -- | -- |
| **Total income** | -- | -- | -- | -- | 331 | -- | -- |

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| Other transactions (thousand euro) | “la Caixa” Group | CVC Group | GIP Group | “la Caixa” Group (*) | CVC Group (***) | GIP Group |
| Dividends and other profits distributed (****) | 333,486 | 268,548 | 267,584 | 346,808 | 281,202 | 280,193 |

(*) Since 1 January 2018 only transactions with Fundación la Caixa and Criteria Caixa are reported.
(**) Until 17 May 2018.
(***) Since 18 May 2018.
(****) The “la Caixa” dividend includes Euros 60,257 thousand which corresponds to the 100% payable to Energía Boreal 2018, S.A. (Euros 43,230 thousand attributable). At 31 December 2018 it included Euros 22,516 thousand.

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Expenses, income and other transactions** | Group companies | Jointly-controlled entities and associates | Group companies | Jointly-controlled entities and associates |
| Financial expenses | (444) | -- | (464) | -- |
| Lease expenses | (1) | (2) | (33) | (6) |
| Receipt of services | (12) | -- | (28) | -- |
| Purchases of goods | (340) | | (171) | -- |
| **Total expenses** | **(797)** | **(2)** | **(696)** | **(6)** |
| Financial income | 390 | -- | 516 | -- |
| Dividends received | 2,050 | 1 | 1,541 | 1 |
| Sale of goods | 1,651 | -- | 1,839 | -- |
| Other income | 205 | 1 | 351 | 2 |
| **Total income** | **4,296** | **2** | **4,247** | **3** |

The heading “Purchases of goods” relates basically to electricity purchased from the other Group companies, the Company is their market representative until 1 June 2019.

The heading “Dividends received” includes the dividend payments from voluntary reserves, registered as a lower value on investments in Group companies amounting to Euros 690 million (Euros 995 million in 2018) (Note 7).

“Sales of goods” includes sales of natural gas derived from supply and electricity contracts, as it acts as the representative of the Group companies vis-à-vis the market.

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

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

Detailed definitions are prepared for services to be provided and for 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 members of the Board of Directors and senior management personnel

## 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 27 June 2018 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members of the Company's Board of Directors for belonging to the Board of Directors, the Audit Committee (AC) and the Appointments and Remuneration Committee (ARC), totalled Euros 3,955 thousand (Euros 4,412 thousand in 2018), broken down in Euros as follows:

| | Office | Board | AC | ARC | **Total** |
|---|---|---|---|---|---|
| Mr Francisco Reynés Massanet | Executive Chairman | 1,100,000 | - | - | 1,100,000 |
| Mr Ramón Adell Ramón | Coordinating Director | 205,000 | 60,000 | 90,000 | 355,000 |
| Mr Enrique Alcántara-García Irazoqui | Director | 175,000 | 60,000 | - | 235,000 |
| Mr Marcelino Armenter Vidal | Director | 175,000 | - | 60,000 | 235,000 |
| Mr Francisco Belil Creixell | Director | 175,000 | 90,000 | 60,000 | 325,000 |
| Mrs Helena Herrero Starkie | Director | 175,000 | 60,000 | - | 235,000 |
| Mr Rajaram Rao | Director | 175,000 | 60,000 | - | 235,000 |
| Rioja Bidco Shareholdings, S.L.U., Mr Javier de Jaime Guijarro(1) | Directorl | 102,083 | - | 35,000 | 137,083 |
| Rioja S.À.R.L., Mr Javier de Jaime Guijarro (1) | Director | 72,917 | - | 25,000 | 97,917 |
| Mr Pedro Sainz de Baranda Riva | Director | 175,000 | 60,000 | 60,000 | 295,000 |
| Mr Claudi Santiago Ponsa | Director | 175,000 | - | 60,000 | 235,000 |
| Mr Scott Stanley(2) | Director | 160,417 | - | 55,000 | 215,417 |
| Theatre Directorship Services Beta, S.À.R.L., Mr José Antonio Torre de Silva López de Letona | Director | 175,000 | 60,000 | - | 235,000 |
| Mr William Alan Woodburn(3) | Director | 14,583 | - | 5,000 | 19,583 |
| | | **3,055,000** | **450,000** | **450,000** | **3,955,000** |

(1) Rioja S.À.R.L. replaced Rioja Bidco Shareholdings, S.L.U. as Director in August 2019.
(2) Since 29 January 2019.
(3) Until 29 January 2019.

In 2019, as in 2018, no amounts were received for other items.

At 31 December 2019, the Board of Directors consisted of 12 members.

In 2018, there were significant changes in the structure of the Board of Directors. On 6 February 2018, the Board of Directors agreed to appoint a new Executive Chairman due to the departure of the former CEO and Chairman. As a result, the number of Board members was reduced to 16 persons. Subsequently, on 27 June 2018, the shareholders in general meeting approved the reduction in the number of members of the Board of Directors to 12 members. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at seven persons and the number of Appointments and Remuneration Committee members was set at seven persons.

For the executive functions carried out in the year 2019, the Executive Chairman has earned Euros 3,371 thousand corresponding to fixed compensation (Euros 930 thousand), annual variable (Euros 2,369 thousand) and other items (Euros 72 thousand), although the amount corresponding to the annual variable remuneration will be settled as a contribution to the pension plan of which the Executive Chairman is a beneficiary, in accordance with the contractually established (Euros 809 thousand, Euros 2,097 thousand and Euros 11 thousand in the year 2018; also, in the year 2018, the annual variable remuneration was settled as a contribution to the pension plan).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed to the social welfare plan mentioned above, totalled

Euros 477 thousand in 2019 (Euros 490 thousand in 2018). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 5,232 thousand at 31 December 2019 (Euros 2,457 thousand in 2018).

In addition, in 2018, the remuneration earned by the former Chief Executive Officer for executive functions until 6 February 2018 totalled Euros 15,395 million and contributions to pension plans and group insurance, and the premiums paid for life insurance, amounted to Euros 34 thousand.

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

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

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total fixed remuneration, annual variable remuneration and 1.25 times total fixed remuneration (as long-term variable remuneration subject to having achieved the minimum profitability target under the LTI). 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.

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

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2019 by Naturgy, S.A. for the entire policy amounted to Euros 140 thousand (Euros 121 thousand in 2018).

## Transactions with Directors

The Directors have a duty to avoid conflicts of interest as established by the Company's Board Regulations 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.

The Company's Directors have not reported any conflict of interest to the Board of Directors that has to be notified.

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 2019 and 2018, the members of the Board have not carried out related-party transactions outside the ordinary course of business or transactions that are not conducted under normal market conditions with the company or Group companies.

### Senior management remuneration

For the sole purposes of the information contained in this section, “senior management personnel” refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Manager.

At 31 December 2019, 11 people made up this group, without taking into account the Internal Audit Manager (13 persons at 31 December 2018), one of whom is a woman. During 2019, there was one departure in April 2019 and another departure on 31 December 2019.

Amounts accrued to senior management personnel in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 6,217 thousand, Euros 3,452 thousand, Euros 1,081 thousand and Euros 362 thousand, respectively, in 2019 (Euros 6,769 thousand, Euros 3,853 thousand, Euros 595 thousand and Euros 230 thousand, respectively, in 2018). The long-term variable incentive plan (LTI) in which 25 executives participate, is described in Note 11.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,422 thousand in 2019 (Euros 1,599 thousand in 2018). Funds accumulated due to these contributions amount to Euros 17,967 thousand at 31 December 2019 (Euros 23,309 thousand at 31 December 2018).

Advances amounting to Euros 45 thousand had been granted to management personnel at 31 December 2019 (Euros 30 thousand at 31 December 2018). In 2019, as in 2018, Naturgy has not provided any new guarantees for loans to senior management personnel. Termination benefits received by senior management personnel leaving Naturgy amounted to Euros 3,832 thousand in 2019 (Euros 6,493 thousand in 2018).

The contracts signed with the 11 managers contain a clause providing for compensation ranging from two years' fixed remuneration in some cases to three and a half years' remuneration in others relating to certain employment termination events, including certain situations involving a change of control, unfair dismissal or the cases referred to in Articles 40, 41 or 50 of the Workers' Statute. In addition, the 11 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting two years.

## Note 27. Contingent liabilities and commitments

### Guarantees

Guarantees furnished by Naturgy at 31 December 2019 and 2018 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 57 million (Euros 55 million at 31 December 2018).
- Guarantees relating to the economic obligations resulting from its participation in the Spanish electricity system (MEFF and OMIE) for Euros 19 million (Euros 160 million at 31 December 2018).
- Guarantees for compliance with obligations by the administrative concession granted for US Dollars 7 million (Euros 6 million). In addition, there are guarantees for compliance with obligations of loans by investee companies for US Dollars 78 million (Euros 69 million).
- Guarantees to Group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for debt issuances carried out by them totalling Euros 10,335 million (Euros 11,531 million at 31 December 2018).
- Guarantees to Group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S for obligations under the gas purchase and transport contracts and gas tanker chartering agreements.

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 2019 if any, that could arise from guarantees furnished, would not be significant.

## Contractual commitments

At 31 December 2019, the Company is party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 3.5), by virtue of which it has gas purchase rights for the period 2020 - 2025 in the amount of Euros 799 million, calculated on the basis of natural gas prices at 31 December 2019 (Euros 3,489 million based on natural gas prices at 31 December 2018).

Operating lease commitments break down as follows:

| | **2019** | 2018 |
|---|---|---|
| Up to one year | 19 | 17 |
| Between 1 and 5 years | 61 | 76 |
| Between 5 and 10 years | 43 | 32 |
| | **123** | **125** |

Includes the rent on the “Torre del Gas” building, owned by Inmobiliaria Colonial, Socimi, S.A. (formerly Torremarenostrum, S.L.), with an operating lease without a purchase option until 2020.

It also includes the operating leases without a purchase option for four properties in Madrid (Avenida San Luis, 77, Acanto, 11-13 and Calle Lérida) for a period of seven years, extendable for five years, and other property in Madrid (Avenida América, 38), for a period of eleven years, extendable for two five-year terms, and a property in Sant Cugat del Vallés (Barcelona) located in the Can Atmetller Industrial Estate, for a period of five years extendable by another five years.

## Contingent liabilities for litigation and arbitration

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

### Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy has requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contains various provisions that require negotiations between the parties, which have given rise to a second arbitration process.

### Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, Cairo and the ICSID) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. The decisions on the arbitration underway in Madrid have yet to be delivered. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay US Dollars 2,013 million after taxes and before interest. On 19 December 2018 Unión Fenosa Gas obtained confirmation of the award in the United Kingdom and expects to obtain confirmation in the United States. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last, as has been done. In January 2020, since Egypt had not provided the guarantees established by the ICSID, the temporary suspension was lifted and, consequently, enforcement actions resumed.

### Social Bond

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

At 31 December 2019, the balance sheet includes provisions for litigation based on the best estimate made using the information available at the date of preparation of these Annual Accounts on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

## Note 28. Auditors' fees

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

| | | thousand euro |
|---|---|---|
| | **2019** | 2018 |
| Auditing services | 693 | 681 |
| Assurance services and services related to the audit [(1)] | 179 | 42 |
| Other services [(1)] | 17 | 181 |
| **Total fees** | **889** | **904** |

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

# Note 29. Environment

## Environmental actions

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

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy, approved in the first half of 2019 and which applies to all geographical areas and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy.

To this end, four strategic environmental axes have been established:

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

The most important milestones for 2019 in environmental governance and management are the approval of the Global Environmental Policy and the 2018-2022 Environmental Plan, which include actions, monitoring indicators and global objectives to improve environmental performance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital. The objectives of this Environmental Plan include a 21% reduction in Scope 1 and Scope 2 greenhouse gas emissions in absolute terms by 2022 with respect to the figures for 2018, which is in line with the global objective of keeping global warming below 1.5ºC.

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

Concerning climate change and the energy transition, the main lines of action carried out in 2019 are growth in low or zero emission renewable capacity, the replacement of carbon-intensive fuels by more sustainable fuels, the promotion of sustainable mobility and the reduction of leak emissions in gas distribution networks. Likewise, a new, more precise methodology has been implemented in the gas distribution network in Spain for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

During 2019 there has been a reduction in direct $CO_2$ emissions compared to 2018 as a result of the reduction in coal generation.

In the circular economy, the lines of work are different. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were developed to reduce the consumption of various materials and consumables. Actions have also been taken to enhance waste recovery and reduce waste generation. Concerning water, there was a decrease in 2019 compared to 2018, mainly due to lower demand for coal-fired power plants. It should finally be noted that innovation projects have been carried out in new energy models that are fully aligned with the circular economy. An example of this is the pilot plant for generating renewable gas from urban wastewater at the Butarque treatment plant (Madrid).

In 2019, Naturgy has conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with the prevention, reduction in and compensation for our impacts, and the enhancement of the value of the natural surroundings.

The environmental activities undertaken by the Company in 2019 totalled Euros 3.8 million (Euros 11 million in 2018), comprising Euros 0.3 million relating to environmental investment and Euros 3.5 million relating to the costs of environmental management at facilities (Euros 1 million for environmental investments and Euros 10 million related to expenses incurred in environmental management at facilities in 2018).

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

### Emissions

In 2019, total consolidated $CO_2$ emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 6.2 million tonnes of $CO_2$ (9.1 million tonnes of $CO_2$ in 2018). This three million tonne decrease is due to the reduced operation of coal-fired plants.

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

There were no significant events between 31 December 2019 and the date of preparation of these Financial Statements.

## Appendix I. Naturgy tax Group companies

The companies in the Naturgy tax group are as follows:

| | |
|---|---|
| Naturgy Energy Group, S.A. | Naturgy Generación, S.L.U. |
| Boreas Eólica 2, S.A. | Naturgy Iberia, S.A. |
| Comercializadora Regulada, Gas & Power, S.A. | Naturgy Informática, S.A. |
| Energías Ambientales de Somozas, S.A. | Naturgy Infraestructuras Emea, S.L. |
| Energías Especiales Alcoholeras, S.A. | Naturgy Ingeniería Nuclear, S.L. |
| Europe Maghreb Pipeline Ltd. | Naturgy Inversiones Internacionales, S.A. |
| Explotaciones Eólicas Sierra de Utrera, S.L. | Naturgy IT, S.L.U. |
| Fenosa, S.L.U. | Naturgy LNG, S.L. |
| Gas Natural Comercializadora, S.A. | Naturgy Participaciones, S.A. |
| Gas Natural Exploración, S.L. | Naturgy Renovables Ruralia, S.L. |
| Gas Natural Redes GLP, S.A. | Naturgy Renovables, S.L.U. |
| Gas Natural Transporte SDG, S.L. | Naturgy Wind 4, S.L.U. |
| General de Edificios y Solares, S.L. | Naturgy Wind, S.L. |
| Global Power Generation, S.A. | Nedgia Andalucía, S.A. |
| GPG Ingeniería y desarrollo de Generación, S.L.U. | Nedgia Aragón, S.A. |
| GPG México, S.L.U. | Nedgia Balears, S.A. |
| GPG México Wind, S.L.U. | Nedgia Castilla La Mancha, S.A. |
| Holding de Negocios de Gas, S.A. | Nedgia Catalunya, S.A. |
| Holding Negocios Electricidad, S.A. | Nedgia Cegas, S.A. |
| J.G.C. Cogeneración Daimiel, S.L. | Nedgia Madrid, S.A. |
| La Propagadora del Gas, S.A. | Nedgia Navarra, S.A. |
| Lean Corporate Services, S.L.U. | Nedgia, S.A. |
| Lean Customer Services, S.L.U. | Operación y Mantenimiento Energy, S.A. |
| Lean Grids Services, S.L.U. | P.E. El Hierro, S.L. |
| Lignitos de Meirama, S.A. | P.E. Montamarta, S.L. |
| Medina Partnership, S.A.U. | P.E. Nerea, S.L. |
| Naturgy Acciones, S.L.U. | P.E. Peñarroldana, S.L. |
| Naturgy Alfa Investments, S.A.U. | Petroleum, Oil & Gas España, S.A. |
| Naturgy Almacenamientos Andalucía, S.A. | Sagane, S.A. |
| Naturgy Aprovisionamientos, S.A. | Sociedad de Tratamiento la Andaya, S.L. |
| Naturgy Capital Markets, S.A. | Societat Eòlica de L'Enderrocada, S.A. |
| Naturgy Commodities Trading, S.A. | Tratamiento Cinca Medio, S.L. |
| Naturgy Distribución Latinoamérica, S.A. | UFD Distribución Electricidad, S.A. |
| Naturgy Electricidad Colombia, S.L. | Unión Fenosa Minería, S.A. |
| Naturgy Engineering, S.L. | Unión Fenosa Preferentes, S.A.U. |
| Naturgy Gas and Power, S.L.U. | --- |

Naturgy Energy Group, S.A.
Annual Report I **2019**

# Directors' Report

# 1. Business performance and results

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

| | 2019 | 2018 | % |
|---|---|---|---|
| Net turnover | 3,496 | 4,527 | (22.8) |
| Operating profit | 4,826 | 5,787 | (16.6) |
| Profit for the year | 4,415 | 5,282 | (16.4) |
| Shareholders' equity | 19,914 | 17,253 | 15.4 |
| Net equity | 19,853 | 17,226 | 15.3 |
| Current liabilities | 2,106 | 2,286 | (7.9) |

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 Main milestones and key figures

### 1.1.1. Main milestones in 2019

### January to March

- In January 2019, the Board of Directors approved a revised version of the Corporate Responsibility Policy in accordance with the Code of Good Governance issued by the Spanish National Securities Market Commission.
- Naturgy was recognised by Carbon Disclosure Project (CDP) as a world leader in combating climate change, as the only Spanish energy company to be included in CDP's A 2018 List.
- The company was granted European funding (ERDF and Horizon 2020) to implement the European Social Watt project, to investigate and implement innovative measures in connection with energy poverty.
- In January 2019, Naturgy announced the closure of La Robla, Narcea and Meirama coal-fired power plants by mid-2020.
- The Shareholders' Meeting on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share out of 2018 income, which was paid in cash on 20 March 2019.

### April to June

- The Board of Directors approved the revised Human Rights Policy, in accordance with the United Nations Guiding Principles on Business and Human Rights.

- In April 2019, Naturgy reached an agreement to sell 100% of its electricity distribution subsidiaries in Moldova to Duet Private Equity Limited for Euros 141 million. The sale was completed in July 2019.
- The company was the world leader in the multiutilities sector of FTSE4Good for the second consecutive year.

## July to September

- On 23 July 2019, the Company's Board of Directors declared an interim dividend of Euros 0.294 per share out of 2019 income, paid in cash on 31 July 2019.
- On 27 July 2019, an agreement was reached to sell of 100% of Chilean electricity transmission company Transemel, S.A. to Redes Energéticas Nacionais (REN), the Portuguese grid operator, for Euros 155 million.
- On 5 August 2019, capital was reduced through the cancellation of 16,567,195 own shares with a par value of Euros 1 each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution (the shares had been acquired under the Naturgy Energy Group, S.A. share buy-back programme). Following the capital reduction, share capital stood at Euros 984 million, made up of 984,122,146 shares with a par value of Euros 1 each.
- The company was granted European funding (ERDF and Horizon 2020) for the European Energy Poverty Intelligence Unit project in Getafe (EPIU Getafe), with the aim of reducing energy poverty, developing new services and applying custom solutions adapted to vulnerable groups.
- Naturgy was the leader of the gas utilities sector of the Dow Jones Sustainability Index (DJSI).

## October to December

- On 15 October 2019, Naturgy and Sonatrach reached an agreement to acquire 42.09% of Medgaz, S.A. from Mubadala. Following the closure of the transaction, Medgaz will be owned by Sonatrach (51.0%) and Naturgy (49.0%). The transaction is expected to be completed by the end of March 2020, subject to certain conditions and approvals.
- On 29 October 2019, the Board of Directors of Naturgy Energy Group, S.A. declared a second interim dividend of Euros 0.473 per share out of 2019 income, paid in cash on 12 November 2019.
- On 19 November 2019, Naturgy completed its first bond issue under the new Business Plan: Euros 750 million which were used for a bond tender offer.
- Naturgy obtained the highest sustainability rating (AAA) from MSCI.
- It was ranked among the top 5 in the Utilities sector by Sustainalytics, whose rating is used to set the interest rate on a credit line with ING.
- The Naturgy Foundation's energy refurbishment solidarity fund refurbished its 1,000th home under agreements with third-sector institutions.
- The Environment Plan 2018-2022 was approved, which sets out actions, tracking indicators and overall objectives so as to enhance governance in the area of the environment and climate change, reduce greenhouse gas emissions, promote the use of renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Renewable gas, produced by the Butarque wastewater treatment plant in Madrid, was injected into the Spanish gas distribution grid for the first time.

- A total of 799 MW of renewable energy capacity were commissioned and 116 MW were in the final stages of construction, corresponding to 21 wind farms and 5 solar photovoltaic farms, which cost a total of Euros 860 million and were allotted to Naturgy in auctions held by the government in 2017.

# Financial performance (million euro)

## Notes on financial disclosures

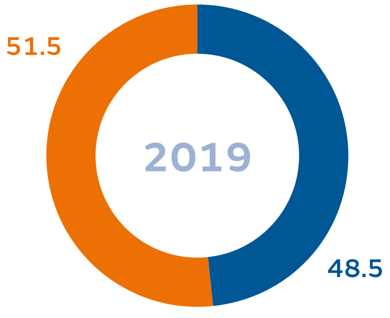
- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

## Main financial aggregates

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 23,035 | 24,339 | (5.4) |
| Ebitda | 4,562 | 4,019 | 13.5 |
| Income attributable to equity holders of the parent | 1,401 | (2,822) | - |
| Capital expenditure | 1,685 | 2,321[(1)] | (27.4) |
| Net borrowings (at 31/12) | 15,268 | 15,309[(2)] | (0.3) |
| Free cash-flow after non-controlling interests | 1,958 | 3,054[(3)] | (35.9) |

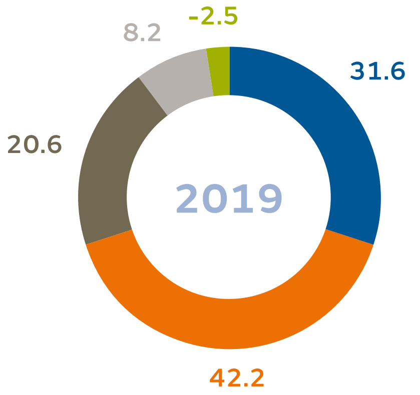
[(1)] Including Euros 380 million related to two LNG tankers in time-charter regime incorporated during 1H18 (non-cash investments).
[(2)] Net borrowings IFRS 16 adjusted.
[(3)] Including almost Euros 2,600 million of divestments.

## Ebitda by geography _
(%)



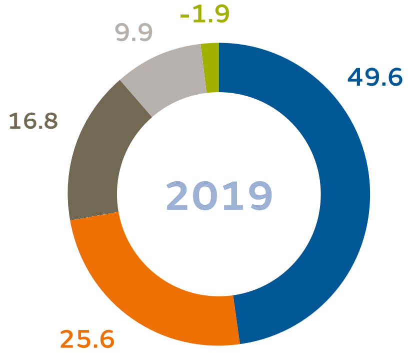

- Spain.
- International.

## Ebitda by business_
(%)




- Gas & Power.
- Infrastructure EMEA.
- Infrastructure LatAm South.
- Infrastructure LatAm North.
- Rest.

## Capital expenditure by business _
(%)




- Gas & Power.
- Infrastructure EMEA.
- Infrastructure LatAm South.
- Infrastructure LatAm North.
- Rest.

## Key financials & metrics

| | 2019 | 2018 |
|---|---|---|
| Leverage [1] | 52.2% | 51.2% |
| Ebitda/Cost of net borrowings | 7.3x | 7.5x |
| Net borrowings [1]/Ebitda | 3.3x | 3.8x |

[1] 2018 Pro forma applying IFRS 16.

## Main stock market ratios and shareholder remuneration

| | 2019 | 2018 |
|---|---|---|
| Total No. of shares (in thousands) | 984,122 | 1,000,689 |
| Average No. of shares (in thousands) [1] | 977,636 | 998,966 |
| Share price at 31/12 (euro) | 22.40 | 22.26 |
| Market capitalisation at 31/12 (million euro) | 22,044 | 22,275 |
| Earnings per share (euro) [1] | 1.43 | (2.83) |
| Dividend paid | 1,319 | 1,400 |

[1] Calculated using the weighted average number of own shares in the year.

### 1.1.2. Operational performance

| **Distribution** | **2019** | **2018** |
|---|---|---|
| Gas distribution (GWh) | 465,844 | 449,259 |
| Electricity distribution (GWh) | 53,519 | 54,920 |
| Gas supply points (in thousands) | 11,075 | 10,605 |
| Electricity supply points (in thousands) | 7,691 | 7,569 |
| Gas distribution network (km) | 133,917 | 119,998 |
| Length of electricity transmission and distribution network (km) | 218,831 | 215,532 |

| **Gas** | **2019** | 2018 |
|---|---|---|
| Supply (GWh) | 214,975 | 237,379 |
| International LNG (GWh) | 124,277 | 140,669 |
| **Total gas supply (GWh)** | **339,252** | **378,048** |

| **Electricity** | **2019** | 2018 |
|---|---|---|
| Installed capacity in Spain (MW) | 13,724 | 12,504 |
| Installed capacity in rest of world (MW) | 3,169 | 3,093 |
| **Total installed capacity (MW)** | **16,893** | **15,597** |
| Net production in Spain (GWh) | 25,771 | 28,307 |
| Net production in rest of world (GWh) | 18,933 | 18,351 |
| **Total net production (GWh)** | **44,704** | **46,658** |

### 1.1.3. Environmental and social performance

| **Environment** | **2019** | 2018 |
|---|---|---|
| Power generation emission factor ($tCO_2$/GWh) | 301 | 342 |
| Greenhouse gas (GHG) emissions ($MtCO_2$ eq) [(1)] | 15.4 | 18.3 |
| Emissions-free installed capacity (%) | 30.1 | 27.5 |
| Emissions-free net production (%) | 27.0 | 24.9 |

| **Interest in people** | **2019** | 2018 |
|---|---|---|
| No. of employees at year-end [(2)] | 11,847 | 12,700 |
| Training hours per employee | 25.2 | 49.9 |
| Men/women (%) | 68/32 | 69/31 |

| **Health and safety** | **2019** | 2018 |
|---|---|---|
| No. of accidents leading to days lost | 28 | 28 |
| Frequency rate | 1.2 | 1.0 |

| **Commitment to society and integrity** | **2019** | 2018 |
|---|---|---|
| Economic value distributed (million euro) | 21,533 | 23,413 |
| No. of notifications received by the Ethics Committee | 194 | 199 |

[(1)] GHG: greenhouse gases, measured as $tCO_2$ equivalent (Scope 1).
[(2)] Does not include the number of employees at discontinued operations (78 persons in 2019 and 786 persons in 2018).

# 2. Market trends, risks and opportunities

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## 2.1. Market trends

### Reduction of $CO_2$ emissions and expansion of renewable energy, with natural gas as a key contributor

The Paris Agreement (XXI United Nations Climate Change Conference - COP 21) seeks to minimise the impact of climate change, entailing a reduction in emissions that is only possible if there is a long-term energy transformation. The energy transformation may be an opportunity, since it will require increased investment, but it will also reshape the appeal of businesses and investments alike.

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

Due to falling capital costs, renewables are consolidating their leadership and will be the fastest-growing primary energy source in the medium and long-term. Renewables are expected to expand from 2% of primary energy demand in 2018 to 7% by 2040.

Natural gas is expected to account for 25% of the primary energy mix in 2040, as it is the main energy source that is compatible with the climate commitments.

### Growing electricity demand and energy efficiency

In terms of final energy consumption, electricity will expand by 58%, from total worldwide demand of 23,000 TWh in 2018 to 36,500 TWh in 2040. Development of the emerging economies will require increased use of electrical applications (motors, cooling systems, information technology, etc.), while greater electrification of homes and transportation, coupled with digitalisation, will drive growth of electricity as a final energy source.

Electricity's share of total energy demand is expected to rise from 19% in 2018 to 24% in 2040.

### Big data and data analytics

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

## 2.2 Risks

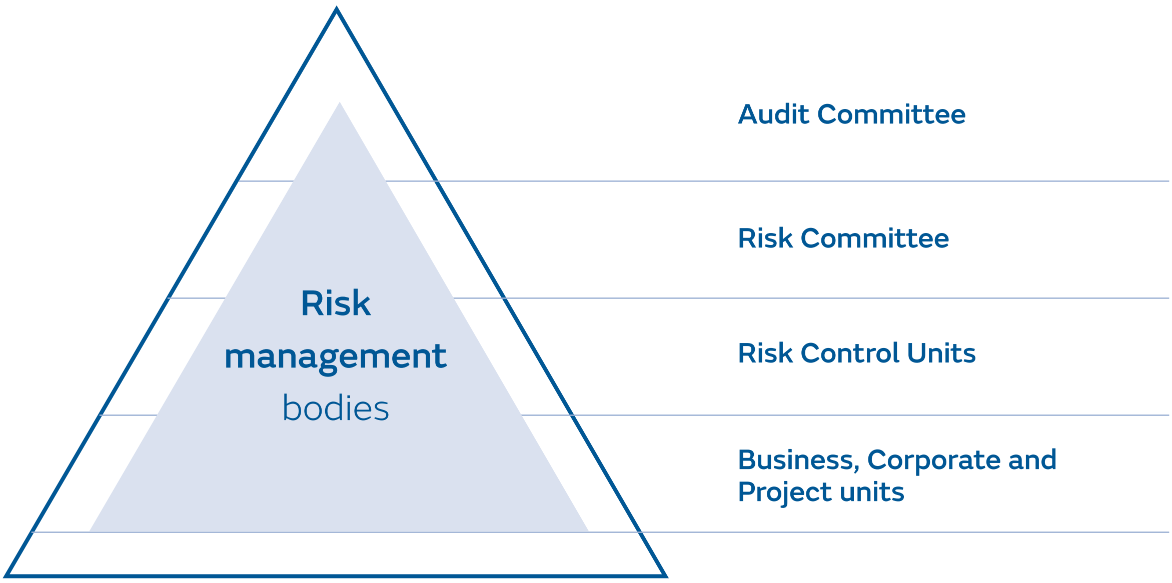
### 2.2.1. Risk management model

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

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

## Risk management bodies

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




**Audit Committee**

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

**Risk Committee**

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

**Risk Control Units**

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

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

### Business, Corporate and Project units

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

## Risk categories

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

The system addresses basically three categories of risk:

**Market risk,** understood as the uncertainty related to commodity prices, exchange rates and interest rates, which may impact the company's balance sheet, its procurement costs or its ability to raise funding in the capital markets. It is measured using two yardsticks: in the short-term, focused on the income statement, and in the long-term, focused on enterprise value, including the capacity to generate cash-flow and its stability, variations in the funding structure, and volatility in the applicable discount rates.

**Credit risk,** i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.

**Operating risk,** i.e. the possibility of financial losses as a result of failures in processes, internal systems or other factors. It enables risk to be measured objectively, which is decisive for raising awareness within the company and for improving management of exposure, all of which have an essential impact on the reinsurance market's perception of Naturgy's operational excellence.

## Main Risks

| Risk type | | Description |
|---|---|---|
| **Market risks** | | |
| Commodity prices | Gas | Volatility in the international markets that set gas prices. |
| | Electricity | Volatility in the Spanish and Portuguese electricity markets. |
| Volume | Gas | Mismatch between gas supply and demand. |
| | Electricity | Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output. |
| Regulatory | | Exposure to regulatory review of the criteria and returns recognised for regulated activities. |
| Exchange rate | | Volatility in international currency markets. |
| Interest rate and credit spread | | Volatility in funding rates. |
| Tax | | Ambiguity or subjectivity in the interpretation of current tax regulations, or due to a material amendment of same. |
| **Credit risk** | | |
| Credit | | Uncertainty about performance of bad debt ratios as a result of the economic cycle. |
| **Operating risk** | | |
| Operational: Insurable risks | | Accidents, damage and non-availability of Naturgy assets. |
| Operational: Image and reputation | | Impaired perception of Naturgy by stakeholders. |
| Operational: Environment | | Harm to the natural and/or social environment. |
| Operational: Climate change | | Business impact of measures to combat climate change. Effect of climate management on the company's valuation. Growing exposure of facilities to natural catastrophes in an increasingly restrictive reinsurance market. |
| Operational: Cybersecurity | | Cyberattacks. |

| Management approach | Metric | | Trend |
|---|---|---|---|
| Physical and financial hedges. Portfolio management. | Stochastic | ↑ | Decoupling of long-term contracts from hub prices. |
| Physical and financial hedges.<br>Optimisation of the power generating fleet. | Stochastic | ↑ | Penetration by renewables with zero marginal cost and intermittent production. |
| Optimisation of contracts and assets worldwide. | Deterministic<br>Stochastic | ← → | Aggregate demand pressure in Spain in a context of energy efficiency. |
| Optimisation of the balance between supply and generation. | Stochastic | ↑ | Aggregate demand pressure in Spain in a context of energy efficiency. |
| Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates. | Scenarios | ↑ | Different business units at different stages of maturity. |
| Geographic diversification.<br>Hedging via local-currency funding and derivatives.<br>Monitoring the net position. | Stochastic | ← → | Uncertainty about growth prospects in Latin America. |
| Financial hedges.<br>Diversification of funding sources. | Stochastic | ← → | Uncertainty about the interest rate scenario. |
| Queries to independent expert bodies.<br>Engagement of top-level advisory firms.<br>Adoption of the Code of Best Tax Practices.<br>Recognition of provisions on a prudential basis. | Scenarios | ← → | Different business units are affected by different taxes. |
| Analysis of customer solvency to define specific contractual conditions.<br>Debt collection process. | Stochastic | ← → | Pursues efficiency in debt collection. |
| Continuous improvement plans.<br>Optimisation of total cost of risk and of hedges. | Stochastic | ↑ | Growing tension in the insurance market in the face of natural catastrophes. |
| Identification and tracking of potential reputational events.<br>Transparency. | Scenarios | ← → | Stabilisation of MERCO index score. |
| Emergency plans at facilities with risk of environmental accident.<br>Specific insurance policies.<br>End-to-end environmental management. | Scenarios | ↓ | Implementation of an Integrated Management System that is audited and certified each year by AENOR. |
| Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets. | Stochastic<br>Scenarios | ↑ | Uncertainty about policy developments to encourage energy efficiency. |
| Implementation of security measures.<br>Event analysis and remediation measures.<br>Training. | Scenarios | ↑ | The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact. |

**Metrics used**

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

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

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

### 2.3. Opportunities

Naturgy's main opportunities are as follows:

- **Renewable generation**: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Generation mix:** Naturgy's generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity markets.
- **Portfolio of natural gas and LNG procurements:** Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Naturgy's various businesses in a flexible, diversified way by optimising for different energy scenarios. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.
- **A balanced structural position** in businesses and regions, many of them with stable flows that are independent of commodity prices, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.
- **Technological development and innovation:** Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.

## 3. Corporate governance

Attached as an annex and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2019, as required by article 526 of the Capital Companies Act.

### 3.1. Corporate Governance Model

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

The corporate governance terms of reference comprise basically:

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

The main shareholders of Naturgy as of 31 December 2019 and 2018 are as follows:

| | Stake % | |
|---|---|---|
| | 2019 [5] | 2018 [4] |
| ▪ Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" [1] | 24.4 | 25.6 |
| ▪ Global Infrastructure Partners III [2] | 20.3 | 20.0 |
| ▪ CVC Capital Partners SICAV-FIS, S.A. [3] | 20.4 | 20.1 |
| ▪ Sonatrach | 4.1 | 3.9 |

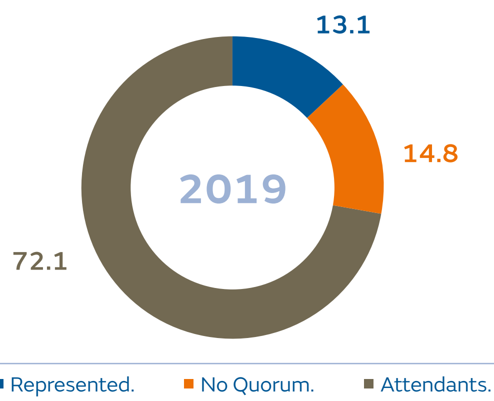
(1) In 2019, participation through Criteria Caixa S.A.U. In 2018, 20.4% of participation through Criteria Caixa S.A.U. and 5.2% indirect participation (5.0% through Energía Boreal 2018, S.A. and 0.2% of others).
(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.À.R.L.
(3) Through Rioja Acquisition S.À.R.L. The company Rioja Acquisition S.À.R.L. was absorbed by Rioja Bidco Shareholdings, S.L.U. in 2019.
(4) On 22 February 2018, Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol, S.A. ceased to be a shareholder of that company.
(5) Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds as it is considered floating capital as the stake occasionally rises above or falls below the 3% threshold.

Following the changes in ownership structure, on 27 June 2018 the General Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. In addition, the Executive Committee was eliminated and the number of members of the Audit Committee was set at seven persons and the number of Appointments and Remuneration Committee members was set at seven persons.

## 3.2. Shareholders' Meeting

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

Attendance at the 2019 Shareholders' Meeting (%): 85.2%.



## 3.3. Board of Directors

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

The main issues addressed by the Board of Directors in 2019 are as follows:

- Reflection on strategy.
- 2019 Budget and continuous operational oversight.
- Health and safety issues.
- Financial and accounting information.
- Proposal for the distribution of 2019 income and shareholder remuneration.
- Corporate governance: improvements in aspects of corporate governance in order to adapt to the recommendations of the CNMV, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports.
- Notice of the Shareholders' Meeting: motions proposed by the Board, reports and supplementary documentation.
- Selection and proposals for appointments in the governing bodies.
- Employee remuneration.
- Funding strategy.
- Analysis of the main projects.
- Main regulatory decisions.
- Cybersecurity.

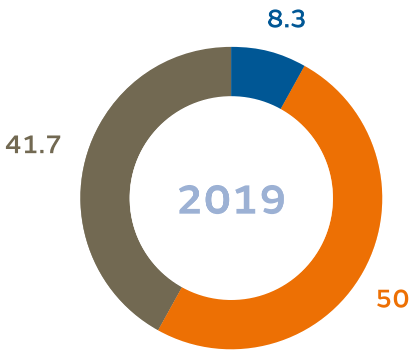
## Composition of the Board of Directors and its committees (at 31 December 2019)

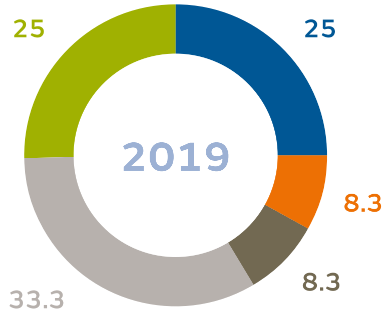
| Board of Directors | | Audit Committee | Appointments and Remuneration Committee | Category of director | Seniority on Board |
|---|---|---|---|---|---|
| Executive Chairman | Mr Francisco Reynés Massanet | | | Executive | 06/02/2018 |
| Lead director | Mr Ramón Adell Ramón | Director | Chairman | Independent | 18/06/2010 |
| Director | Mr Enrique Alcántara-García Irazoqui | Director | | Proprietary | 27/06/1991 |
| Director | Mr Marcelino Armenter Vidal | | Director | Proprietary | 21/09/2016 |
| Director | Mr Francisco Belil Creixell | Chairman | Director | Independent | 14/05/2015 |
| Director | Mrs Helena Herrero Starkie | Director | | Independent | 04/05/2016 |
| Director | Mr Rajaram Rao | Director | | Proprietary | 21/09/2016 |
| Director | Rioja S.À.R.L.[1], Mr Javier de Jaime Guijarro | | Director | Proprietary | 01/08/2019 |
| Director | Mr Pedro Sainz de Baranda Riva | Director | Director | Independent | 27/06/2018 |
| Director | Mr Claudio Santiago Ponsa | | Director | Independent | 27/06/2018 |
| Director | Mr Scott Stanley | | Director | Proprietary | 29/01/2019 |
| Director | Theatre Directorship Services Beta, S.À.R.L., Mr José Antonio Torre de Silva López de Letona | Director | | Proprietary | 18/05/2018 |
| Secretary (not a director) | Mr Manuel García Cobaleda | Secretary (not a director) | Secretary (not a director) | N/A | 29/10/2010 |

[1] Rioja S.À.R.L. substituted Rioja Bidco Shareholdings, S.L.U. as Director in August 2019.

## Board of Directors profile _

(%)




**Type of Director**

- Executive.
- Proprietary.
- Independent.

**Skills**

- Industrial engineering and energy.
- Legal and administration.
- Finance, accounting and audit.
- Management.
- IT & International management.

### Board of Directors activities and performance

Number of meetings of the Board of Directors and its committees:

| | Board of Directors | Executive Committee | Audit Committee | Appointments and Remuneration Committee |
|---|---|---|---|---|
| **2019** | 16 | N/A | 6 | 6 |
| 2018 | 14 | 2 | 7 | 11 |

## 3.4. Management structure

Naturgy's management structure consists of four business units (Gas & Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr Francisco Reynés Massanet. As of 31 December 2019, it comprised the following executives:

### Business Units

Gas & Power, managed by Mr Manuel Fernández Álvarez.
Infrastructure EMEA, managed by Mrs Rosa María Sanz García.
Infrastructure South LatAm, managed by Mr Antonio Gallart Gabás.
Infrastructure North LatAm, managed by Mr José García Sanleandro.

### Corporate Units

Finance, managed by Mr Carlos J. Álvarez Fernández.
Strategy and Development, managed by Mr Antonio Basolas Tena.
Company and Board Secretariat, managed by Mr Manuel García Cobaleda.
Communication and Institutional Relations, managed by Mr Jordi Garcia Tabernero.
Resources, up to 31 December 2019, managed by Mr Antoni Peris Mingot.
Controlling, managed by Mr Jon Ganuza Fernández de Arroyabe.
Capital Markets, managed by Mr Steven Fernández Fernández.

### Projects

LEAN project, managed by Mr Miguel Aller Blanco.

## 3.5. Remuneration policy

### Board of Directors

The annual report on director remuneration was presented as a separate item for a consultative vote at the Shareholders' Meeting in 2019.

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

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

| | euros/year |
|---|---|
| Chairman of the Board of Directors | 1,100,000 |
| Director | 175,000 |
| Lead director | 30,000 |
| Committee chairman | 90,000 |
| Committee member | 60,000 |

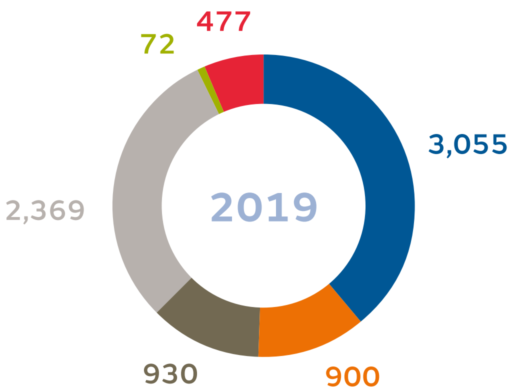
The Executive Chairman's remuneration for his executive functions is based on the following:

| Item | Objective | Criteria |
|---|---|---|
| Basic fixed annual remuneration | Remunerate the level of responsibility attached to these functions. | Ensure that the remuneration is competitive vis-à-vis comparable companies. |
| Annual variable remuneration | Tie remuneration to the company's performance in the short-term. | Based on 100% of the total fixed annual remuneration, multiplied by the degree to which the goals were actually achieved in the year. Achievement is capped at 150%.<br>No remuneration is payable if goal achievement is less than 80%. It can be settled (fully or partially) as a contribution to the pension plan instead of cash annually if agreed by the parts.<br><br>The goals and weightings for 2019 were as follows: 20% organic growth Capex (1/3 maximization maintenance Capex, 1/3 improvement growth Capex IRR and 1/3 improvement growth investments), 25% operational efficiency, 30% free cash-flow before Capex, 15% comparable consolidated profit, and 10% other qualitative aspects. |
| Long-term incentive plan | Strengthen the commitment to achieving the goals set out in the Strategic Plans. | Related to the return obtained by shareholders in the period of reference, which coincides substantially with that of the Business Plan 2018-2022. |
| Other items | Safeguard the company's benefits. | Health, death benefit and disability insurance.<br>Energy subsidy, company car, housing assistance. |

The remuneration is supplemented by contributions to a group health insurance policy.

## Total remuneration earned by the Board of Directors in 2019, by type _

(thousand euro)




**Total remuneration:** Euros 7,803 thousand

- For sitting on the Board.
- For sitting on the Board committees.
- Fixed remuneration.
- Short-term variable remuneration.
- Other item.
- Pension plans & life insurance.

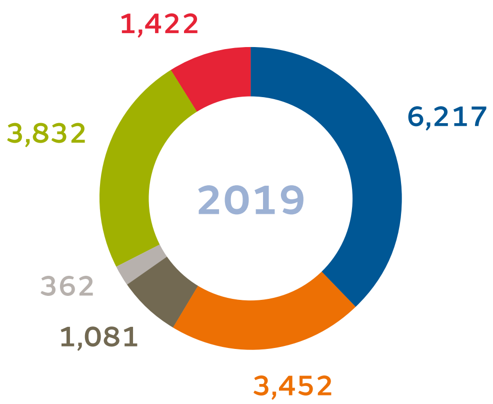
# Executives

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

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

## Total remuneration earned by the Management Committee and head of Internal Audit[1] in 2019, by type _

(thousand euro)




**Total remuneration:** Euros 16,366 thousand

- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-anual variable remuneration.
- Other items.
- Termination benefit.
- Pension plans & life insurance.

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

# 4. Forecast Naturgy performance

–

## 4.1. Foundations of strategy

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

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

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

### Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower $CO_2$ emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

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

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

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

### Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Business Plan:

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

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

## Transforming via digitalisation

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

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

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

## Placing the customer at the centre of the model

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

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

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

# 4.2 Value creation

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

## Simplicity and Accountability

### 1. Corporate governance and organisation structure

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

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

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

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

### 2. Strategic positioning

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

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

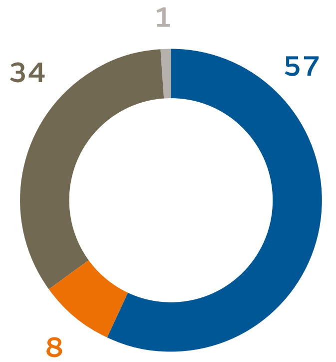
A total of Euros 5.3 billion of expenditure in growth Capex have been identified and Euros 300 million are expected to be realised through divestments.

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

## Simplicity and accountability_
Strategic positioning

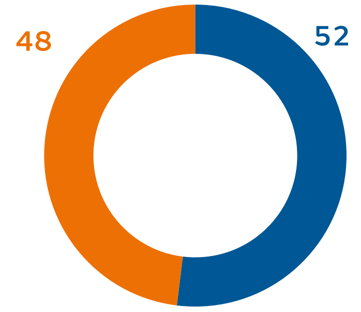
Today

### Geographical areas_
(%)



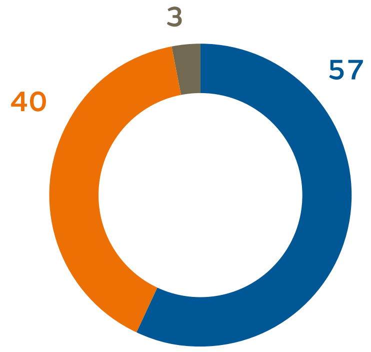

- Spain.
- Global trading.
- Top 5 countries.
- Others (24).

### Balance of risks_
(%)




- Regulated.
- Merchant of FX risk.

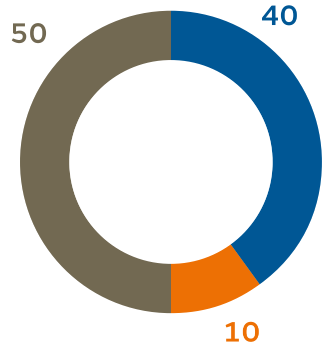
### Majority of gas_
(%)




- Gas.
- Electricity.
- Services.

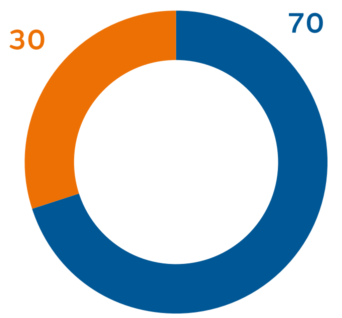
Future

### Geographical areas_
(%)



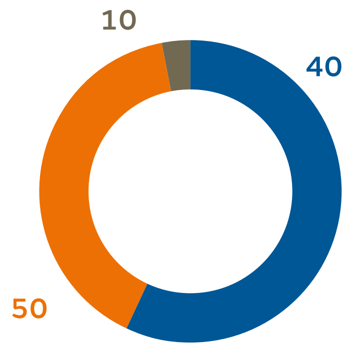

- Spain max.
- Global trading.
- Other(max. 9) min.

### Mostly regulated_
(%)




- Regulated min.
- Merchant of FX risk max.

### Higher electricity weight_
(%)




- Gas max.
- Electricity min.
- Services.

**Rebalancing of portfolio:** more cash-flow visibility and lower volatility

Additionally, on the basis of developments in the markets where it operates and in line with the assumptions and foundations of the new Business Plan, Naturgy reviewed the value of its assets in 2018, which resulted in a one-time impairment in the amount of Euros 4.851 billion before taxes, booked in 2018. This impairment had no impact on shareholder remuneration and it is proving to be accretive from 2019 because of the lower depreciation charge.

## Optimisation

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

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

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

## Disciplined investment

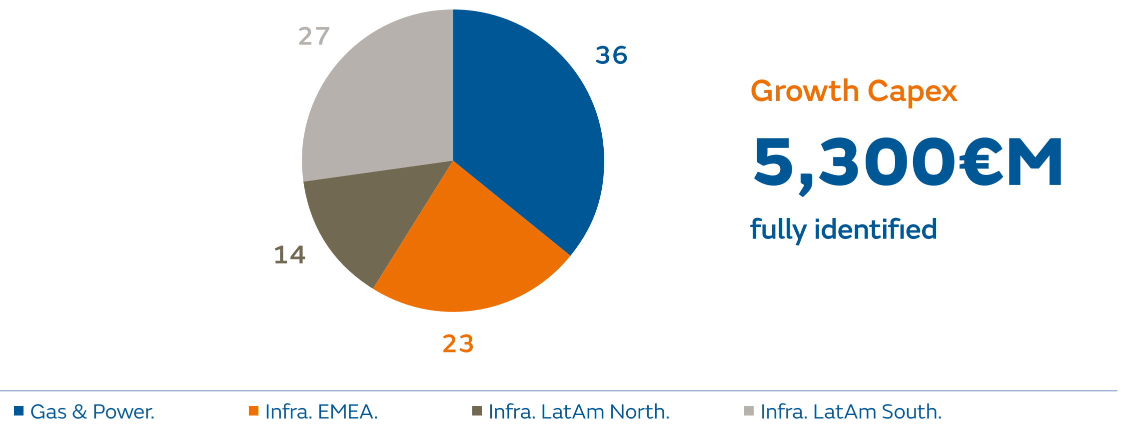
Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

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

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

## Growth capex by business at 2022_

(%)




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

## Shareholder remuneration

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

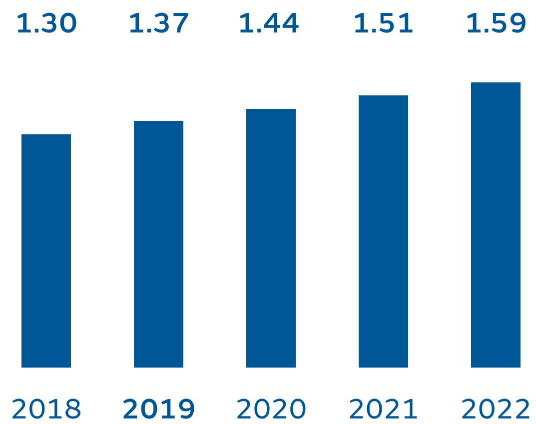
Under the Business Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

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

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

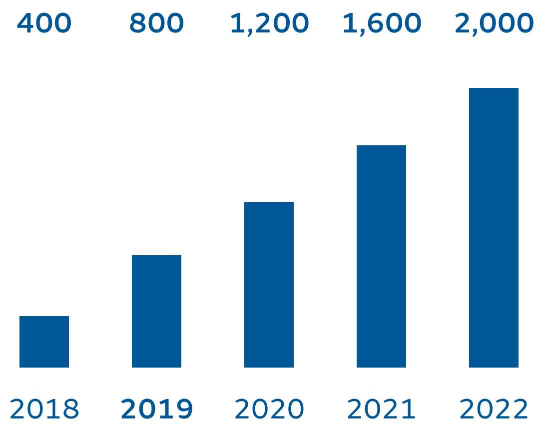
The calendar change was implemented in 2019: a first interim dividend amounting to Euros 0.294 per share was paid in July 2019 and a second interim dividend amounting to Euros 0.473 per share was paid in November 2019.
Also, the planned Euros 400 million share buy-back was completed in 2019, as a result of which 16,567,195 shares were cancelled in a capital reduction.

Dividends_
(€/share)




+

Share buy-back_
(€M) (Up to €2,000M)




Accumulated amounts

## 4.3. Business prospects

Naturgy's key financial targets for 2022 are as follows:

Key financial targets for 2022_
(million euro)

| Ebitda | Net income | Annual avg. FCF | Net debt |
|---|---|---|---|
| ~ **5,000** | ~ **1,800** | ~ **1,800** | ~ **16,400** |
| 2017:**3,915** | 2017:**1,360** | 2017:**1,300** | 2017:**16,400** |

The business goals set in the Business Plan are summarised below:

| | Gas & Power | Infra. EMEA | Infra. LatAm South | Infra. LatAm North |
|---|---|---|---|---|
| Asset base **2018** | ~ 9,200 | ~ 9,800 | ~ 7,300 | ~ 1,500 |
| Ebitda **2022** | ~ 1,700 | ~ 1,600 | ~ 1,200 | ~ 400 |
| Total Capex **18-22** | ~ 2,700 | ~ 2,300 | ~ 2,300 | ~ 1,000 |

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

## Gas & Power

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

| | Opportunities | Goals (million euro) |
|---|---|---|
| Supply of gas, electricity and services | ▪ Define a new integrated commercial model.<br>▪ Maximise value by focusing on customers.<br>▪ Exploit the strong growth potential of the services and solutions business. | Ebitda 2022 = 549<br>Capex 18-22 = 452<br>74% growth Capex |
| International LNG | ▪ Diversified, flexible portfolio of procurement contracts.<br>▪ Sales secured under contracts with end customers.<br>▪ Entry into attractive new markets, such as the Floating Storage Regasification Unit (FSRU), small-scale solutions and bunkering. | Ebitda 2022 = 422<br>Capex 18-22 = 392<br>100% growth Capex |
| Generation Europe | ▪ Double the volume of renewable energy while cutting total costs.<br>▪ Increase CCGT load factor.<br>▪ Adjust cost of conventional generating fleet. | Ebitda 2022 = 507<br>Capex 18-22 = 1,296<br>64% growth Capex |
| International generation | ▪ Expand in renewables.<br>▪ Generate recurring cash-flow. | Ebitda 2022 = 270<br>Capex 18-22 = 568<br>68% growth Capex |

## Infrastructure EMEA

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

| | Opportunities |
|---|---|
| Gas Networks Spain | ■ Pursue organic growth by exploiting the scope for expanding gas penetration.<br>■ Limit the business regulatory risk.<br>■ Increase efficiency via digital transformation. |
| Electricity networks Spain | ■ Work towards a more flexible, digitalised distribution system.<br>■ Future Capex to offset regulatory risks.<br>■ Pursue efficiency via digitalisation. |
| EMPL | ■ Revenues guaranteed until the concession expires (2021).<br>■ Negotiations advancing to renew Maghreb-Europe gas pipeline concession. |

## Infrastructure South LatAm

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

| | Opportunities | Goals (million euro) |
|---|---|---|
| Chile Electricity | ▪ Distribution: the regulatory model is expected to improve in 2020 to capture updates in technology and service quality.<br>▪ Transmission: improvements expected due to grid upgrades and new regulations to address the bottleneck produced by the growth of renewable energy. | Ebitda 2022 = 436<br>Capex 18-22 = 1,105<br>60% growth Capex |
| Chile Gas | ▪ Organic growth via greater penetration and higher demand for heating.<br>▪ Drive gas exchanges between Argentina and Chile via existing pipelines. | Ebitda 2022 = 245<br>Capex 18-22 = 497<br>85% growth Capex |
| Brazil Gas | ▪ Organic growth through increasing penetration in the gas market as well as seeking new concessions.<br>▪ Leverage the huge growth potential of the services business. | Ebitda 2022 = 322<br>Capex 18-22 = 399<br>57% growth Capex |
| Argentina Gas | ▪ Organic growth underpinned by grid upgrades and implementation of new networks, expanding the grid in the territory.<br>▪ Leverage the huge growth potential of the services business. | Ebitda 2022 = 159<br>Capex 18-22 = 323<br>41% growth Capex |

## Infrastructure North LatAm

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

| | Opportunities | Goals (million euro) |
|---|---|---|
| Mexico Gas | ▪ Organic growth through greater penetration in the gas market and new concessions.<br>▪ Strong growth potential in services via new customers and the existing customer base. | Ebitda 2022 = 247<br>Capex 18-22 = 616<br>22% growth Capex |
| Panama Electricity | ▪ Strong growth is projected against a backdrop of moderate risk to the country's economy, with remuneration stable in USD.<br>▪ The tariff review for 2019-2022 is expected to be positive.<br>▪ Significant improvement in operational efficiency and lower power losses.<br>▪ Capture competitive advantages in services and solutions. | Ebitda 2022 = 146<br>Capex 18-22 = 341<br>30% growth Capex |

## 4.4. Financial strategy

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

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

At business level, each business unit would be provided with the necessary liquidity and the necessary level of indebtedness to operate autonomously.

# 5. Sustainable innovation

## Risks and management approach

Naturgy sees innovation as vital to the company's transformation. It provides efficiency, by imagining disruptive new business models and discovering new ways to be more customer-centric, taking advantage of new technologies or following the latest market trends.

The approach to managing innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation. It enables us to anticipate the impact of the profound changes that are taking place in society, such as the digital transformation, which affect our customers' way of life and needs, or the energy transition towards a decarbonised economy.

With this goal of transformation and considering innovation to be indispensable to achieving the objectives established in the Business Plan, the corporate innovation policy is a framework for action for all Naturgy employees.

## Analysis of 2019 results

### Investment in innovation (million euro)

In 2019, a total of Euros 36 million were spent on innovation (Euros 63 million in 2018), as indicated below:

| | **2019** | 2018 |
|---|---|---|
| Investment in innovation | 36 | 63 |

### Innovation vision

Naturgy's Innovation Model is structured around priority lines of innovation that are aligned with the Business Plan and are sponsored and supported by the business lines. To implement the plan, Naturgy uses a two-pronged innovation model:

*Push:* focused on developing in-house technology solutions that respond to challenges identified in the strategic vision.

*Pull:* draws on the open innovation ecosystem to find business opportunities, ideas and talent.

Innovation is governed by the Strategic Innovation Committee, which is composed of the Chairman and his direct reports; the committee's main mission is to ensure that all innovation initiatives are aligned with the strategic lines of innovation.

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets both in the time period of the Business Plan and in the longer term, which contributes to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

- Renewable generation and storage.
- Advanced management of distribution assets.
- Renewable gas and hydrogen.
- Distributed generation and storage.
- Sustainable mobility.
- Customer solutions.

### Renewable generation and storage

To fulfil the commitment to combating climate change, Naturgy must evolve steadily towards an emissions-free energy mix while always guaranteeing security and quality of supply. Renewable energies will play a very important role in this new model; to ensure continuity of supply, they must be supported by reliable storage systems, which is why the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2019 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the project to hybridise the La Vega I & II wind farm with storage facilities; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid.

### Advanced management of distribution assets

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

In the area of electricity distribution, the SPIDER project commenced in 2019 with the aim of developing and integrating low-cost sensors capable of measuring the position and vibrations of power line conductors so as to have advance warning of vegetation impacts on the conductors before they cause faults.

In the field of gas networks, and on a more global scale, Ris3CAT encompasses 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

### Renewable gas and hydrogen

Renewable natural gas is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of $CO_2$ emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the "circular economy" since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the Public-Private Renewable Gas Unit, developed with EnergyLab and the sewage treatment company in the municipal of Bens (A Coruña, Spain), which involves the creation of a plant for producing biomethane from the organic sludge produced by a municipal wastewater treatment plant; an experimental programme enabled the process to be optimised successfully. At the same site, a highly innovative experimental biological methanation plant has been set up that uses hydrogenotrophic micro-organisms (archaea) that are capable of transforming a feedstock consisting of $CO_2$ and $H_2$ into biomethane or renewable gas.

### Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility offered by that Royal Decree of joint ownership of autoproduction facilities. There are now smart infrastructures and systems that make it possible to decentralise electricity distribution, which is revolutionising the current models and opening up new business opportunities.

The distributed generation and autoproduction initiatives that were under way in 2018 continued in 2019. One of these initiatives is the Manhattan project, which seeks to develop new products and services to leverage the energy produced by customers, in which Naturgy offers storage facilities.

### Sustainable mobility

The company continues to work on the nationwide deployment of natural gas filling stations that are open to the public, and it is participating in technology projects for filling vehicles with this type of fuel at the user level. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, and it has researched solutions for storing energy in flywheels in pursuit of greater energy efficiency.

During 2019, Naturgy not only continued to promote improvements in natural gas-fired mobility but it also undertook important projects in the area of electric mobility. The NEAR (New Electricity Assets for Recharging) project (2019-2020) attempts to define the distributor's role in the deployment of public recharging infrastructure. During 2019, the efficiencies arising from the use of the existing network infrastructure to deploy electric recharging points were examined.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tankers trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

### Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). *A pilot energy assistant for residential customers project* was launched in 2019 with the aim of testing how a solution based on Artificial Intelligence can provide advice to customers with home photovoltaic installations on the most appropriate schedules for energy consumption by certain equipment.

In the field of sustainable building, the KIC COFAST project gave rise in 2019 to a patent application consisting of the development and market launch of a new standardised integrated solution for fast charging stations for electric vehicles based on a small-scale natural gas-fired cogeneration plant.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. In 2019, work was carried out to development a virtual assistant that uses AI-driven natural language processing to automate the customer care process.

## Planning and technology monitoring

Monitoring takes place through Observatories, involving over 200 people from the various business units and corporate areas. These groups share and analyse information from an end-to-end perspective: technology, commercial, regulatory, social and market aspects. The Observatories' conclusions are reflected in roadmaps that define the high-level planning of Innovation in each of the six priority lines.

In 2019, a digital management system was implemented for monitoring technology with the goal of acquiring, processing, analysing and reporting information in a more agile and flexible way so as to encourage horizontal collaboration initiatives. A number of think tanks were established to examine trends in the energy industry and detect new business opportunities.

Naturgy continued to operate its two innovaHubs, in Madrid and Barcelona, which are conceived as open spaces that are freely available for innovative activities and in which forms of collaborative agile work can be explored. The numerous activities in the area of Innovation included MeetUps and Techbreakfasts, both with a similar informal, dynamic and collaborative format, where companies and startups are able to exhibit their products, technology or services and gain first-hand knowledge of innovations in a given thematic area.

# 6. Non-financial information statement

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This disclosure of non-financial information was drawn up in line with the requirements of Act 11/2018, of 28 December 2018, on non-financial disclosures and diversity, approved by the Spanish Congress on 13 December 2018, which amends the Commercial Code, the consolidated text of the Capital Companies Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial disclosures and diversity (from Royal Decree-Act 18/2017, of 24 November).

It was drafted on the basis of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), which also serve as a reference for drafting the Corporate Responsibility Report that is published each year and which, this year, complements and elaborates upon these non-financial disclosures.

In this context, through the non-financial disclosures, Naturgy seeks to provide information on environmental, social, personnel and human rights, corruption and bribery and society issues that are germane to the company in the pursuit of its business activities.

The content of this report was selected and drafted on the basis of the outcome of the materiality analysis carried out in 2019.

For each question set out in the Act, the materiality for the company, the policies and risks associated with each one, and the benchmark indicator used for monitoring and evaluating it are set out below.

## 6.1. Business model and value creation

### 6.1.1. Business model

Naturgy is an integrated energy group that supplies gas and electricity to over 18 million customers. It focuses on gas distribution and supply and on electricity generation, distribution and supply. It also operates other business lines, such as energy services, which enhance the diversification of activities and revenues, staying at the forefront of new market trends, meeting customers' specific needs and offering them an integrated service not confined to selling energy.

Naturgy's **mission** is to:

| Meet the needs of ... | With a vision of ... | Based on our values |
|---|---|---|
| Our shareholders | Offering increasing sustainable profitability. | > Commitment to results.<br>> Customer-oriented.<br>> Sustainability.<br>> Interest in people.<br>> Social responsibility.<br>> Integrity. |
| Our customers | Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment. | |
| Our employees | Offering opportunities for professional and personal development. | |
| Society | Contributing positively through a commitment to global citizenship. | |

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

| | |
|---|---|
| Gas & Power | 32% Ebitda: Spain, Europe and Latin America. |
| Infrastructure EMEA | 42% Ebitda: Spain and Africa. |
| Infrastructure South LatAm | 21% Ebitda: Latin America. |
| Infrastructure North LatAm | 8% Ebitda Latin America. |

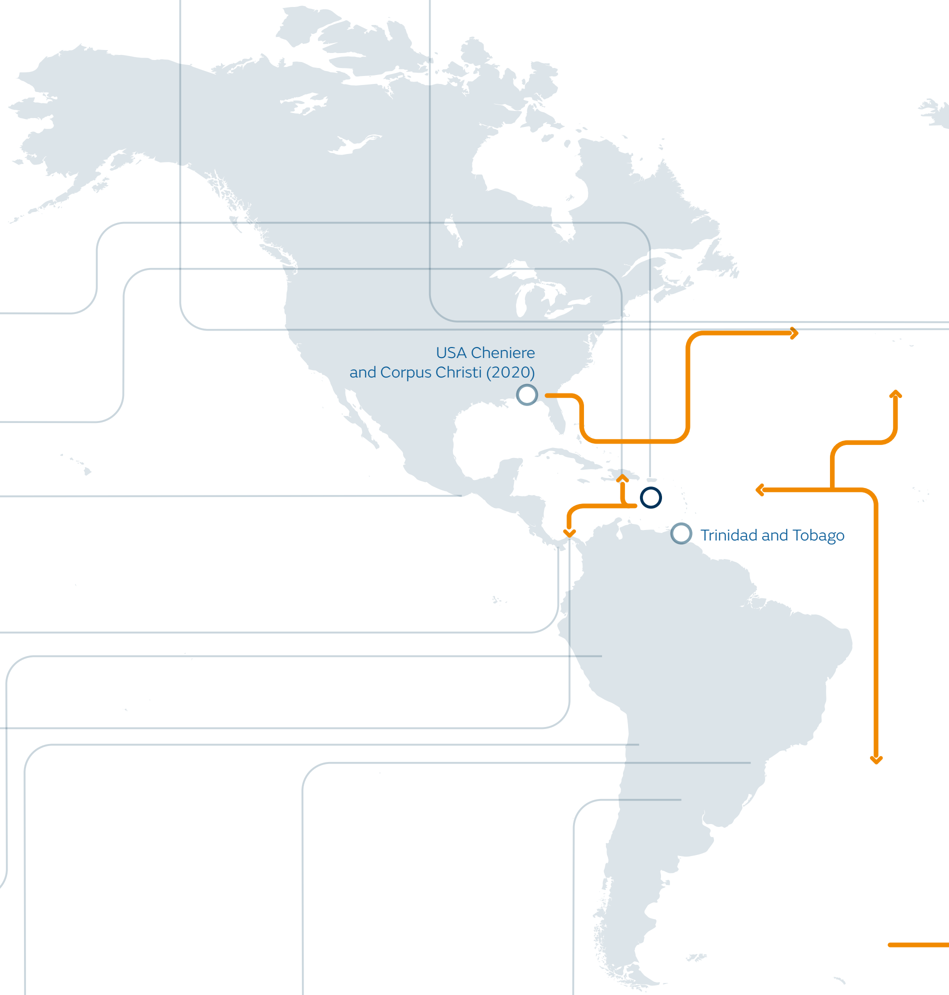
Note: -3% other activities.

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

# Worldwide presence

**Portugal**
NG/LNG and electricity commercialisation.

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




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

**Dominican Republic**
Generation (198 MW, fuel-oil).

**Mexico**
Gas distribution (ten states including Mexico City and 1.7 Mn customers) and generation (2,365 MW, combined cycles and 234 MW, wind).

**Costa Rica**
Generation (101 MW, hydraulic).

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

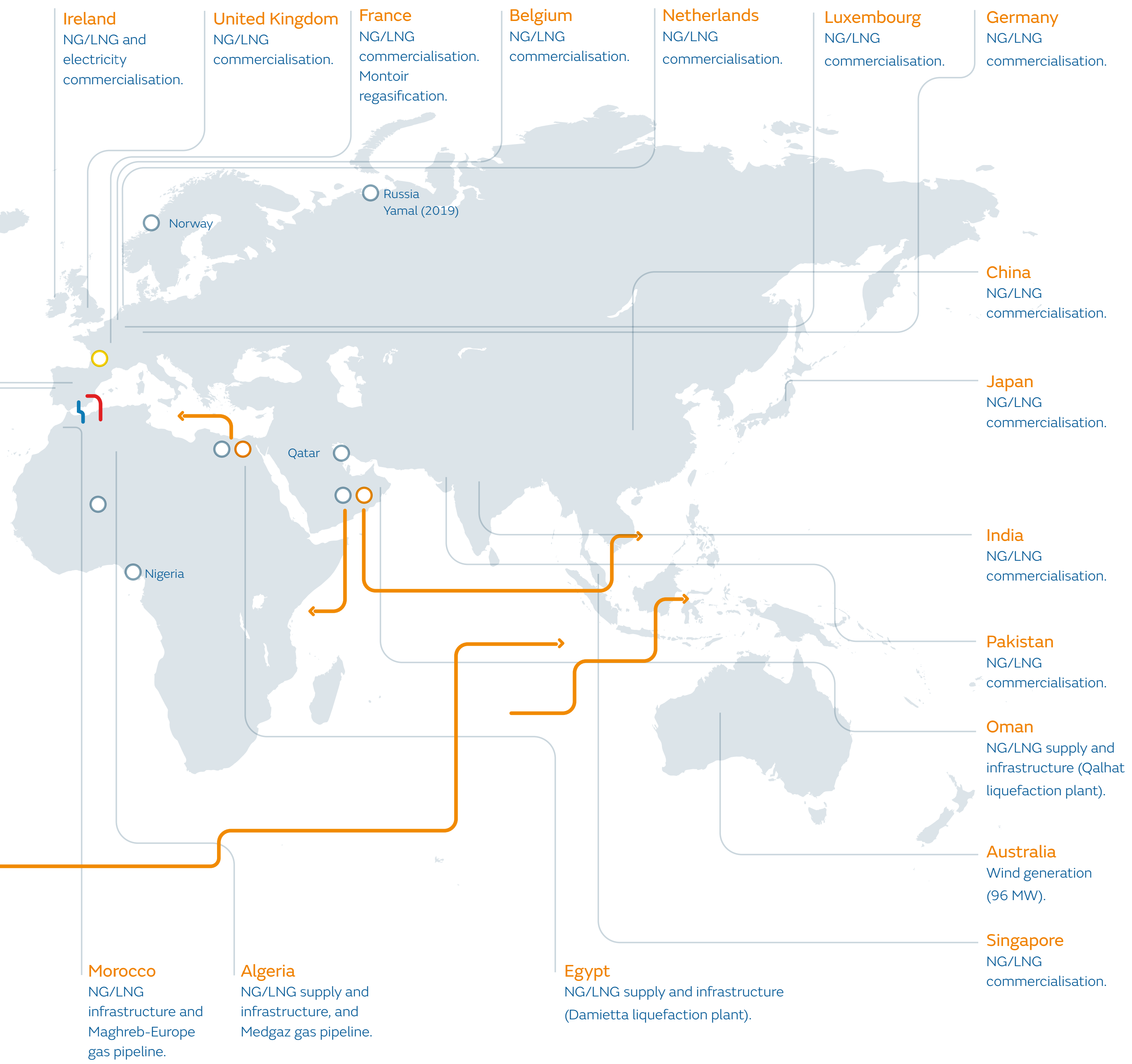
**Peru**
Gas distribution (Arequipa).

**Chile**
Gas distribution (4 regions and 0.7 million customers), electricity distribution and transportation (13 regions and 3.0 million customers). Wind and solar generation projects.

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

**Argentina**
Gas distribution (5 provinces including Buenos Aires and 2.2 million customers) and electricity distribution (0.2 million customers).

- Gas flow.
- Maghreb-Europe gas pipeline.
- Medgaz gas pipeline.
- Liquefaction plant.
- Regasification plant.
- Leased regasification plant.
- Long-term gas contracts.


Ireland
NG/LNG and electricity commercialisation.
United Kingdom
NG/LNG commercialisation.
France
NG/LNG commercialisation. Montoir regasification.
Belgium
NG/LNG commercialisation.
Netherlands
NG/LNG commercialisation.
Luxembourg
NG/LNG commercialisation.
Germany
NG/LNG commercialisation.
Norway
Russia Yamal (2019)
Qatar
Nigeria
China
NG/LNG commercialisation.
Japan
NG/LNG commercialisation.
India
NG/LNG commercialisation.
Pakistan
NG/LNG commercialisation.
Oman
NG/LNG supply and infrastructure (Qalhat liquefaction plant).
Australia
Wind generation (96 MW).
Singapore
NG/LNG commercialisation.
Morocco
NG/LNG infrastructure and Maghreb-Europe gas pipeline.
Algeria
NG/LNG supply and infrastructure, and Medgaz gas pipeline.
Egypt
NG/LNG supply and infrastructure (Damietta liquefaction plant).

## Business lines

### Leadership in the gas business

| | Networks | Gas |
|---|---|---|
| | Gas distribution | Infrastructure |
| | 11.1 million distribution connections.<br>133,917 km of network. | Eight long-term LNG carriers<br>Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz. |
| Our positioning | **Spain**<br>Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.<br><br>**Latin America**<br>Latin America's top distributor, catering for more than 5.7 million customers.<br>Presence in Argentina, Brazil, Chile, Mexico and Peru and in five of the ten largest Latin American cities. | Eight LNG carriers (1.3 $Mm^3$).<br><br>Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline [(1)].<br><br>Stake in the Ecoeléctrica regasification plant and two liquefaction plants (Damietta and Qalhat).<br><br>0.5 bcm of company-owned storage capacity and 0.9 bcm of leased capacity. |
| Our strength | Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas. | Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.<br><br>Storage capacity enables it to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand. |

[(1)] An agreement for the purchase of an additional 34.05% subject to certain conditions was reached on 15 October 2019.

| Procurement | Supply |
| --- | --- |
| ~ a supply portfolio totalling 30 bcm. | 339 TWh of gas supplied. |
| Business model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile.<br>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG). | Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide.<br>A global operator with the flexibility to tap markets offering attractive margins.<br>26% market share in Spain.<br>Competitive supply to combined cycle plants (CCGT). |
| A diversified, flexible portfolio of procurement contracts, enabling it to address value-added markets. | Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally.<br>Its positioning in international markets is aimed at extracting additional margins through appropriate supply business.<br>Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services. |

## A key player in the electricity business

| | Networks | Electricity |
|---|---|---|
| | Electricity Distribution | Generation |
| | 7.7 million supply connections.<br>218,831 km of network. | 16.9 GW of power generation capacity. |
| Our positioning | **Spain**<br>The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers.<br><br>**Latin America**<br>Presence in Argentina, Chile and Panama (3.9 million customers). | **Spain**<br>Capacity of 13.7 GW, with a significant presence in five technologies: 7.4 GW CCGT, 2 GW hydroelectric, 1.7 GW coal, 2 GW renewable and 0.6 GW nuclear.<br><br>Naturgy has a market share of 17.4% in non-renewable generation and 2.1% in renewable generation.<br><br>**International**<br>Capacity of 3.2 GW: 2.4 GW CCGT (Mexico), 0.2 GW oil-fired (Dominican Republic), 0.1 GW hydroelectric (Costa Rica and Panama) and 0.5 GW renewables (Mexico, Australia and Brazil). |
| Our strength | Naturgy is a leader in the markets where it operates.<br><br>Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business. | The company has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.<br><br>Naturgy's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation. |

## Supply

25.0 TWh supplied.

Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain.

One of the main traders in the Spanish market.

A dual fuel supply and a broad range of value-added services.

A diversified, flexible portfolio of procurement contracts, enabling it to address value-added markets.

Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

### 6.1.2. Value creation and sustainable management

The long-term commitment to value creation and sustainable management is specified in the Corporate Responsibility Policy, which provides the common framework for action that guides the company's socially responsible conduct; it was approved and updated by the Board of Directors in January 2019, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.

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

1. Commitment to results.

2. Service excellence.

3. Responsible environmental management.

4. Interest in people.

5. Health and safety.

6. Responsible supply chain.

7. Social commitment.

8. Integrity and transparency.

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

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

**Our capitals**

| | Financial | Human | Manufactured | Environmental | Social |
|---|---|---|---|---|---|
| Our capitals | **Sustainable cash generation.** Free cash-flow: 1,958 €M<br>**Strict financial discipline.** Leverage: 52.2% | Professional development and talent management.<br>Diversity and equal opportunities.<br>Extending principles to supplier chain. | Investment and maintenance in gas and electricity distribution networks.<br>Sustainable innovation.<br>Operation development of electricity production capacity. | Environmentally-friendly products and services.<br>Energy efficiency.<br>Undertaking to reduce emissions. | Relations and dialogue with stakeholders.<br>Guarantee of supply. |

**External environment**

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Further information
The strategic planning cycle
**Forecast Naturgy performance.**

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**Economic environment.**
**Regulation.**
**Environmental policies.**
**Technological developments and new business models.**

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Further information
External environment
**Market trends, risks and opportunities.**

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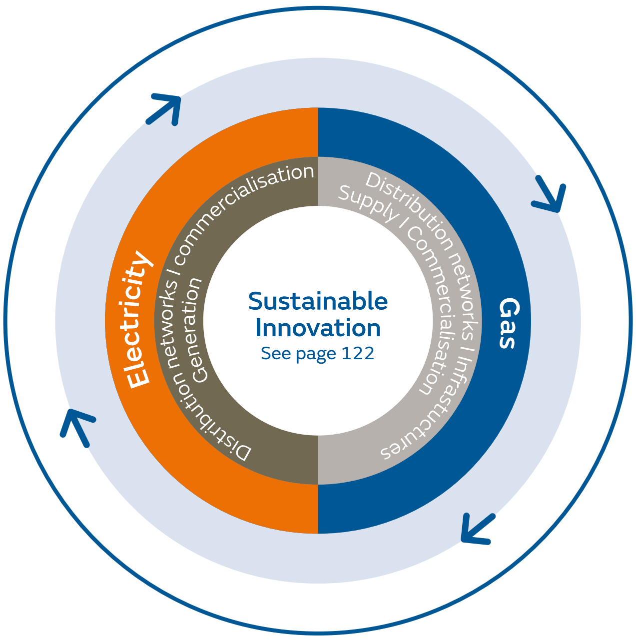
## **Strategic planning** cycle




**Internal environment**

### Corporate Governance

**Our commitments**

- Commitment to results.
- Service excellence.
- Responsible management of the environment.
- Interest in people.
- Health and safety.
- Responsible supply chain.
- Commitment to society.
- Integrity and transparency.

| | Financial | Human | Manufactured | Environmental | Social |
|---|---|---|---|---|---|
| Our results | **Dividends policy.** Pay-out: 1,319 €M<br>**Meeting financial targets.** Ordinary Ebitda: 4,668 €M<br>Ordinary net profit: 1,432 €M | **Corporate University and training plans.** % Staff trained: 85.8<br>**Retaining talent.** Voluntary rotation: 2.7<br>**Health and safety.** Accident frequency index: 1.2 | **Gas distribution:** 465,844 GWh<br>**Electricity distribution:** 53,519 GWh<br>**Gas supply:** 339,252 GWh<br>**Net production:** 44,704 GWh | **Direct GHG:** 15.4 $MtCO_2$ eq.<br>**$CO_2$ emissions/ generation:** 301 $tCO_2$/GWh | **Economic value distributed:** 21,533 €M<br>**Social investment:** 8 €M |
| Our stakeholders | Shareholders | Employees | Customers | Customers I Society | Society |

In 2019, Naturgy developed a 2019-2022 Sustainability Master Plan to accompany the company's transformation process and which is aligned with the Business Plan 2018-2022, in order to facilitate compliance with the strategy, seize opportunities in terms of sustainability and develop actions, and the objectives for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The 2019-2022 Sustainability Master Plan was based on a materiality analysis that included an internal analysis which considered the Business Plan, the risk map, the annual reports, the corporate responsibility policy, the code of ethics and other internal policies, as well as internal documentation on ESG performance. There was also an external analysis that considered regulatory and industry trends and the requirements of analysts, investors, competitors and the mass media. The analysis identified 33 key issues for the company and its stakeholders.

The Plan focuses on, and is oriented towards, enhancing those facets of the industry transformation where the company is lagging. To this end, four drivers were established that encompass 30 actions: Innovation for the customer, Commitment and talent. The opportunity offered by environmental challenges and renewable energy, and Integrity and transparency.

## 6.2. Commitment to results

### What does this mean for Naturgy? Risks and management approach

In a challenging environment, Naturgy's goal is to maintain a sound financial and business profile. Naturgy's business model pursues a balance between regulated or contracted activities and unregulated ones while applying a strict finance policy.

Shareholders and investors are viewed as being among Naturgy's primary stakeholders. Therefore, properly managing risks and developing a solid business model that guarantees sustainability and long-term value creation are the key business goals.

### Our commitment

- To pursue sustained returns that are commensurate with the risks while ensuring that decisions are based on approved risk levels and thresholds.
- To promote efficient resource allocation and management within the framework of continuous process improvement.
- To continue incorporating sustainability features into the relationship with investors.

### How do we measure our performance?

Ebitda.
Net profit.
Investments.
Indebtedness.
Cash-flow after non-controlling interests.

## Sustainability indices, green bonds and sustainable funding

### Presence in socially responsible investing indices and ratings

The company occupies significant positions in the leading sustainability indices on the strength of its environmental, social and governance (ESG) performance metrics. Naturgy has been part of the Dow Jones Sustainability Index uninterruptedly for the last 15 years, and in 2019 it ranked first in the world in the Gas Utilities sector for the third consecutive year. The company has also been a member of FTSE4Good since the index was created in 2001, and ranks as world leader in the Multiutilities sector for the second consecutive year. During 2019, Naturgy was evaluated by rating agencies such as MSCI, from which it again obtained the maximum rating (AAA), and Sustainalytics, which continued to rate it among the top 5 of the 193 utilities it evaluates. The company also maintained the score obtained from Vigeo Eiris in 2018 (the evaluation is performed every two years), and is a member of the three Euronext Vigeo indices: World 120, Europe 120 and Eurozone 120. Naturgy is also a member of the MSCI Global Climate Index and MSCI ESG Leaders Index.

In 2019, Naturgy was recognised as a world leader for its action against climate change through inclusion in CDP's Climate Change 2018 A List. The company obtained the highest possible score in this climate change index in recognition of its action to reduce emissions, mitigate climate risks and develop a low carbon economy.

### Green bonds and sustainable funding

In 2017, Naturgy developed a reference framework for the issuance of green bonds to fund renewable energies. Under this framework, on 15 November 2017, Naturgy issued a green bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. As of 31 December 2019, all the funds from the issue had been invested in the planned green projects.

In addition, in order to cover its funding needs and in line with its progress in sustainability, in 2017 Naturgy arranged a sustainable loan with ING Bank NV Sucursal in Spain for a total amount of Euros 330 million for 4 years, with the possibility of a one-year extension, whose spread is indexed to the company's sustainability performance as assessed by independent rating agency Sustainalytics, which issues a report and a rating in this connection.

As a result of a 7.6% improvement in the rating, the spread on that funding was cut by 5% in 2018 and that reduction was maintained in 2019 as the index remained at similar levels.

# 6.3. Service excellence

## What does it mean for Naturgy? Risks and management approach

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

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

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

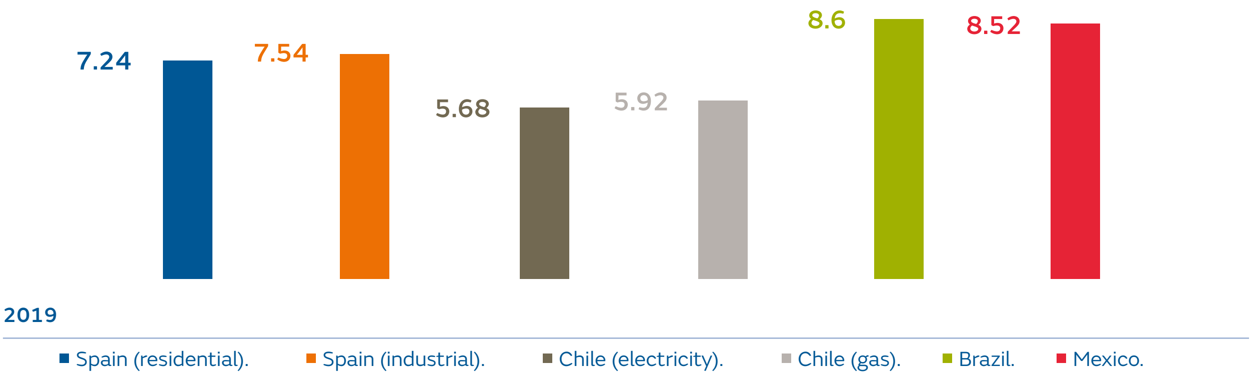
Loss of service quality, as a result of network maintenance, can lead to increased supply cuts, efficiency losses, resulting in financial penalties by the regulator and increased complaints and claims by consumers, while at the same time it can worsen the company's image and reputation in society.

## What is our commitment?

- Working towards ongoing improvement of safety, reliability and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.
- Fostering active and two-way communication that allows us to understand the expectations and opinions of customers and to adapt the responses of Naturgy to their needs.
- Facilitating relationships with customers through simple and efficient operations.
- Providing innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.
- Furnishing the customer with a differential value proposition through products and services that adapt to each segment and to their needs.
- Applying technological innovation and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

## How do we measure our performance?

### Overall satisfaction with service quality_




NB
Chile has been calculated based on a 1-7 scale, unlike other countries which used a 1-10 scale. Argentina and Panama have not measured satisfaction of the global service quality during 2019; this measurement will be carried out in 2020.

## What are our main milestones in 2019?

- Digitalisation of the bill and greater self-management by the customer on the website.
- Simplification of the Naturgy Customers digital universe.
- Development of a new in-store customer service model.
- Generation of new products called SuperPacks (fixed monthly price according to consumption and inclusion of Value Added Services) and reduction of the commercial portfolio with a view to simplifying the customer's digital journey.

- Website simplification of portfolio (two tariffs) and subsequent simplification of online contracting, avoiding unnecessary clicks.
- Update of the cybersecurity regulatory body.
- Update of the procedural, technical and operational protection measures established by Naturgy in its Model of Protection of the strategic assets.
- New in-store customer service model.

## What are our goals for 2020?

- Develop new solutions for sustainable mobility and recharging points.
- Implementation and monitoring of the Global Customer Experience Policy in business.
- Develop new channels of communication with the client in a more personalised way using Internet of Things (IoT), Artificial Intelligence (AI) and machine learning technologies.
- Designing energy management solutions for the generation, distribution and storage of energy.
- Develop remote operation control models at plants.

## Analysis of the 2019 results

### The customer as the focal point

In 2019, Naturgy consolidates the new stage started in 2018, with a renewed brand that reflects what we are: flexible, agile, with excellent service, innovative, and more committed to the environment.

Placing the customer at the centre of the activity is an indispensable necessity to achieve the commitment that allows the establishment of long-term relationships of trust. To do this, we listen to the customer to evolve through their eyes, their needs and their experience in every interaction with us. Their voice contributes to the development of our value proposition and service excellence.

### Customer Experience programme (CeX)

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

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

The evolution of the Customer Experience programme has led Naturgy to place the customer at the centre of its industrial model, to satisfy their expectations and to anticipate their needs. In accordance with the Corporate Responsibility Policy and the commitment to service excellence, the CeX vision is set out in the following CeX Principles for Naturgy:

- “Customers are at the center of everything we do.”
- “We treat our customers the way we would like to be treated.”
- “We like to innovate to make everyday life easier for our customers.”

Consequently, in April 2019 the Global Customer Experience Policy was formalised, defining a framework for action, which must be complied with, on five lines of work considered necessary to guarantee the centrality of the customer:

1. Customer measurement.
2. Objectives and annual action plan.
3. Clear communication.
4. Claims.
5. Channel partners.

## Quality and reliability of the service

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

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

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

The preventive and corrective maintenance procedures are frequently subject to reviews by the Technical Quality, Safety, and Internal Auditing, Compliance and Control divisions.

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, inter alia, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometers of the grid and facilities inspected, and the number of incidents per kilometer of grid.

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

## Customer's satisfaction and experience

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

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

The model is based on three levers:

- Measurement: Naturgy collects the opinion of customers through surveys that are classified into two complementary blocks: general surveys on positioning, and interaction or point-of-contact surveys with the company.
- Analysis: the results are added to the daily management reports, which allows us to include the customer's voice in decision-making.
- Close the loop: process that enables immediate corrective action through the management of alerts that activate whenever the recommendation thresholds established required to maintain the level of quality that the company imposes with its customer relations are not reached.

## Products and services adapted to customers' requirements and priorities

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

### Products and services adapted to customers' needs

| Customer types | Homes | Businesses | Major customers |
|---|---|---|---|
| Products and services | Natural gas and electricity. | | Natural gas, electricity and LNG. |
| | Energy services. | | |
| | Equipment. | | Services with value-added. |
| | Savings and energy efficiency. | | Efficiency and sustainability. |
| | | Energy solutions. | |
| | | | Customised management and advisory services. |

The commercial strategy of Naturgy focuses on customer satisfaction, meeting their expectations with value-added propositions, innovating and incorporating digitalisation, whilst seeking to simplify the portfolio of products and services to facilitate a simpler and more complete experience to customers.

During 2019, all the products in the portfolio have been improved and adapted to the demands of customers, especially the services of self-consumption, equipment and electric mobility.

## Customer Service

The Customer Service activity includes all the processes and sub-processes linked to customer service activities through all the channels provided by the Company, as well as invoicing and collection. Naturgy has introduced an innovative Customer Service Model that is adapted to customers' characteristics and needs, offering accessible solutions that allow for greater comfort and flexibility to its customers' requests. Technological innovation reduces language or disability barriers. With regard to transparency in communication of claims or complaints submitted, the model implemented in commercialisation and distribution complies with the obligations set out in circular 2 of 2016 issued by the National Securities Market Commission (CNMC), reporting every quarter with regard to the details on the situation of claims processed in accordance with the formats and deadlines established by the regulator. This model is included in the quality management system certified in accordance with ISO 9001 by AENOR.

The customer service channels that Naturgy makes available to its customers offer personalised and close attention that aims to exceed customer expectations. In the case of commercialisation, customer service is differentiated according to the value of the customer.

In 2019, Naturgy has worked in two areas, the personalisation of customer service, listening to customers, analysing their behaviour, to anticipate their demands, and the digitalisation of channels providing a fast and flexible resolution with management autonomy and simplicity, being environmentally sustainable.

### Customer service model

Our model comprises three focal points:

- Operational and training model: the aim is to anticipate customers' needs through predictive and data analysis models.
- Technological model: committed to a technological revolution that encourages greater self-management by customers.
- Procurement and financial model: building a partnership model with suppliers and an alignment of the win-to-win objectives.

Provision of customer service at Naturgy:

- Digital Channel.
- Telephone Channel.
- Guarantee Office.
- Face-to-face Channel - Stores.
- Face-to-face Channel - Personal Manager.

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers. During 2019, the company managed a total volume of 1,642,935 complaints, and claims (it does not include the data from Panama, as it is not available) representing 3 % of total customer contacts. The average global response time was 8.21 days.

With regard to commercialisation, complaints are periodically analysed by the Indicators Monitoring Committee and, in the event of any non-compliance, the necessary corrective actions are established for their correct resolution. Most claims are related to billing, contracting and collection.

In the area of gas and electricity distribution, any claim or complaint received from customers via the different channels available, whether through their gas or electricity marketer in issues for which the distributor is responsible (meter reading, supply quality, new registrations, etc.), directly with the electricity or gas distributor of Naturgy through the customer service channels of the distributors, via the website contacts, by postal mail or through any competent organisation, is received and processed centrally in our integrated claims management system at the shared services department within the Third Party Access to the Network Unit (TPA) of the distribution companies.

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

### Privacy and security of data

Naturgy, as part of its commitment to privacy and security of employee and customer data, has updated the cybersecurity regulatory body to adapt it to the new structure of the organisation. This update is being carried out using a series of international standards and best practices as a control framework, such as ISO 27001, NIST SP 500-53 or ISA 62441. The documents of the new regulatory body are published on the corporate regulatory site and are accessible to all Naturgy employees. Once the documents have been approved in their final version, they will be adapted for each of the geographical areas in which the Naturgy operates.

Work is underway to include cybersecurity from the design in projects through the Security in Projects initiative, whose medium- and long-term objective is to cover all projects and initiatives that arise within Naturgy.

In relation to personal data protection, work continues in line with the requirements of the General Data Protection Regulation (GDPR), using the results of the Data Protection Impact Assessments (DPIA) to determine the technical measures that need to be applied to the systems (both in production and pre-production environments), establishing a benchmark of different tools to select the most appropriate one.

## 6.4. Responsible environmental management

### What does it mean for Naturgy? Risks and management approach

Naturgy is aware of the environmental impacts that its activities have on the surrounding area, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand. We go beyond legal requirements and even the requirements we adopted voluntarily in our care for the environment. We involve our suppliers and we work with and encourage our stakeholders to use energy responsibly both at our own facilities and at those of our customers.

Inadequate management of climate change and its associated risks can lead to substantial losses for the company, caused by the increase in exposure to natural disasters, the decarbonisation trend of the sector and the loss of affinity on the part of stakeholders. Moreover, improper environmental management can cause environmental impacts and the deterioration of natural conditions and biodiversity in the areas where the company operates. This, in addition to the direct impact on the environment, can cause the company reputational harm, and the risk is greater if the company has infrastructures and/or carries out operations in protected areas.

### What is our commitment?

- Contribute to sustainable development through eco-efficiency, rational use of natural and energy resources, minimisation of environmental impact, promotion of innovation and use of the best available technologies and processes.
- Contribute to the mitigation of and adaptation to climate change through low-carbon and renewable energies, promotion of savings and energy efficiency, application of new technologies.
- Integrate environmental criteria in business processes, new projects, activities, products and services, as well as in the selection and evaluation of suppliers.
- Minimise the adverse effects on ecosystems and promote the conservation of biodiversity.
- Promote the efficient and responsible use of energy and natural resources, establishing activities to improve their management in the framework of the circular economy.
- Guarantee the prevention of pollution through continuous improvement and using the best techniques available as well as analysing, controlling and minimising environmental risks.

The previous commitments of the Corporate Responsibility Policy are developed in the Global Environmental Policy approved in the first half of 2019 and which applies to all countries and businesses, where it is established that, from its potential to contribute to environmental protection, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a model of a circular, low-carbon and digital economy. To this end, four strategic environmental axes are established:

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

Naturgy's basic principles of action in these axes are explained later in the corresponding sections.

As a complement to the Global Environmental Policy, in the second half of 2019 the Environmental Plan was approved, which defines the action lines to be developed within the framework of the Strategic Plan 2018-2022; the monitoring indicators and objectives are summarised in the table below:

| Action | Indicator | Unit | Objective |
|---|---|---|---|
| Strengthening governance in environment and climate change. | Percentage of industrial Ebitda certified in ISO 14001. | % | Have a percentage of industrial Ebitda certified under ISO 14001 of at least 90% by 2022. |
| Reduction of greenhouse gas emissions. | Absolute GHG emissions scope 1 and scope 2. | million $tCO_2e$ | Reduce emissions by 21% in 2022 compared to 2017. |
| | $CO_2$ intensity in power generation. | $t\ CO_2/GWh$ | Reduce specific $CO_2$ emissions from power generation by 22% in 2022 compared to 2017. |
| | Percentage of the generation mix from renewable sources measured in installed power over the total of Naturgy. | % | Have, by 2022, a percentage of renewable power in electricity generation higher than 34%. |
| Renewable gas and boosting the circular economy. | Total water consumption. | $hm^3$ | Reduce water consumption by 20% in 2022 compared to 2017. |
| | Total waste production (hazardous + non-hazardous). | kt | Reduce total waste production (hazardous + non-hazardous) by 70% in 2022 compared to 2017. |
| | Percentage of total waste recycled and recovered (hazardous + non-hazardous). | % | Double the percentage of waste recycled and recovered by 2022 compared to 2017. |
| Protection of biodiversity and development of natural capital. | Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling). | No. | Conduct at least 300 biodiversity initiatives per year. |

It is important to note that the absolute emissions and GHG intensity targets are aligned with the global objective of keeping the temperature rise below 1.5°C.

In the following section, most of these indicators are monitored and the rest are analysed in the Corporate Responsibility Report, where annual fulfilment of the objectives is assessed.

## How do we measure our performance?

| | Unit | **2019** | 2018 |
|---|---|---|---|
| Direct greenhouse gas emissions (GHG) | $MtCO_2eq$ | 15.4 | 18.3 |
| Emission factor for electricity generation (1) | $tCO_2/GWh$ | 301 | 342 |
| Installed capacity free of emissions (1) | % | 30.1 | 27.5 |
| Net production free of emissions (1) | % | 27.0 | 24.9 |
| Activity with environmental certification (2) | % | 88.7 | 88.7 |
| Water consumption | $hm^3$ | 20.0 | 26.5 |
| Consumption of raw materials | kt | 5,503 | 6,718 |
| Natural gas | kt | 4,897 | 4,736 |
| Coal | kt | 297 | 1,630 |
| Petroleum derivatives | kt | 309 | 352 |
| Uranium | kt | 0.01 | 0.01 |
| Direct energy consumption (3) | TWh | 58 | 61 |
| Indirect energy consumption (5) | TWh | 632 | 641 |
| Natural gas (final use of natural gas distributed/commercialized) | TWh | 567 | 578 |
| Electricity (for generated electricity supplied) | TWh | 65 | 63 |
| Resources targeted at the prevention of environmental risks (4) | millon euros | 546 | 494 |

(1) Includes hydroelectric, wind, nuclear and solar generation.
(2) Percentage of Ebitda certified with regard to that which is certifiable. The Ebitda used to calculate this percentage corresponds to the end of November.
(3) It includes consumption of renewable, non-renewable and electricity resources and separates the electricity and the heat sold.
(4) All environmental expenditures and investments have been considered. Since 2018 the criterion has been changed and all investment in renewable energy is included.
(5) In 2019, a new concept that had not been considered in previous years has been included, the indirect consumption of energy by generation of supplied electricity. To be able to compare it, the data has been calculated for the previous years.

## Provisions and guarantees for environmental risks

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

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy:  Limit of Euros 520 million per loss event.
- Protection and compensation insurance: maximum limit of US Dollars 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

## What are our main milestones in 2019?

- Approval of the Global Environmental Policy.
- Approval of the Environmental Plan 2018-2022, with actions, monitoring indicators and global objectives to strengthen environmental and climate change governance, reduce greenhouse gas emissions, promote renewable gas and the circular economy, protect biodiversity and develop natural capital.
- Recognition of Naturgy by CDP as a world leader for its action against climate change (A 2018 List), the only Spanish energy company awarded this recognition.
- Application for closure of all coal-fired power stations.
- Growth of renewable power with low or zero emission.
- Development of renewable gas projects.
- Promotion of sustainable mobility.
- Extension of the biodiversity actions and plans.
- Progress in the certification of new environmental management systems pursuant to ISO 14001.
- Implementation in the gas distribution network in Spain of a new, more precise methodology for estimating methane emissions in networks based on a calculation by events, in accordance with the future European standard.

## What are our goals for 2020?

- Growth of renewable energies, in line with the goal of the Strategic Plan 2018-2022 to contribute to the decarbonisation of the electricity generation mix.
- Closure of the coal-fired power stations in the first half of 2020 contributing to the mitigation of climate change and to the energy transition.
- Promote innovation and the development of renewable gas projects as an energy and storage vector that facilitates the transition to a circular and decarbonised energy model.
- Offer sustainable mobility solutions for cities and land and maritime transport that improve air quality.
- Protect biodiversity in operations, applying a preventive approach, implementing best practices and encouraging the creation of natural capital.

## Analysis of the 2019 results

### 1. Governance and environmental management

Environmental governance and management is a strategic pillar for Naturgy, which expresses its commitment in the Corporate Responsibility Policy approved by the Board of Directors and developed in the Global Environmental Policy, which was approved in the first half of 2019. The policy includes the company's action principles, with an emphasis on promoting the sustainable development of society through the supply of competitive, safe energy and with the utmost respect for the environment.

The action principles in governance and environmental management are as follows:

- Ensure compliance with environmental legislation and more stringent voluntary requirements; anticipate, as far as possible, adaptation to new regulations.
- Prevent pollution and reduce environmental impacts along the value chain by encouraging the involvement of employees, collaborating companies and stakeholders.
- Integrate the environment into management of risks and opportunities, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
- Establish targets that drive continuous improvement in environmental performance.
- Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
- Promote transparency, in line with international reporting standards, to facilitate communication with our stakeholders.
- Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive dialogue with Public Administrations, NGOs, universities, customers and other stakeholders.

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

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

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

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

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

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafety, for recording and management of the findings, nonconformities, observations and opportunities to improve environmental management.
- Enablon, for recording and centralized management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc. The system is also used to monitor environmental targets and action plans.
- Geographical information system of biodiversity, showing the protected natural areas, the Naturgy's facilities and the initiatives carried out to protect and improve natural capital.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of Naturgy activities.
- DAMAS, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and supervised to reduce environmental impact and for continuous improvement.
- Environmental audits, both external and internal, conducted within the scope of the integrated management system.
- Specific tool for climate change management tool.

### Integrated Management System

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015 and ISO 14001:2015 standards. This system is audited externally every year. In 2019 this audit was carried out by AENOR in all businesses and countries.

The processes certified through this system are:

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

In addition, the energy services activity included in wholesale and retail commercialisation of natural gas and electricity is certified in the energy management system according to ISO 50001.

### Environmental risk management

Naturgy identifies, records and analyses all the environmental risks and events that have occurred in order to define, apply and disseminate preventive measures to reduce potential damage to the environment. To do this, facilities with environmental risk are assessed using recognised standards as a reference. The first element for management are self-protection plans and their associated procedures, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations that can cause environmental damage. In addition, there are global and uniform procedures and systems in the different businesses and geographies for reporting, classifying, monitoring and managing environmental events, including the tool Prosafety.

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

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

- Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- Environmental: emissions of $CO_2$.
- Business: market shares and penetration levels.
- Economic: impact forecasts on level of revenue, Ebitda, cash-flow and present value of the business, as well as estimates of the value at risk for different confidence levels.

In addition, it means we can simulate new scenarios based on new products or services, the implementation of R&D&I actions, generating different scenarios to assess the impact beforehand in order to take the right decisions.

## 2. Climate change and energy transition

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less $CO_2$-intensive energy products and services to help mitigate climate change and the energy transition. . The principles actions in climate change and energy transition are as follows:

- Promote renewable energies, natural gas and energy savings and efficiency as key elements towards a low-carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Within the Environmental Plan, Naturgy has a voluntary objective for the reduction of GHGs: to reduce Scope 1 and 2 emissions by 21% in 2022 with respect to 2017 values. This target is aligned with science to avoid an increase in temperature above 1.5 ºC.

The main strategic lines of action in terms of climate to reduce GHG emissions are:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Close down the coal-fired power stations.
- Promote natural gas as an alternative to the most emitting fossil fuels.
- Promote energy efficiency in our facilities and for our customers.
- Promote sustainable mobility that reduces GHG emissions and also air pollution, helping to improve air quality.
- Exploring and developing technologies to reduce emissions.

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

- Climate change risk management tool.
- Climate change and energy transition objectives included in the Environmental Plan.
- Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the Naturgy's carbon footprint.
- Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indices on climate change, such as the CDP.
- Participation in the following initiatives related to climate action:
  - Carbon Pricing Leadership Coalition (CPLC).
  - Caring for Climate.
  - Statement on fiduciary duty and climate change disclosure.
  - Corporate commitment with the Science Based Targets climate policy initiative.

### 3. Circular economy and eco-efficiency

Naturgy promotes the circular economy through the efficient use of resources to reduce environmental impacts. The main action principles for the circular economy and eco-efficiency are as follows:

- Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
- Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and low-carbon economic model.

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

As far as energy consumption is concerned, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both at its own facilities and at its customers, contribute to reducing the environmental impact of unconsumed energy.

Water is another of the natural resources used, with most of the water collected for the processes being returned to the environment. In order to manage this resource properly, a risk assessment was carried out on water management, where the use of water by the facilities and the characteristics of the environment in which they are located were analysed, categorizing them according to water stress.

Depending on its origin, the main source of supply is the sea, with fresh water accounting for a much smaller contribution. In global terms, most water consumption is due to the operation of the thermal power stations, in particular to the evaporation of water in the cooling towers. It is important to note that Naturgy, aware of the water stress or scarcity of water in the environments of some of its thermal power stations, introduced systems for the reuse of wastewater from cities or other industries in these facilities.

Regarding effluent discharges, at power stations we monitor and analyse not only the effluents, but also of the waters of the environment receiving the effluent discharges. The treatment equipment and systems worked as planned in 2019, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made.

According to the data in the 2018 Corporate Responsibility Report, the trend with regard to waste is positive, as both the production of waste and the amount of waste going to landfill or being incinerated without energy recovery is decreasing. Most of the waste produced in 2018 (441.4 kt), 52% of which was ash and cinders from coal-fired power stations, was non-hazardous. The rest (8.4 kt) was hazardous waste. For operational reasons, data on waste generated in 2019 is not currently available. However, it is expected that in 2019 the trend will continue and the total amount of waste produced will be reduced, mainly due to lower coal generation (82% compared to 2018), as this is the main source of waste. In any case, detailed waste information will be made public in the 2019 Corporate Responsibility Report.

Moreover, numerous innovation initiatives are under development in the field of renewable gas, in order to promote this new energy vector. There are two sources of renewable gas. On the one hand, surplus renewable electricity at times of high production and reduced consumption, which are transformed into hydrogen through electrolysis of water. This process does not emit $CO_2$ and transforms water into hydrogen and oxygen molecules using electricity generated totally by $CO_2$ -free sources. This hydrogen can be used as a direct fuel or converted into synthetic methane. The second source is organic waste from domestic waste or wastewater, farms, agriculture or food industries. This organic waste, which is subjected to a process of anaerobic digestion, is converted into a biogas, with a low concentration of methane, which is then subjected to a concentration process until it reaches the quality required for injection into the gas grids. Although the use of biogas is not new, the main innovation of the process is the second stage of "upgrading", which raises the concentration of methane to the required quality in the gas networks, allowing its injection, transport and use at points far from those of production, commoditizing it for different uses, such as electricity generation, transport, industry and in the residential and commercial sectors.

The benefits of renewable gas include the reduction of greenhouse gas emissions, which can even be negative, depending on the source of the waste from which it is produced. Thus, the use of renewable gas would be a $CO_2$ sink, i.e. it would succeed in removing $CO_2$ from the atmosphere. This happens because organic waste is naturally decomposed by methane-generating bacteria. Since methane has about twenty-five times the global warming potential of $CO_2$, its use as a fuel reduces the climate impact by the same amount. In addition, the environmental management of such conflicting organic waste as livestock droppings, slurry, manure, chicken droppings, etc., sewage sludge or the organic fraction of domestic waste is improved, also avoiding the undesirable effects that these produce, such as water pollution, odours, etc. In the process, a by-product, the digestate, is also generated, which is an excellent fertilizer and can be introduced into the market, thus completing the logic of the circular economy. From the economic point of view, the advantages are also obvious, as it constitutes a new business model that supports rural development and the establishment of employment and population in agricultural and livestock environments, through the development of new projects and facilities. As far as security of supply is concerned, the impact is clearly positive, reducing the country's external energy dependence and, therefore, its energy bill.

With regard to light and noise pollution and food waste, following the materiality analysis conducted by the company, these issues have not emerged as matters of the utmost importance, nor as other relevant issues for the company, which is why no information is included in this regard.

## 4. Natural capital and biodiversity

Naturgy is committed to the preservation of natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species.

The main action principles for the natural capital and biodiversity are as follows:

- Respect natural capital, biodiversity and cultural heritage in the environments where Naturgy operates.
- Move towards no net loss of biodiversity, with a preventive approach (hierarchy of impact mitigation), implementing best practices and promoting the creation of natural capital.

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

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

The development of Naturgy's activities requires the occupation of land. When the facilities are being designed, environmental impact studies are conducted, in which the protected areas that have a high ecological value are analysed, adapting the project to avoid or minimise the impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced. Introducing additional voluntary measures contributes to the knowledge and mitigation of the impacts arising from the development of new projects and the operation of the facilities once they have been introduced. The company also takes into consideration the opinion of stakeholders in places where activities and projects are developed.

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

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

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity measures carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

# 6.5. Interest in people

## What does it mean for Naturgy? Risks and management approach

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

Persons that suffer any kind of discrimination or do not feel themselves to be fairly rewarded tend to reduce their pride of belonging and lower their productivity.

With regard to attracting and retaining talent, the new profiles of workers do not have an internalised sense of belonging to the company and are looking for a job with which they feel fulfilled, so it is no longer sufficient to offer a suitable salary and development plan, and instead companies must offer a series of social benefits to employees and have values for society with which workers can identify. Companies that do not adapt to this reality may not attract the right talent to their organisations.

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

## What is our commitment?

- To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, work history, etc.).
- To encourage the professional development of persons as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To promote the effective introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of persons.
- To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster constant liaison between the company and workers’ representatives that enables feedback in order to take decisions.

## How do we measure our performance?

### Distribution of employees by age group, country, gender, and professional category

| | | 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Age | | | Management team | | Middle managers | | Technicians | | Operators | |
| | No. of employers | 18-35 (%) | 36-50 (%) | >50 (%) | Men (%) | Women (%) | Men (%) | Women (%) | Men (%) | Women (%) | Men (%) | Women (%) |
| Argentina | 1,175 | 23.8 | 38.0 | 38.2 | 3.7 | 0.9 | 12.4 | 4.2 | 14.9 | 6.8 | 42.1 | 15.0 |
| Australia | 10 | 33.3 | 55.6 | 11.1 | -- | -- | 11.1 | -- | 22.2 | -- | 55.6 | 11.1 |
| Belgium | 3 | 100.0 | -- | -- | 33.3 | -- | -- | 33.3 | -- | 33.3 | -- | -- |
| Brazil | 456 | 21.5 | 63.5 | 14.9 | 4.8 | 3.7 | 8.4 | 5.9 | 21.3 | 16.3 | 27.5 | 12.1 |
| Chile | 2,471 | 21.0 | 48.9 | 30.1 | 2.9 | 0.8 | 12.9 | 3.1 | 31.8 | 10.6 | 25.2 | 12.7 |
| Colombia | 71 | 32.4 | 50.7 | 16.9 | 8.5 | 15.5 | 5.6 | 9.9 | 16.9 | 25.4 | 8.5 | 9.9 |
| Costa Rica | 20 | 15.8 | 63.2 | 21.1 | -- | -- | 5.3 | -- | 10.5 | -- | 78.9 | 5.3 |
| Spain | 6,017 | 9.2 | 61.8 | 29.0 | 10.9 | 4.6 | 15.2 | 4.9 | 20.5 | 16.2 | 17.5 | 10.3 |
| France | 53 | 54.7 | 45.3 | -- | 13.2 | 3.8 | 9.4 | 5.7 | 24.5 | 35.8 | 1.9 | 5.7 |
| Netherlands | 7 | 50.0 | 50.0 | -- | -- | -- | 16.7 | 16.7 | 33.3 | 16.7 | 16.7 | -- |
| Ireland | 37 | 43.8 | 46.9 | 9.4 | 12.5 | -- | 12.5 | 6.3 | 40.6 | 25.0 | 3.1 | -- |
| Israel | 16 | 71.4 | 21.4 | 7.1 | -- | -- | 21.4 | 7.1 | 50.0 | 7.1 | 14.3 | -- |
| Morocco | 93 | 8.6 | 36.6 | 54.8 | 4.3 | 1.1 | 40.9 | 2.2 | 11.8 | 2.2 | 26.9 | 10.8 |
| Mexico | 874 | 32.7 | 58.0 | 9.2 | 5.8 | 2.2 | 17.9 | 3.9 | 26.8 | 11.0 | 22.3 | 10.1 |
| Panama | 357 | 35.3 | 38.1 | 26.6 | 4.8 | 2.5 | 23.4 | 12.4 | 14.4 | 9.9 | 22.3 | 10.2 |
| Peru | 21 | 42.9 | 52.4 | 4.8 | -- | 4.8 | 14.3 | 4.8 | 33.3 | 14.3 | 9.5 | 19.0 |
| Portugal | 17 | 29.4 | 70.6 | -- | -- | 5.9 | -- | -- | 23.5 | 52.9 | -- | 17.6 |
| Puerto Rico | 4 | 25.0 | 25.0 | 50.0 | 50.0 | -- | -- | -- | -- | -- | -- | 50.0 |
| Dominican Republic | 75 | 14.7 | 65.3 | 20.0 | -- | 2.7 | 25.3 | 9.3 | 2.7 | 8.0 | 49.3 | 2.7 |
| Singapore | 12 | 75.0 | 25.0 | -- | 25.0 | -- | -- | -- | 50.0 | 12.5 | -- | 12.5 |
| Uganda | 58 | 66.7 | 26.3 | 7.0 | 1.8 | -- | 35.1 | 3.5 | 5.3 | -- | 45.6 | 8.8 |

The number of employees column contains the staff at year-end with centralised and non-centralised management by its percentage of participation; the rest of the information refers to the staff managed which are the staff of the companies integrated by the global integration method of consolidation.

The companies consolidated through the equity method and which do not provide a headcount breakdown would total 555 employees, distributed as follows: Spain 361, Egypt 87, Puerto Rico 29 and Kenya 78.

| 2018 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Age | | | Management team | | Middle managers | | Technicians | | Operators | |
| | No. of employers | 18-35 (%) | 36-50 (%) | >50 (%) | Men (%) | Women (%) | Men (%) | Women (%) | Men (%) | Women (%) | Men (%) | Women (%) |
| Germany | 7 | 14.3 | 57.1 | 28.6 | -- | -- | -- | -- | 71.4 | 28.6 | -- | -- |
| Argentina | 767 | 21.3 | 37.4 | 41.3 | 3.7 | 0.8 | 13.7 | 3.5 | 15.1 | 4.8 | 45.0 | 13.4 |
| Australia | 8 | 50.0 | 37.5 | 12.5 | -- | -- | -- | -- | 25.0 | -- | 62.5 | 12.5 |
| Belgium | 3 | 66.7 | 33.3 | -- | 33.3 | -- | -- | 33.3 | -- | 33.3 | -- | -- |
| Brazil | 478 | 25.7 | 61.5 | 12.8 | 5.2 | 2.9 | 12.8 | 7.1 | 15.5 | 11.5 | 29.3 | 15.7 |
| Chile | 3,046 | 27.2 | 49.1 | 23.7 | 2.2 | 0.8 | 12.6 | 3.2 | 26.5 | 11.0 | 33.7 | 10.0 |
| Colombia | 84 | 36.9 | 48.8 | 14.3 | 10.7 | 13.1 | 6.0 | 9.5 | 17.9 | 22.6 | 8.3 | 11.9 |
| Costa Rica | 20 | 20.0 | 65.0 | 15.0 | 5.0 | -- | 5.0 | -- | 10.0 | -- | 75.0 | 5.0 |
| Spain | 6,532 | 11.1 | 59.9 | 29.0 | 11.0 | 4.4 | 15.2 | 4.6 | 19.9 | 15.0 | 19.2 | 10.6 |
| France | 66 | 57.6 | 40.9 | 1.5 | 10.6 | 3.0 | 6.1 | 7.6 | 28.8 | 31.8 | 3.0 | 9.1 |
| Netherlands | 7 | 28.6 | 71.4 | -- | 14.3 | -- | 14.3 | -- | 28.6 | 28.6 | 14.3 | -- |
| Ireland | 40 | 50.0 | 45.0 | 5.0 | 12.5 | 2.5 | 12.5 | 5.0 | 32.5 | 27.5 | 7.5 | -- |
| Israel | 15 | 73.3 | 26.7 | -- | -- | -- | 13.3 | 6.7 | 53.3 | 26.7 | -- | -- |
| Morocco | 93 | 7.5 | 43.0 | 49.5 | 3.2 | 1.1 | 39.8 | 2.2 | 11.8 | 2.2 | 29.0 | 10.8 |
| Mexico | 989 | 37.1 | 54.5 | 8.4 | 5.8 | 1.3 | 16.5 | 4.0 | 23.7 | 10.5 | 27.2 | 11.0 |
| Panama | 362 | 37.0 | 36.2 | 26.8 | 5.0 | 2.5 | 21.3 | 9.9 | 12.7 | 11.6 | 25.4 | 11.6 |
| Peru | 21 | 52.4 | 42.9 | 4.8 | -- | 4.8 | 14.3 | 4.8 | 33.3 | 14.3 | 9.5 | 19.0 |
| Portugal | 18 | 38.9 | 61.1 | -- | -- | 11.1 | -- | -- | 16.7 | 44.4 | 5.6 | 22.2 |
| Puerto Rico | 5 | 20.0 | 20.0 | 60.0 | 40.0 | -- | 40.0 | -- | -- | -- | -- | 20.0 |
| Dominican Republic | 84 | 19.0 | 66.7 | 14.3 | 1.2 | 2.4 | 23.8 | 9.5 | 3.6 | 7.1 | 50.0 | 2.4 |
| Singapore | 4 | 75.0 | 25.0 | -- | 25.0 | -- | -- | -- | 75.0 | -- | -- | -- |
| Uganda | 51 | 66.7 | 29.4 | 3.9 | 2.0 | -- | 39.2 | 5.9 | -- | 2.0 | 43.1 | 7.8 |

## Total number and distribution of employment contract types, annual average of indefinite, temporary and part-time contracts by age, gender and professional category [1].

[1] The number of permanent and temporary contracts is calculated using the fixed/temporary classification obtained from the HR master file extracted from the HRM software tool on the last day of each month. The calculation of the average is done by taking all the personnel master files of each month and calculating the annual average.

In Naturgy there are no part-time contracts, all contracts are full-time.

| **Number of contracts by gender and type at 31 December** | | | **2019** |
|---|---|---|---|
| | Men | Women | **Total employees** |
| Indefinite full-time | 7,751 | 3,701 | **11,452** |
| Indefinite part-time | -- | -- | -- |
| **Total Indefinite** | **7,751** | **3,701** | **11,452** |
| Temporary full-time | 122 | 80 | 202 |
| Temporary part-time | -- | -- | -- |
| **Total temporary** | **122** | **80** | **202** |
| **Total full-time** | **7,873** | **3,781** | **11,654** |
| **Total part-time** | **--** | **--** | **--** |

| **Annual average of contracts by gender and type** | | | **2019** |
|---|---|---|---|
| | Men | Women | **Total employees** |
| Indefinite full-time | 8,050.2 | 3,666.7 | **11,716.8** |
| Indefinite part-time | -- | -- | -- |
| **Total Indefinite** | **8,050.2** | **3,666.7** | **11,716.8** |
| Temporary full-time | 134.9 | 92.9 | 227.8 |
| Temporary part-time | -- | -- | -- |
| **Total temporary** | **134.9** | **92.9** | **227.8** |
| **Total full-time** | **8,185.1** | **3,759.6** | **11,944.7** |
| **Total part-time** | **--** | **--** | **--** |

| Number of contracts by age and type at 31 December | | | | 2019 |
|---|---|---|---|---|
| | 18-35 years | 36-50 years | >50 years | **Total employees** |
| Indefinite full-time | 1,896 | 6,336 | 3,220 | **11,452** |
| Indefinite part-time | -- | -- | -- | -- |
| **Total Indefinite** | **1,896** | **6,336** | **3,220** | **11,452** |
| Temporary full-time | 113 | 84 | 5 | 202 |
| Temporary part-time | -- | -- | -- | -- |
| **Total temporary** | **113** | **84** | **5** | **202** |
| **Total full-time** | **2,009** | **6,420** | **3,225** | **11,654** |
| **Total part-time** | **--** | **--** | **--** | **--** |

| Annual average of contracts by age and type | | | | 2019 |
|---|---|---|---|---|
| | 18-35 years | 36-50 years | >50 years | **Total employees** |
| Indefinite full-time | 2,092.5 | 6,485.5 | 3,138.8 | **11,716.8** |
| Indefinite part-time | -- | -- | -- | -- |
| **Total Indefinite** | **2,092.5** | **6,485.5** | **3,138.8** | **11,716.8** |
| Temporary full-time | 139.9 | 82.4 | 5.5 | 227.8 |
| Temporary part-time | -- | -- | -- | -- |
| **Total temporary** | **139.9** | **82.4** | **5.5** | **227.8** |
| **Total full-time** | **2,232.5** | **6,567.9** | **3,144.3** | **11,944.7** |
| **Total part-time** | **--** | **--** | **--** | **--** |

| Number of contracts by professional category and type at 31 December | | | | 2019 |
|---|---|---|---|---|
| | Executive | Technicians | Administrative/Operators | **Total employees** |
| Indefinite full-time | 1,223 | 6,340 | 3,889 | **11,452** |
| Indefinite part-time | -- | -- | -- | -- |
| **Total Indefinite** | **1,223** | **6,340** | **3,889** | **11,452** |
| Temporary full-time | 3 | 124 | 75 | 202 |
| Temporary part-time | -- | -- | -- | -- |
| **Total temporary** | **3** | **124** | **75** | **202** |
| **Total full-time** | **1,226** | **6,464** | **3,964** | **11,654** |
| **Total part-time** | **--** | **--** | **--** | **--** |

| Annual average of contracts by professional category and type | | | | 2019 |
|---|---|---|---|---|
| | Executive | Technicians | Administrative/Operators | **Total employees** |
| Indefinite full-time | 1,243.8 | 6,366.8 | 4,106.2 | **11,716.8** |
| Indefinite part-time | -- | -- | -- | -- |
| **Total Indefinite** | **1,243.8** | **6,366.8** | **4,106.2** | **11,716.8** |
| Temporary full-time | 2.2 | 129.4 | 96.2 | 227.8 |
| Temporary part-time | -- | -- | -- | -- |
| **Total temporary** | **2.2** | **129.4** | **96.2** | **227.8** |
| **Total full-time** | **1,246.1** | **6,496.2** | **4,202.4** | **11,944.7** |
| **Total part-time** | **--** | **--** | **--** | **--** |

The information published in 2018 does not allow for comparisons with the data for 2019, when the calculation of this indicator was further developed. However, the data for 2018 are provided:

| % of staff by contract type | | 2018 | Annual average of temporary contract staff by professional category | 2018 | | Annual average of temporary contract staff by age | 2018 | |
|---|---|---|---|---|---|---|---|---|
| | | | | Men | Women | | Men | Women |
| Permanent contracts | Men | 67.7 | Executive | 2 | -- | 18-35 | 137 | 92 |
| | Women | 30.1 | Technicians | 102 | 70 | 36-50 | 68 | 38 |
| Temporary contracts | Men | 1.2 | Administrative | -- | -- | >50 | 9 | 2 |
| | Women | 1 | Operators | 110 | 62 | | | |
| | **Total** | **100.0** | **Total** | **214** | **132** | **Total** | **214** | **132** |

## Voluntary rotation index

| | | **2019** | 2018 |
|---|---|---|---|
| Rotation index | Rotation (%) | 11.7 | 17.4 |
| | Voluntary rotation (%) | 2.7 | 2.5 |

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

| Number of dismissals by age group, gender, and professional category | | | | | | **2019** |
|---|---|---|---|---|---|---|
| | Professional category | | | Age | | |
| | Executive | Technicians | Administrative/ Operators | 18-35 | 36-50 | >50 |
| Men | 8 | 113 | 219 | 105 | 163 | 72 |
| Women | 2 | 20 | 27 | 21 | 21 | 7 |
| **Total** | **10** | **133** | **246** | **126** | **184** | **79** |

| Number of dismissals by age group, gender, and professional category | | | | | | 2018 |
|---|---|---|---|---|---|---|
| | Professional category | | | Age | | |
| | Executive | Technicians | Administrative/ Operators | 18-35 | 36-50 | >50 |
| Men | 9 | 111 | 70 | 60 | 72 | 58 |
| Women | 2 | 32 | 55 | 23 | 44 | 22 |
| **Total** | **11** | **143** | **125** | **83** | **116** | **80** |

## Salary gap

The salary gap measure, according to which a percentage greater than zero represents the percentage that women earn less than men, is detailed below.

| Salary gap (fixed) | | | | **2019** |
|---|---|---|---|---|
| | Executive | Technicians | Administrative | Operators |
| Argentina | 22.9% | 6.3% | 8.9% | 15.3% |
| Brazil | 3.8% | 14.7% | 42.9% | 23.8% |
| Chile | 46.2% | 8.1% | 18.8% | 34.4% |
| Colombia | (4.8%) | 5.5% | (3.8%) | -- |
| Spain | 11.5% | 6.3% | 7.9% | 23.1% |
| France | 34.6% | 13.2% | (0.6%) | -- |
| Ireland | -- | 18.7% | -- | -- |
| Morocco | 3.2% | (5.4%) | 1.5% | -- |
| Mexico | (13.8%) | 1.3% | (32.0%) | 9.3% |
| Panama | (18.1%) | (12.7%) | 0.5% | -- |
| Portugal | -- | 16.8% | -- | -- |
| Dominican Republic | -- | (3.9%) | 23.4% | -- |

| **Salary Gap (fixed)** | | | | 2018 |
|---|---|---|---|---|
| | Executive | Technicians | Administrative | Operators |
| Argentina | 21.41% | 12.76% | 11.58% | 17.78% |
| Brazil | 22.71% | 14.70% | -- | 24.05% |
| Chile | 38.14% | 6.07% | 17.95% | 19.47% |
| Colombia | 10.24% | 28.01% | (2.42%) | -- |
| Spain | 13.09% | 4.57% | 6.23% | 13.23% |
| France | 23.68% | 18.06% | 8.21% | -- |
| Ireland | 38.89% | 19.64% | -- | -- |
| Morocco | 4.47% | 6.74% | 7.14% | -- |
| Mexico | 4.50% | (2.11%) | (26.63%) | (30.11%) |
| Panama | (20.45%) | (16.11%) | 15.86% | -- |
| Portugal | -- | (10.03%) | 22.69% | -- |
| Dominican Republic | 21.41% | 12.76% | 11.58% | 17.78% |

| **Salary Gap (fixed and variable)** | | | | **2019** |
|---|---|---|---|---|
| | Executive | Technicians | Administrative | Operators |
| Argentina | 28.3% | 0.9% | 8.4% | 14.0% |
| Brazil | 1.9% | 15.5% | 42.5% | 23.6% |
| Chile | 49.6% | 7.4% | 25.5% | 34.4% |
| Colombia | 29.7% | 5.9% | (1.6%) | -- |
| Spain | 13.1% | 6.1% | 7.9% | 23.1% |
| France | 37.5% | 15.2% | 11.8% | -- |
| Ireland | -- | 25.1% | -- | -- |
| Morocco | 2.4% | 1.2% | (2.2%) | -- |
| Mexico | 1.4% | 0.9% | (30.7%) | 2.9% |
| Panama | (18.1%) | (12.7%) | 0.5% | -- |
| Portugal | -- | 18.5% | -- | -- |
| Dominican Republic | -- | 1.2% | 24.4% | -- |

## Average remuneration by age group, gender, and professional category[1].

[1] In the case of average remuneration, the category Administrative has been considered, since it corresponds to the professional group "management/support" of the salary tables included in the collective agreement. In addition, in the tables in the previous section, which refer to the types of contract and number of employees, among other data, these Administrative staff are included in the Operators and Technicians groups, as none of the work they perform is considered administrative.

Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

**Fixed Remuneration 2019**

| | Executive | | Technicians | | Administrative | | Operators | |
|---|---|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women | Men | Women |
| Argentina | 66,367 | 51,175 | 22,190 | 20,786 | 16,260 | 14,816 | 17,634 | 14,932 |
| Brazil | 45,942 | 44,187 | 21,369 | 18,236 | 29,378 | 16,781 | 14,631 | 11,154 |
| Chile | 138,027 | 74,262 | 34,226 | 31,453 | 19,211 | 15,598 | 15,711 | 10,308 |
| Colombia | 76,374 | 80,023 | 13,092 | 12,368 | 6,632 | 6,882 | -- | -- |
| Spain | 88,872 | 78,672 | 49,835 | 46,700 | 39,094 | 36,020 | 37,981 | 29,207 |
| France | 108,274 | 70,856 | 51,926 | 45,066 | 31,815 | 32,020 | -- | -- |
| Ireland | 118,086 | -- | 59,266 | 48,212 | -- | -- | -- | -- |
| Morocco | 82,528 | 79,917 | 28,072 | 29,591 | 11,169 | 11,000 | 12,610 | -- |
| Mexico | 39,430 | 44,889 | 18,050 | 17,808 | 7,524 | 9,931 | 7,457 | 6,761 |
| Panama | 42,099 | 49,719 | 18,764 | 21,143 | 19,675 | 19,577 | 15,458 | -- |
| Portugal | -- | 80,882 | 39,344 | 32,719 | -- | 24,768 | -- | -- |
| Dominican Republic | -- | 72,209 | 23,692 | 24,628 | 12,670 | 9,703 | 12,560 | -- |

Fixed Remuneration 2018

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

**Fixed and variable Remuneration 2019**

| | Executive | | Technicians | | Administrative | | Operators | |
|---|---|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women | Men | Women |
| Argentina | 85,380 | 61,258 | 23,382 | 23,161 | 16,508 | 15,119 | 17,709 | 15,221 |
| Brazil | 52,054 | 51,074 | 24,187 | 20,435 | 31,043 | 17,862 | 15,663 | 11,965 |
| Chile | 164,176 | 82,754 | 36,704 | 34,000 | 22,134 | 16,480 | 16,219 | 10,646 |
| Colombia | 148,985 | 104,717 | 15,643 | 14,719 | 8,508 | 8,648 | -- | -- |
| Spain | 114,090 | 99,173 | 51,887 | 48,705 | 39,094 | 36,020 | 37,982 | 29,207 |
| France | 132,735 | 82,902 | 59,679 | 50,637 | 37,917 | 33,444 | -- | -- |
| Ireland | 168,869 | -- | 80,309 | 60,122 | -- | -- | -- | -- |
| Morocco | 98,152 | 95,782 | 34,924 | 34,504 | 13,443 | 13,743 | 18,196 | -- |
| Mexico | 53,594 | 52,856 | 21,445 | 21,247 | 8,400 | 10,983 | 7,612 | 7,387 |
| Panama | 42,081 | 49,698 | 18,757 | 21,135 | 19,668 | 19,570 | 15,451 | -- |
| Portugal | -- | 97,882 | 51,556 | 42,023 | -- | 27,493 | -- | -- |
| Dominican Republic | -- | 88,337 | 26,246 | 25,920 | 13,438 | 10,159 | 12,998 | -- |

**Fixed and variable Remuneration 2019**

| | 18-35 years | 36-50 years | > 50 years |
|---|---|---|---|
| Argentina | 14,443 | 18,924 | 21,958 |
| Brazil | 6,652 | 10,444 | 12,065 |
| Chile | 20,698 | 31,131 | 30,695 |
| Colombia | 9,661 | 34,222 | 110,120 |
| Spain | 34,879 | 49,140 | 61,252 |
| France | 42,475 | 62,876 | 63,319 |
| Ireland | 35,191 | 68,708 | 75,868 |
| Morocco | 15,259 | 35,529 | 39,935 |
| Mexico | 15,638 | 18,944 | 18,434 |
| Panama | 19,251 | 27,066 | 30,559 |
| Portugal | 41,691 | 46,361 | -- |
| Dominican Republic | 11,604 | 19,690 | 22,190 |

Fixed and variable Remuneration 2018

| | 18-35 years | 36-50 years | > 50 years |
|---|---|---|---|
| Spain | 34,446 | 48,698 | 56,566 |

Data on average pay by age group are only available for Spain for 2018.

## Average remuneration of executives

The remuneration of the executives of Naturgy is detailed on an individual basis in Note 26 of the annual accounts.

The average remuneration of executives detailed by gender and typology during 2019 and 2018 exercises are as follows:

| thousand euro | 2019 | | 2018 | |
|---|---|---|---|---|
| | Men | Women | Men | Women |
| Executive [1] | 1,100 | -- | 1,056 | -- |
| Independent/Dominical | 262 | 235 | 288 | 229 |

[1] It does not include remuneration for executive functions.

## Employees with disabilities

| | 2019 | 2018 |
|---|---|---|
| | Percentage | Percentage |
| Germany | -- | -- |
| Argentina | 0.5 | 0.8 |
| Australia | -- | -- |
| Belgium | -- | -- |
| Brazil | 2.9 | -- |
| Chile | 0.5 | 0.2 |
| Colombia | -- | -- |
| Costa Rica | -- | -- |
| Spain | 2.3 | 2.4 |
| France | -- | 1.5 |
| Netherlands | -- | -- |
| Ireland | -- | -- |
| Israel | -- | -- |
| Morocco | 1.1 | 1.1 |
| Mexico | 0.6 | -- |
| Panama | 1.4 | 1.7 |
| Peru | -- | -- |
| Portugal | -- | -- |
| Puerto Rico | -- | -- |
| Dominican Republic | -- | -- |
| Singapore | -- | -- |
| Uganda | -- | -- |

## Percentage of employees covered by collective bargaining agreements

The II Naturgy Collective Bargaining Agreement applies to all active workers in all Naturgy companies in Spain, except for Exempt and Excluded Personnel.

The following are considered exempt personnel: Directors, Deputy Directors and Department Heads of the company's structure, whose employment relationship is regulated by the provisions of their individual employment contracts.

Those workers who are not exempt from the agreement and who occupy positions of special dedication are considered to be exempt personnel. Excluded personnel have their employment relationship regulated by means of an individual employment contract in which their desire to be excluded from the agreement is reflected.

| | | **2019** | | 2018 |
|---|---|---|---|---|
| | Not covered by collective bargaining agreements (%) | Covered by collective bargaining agreements (%) | Not covered by collective bargaining agreements (%) | Covered by collective bargaining agreements (%) |
| Germany | -- | -- | -- | 100.0 |
| Argentina | 28.6 | 71.4 | 19.3 | 80.7 |
| Australia | -- | 100.0 | -- | 100.0 |
| Belgium | -- | 100.0 | 33.3 | 66.7 |
| Brazil | 27.0 | 73.0 | 25.5 | 74.5 |
| Chile | 5.0 | 95.0 | 4.6 | 95.4 |
| Colombia | 46.5 | 53.5 | 47.6 | 52.4 |
| Costa Rica | -- | 100.0 | -- | 100.0 |
| Spain | 32.8 | 67.2 | 32.0 | 68.0 |
| France | 71.7 | 28.3 | 72.7 | 27.3 |
| Netherlands | -- | 100.0 | -- | 100.0 |
| Ireland | 100.0 | -- | 100.0 | -- |
| Israel | -- | 100.0 | -- | 100.0 |
| Morocco | 35.5 | 64.5 | 34.4 | 65.6 |
| Mexico | 20.8 | 79.2 | 19.0 | 81.0 |
| Panama | 57.3 | 42.7 | 61.9 | 38.1 |
| Peru | -- | 100.0 | -- | 100.0 |
| Portugal | -- | 100.0 | -- | 100.0 |
| Puerto Rico | 75.0 | 25.0 | -- | 100.0 |
| Dominican Republic | 4.0 | 96.0 | 3.6 | 96.4 |
| Singapore | -- | 100.0 | 100.0 | -- |
| Uganda | -- | 100.0 | -- | 100.0 |
| **Total** | **26.0** | **74.0** | 24.1 | 75.9 |

## Training

| | **2019** | 2018 |
|---|---|---|
| Training hours | 276,365.6 | 645,311.0 |
| % of trained staff | 85.8 | 91.0 |

| | 2019 | 2019 |
|---|---|---|
| | Training hours | % of trained staff |
| Management team | 34,846.5 | 88.0 |
| Middle managers | 75,496.8 | 90.3 |
| Technicians | 81,600.2 | 85.8 |
| Operators | 84,422.1 | 82.5 |
| **Total** | **276,365.6** | **85.8** |

## What are our main milestones in 2019?

- Application of the new People Model.
- DigitalTEAM. New ways of working project.
- IMAGINAT. New work spaces project.
- Launch of the Transformational Leadership Academy.
- In-house Communication Plan focused on: corporate priorities, the executive role in communication, and fostering participation.

## What are our goals for 2020?

- Development of programmes for profile assessment, development and transformation of talent.
- Comprehensive diversity programme: Gender, training, capabilities and geography.
- Measuring employee commitment.
- Development of new ways of working: transversal, multidisciplinary and light structures.

## Analysis of the 2019 results

### People management model

In 2019 the transformation and creation of value remain as the company's strategic pillars, advancing in the adoption of the new People Model, conceived as a dynamic ecosystem, which synchronises with coherence processes and management elements to better connect its employees with the strategic targets of Naturgy, in which the empowerment and responsibility of its employees are key pieces.

The value proposition of this model revolves around three key pieces:

1. Talent, retaining such talent, loyalty, training and development.
2. The reward and work environment model that the company offers its employees.
3. Culture and internal communication as evolutionary processes that accompany the transformation.

Specifically, the 2019 management meant advancing the Job Assessment and Compensation Model for the entire company. Likewise, the connection of the Talent and Leadership Model with Naturgy's strategic vision is made, through simplification of the skills map, updating of the map of succession of management positions and the 360º evaluation, among others. Each of these elements is managed together with the company's different businesses, allowing the monitoring and evolution of its professionals.

With the same transformational vision, a new Training Model was launched to guarantee the adequacy of the position/person, the acquisition of knowledge linked to current needs of the organisation and the development of skills and abilities related to Naturgy's leadership model and culture.

### Measures to foster employment

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

- Professional practices programme: Naturgy has partnerships with the main universities and higher education centres in those countries where it operates, through which it selects young people for work experience each year.
- The Dual VT offers Naturgy the opportunity to participate in the vocational training of young people, developing academic content adapted to the needs of the company, ensuring rapid adaptation to the working environment.
- Management staff: A further programme that the company has been running since 2012 and through which it incorporates external young professionals, ensuring the attraction of high potential professionals and high performance requirements, specifically designed to accelerate young talent.

### Equality, diversity and non-discrimination

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

Naturgy's Corporate Equality Plan, approved together with the Trade Union Representative, published in the Official State Gazette (BOE) under Registration No. 90100073112013. It is based on 14 strengths to be maintained and 14 weaknesses to be corrected identified by outsourced experts, giving rise to actions on issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and life/work balance, selection, prevention of harassment, measurement and monitoring.

Naturgy's commitment to equality has been recognised with the “Equality in the Workplace” seal (DIE) from the Ministry of the Presidency, Parliamentary Relations and Equality in November 2018, by virtue of the implementation of equal opportunity policies, through comprehensive, measurable and result-oriented equality plans. This certification is granted following a thorough process of verification of the activities related to equality, with the aim of confirming the level of excellence and mainstreaming in management.

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

The protocol against sexual harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire staff in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

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

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

- Informal procedure: through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- Formal procedure: through which the harassment situation is reported, following these steps:
  - Notification to the Ethics and Compliance Committee or reporting to their superior or to the people management department, who will decide whether to accept it for processing.
  - Investigation, gathering information and conducting interviews with the affected parties and witnesses, if there are any.
  - Possibility of introducing precautionary measures.

Once either procedure has been followed, a report will be drawn up on the conclusions and resolution of the procedure, which will include the corrective measures and the adoption of one of the following solutions: either the complaint will be closed or disciplinary proceedings will be initiated depending on the seriousness of the offence.

In 2019, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan which brings together specific initiatives, in all geographies and territories, for people management, classified into three areas: gender, disabilities and age.

The inclusion of people with different capabilities at Naturgy is promoted by Management itself through specific initiatives and programmes, the most relevant of which are:

- Family Plan: this provides relatives of employees with advice from professionals and experts in disability and employment integration, so that from the earliest ages they can develop the skills and abilities that enable persons with disabilities to increase their autonomy and employability.
- Capacitas Plan: this aims to promote the employment of people at risk of social exclusion on grounds of disability.
- Aflora Plan: this encourages those employees of Naturgy with some degree of disability to contact the company for information on new measures specifically designed to achieve the full integration of everybody in a unique environment of diversity.
- Bequal Plus certificate: Naturgy has been certified until 2020, duly substantiating the level of commitment to Corporate Social Responsibility and Disability.

The Naturgy Equality Plan sets out a best practices protocol to avoid discrimination in the selection processes, and which includes the following measures:

- Open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- In the publication of job offers:
  - No discriminatory terminology is used.
  - Put the feminine gender first followed by the masculine.
  - Gender separation will always be carried out with slashes.
  - Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind.
  - Only specify the need for a driving licence when the job requires this.
  - Do not use possession of own vehicle as a requirement.
  - Do not use the need to reside near the place of work as a requirement.

- In the selection process:
  - In the case of disabled candidates, make sure we have the accessibility required so that they can attend the interview with us.
  - Avoid prejudices and stereotypes associated with gender, appearance, disability, age, religion, religious beliefs of any kind.
  - Transmit the corporate image.
  - Avoid personal questions and, if necessary, justify them.
  - Avoid preferential treatment.
- In the finalisation of the process:
  - Explain the result of the process.
  - Explain the next steps if they have passed the process.
- On joining the company:
  - Inform them about the equal opportunity policies.
  - Transmit values.
  - Non-discriminatory social benefits.
  - Career plans based on merits and capabilities.

In addition to these specific programmes, regular awareness-raising activities are held for employees and their families, such as the camp for employees' children with disabilities, and an inclusive calendar, among others.

### Training and development

In-company training is a strategic lever for transformation, contributing to continuous learning, development and empowerment of professionals to make Naturgy's business vision a reality.

In this context, the Corporate University (CU) is a representative and backbone element of the training experience, guaranteeing the adequacy between the position and the person through the delivery of key knowledge, the connection with the latest trends, technologies and with the development of skills and abilities linked to Naturgy's leadership models and culture.

The CU training model is deployed through three academies which, in a supplementary and synergistic way, allow the company to face the training challenges of the present and future:

- The Transformational Leadership Academy (TLA): training environment focused on the Naturgy executive, directive, managerial and high potential team, the aim of which is to promote transformational leadership, thus strengthening the role of natural accelerators of organisational and cultural change, driving the evolution of Naturgy.
- The Tech Academy (TA) guarantees the transfer of specific technical knowledge in each business, thus permitting its efficient development and at the same time ensures quality and uniformity in all countries. It offers learning programmes on new methodologies and technologies, preparing professionals to carry out their work in a digital and technologically advanced environment.
- The Extended Academy: aimed at offering training content to collaborating companies in technical matters, safety and risk prevention, legal concepts and customer orientation.

Likewise, the training offer of the CU is adapted to the demand of employees and the different businesses through the Evolution platform (Success Factor), in which all Naturgy professionals have access to online training from the company’s catalogue, as well as to a set of channels and platforms for the dissemination of contents.

The guarantee of connection between the company’s strategy and training is provided by the CU’s Advisory Council, made up of representatives of the company’s senior management and external advisors from prestigious academic institutions.

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2019. Since 2003, it has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period.

### Flexibility

Naturgy is a committed company that encourages and promotes the reconciliation of work and family life of its employees. Reconciliation and joint responsibility are permanent objectives.

The Naturgy's Collective Bargaining Agreement contains a broad chapter on Social Responsibility, Equality and Reconciliation of work and family life, including measures aimed at achieving actual and effective equality between men and women. These measures, which go beyond what is legally established, allow a greater and better reconciliation of employees.

During 2019, progress has continued to be made in the implementation of policies that promote reconciliation and joint responsibility, obtaining an important achievement in this area. The agreements reached regarding the possibility of benefiting from greater flexibility in working hours, both in terms of adaptation and duration, as well as the implementation of remote work, are improving the possibilities of reconciliation and joint responsibility of our employees.

### Global FRC Certification

Naturgy is the first and only company in the world to have the Global FRC Certification (Family Responsible Company) granted in 2013 by the “Masfamilia” Foundation, with the endorsement of the Ministry of Health, Consumer Affairs and Social Welfare, and audited each year by AENOR.

This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of the company with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2019, the management of the model has been deployed through 472 local measures, distributed among the different countries where it operates, and also 21 global measures, all of them integrated in the six action groups defined by the Global FRC Standard 1000/23: quality in employment, time and space flexibility, support for the employees’ families, support for the personal and professional environment, equal opportunities and leadership and management style.

### Time bank

Naturgy provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on other aspects of their personal life.

The wide range of services offered by the Time Bank is structured into:

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

The Naturgy Time Bank also has an Easybox that allows for management of more than 20 different services through an interactive ticketing system and a website, with the advantage of delivering and collecting at the time that suits the employee. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

### New reconciliation measures

In 2019, progress has been made in the implementation of new measures to reconcile work and family life, such as greater flexibility in the working day, the possibility of adapting its duration, and the implementation of remote working, which, together with the existing measures, promote reconciliation and are a clear example of the Company's commitment to its employees.

Some of the measures implemented in Naturgy, in Spain, are:

- Paid leave that goes beyond the legal regulation, in cases of marriage, separation or divorce, marriage of parents or children, in cases of death or serious illness of relatives, in cases of moving home, cases of assisted fertilisation. Increase in the duration of breastfeeding leave or paid leave from the 38th week of pregnancy.
- Unpaid leave: in cases of assisted fertilisation, international adoptions, the repeated need to accompany relatives for medical care.
- Flexibility: in arrival and departure, in the lunch period, continuous uninterrupted working day every Friday of the year, flexible working times.
- Possibility of reduced working hours in cases other than those regulated by law.

### Compensation and remuneration

The remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two remuneration models, one for employees included in the collective bargaining agreement and another for employees not included.

The management by objectives for managers and employees not included in the agreement, and variable remuneration for salespersons, are methods in place at Naturgy as incentives for employee involvement in achieving the company's targets and direct share in results.

The remuneration package for Naturgy employees is supplemented with a social benefits system, which includes a pension plan and other social benefits.

In 2019, the Total Compensation Plan was consolidated, allowing employees to personalise the composition and compensation package offered by the company. This plan, which is compatible with the flexible remuneration system, allows the employee to decide on the composition of their remuneration package, and they may choose to monetise the benefits, maintain the corresponding benefit or allocate the amount to other benefits.

The Joint Pension Plan for Employees of Naturgy is a defined contribution pension plan for the contingency of retirement and a defined benefit plan for the contingencies of death and disability in service. At year-end, it has assets in excess of Euros 500 million, distributed among more than 6,000 active employees, and about 2,800 suspended participants and beneficiaries.

In the international arena, the Naturgy's policy is based on the provision of retirement savings instruments and death and disability coverage whilst an active worker, taking into account the particularities and social welfare needs of each country.

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

### Labour relations

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

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

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

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

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

The consultation and participation of workers is a vital element in the management of health and safety at Naturgy, which establishes, implements and maintains specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in them.

Mainstreaming and collaborative work that promotes the commitment of the entire organisation in matters of health, safety and the environment is a key lever for the development of projects and actions aimed at transformation, innovation and improvement of activities and processes and the achievement of optimal results.

# 6.6. Health and safety

## What does it mean for Naturgy? Risks and management approach

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

The implemented health and safety management system has established mechanisms to identify and control the risks associated with our activities. The 2019 safety plan has included several relevant lines of action aimed at controlling the six most critical risk factors for accident frequency and severity. For each of these six risk factors (confined spaces, work at height, electrical risk, tree felling and pruning, cargo handling and road safety), "red lines" have been defined, non-compliance with which has been the subject of special supervision and the application of a disciplinary regime.

## What is our commitment?

- Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.
- Ensure that any potential risk situations that may affect employees, suppliers, customers, the general public and the safety of facilities are brought to attention, assessed and managed in the appropriate manner.
- Work to maintain a risk-free working environment by integrating prevention of occupational risks, and the protection and promotion of health and well-being into business management.
- Establish learning as the driver of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.
- Incorporate health and safety criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Invest in new strategies of health education and health promotion, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.
- Implement measures targeted at improving the quality of life, well-being and health of people within the communities where the company operates.
- Provide the resources and necessary means to enable compliance with established safety standards at all times.

## How do we measure our performance?

### Accident indicators [1]

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Total | Men | Women | Total | Men | Women |
| No. of lost time accidents (No. of employees) | 14 | 14 | -- | 16 | 15 | 1 |
| Days lost of lost time accidents | 704 | 704 | -- | 956 | 932 | 24 |
| Fatality | -- | -- | -- | -- | -- | -- |
| Lost time accidents frequency rate | 0.12 | 0.18 | -- | 0.12 | 0.16 | 0.02 |
| Lost time accidents severity rate | 6.04 | 8.94 | -- | 7.13 | 10.05 | 0.58 |

[1] Calculated according to the OHSA standards (indicators for every 200,000 hours worked).

### Occupational illness

There have been no occupational illnesses registered in 2019 and 2018.

### Absenteeism

Absenteeism data is shown for those countries that have an organisational structure or health team, or Human Resources team with people managers and that apply the Master Health Plan.

| | Total Lost Hours [1] | |
|---|---|---|
| | **2019** | 2018 |
| Spain | 315,410 | 382,146 |
| Chile | 186,882 | 250,980 |
| Argentina | 36,184 | 33,912 |
| Brazil | 15,726 | 15,749 |
| Colombia | 1,369 | 3,160 |
| Costa Rica | 252 | 813 |
| France | 3,136 | 3,836 |
| Kenya | -- | 1,072 |
| Morocco | 1,180 | 2,899 |
| Mexico | 14,424 | 9,840 |
| Moldova | -- | 33,415 |
| Panama | 4,666 | 8,790 |
| Peru | 104 | 152 |
| Dominican Republic | 1,432 | 3,184 |
| South Africa | -- | 54,720 |
| Uganda | 493 | 313 |
| **Total** | 581,258 | 804,981 |

[1] We have considered the hours of absenteeism for occupational illness and non-occupational illness, and the total number of hours worked in 2019 was 23,462,341.

## What are our main milestones in 2019?

- Health and safety action plan 2019.
- Horus: multi-factor analytical preventive analysis.
- Integra: exchange of best practices and learning through collaboration with collaborating companies.
- Kepler: innovation project applied to prevention.

## What are our main targets for 2020?

- Migration from OHSA 18001 to ISO 45001 standard.
- Maintenance of health and safety certification in all businesses and countries.
- Consolidation of the Safety Plan.
- Consolidation of the Comprehensive Health Plan for the improvement of the well-being of its employees and families.

## Analysis of the 2019 results

### Health and Safety Strategy

Naturgy's safety strategy, developed in collaboration with the business units, is structured through the following elements:

- A stable health and safety culture throughout the organisation.
- A relational and governance model, integrated at the highest level and with a structure of Environmental Health and Safety (EHS) committees of a transversal nature and specific to the business units, which guarantees the uniform implementation of criteria.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities, implementation and all elements that support control and monitoring.
- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.
- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.
- Training itineraries and requirements adjusted to the job, and training and awareness to achieve the commitment of Naturgy and its collaborating companies.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.

Five lines of action on which the management system pivots:

**01** Leadership

**02** Employees

**03** Collaborating Companies

**04** Security management of process and facilities

**05** Society

### Health and safety leadership

2019 saw approval of the Global Health and Safety Policy, which reinforces safety as a key factor of business leadership and ensures compliance with the commitments made in the Naturgy's Corporate Responsibility Policy. It places the focus on governance and links directly to Senior Management, enhancing its leadership in safety to ensure application of the model in all businesses and activities - both in-house and outsourced. In addition, the policy is linked to monitoring the evolution of KPIs and action plans arising from incidents and accidents.

## Risk management

For the assessment and control of health and safety risks, Naturgy has technical procedures and standards of a transversal nature that apply to the whole group. The business units guarantee its dissemination and implementation and ensure adequate operational discipline in its application.

The safety management model articulates different tools that have been developed around the company's main health and safety axes:

- Risk assessment and management mechanisms.

Instruments for inspection, monitoring and operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

- Risk map and process safety management.

The maintenance and verification programmes for regulatory compliance of facilities are supplemented by process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

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

Specific management mechanisms aimed at ensuring strict control of the critical factors of accident rates, promoting ongoing improvement and significantly reducing accident rates at collaborating companies.

- Management and investigation of accidents and incidents.

Essential for the identification of actions aimed at minimising risk situations, improving the safety of operations and reducing the associated accident rate. As a new feature of the unified incident investigation system, the root cause analysis model has been optimised, based on existing best practices and the HFACS (Human Factor Analysis Classification Scheme) methodology.

## Communication to employees and action plans

In addition to the annual publication of performance, the company regularly carries out communication actions aimed at the entire organisation, taking into account diversity aspects and the points of view of stakeholders, including suppliers and visitors.

Based on the specific channel of the intranet, this year's communication plan has focused mainly on dissemination of the 2019 action plan.

- Consultation and participation.

Naturgy establishes, implements and maintains specific two-way processes and bodies with employees: Health and Safety Committees, channels of participation and consultation, regular meetings between unit and team leaders, individual tools and reporting channel.

- Dissemination.

The company promotes actions aimed at improving the safety of the environment in which it carries out its activity: participation in forums, collaboration with administrations and companies or sponsorship of best practices.

### Training and awareness

Naturgy has a variety of consolidated learning tools and relies on the Occupational Risk Prevention Classroom, -a tool of the Corporate University- to meet the established objectives.

- Training of collaborating companies.

We work to extend the culture of health and safety to suppliers, collaborating companies and their employees through dissemination and awareness. In 2019, the content of the leadership and awareness courses has been updated and global internal regulations have been introduced to coordinate operational units and collaborating companies.

- Safety among customers and society.

Naturgy ensures that communication channels are established and maintained with customers and society regarding product/service information and the safety of these, incident management and protocols for action in emergency situations and contingency actions.

### Certifications, safety audits and process diagnostics

Naturgy has an occupational health and safety management system, audited and certified by a third party in accordance with the OHSAS 18001 specification and whose scope is global, including all businesses and countries.

In 2019 the annual safety audit and diagnostic plan concluded with a positive assessment of the level of implementation and integration of the management system, which is effectively maintained and complies with the obligations established under prevailing legislation. One new item in 2019 has been that the transition to the new ISO 45001 standard has started.

### Health

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

### Master Health Plan

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

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

## 6.7. Responsible supply chain

### What does it mean for Naturgy? Risks and management approach

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

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

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the supply chain management model, which the company has implemented globally and which is detailed below.

### What is our commitment?

- Extending the culture of Naturgy to the supply chain, passing on the target of excellence in service, efficient use of resources and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

## How do we measure our performance?

| | 2019 | 2018 |
|---|---|---|
| Total number of suppliers | 7,896 | 10,376 |
| Total purchase volume awarded (million euro) | 2,510 | 3,147 |
| Number of ESG suppliers assessed | 7,407 | 8,376 |
| Number of critical suppliers | 2,135 | 1,852 |
| Official-approval suspended suppliers | -- | 1 |

## What are our main milestones in 2019?

- Implementation of quarterly monitoring of suppliers based on reputational, economic-financial and CSR ratings of external data sources.
- Implementation of the updated risk matrix in the whole Naturgy.

## What are our goals for 2020?

- Inclusion in the contracts of suppliers (current and future) of an integrity clause strengthening the contractual obligation to observe ethical behaviour based on not perpetrating fraudulent or anti-competitive acts.
- Implementation of online monitoring of reputational risks on potential suppliers.
- Development of the supplier selection and approval model according to ESG criteria.

## Analysis of the 2019 results

### The supply chain of Naturgy

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

In 2019, Naturgy set up trade relations with a total of 7,896 suppliers which accounted for a total expenditure of Euros 2.510 billion.

### Purchasing and supplier management policy

The purchasing and supplier management policy sets out the criteria that constitute the general framework of action for contracting, assessment, monitoring and developing suppliers. It guarantees sustainable management of the supply chain, relying on assessed suppliers and ensuring fulfilment of Naturgy's Corporate Social Responsibility commitments.

Among its general principles, it seeks to promote participation in the bidding processes of suppliers of the country or region where Naturgy performs its activities, generating a positive impact through the creation of wealth and investment in the local community, generating economic inclusion in the company's areas of influence.

### Transparency in purchasing

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

- The use of secure electronic means for the management of all tenders.
- The establishment of communication channels with its suppliers.

### Human rights at suppliers

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

### Supplier Code of Ethics

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

### Reporting Channel

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

### Supply chain management process

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement from identification of the need for a good or service to the follow-up of the management of contracts or orders. Procurement will be based on unified and universal contractual conditions for the entire scope of Naturgy's activities, which include, among others, social and environmental clauses. The general terms and conditions of contracting and the country specific conditions are published on the relevant Naturgy websites.


### Risk management of the supply chain

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

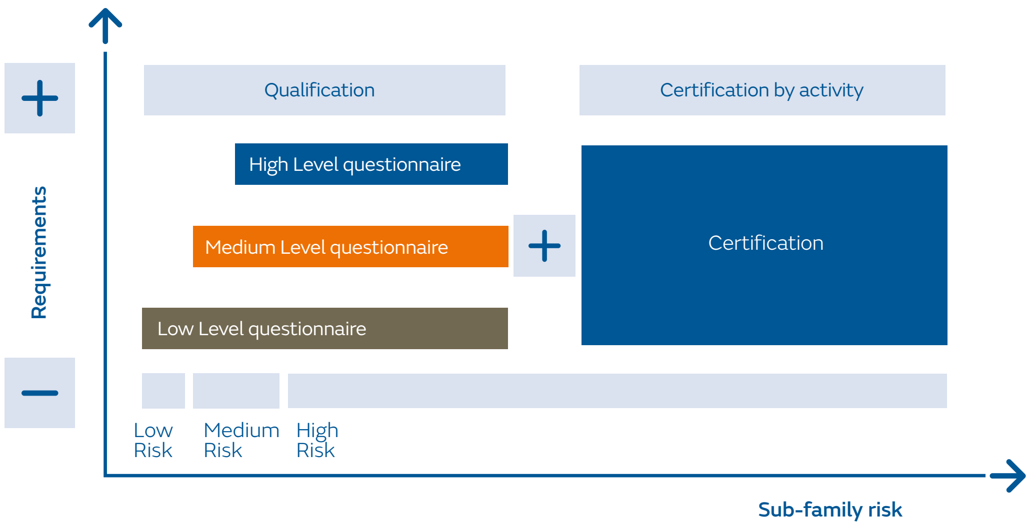
Risk factors assessed:

- Health and safety: this measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.
- Quality: the impact that breach by the supplier with regard to the expected or agreed quality levels would have at Naturgy.
- Environmental, social and corporate governance (ESG): this measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Naturgy performs “responsible purchasing” through a management process that encourages the acquisition of products and services that are environmentally friendly and which are manufactured under socially fair conditions.
- Legal risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them.
- Reputational risk (Compliance): it refers to the potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier of Naturgy, contravening the ethical standard of compliance established in the Supplier Code of Ethics.

- Financial risk: assesses the potential impact on operations incurred by the group in its service to customers as a consequence of a lack of continuity in the supply or deterioration of a good or service by suppliers that have been awarded contracts.
- Cybersecurity risk: assessment of the risk inherent in the processing of information assets, knowledge or data that have value for Naturgy, with particular relevance to the risk of processing personal data in accordance with Regulation (EU) 2019/679.

### Assessment of suppliers

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




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

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers.

Naturgy also identifies the “Suppliers with high risk in sustainability”, considering those that reveal a high risk level in the Health and Safety and ESG factors.

### Supplier classification

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

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

### Official approval and management of supplier quality

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

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

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

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

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

The homologation process may bring out anomalies that result in a corrective action plan that identifies the development and corrective actions to be introduced to achieve fulfilment of the requirements and standards established by the company, or in the non-approval of the supplier, which would disqualify them from performing that activity for Naturgy.

During 2019 no supplier was suspended or disqualified from holding a contractual relationship with Naturgy for significant breaches related to security, quality and other aspects.

### Monitoring of suppliers

In 2019, the online monitoring of reputational risks of the supplier portfolio with business relations with Naturgy was initiated through use of a screening tool to detect exposure to counterparty reputational risk and make decisions based on the risk detected in coordination with Compliance. Of the 6,230 suppliers analysed in 2019, no supplier was disqualified for fraud or unethical practices.

The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers. In addition, in the assessment process the supplier’s economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier’s global scoring that can be used in the supplier’s valuation during the contract award strategy.

### Follow-up of suppliers

To ensure correct performance of approved suppliers, performance assessments are carried out on the most relevant suppliers to measure the degree of satisfaction of the operating units and assess detailed aspects of the quality, health and safety, operational and ESG dimensions. Within the company's “Health and Safety Commitment”, objective metrics and the method established in the Naturgy “Health and Safety Standard” are used to measure performance of health and safety aspects: Assessment of performance of collaborating companies in health and safety issues”. Corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company.

In 2019, the assessment of aspects of criminal regulatory compliance, privacy and cybersecurity has also been included for high-risk suppliers in Spain by means of an assessment questionnaire and guidance on regulatory risks and the corresponding benchmarking and compliance rating report for each supplier.

In addition, ESG audits are performed on site for those suppliers classified as having a high ESG risk with the highest purchase volume.

Naturgy has developed environmental specifications for suppliers and contractors that are attached to the corresponding contracts and which include minimum environmental management requirements for application during procurement.

### Development of suppliers

The Corporate University, through its Extended Academy, offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

From 2013 to 31 December 2019, Naturgy was a member of Bettercoal, an initiative managed by the main European utilities which aims to purchase coal from mines that comply with a series of social, environmental and ethical standards. Over the year, Bettercoal continued to assess mines and to develop action plans from those assessments, with working groups driving improvements, specifically in mining areas in Colombia and Russia.

## 6.8. Social commitment

### What does it mean for Naturgy? Risks and management approach.

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

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

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

### What is our commitment?

- Guarantee fluid and two-way dialogue and encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the social impact that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives to create shared value and to have a positive social impact in energy projects.

- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- Transfer knowledge and values to society through partnership agreements with the academic community and the supply chain.

## How do we measure our performance?

**Sponsorship and social action investment**

| | **2019** | 2018 |
|---|---|---|
| Sponsorship and social action investment (million euro) | 8 | 11 |

It also includes the “Contributions to foundations and non-profit organizations”.

## What are our main milestones in 2019?

- Launch of the 1st Award for the best social initiative in the energy field.
- Development of new energy volunteer actions with young people and children.
- Launching of the General Procedure of Sponsorship and Donations and its introduction in all countries and companies.

## What are our goals for 2020?

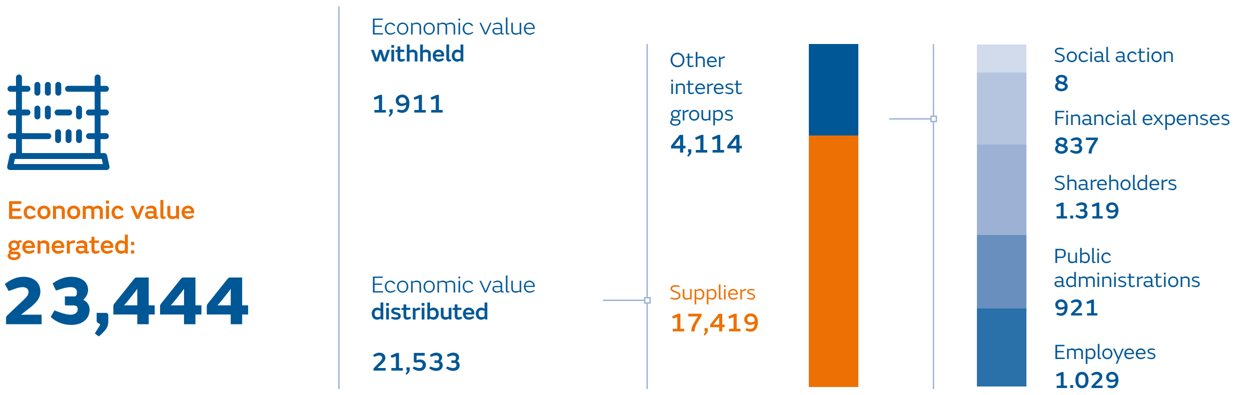
- Development of action plans for housing rehabilitation, energy school and energy volunteering.
- Launch of a global volunteer campaign (volunteer survey).
- Establishment of a methodology for measuring the impact of the Foundation’s activities.
- Search for synergies with other Foundations.
- Preparation of a policy on management and use of social networks.

# Analysis of the 2019 results

## Economic Value Distributed

### Detail by group of interest_

(million euro)




### Sponsorship and social action investment

Economic contributions to social investment and sponsorship programmes are another important part of the Naturgy commitment. In 2019, they totalled Euros 8 million.

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

### Creation of wealth and well-being where the company operates

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

#### 1. Energy vulnerability

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

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

## Energy Vulnerability Plan in Spain

During 2019, Naturgy, through its Foundation, continued the development of the Energy Vulnerability Plan throughout Spain to collaborate in alleviating the situation of energy vulnerability in Spain. The plan has been consolidated as the core of the activities developed by the Foundation, with actions to alleviate energy poverty being one of its priorities.

The objectives of the plan are:

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

The following activities have been introduced during this year:

- Consolidation of the Energy Rehabilitation Solidarity Fund.
- Corporate energy volunteer work to give workshops on energy efficiency, advice and visits to the homes of families in vulnerable situations.
- Launch of volunteer work with Children and Young People, with a pilot in Madrid and Barcelona for children and young people in vulnerable situations and with the “Managing my energy” programme taught in schools.
- The Energy School continues to give energy efficiency workshops to support Public Administrations and the Third Sector, both to technicians and to vulnerable families.
- Launch of the 1st Award for the best social initiative in the energy field.
- Participation in two European projects (Social Watt and EPIU), financed by the EU, aimed at identifying energy poverty, defining indicators and developing and implementing measures against energy vulnerability.
- Presentation of the paper “Energy poverty in Spain. An income-based approach”.

### 2. Relationship with communities

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

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

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

- Identifying communities affected by the company’s activity, and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.

- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

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

- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

The most prominent projects in this sphere are:

- In Australia, in the surroundings of the Crookwell and Berrybank wind farms, citizen participation programmes are being introduced to involve the community (agreements to attend to the needs of the local community, planting of trees, academic visits, strengthening of the productive fabric, etc.).
- In Brazil, around the Sobral photovoltaic plant, the development of the Quilombola Basic Environmental Project has continued, as detailed below. Environmental education actions have been developed around the Guimarania photovoltaic plant.
- In Costa Rica, around the Torito and La Joya hydroelectric plants, we have collaborated in the educational programme "Books for All" promoted by the Ministry of Education, and we have collaborated in the improvement of educational and sports infrastructures in the area.
- In Mexico, both in the surroundings of the Bií-Hioxo wind farm, and in the environs of the Tuxpan, Hermosillo and Naco-Nogales combined-cycle power stations, environmental and health education programmes have been implemented, as well as improvements to community infrastructures (schools, roads, wells, health centre, etc.), and actions to strengthen local culture.
- In the Dominican Republic, around the Palamara-La Vega thermal power stations we have collaborated with the fire brigade in the area, and have conducted actions to improve community infrastructures for the supply of drinking water, as well as to strengthen local culture and traditions.
- In Uganda, around the Bujagali hydroelectric power station, programmes have been carried out to strengthen local suppliers, train and employ young people and women, promote health, prevent road accidents, and encourage cultural activities.

During 2019 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has four main lines of action, which include a series of specific actions of which the following have been implemented during 2019:

- Characterisation of wells in the region that could be improved with the set-up of a solar pump kit.
- Territorial study for the implementation of a teaching centre for community use.
- Provision of integral scholarships (studies and subsistence costs) for the training of professionals at university level.

### 3. Social action, corporate volunteering and employee participation

Through corporate volunteering, Naturgy seeks to promote social cohesion, values and a spirit of solidarity, while carrying out social action programmes with a clear purpose of contributing to the socio-economic development of the areas in which it operates. Some of the projects carried out by the company within the framework of social action are:

- Energy of Flavour: this programme aims to provide scholarships to young people between 18 and 25 at risk of exclusion, so that they can receive vocational training in the gastronomy sector and thus acquire a trade. During 2019, a special module has been developed for female victims of gender violence.
- Learn a trade workshop: the aim of the programme is to train people in a vulnerable situation in the trade of ceramics; whether they are adults, young people or people with a slight mental disability.
- Planning your future: in order to encourage the children of employees to achieve their dreams and professional aspirations, we provide them with a scholarship to start their university studies.
- Summer internship: this is a scholarship for family members of employees who are in the last two years of their university course.

With regard to corporate volunteer, during 2019, the company has promoted environmental, social and energy volunteer actions, in which employees contributed their time and their personal and professional skills.

Since 1997, a group of employees has created the Solidarity Day Association, with the aim of developing projects to promote the education and training of children and young people without resources, in the countries where the company operates. This association is managed by the company's own employees and consists of the voluntary donation of one day's salary per year. The company contributes the same amount donated by all employees and covers the association's management expenses, so that all the money donated goes entirely to project development.

### 4. Sponsorship, patronage and donations

The sponsorship and donation collaborations are aimed at increasing the knowledge of Naturgy, supporting its growth and consolidating the relationship with the different stakeholders.

Naturgy's sponsorship and donation activity, as well as the definition of the processes that regulate and control its development, is the purpose of the company's General Procedure of Sponsorship and Donations. Similarly, activities related to sponsorship and donations are subject to a process of 100% transparency. The procedure also provides priorities, which can be summarised in social action, culture and energy, and the environment:

- Environment: Naturgy carries out and collaborates with educational activities aimed at young people on energy, energy efficiency and new technologies. Technical, educational, informative and social activities that contribute to a more environmentally friendly society are promoted.

- People: the company drives and support projects targeted at vulnerable social groups and mitigates problems stemming from social exclusion. To this end, it collaborates financially with foundations and associations to improve, for example, facilities and to refurbish spaces or to provide guidance and information on energy issues.
- Culture: in the field of cultural sponsorship, Naturgy targets its efforts at encouraging and promoting music, art and university activity. The company's commitment can be seen in the extensive sponsorship work on initiatives that generate high value for the area where they are carried out. In 2019, the company continued with its support to the Gran Teatre del Liceu and the Teatro Real with twin celebrations declared to be “events of exceptional public interest”.

### Naturgy Foundation

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

During 2019, the foundation continued to provide seminars on energy and the environment in Spain, Belgium, Ireland, Brazil and Mexico, as well as presentations of books related to this topic. A new development in this line of work, with the participation of IESE, is the so-called “Energy Prospectives”, a series of conversations between speakers of the highest global level on the economic, technical and scientific conditions that are emerging for the future of the energy sector.

In the line of education and heritage, the Naturgy Foundation has launched several programmes:

- “Efigy education”: an educational programme aimed at students of all ages, which explores new energy technologies with the aim of transmitting specialised knowledge about the transition to a new energy model, the preservation of the environment and responsible energy consumption. This programme is complemented by online resources aimed at training students, teacher training, mentoring programmes and initiatives to encourage technological vocations.
- Our own touring projects, which aim to pass on and disseminate knowledge on issues related to energy and the environment through actions and presence at trade fairs in the sector, mobile educational resources and travelling exhibitions, such as the “Energy Challenge” eco-efficient truck.
- Educational activities have been promoted in the power stations, with the aim of supporting Naturgy's different businesses.
- Finally, in 2019 the Dual VT programme has been consolidated in the sectors of maintenance of vehicles powered by natural gas.

On the international stage, different social initiatives have been developed in Argentina, Chile, Brazil, Mexico and Morocco.

# 6.9. Integrity and transparency

## What does it mean for Naturgy? Risks and management approach

Naturgy believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

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

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

The company would improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Naturgy. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

## What is our commitment?

- Reject corruption, fraud and bribery in business dealings and establishing measures to prevent and combat them, developing internal channels allowing communication of irregularities while preserving anonymity.
- Comply with national and international laws and standards in force in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the United Nations Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- Act with responsibility in management and complying with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.
- Compete fairly on the market and prevent misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's activities.
- Maintain, at all times, permanent dialogue with stakeholders through adequate and accessible channels.

## How do we measure our performance?

### Queries and notifications to the Code of Ethics

| | **2019** | 2018 |
|---|---|---|
| Queries | 45 | 76 |
| Notifications | 149 | 123 |
| **Total** | **194** | **199** |
| Nº. of messages received per 200 employees | 3.32 | 3.18 |

## What are our main milestones in 2019?

- Certification of the crime prevention model by AENOR in accordance with the UNE 19601 and ISO 37001 standards.
- Approval by the Ethics and Compliance Committee of a new Code of Ethics Channel Operating Regulation that provides a procedure for investigating complaints received through the channel.
- Management and use of SAP GRC Process Control for the comprehensive management of documentation, assessment and supervision of the Crime Prevention Model.
- Review of the Human Rights Policy.
- Publication of the non-Financial Statement (NFS), in accordance with Law 11/2018 on non-financial information and diversity.

## What are our main targets for 2020?

- Specific training on harassment for all company employees.
- Renewal of the crime prevention model certification by AENOR pursuant to the UNE 19601 and ISO 37001 standards.
- Ongoing training and awareness of employees in human rights.

## Analysis of the 2019 results

### Compliance Policy and Code of Ethics

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

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

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

The company also has a Compliance Policy that structures the Code of Ethics and Anti-corruption Policy management taken on by the Compliance Unit, whose targets are to ensure the dissemination, knowledge, application and fulfilment of the code.

This management model provides that the Audit Committee, must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy.

During 2019, the Ethics and Compliance Committee has continued its work to disseminate the Code of Ethics, as well as its role as interpreter and advisor in the event of any doubt or conflict concerning the same. The Ethics and Compliance Committee Regulations were also approved, setting out its organisation, functions and obligations within the framework of best practices in the area of compliance. In 2019, the Committee held four work meetings.

The Ethics and Compliance Committee supervise the execution of the policy by the Compliance Unit.

In 2019, 31% of the notifications were related to the principle of respect for people, and they were all solved appropriately.

In 2019, no notifications were reported related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights. Therefore, in 2019, it was not necessary to repair damages relating to impacts caused by human rights cases.

### Code of Ethics chapter to which notifications refers

| | Queries | Notifications | Total |
|---|---|---|---|
| Respect for the individual | 7 | 46 | **53** |
| Corruption and bribery | 3 | 50 | **53** |
| Loyalty to the company and conflict of interest | 34 | 16 | **50** |
| Occupational health and safety | -- | 10 | **10** |
| Environment and asset protection | 1 | 12 | **13** |
| Others | -- | 15 | **15** |
| **Total** | **45** | **149** | **194** |

The implementation of a new communications management tool does not allow comparisons with 2018, so no breakdown is given for 2018.

### Crime Prevention Model

The company has a Crime Prevention Model which is updated annually. Thus, in 2019, the model has continued to be adapted to the new organisational structure operated within Naturgy. Likewise, the model, in a process of continuous improvement, has incorporated the legal modifications that have taken place in 2019 on criminal risks.

From an organisational standpoint, the Board of Directors has assigned the functions of autonomous body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and supervision of the working and compliance with the Crime Prevention Model, which execution corresponds to the Compliance Unit.

Each year, this model is assessed by an independent third party. In 2019, this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2019, the model has been subject to the certification process in accordance with the AENOR UNE 19601 standards (criminal compliance management systems) and ISO 37001 (Anti-bribery management systems), obtaining both certifications in October 2019. Worldwide, Naturgy also deploys crime prevention models gradually in countries with laws governing the civil liability of legal persons.

### Anti-fraud and anti-corruption policies and plans

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

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

Naturgy has a range of mechanisms to ensure the proper implementation of the Anti-Corruption Policy, as well as to prevent, detect, investigate and punish cases of corruption, including:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.
- A communication channel for employees and third parties to make, in good faith, confidential and without fear of reprisal, inquiries or notifications of breaches of the Code of Ethics and the Anti-Corruption Policy (www.naturgy.ethicspoint.com, or postal and internal mail).
- Counterparty Due Diligence Procedure, to know and analyse the counterparties with whom Naturgy operates and thus evaluate the associated corruption and reputation risks.
- Regular declaration by all employees, in which it is formally stated that they know and comply with the principles established in the Anti-Corruption Policy.
- Dissemination and training sessions on the content of the Anti-Corruption Policy for all employees through the Anti-Corruption Programme.

The focus of the Naturgy anti-corruption programme covers three key areas:

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

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

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

Some of these regular initiatives include the following:

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

During 2019, specific training courses have been held on international sanctions, procedures for payments to third parties, privileged information and market abuse, aimed at specific groups within the company. In addition, work has been done on a specific training on harassment that will be given during the first quarter of 2020 to all company employees. Also in 2019, a mandatory training programme for executives has been carried out, which has included, among other points, the Crime Prevention Model, the Code of Ethics and Anti-Corruption Policy, and the Counterparty Due Diligence Procedure.

Likewise, Naturgy has implemented a Corporate Hospitality Policy, within the framework of the Code of Ethics and Anti-corruption Policy, whose purpose is to regulate the conditions in which Naturgy administrators and employees can accept or offer courtesies to business counterparts within the framework of the performance of their professional functions. This is to ensure effective compliance with the principles set out in the Code of Ethics and Anti-corruption Policy of Naturgy and thus avoid improperly influencing their commercial, professional or administrative relationships, both with public and private entities. In 2019, a reminder has been made on the occasion of the Christmas campaign of the Corporate Hospitality Policy for all employees.

In addition, the company has a Counterparty Due Diligence Procedure that is applied systematically, to ensure that the analyses and assessments of reputational risk and corruption are carried out in an efficient and uniform way whenever when third parties intervene in the business relationships of the companies that make up Naturgy.

## Prevention of money laundering

The Naturgy Crime Prevention Model is based on an analysis of criminal risks, including the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.

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

Exist three control levels that seek to prevent, detect and, if appropriate, react to money laundering:

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

  In addition, Naturgy has other policies and procedures more specific that establish a full series of controls in its day-to-day work and in the operations it performs, which encompass the prevention of money laundering. Key among these are the Counterparty Due Diligence Procedure; the General External Procurement Standard; the Procedure on granting the Signing Level, or the Internal Control Procedure for the processing of payments and cash movements, among others.

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

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

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

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

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

- Reaction and response: during 2019, the Ethics and Compliance Committee approved new regulations for the operation of the Code of Ethics channel, which includes a procedure for investigating complaints received through the channel. The company also has an investigation and response protocol as well as a disciplinary system so that, if it becomes aware of any denouncement or irregularity it can introduce all measures within its reach to rectify this and, if appropriate, adopt the measures required to prevent future repetition.

Finally, Naturgy collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

## Tax policy

### Tax strategy and tax risks control and management policy

At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks.

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

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

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

- Clearly defined tax governance.
- Procedures for controlling the tax risk referred by Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

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

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

Naturgy also has a Risk Map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 17 “Tax situation” in the notes to the annual accounts.

### Tax havens

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

At 2019 year-end, Naturgy did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January).

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

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

## Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory's rules.

Naturgy's tax contribution in 2019 amounted to Euros 2,955 million (Euros 3,268 million in 2018). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for Naturgy ("own taxes"), and those that it withholds or that it passes on to the final taxpayer ("third-party taxes"):

| | Own taxes | | | | | | Third-party taxes | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | Income tax [1] | | Other [2] | | **Total** | | VAT | | Hydrocarbon tax | | Other [3] | | **Total** | | | |
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Spain | 230 | 62 | 432 | 621 | 662 | 683 | 997 | 1,056 | 362 | 409 | 253 | 270 | 1,612 | 1,735 | 2,274 | 2,418 |
| Argentina | 22 | 10 | 26 | 17 | 48 | 27 | 8 | 9 | -- | -- | 21 | 39 | 29 | 48 | 77 | 75 |
| Brazil | 57 | 52 | 46 | 46 | 103 | 98 | 70 | 73 | -- | -- | 11 | 13 | 81 | 86 | 183 | 184 |
| Chile | 9 | 31 | 10 | 13 | 19 | 44 | 93 | 60 | -- | -- | 10 | 47 | 103 | 107 | 122 | 151 |
| Mexico | 36 | 71 | 1 | 2 | 36 | 73 | 63 | 39 | -- | -- | 12 | 13 | 75 | 52 | 111 | 125 |
| Panama | 13 | 6 | 7 | 7 | 20 | 13 | -- | -- | -- | -- | 3 | 4 | 3 | 4 | 23 | 17 |
| Rest of LatAm | 15 | 7 | -- | 2 | 15 | 9 | -- | 5 | -- | -- | 1 | 8 | 1 | 13 | 17 | 22 |
| Total LatAm | 152 | 177 | 90 | 87 | 241 | 264 | 234 | 186 | -- | -- | 58 | 124 | 292 | 310 | 533 | 574 |
| Rest | 11 | 24 | 7 | 8 | 18 | 32 | 81 | 161 | 46 | 80 | 3 | 3 | 130 | 244 | 148 | 276 |
| **Total** | **393** | **263** | **528** | **716** | **921** | **979** | **1,312** | **1,403** | **408** | **489** | **314** | **397** | **2,034** | **2,289** | **2,955** | **3,268** |

[1] Refers to income tax actually paid in the year per the Consolidated Cash-Flow Statement. Does not include accrued amounts. Set out below is the reconciliation between income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes", as detailed in Note 22 "Tax situation" to the Consolidated annual accounts.

[2] Includes energy taxes amounting to Euros 169 million in Spain in 2019 (Euros 306 million in 2018), local taxes, employer social security and other specific taxes in each country.

[3] Basically includes tax withholdings from employees and employee social security contributions.

## Profit by country

| million euro | 2019 | 2018 |
|---|---|---|
| **Spain** | **502** | **(3,297)** |
| Argentina | 46 | 41 |
| Brazil | 74 | 37 |
| Chile | 202 | 106 |
| Mexico | 164 | 104 |
| Panama | 14 | 13 |
| Rest of LatAm | 56 | (63) |
| **Total LatAm** | **556** | **238** |
| **Europe** | **343** | **237** |
| **Total** | **1,401** | **(2,822)** |

## Subsidies received

The changes in capital subsidies received are detailed in Note 16 to the Consolidated annual accounts. The amount received was Euros 14 million in 2019 (Euros 1 million in 2018). Operating subsidies received are detailed in Note 25 to the Consolidated annual accounts; Euros 1 million were received in 2019 (Euros 1 million in 2018).

## Human Rights Policy

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. Since 2011, Naturgy has a Human Rights Policy, that has been updated and approved by the Board of Directors in 2019, defines and establishes precisely how the company believes it has to include these principles in its business management. The policy is consistent with the UN Guiding Principles on Business and Human Rights.

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

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

**Human Rights Policy Principles:**

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

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

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

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

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

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

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

# 6.10. Table of contents required by Law 11/2018, of 28 December 2018, amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, 2010 and Audit Law 22/2015, of 20 July, 2015, as regards non-financial information and diversity.

| Contents | Pages | Reporting criteria |
|---|---|---|
| Business model | | |
| Description of the business model<br>▪ Business environment<br>▪ Organisation and structure<br>▪ Markets where the company operates<br>▪ Its objectives and strategies<br>▪ Main factors and trends that may affect future performance | 126-136 | GRI 102-2<br>GRI 102-3<br>GRI 102-4<br>GRI 102-6<br>GRI 102-7<br>GRI 102-15<br>GRI 102-15 |
| Reporting framework used for non-financial disclosures | 126 | GRI 102-54 |
| Policies | | |
| A description of the policies applied by Naturgy in connection with these issues<br>1. Due diligence procedures used to identify, assess, prevent and mitigate material risks and impacts and for verification and control, including any measures that have been taken<br>2.Key performance indicators in connection with the implementation of policies that enable progress to be tracked and assessed | 134, 136, 138, 143, 145, 146, 165, 167, 170, 175, 177, 180, 185, 187, 191-196, 198-199 | GRI 103-2 |
| Risks | | |
| The main risks in connection with these issues related to Naturgy's activities, including, where relevant and proportionate, its business relationships, products or services that may have negative effects in those areas, and how Naturgy manages those risks, detailing the procedures used to detect and evaluate them in accordance with national, European or international reference frameworks for each issue | 136, 137, 143-149, 153, 170-171, 175, 178, 181-182, 183-184, 191, 193-196 | GRI 102-15 |
| Materiality analysis | | GRI 102-46<br>GRI 102-47 |
| Social and personnel issues | | |
| Employment<br>▪ Number and distribution of employees by country, gender, age and professional category | 156 | GRI 102-8 |
| ▪ Total number and breakdown of forms of employment contract, and average in the year, of:<br>▪ Indefinite contracts, by gender, age and professional category<br>▪ Temporary contracts, by gender, age and professional category<br>▪ Part-time contracts, by gender, age and professional category | 157-158 | GRI 102-8 |

| Contents | Pages | Reporting criteria |
|---|---|---|
| Business model | | |
| ▪ Number of terminations, by gender, age and professional category | 159 | GRI 401-1 |
| ▪ Average remuneration, by gender, professional category and age | 161-162 | GRI 405-2 |
| ▪ Wage gap | 159-160 | $\frac{ARM-ARW}{ARM}\ 100$ |
| ▪ Average remuneration of directors and executives, including variable remuneration, per diems, indemnities, payments into long-term savings systems and any other emoluments, disaggregated by gender | 163 | GRI 102-38<br>GRI 201-3 |
| ▪ Implementation of policies on disconnecting from work | 169 | GRI 401-2<br>GRI 401-3 |
| ▪ Percentage of employees with disabilities | 163 | GRI 405-1 |
| Work organisation<br>▪ Organisation of work time | 169-170 | GRI 401-2 |
| ▪ Absenteeism (hours) | 174 | GRI 403-2 |
| ▪ Measures to facilitate work-life balance and encourage the shared use of them by both parents | 170 | GRI 401-3 |
| Health and safety<br>▪ Health and safety conditions in the workplace | 172-173 | GRI 403-1<br>GRI 403-2<br>GRI 403-3 |
| ▪ Number of workplace accidents, by gender | 173 | GRI 403-2<br>GRI 403-9 |
| ▪ Occupational illnesses, by gender | 173 | GRI 403-2 |
| Labour relations<br>▪ Organisation of social dialogue, including procedures for informing and consulting employees and negotiating with them | 171 | GRI 402-1<br>GRI 403-1<br>GRI 403-4 |
| ▪ Percentage of employees covered by collective bargaining | 164 | GRI 102-41 |
| ▪ Collective agreements, particularly in the area of occupational health and safety | 176-177 | GRI 403-4 |
| Training<br>▪ Training policies in place | 168-169 | GRI 404-2<br>GRI 403-5 |
| ▪ Total number of training hours, by professional category | 165 | GRI 404-1<br>GRI 405-1 |
| Universal access for persons with disabilities | | |
| Equality | | |
| ▪ Measures taken to promote equal treatment and opportunities between women and men<br>▪ Equality plans | 166-168 | |
| ▪ Measures adopted to promote employment<br>▪ Protocols against sexual harassment and gender harassment<br>▪ Integrity and universal access for persons with disabilities<br>▪ Policy against all types of discrimination and policy on diversity management, if any | 166-168 | GRI 405-1<br>GRI 405-2 |

| Contents | Pages | Reporting criteria |
|---|---|---|
| Business model | | |
| Environmental issues | | |
| Management approach | | |
| • Detailed information on the current and foreseeable effects of the company's activities on the environment and, as appropriate, on health and safety | 143-144 | GRI 102-15<br>GRI 103-2 |
| • Procedures for environmental assessment or certification | 148-149 | GRI 307-1 |
| • Resources allocated to preventing environmental risks | 145 | GRI 201-2 |
| • Application of the precautionary principle | 148-149, 152 | GRI 102-11 |
| • Number of provisions and guarantees in connection with environmental risks | 145-146 | N/A |
| Pollution | | |
| • Measures to prevent, reduce or remedy carbon emissions that seriously affect the environment (also includes noise and light pollution) | 145, 149-151 | GRI 305-1<br>GRI 305-2<br>GRI 305-3 |
| Circular economy, sustainable resource use and waste abatement | | |
| • Measures for abatement, recycling, reuse, and other forms of waste recovery and disposal | 150-151 | GRI 306-2 |
| • Actions to reduce food waste | 152 | N/A |
| Sustainable use of resources | | |
| • Water consumption and supply of water in accordance with local limitations | 144-145,<br>150-151 | GRI 303-1<br>GRI 303-2<br>GRI 303-3<br>GRI 306-1 |
| • Consumption of raw materials and measures adopted to enhance the efficiency of their use | 145 | GRI 301 |
| • Direct and indirect energy consumption | 145 | GRI 302-1<br>GRI 302-4<br>GRI 302-2 |
| • Measures taken to enhance energy efficiency | 150-151 | GRI 302-4<br>GRI 302-5 |
| • Use of renewable energy | 150-151 | GRI 302-1 |
| Climate change | | |
| • Greenhouse gas emissions | 145 | GRI 305-1<br>GRI 305-2<br>GRI 305-3<br>GRI 305-4 |
| • Measures to adapt to climate change | 149-150 | GRI 201-2<br>GRI 302-4 |
| • Greenhouse gas emission reduction objectives | 144 | GRI 305-5 |
| Biodiversity | | |
| • Measures to preserve or restore biodiversity | 152 | GRI 102-11<br>GRI 304-3 |
| • Impacts of activities | 152 | GRI 304-2 |

| Contents | Pages | Reporting criteria |
|---|---|---|
| **Business model** | | |
| **Information on respect for human rights** | | |
| Due diligence | 198-200 | GRI 102-16<br>GRI 102-17<br>GRI 412-2 |
| Measures to avoid the risk of human rights violations and any measures to mitigate, manage and repair possible abuses committed | 198-200 | GRI 102-16<br>GRI 102-17<br>GRI 412-2<br>GRI 102-34 |
| Complaints about human rights violations | 200 | GRI 102-17<br>GRI 102-33<br>GRI 412-1 |
| Promotion of, and compliance with, the ILO's fundamental conventions related to freedom of association and the right to collective bargaining | 200 | GRI 102-16<br>GRI 407-1<br>GRI 408-1<br>GRI 409-1 |
| Elimination of forced or compulsory labour | 200 | |
| Effective abolition of child labour | 200 | |
| **Information on the fight against corruption and bribery** | | |
| Measures to prevent corruption and bribery | | GRI 102-16<br>GRI 102-17<br>GRI 205-3 |
| Anti-money laundering measures | | GRI 102-16<br>GRI 102-17 |
| Contributions to foundations and not-for-profit institutions | | GRI 201-1<br>GRI 413-1 |
| **Information about society** | | |
| Companies' commitment to sustainable development<br>• Impact of the company's activities on employment and local development<br>• Impact of the company's activities on local populations and on the territory<br>• Relations with actors in the local communities and forms of engagement with them<br>• Partnership or sponsorship actions | | GRI 413-1<br>GRI 203-1<br>GRI 203-2 |
| Responsible management of the supply chain<br>• Inclusion of social, gender equality and environmental issues in the procurement policy<br>• Consideration of suppliers' and subcontractors' social and environmental responsibility in relations with them<br>• Supervision and audit systems | | GRI 308-1<br>GRI 414-1<br>GRI 414-2<br>GRI 102-9 |
| Management of customer relations<br>• Measures to support consumer health and safety.<br>• Complaint systems<br>• Complaints received and their outcome | | GRI 416-1<br>GRI 417-1<br>GRI 417-2 |
| Tax information and transparency<br>• Profits, by country<br>• Corporate income tax paid<br>• Government subsidies received | | Accounting policies |

# 7. Additional information

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## 7.1. Own shares

The General Meeting of Shareholders of 5 March 2019 authorised the Board of Directors so that, within a term not exceeding five years, it may acquire, on a one-time basis, one or several times, shares of the company that are fully paid up, without ever having the nominal value of the shares acquired directly or indirectly, in addition to those already owned by the Company and its subsidiaries, exceeds 10% of the subscribed capital, or any other legally established. The consideration price or value may not be less than the nominal value of the shares or exceed the value of the stock exchange.

Movements during 2019 and 2018 involving own shares of Naturgy Energy Group, S.A. are as follows:

| | Number of shares | Amount (million euro) | % Capital |
|---|---|---|---|
| At 1 January 2018 | -- | -- | -- |
| Purchases | 10,782,040 | 227 | 1.0 |
| Purchases for long-term incentives | 8,639,595 | 200 | 0.9 |
| Delivered to employees | (354,422) | (7) | -- |
| Disposals | (5,029,881) | (99) | (0.5) |
| At 31 December 2018 | **14,037,332** | **321** | **1.4** |
| Share ownership plan | 332,382 | 7 | -- |
| Delivered to employees | (310,812) | (7) | -- |
| 2018 buy-back programme | 11,169,458 | 279 | 1.1 |
| Capital reduction | (16,567,195) | (400) | (1.6) |
| Acquisitions | 5,162,320 | 121 | 0.5 |
| Disposals | -- | -- | -- |
| **At 31 December 2019** | **13,823,485** | **321** | **1.4** |

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%.

In 2019, no profit or loss was recognised on transactions involving Naturgy's own shares (profit of Euros 0.4 million in 2018 recognised under "Other reserves").

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 20 April 2017, within the Share Acquisition Plan 2017-2018-2019, those relating to 2017 and 2018 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan were set in motion. 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. During 2019, 332,382 treasury shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (354,422 treasury shares amounting to Euros 7 million in 2018) and 310,812 have been delivered, leaving a surplus of 21,570 treasury shares.

- 2018 buy-back programme: Within the Strategic Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a treasury shares buy-back programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, representing a total cost of Euros 400 million (5,397,737 treasury shares at an average price of Euros 22.42 per share with a total cost of Euros 121 million at 31 December 2018), which were applied to reduce capital.

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

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

  b) The aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of 1 euro each which, where applicable, are acquired for redemption by the Company under the treasury share buy-back programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

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

- 2019 share buy-back programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buy-back programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2020. At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 120 million.

- Long-term Variable Incentive Plan: In 2018 Naturgy acquired 8,639,595 treasury shares the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan (see paragraph on Share-based payments in this Note).

Note 11 of the Notes to the Annual Accounts contains full information on own shares.

## 7.2. Disclosure of delays in payment to suppliers. Additional Provision 3 "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against late payment, is as follows:

| | **2019** | 2018 |
|---|---|---|
| | Amount | Amount |
| Total payments (thousand euro) | 1,947,320 | 4,663,208 |
| Total outstanding payments (thousand euro) | 18,540 | 52,844 |
| Average supplier payment period (days) (1) | 18 | 17 |
| Transactions paid ratio (days) (2) | 17 | 17 |

(1) Calculated on the basis of amounts paid and pending payment.
(2) Average payment period in transactions paid during the year.

## 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

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## A. Ownership structure

### A.1 Complete the following table on the company's share capital:

| Date of last change | Share capital (€) | Number of shares | Number of voting rights |
|---|---|---|---|
| 23/07/19 | 984,122,146 | 984,122,146 | 984,122,146 |

**Please indicate if there are different types of shares with different rights associated:**

YES ☐ NO ☒

| Class | Number of shares | Face value | Number of voting rights | Different rights |
|---|---|---|---|---|
| | | | | |

### A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors[1]:

| | % voting rights attributed to the shares | | % voting rights through financial instruments | | % of total voting rights |
|---|---|---|---|---|---|
| Name or company name of shareholder | Direct | Indirect | Direct | Indirect | |
| Global Infrastructure Management LLP | | 20.336% | | | 20.336% |
| Société Nacionale Pour La Recherche, La Production, Le Transport, La Transformation Et La Commercialisation Des Hydrocarbures | 4.1% | | | | 4.1% |
| Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa" | | 24.424% | | | 24.424% |
| CVC Capital Partners SICAV-FIS S.A. | | 20.410% | | | 20.410% |
| Capital Research and Management Company | | 3.030% | | | 3.030% |

**Detail of the indirect holding:**

| Name or company name of the indirect holder | Name or company name of the direct holder | % voting rights attributed to the shares | % voting rights through financial instruments | % of total voting rights |
|---|---|---|---|---|
| Global Infrastructure Partners III | Gip III Canary 1, S.À R.L. | 20.336% | | 20.336% |
| Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa" | Criteria Caixa S.A.U | 24.424% | | 24.424% |
| CVC Capital Partners SICAV-FIS S.A. | Rioja Acquisition S.À R.L. | 20.410% | | 20.410% |
| Capital Research and Management Company | American Funds Familiy of Mutual Funds | 3.030% | | 3.030% |

(1) According to information on significant shareholdings reported to the CNMV (Spanish Securities Market Authority) by the reporting parties.

**Indicate the most significant changes in the shareholder structure occurred during the year:**

| Name or company name of shareholder | Date of the transaction | Description of the transaction |
|---|---|---|
| Energía Boreal 2018, S.A | December 17th 2019 | All the stakes in Energía Boreal held by Criteria Caixa S.A.U. were taken over by the latter directly after the merger by absorption. |

## A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

| Name or company name of Director | % voting rights attributed to the shares | | % voting rights through financial instruments | | % of total voting rights | % voting rights that can be transferred through financial instruments | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| Mr Francisco Reynés Massanet | | 0.008 | | | 0.008 | | |
| Rioja S.À R.L. | 0 | | | | 0 | | |
| Theatre Directorship Services Beta, S.À R.L. | 0 | | | | 0 | | |
| Mr Scott Stanley | 0 | | | | 0 | | |
| Mr Pedro Sainz de Baranda Riva | | 0.002 | | | 0.002 | | |
| Mr Ramón Adell Ramón | 0.002 | | | | 0.002 | | |
| Mr Enrique Alcántara-García Irazoqui | 0.003 | | | | 0.003 | | |
| Mr Claudio Santiago Ponsa | 0 | | | | 0 | | |
| Mr Marcelino Armenter Vidal | 0.001 | | | | 0.001 | | |
| Mr Francisco Belil Creixell | 0.001 | | | | 0.001 | | |
| Mrs Helena Herrero Starkie | 0 | | | | 0 | | |
| Mr Rajaram Rao | 0 | | | | 0 | | |

| | |
|---|---|
| **% total voting rights held by the Board of Directors** | 0. 017% |

**Detail of the indirect holding**

| Name or company name of Director | Name or company name of the direct holder | % voting rights attributed to the shares | % voting rights through financial instruments | % of total voting rights | % voting rights that can be transferred through financial instruments |
|---|---|---|---|---|---|
| Mr Francisco Reynés Massanet | Frinvyco, SL | 0.008 | | | |
| Mr Pedro Sainz de Baranda Riva | Inversores de Tornón S.L. | 0.002 | | | |

**Observations:**

## A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

| Name or company name of related parties | Relationship type | Brief outline |
|---|---|---|
| | | |

**Observations:**

See section A. 7

## A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

| Name or company name of related parties | Relationship type | Brief outline |
|---|---|---|
| Criteria Caixa S.A.U | Commercial | The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts. |
| CVC Capital Partners SICAV-FIS S.A. | Commercial | The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts. |
| Gip III Canary 1, S.À R.L. | Commercial | The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts. |

**A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.**

**Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.**

| Name or company name of related director or representative | Name or company name of significant related shareholder | Company name of the significant shareholder group | Description of the relationship/position |
|---|---|---|---|
| Mr Marcelino Armenter Vidal | Criteria Caixa S.A.U | Criteria Caixa S.A.U. | Proprietary/Managing Director |
| | | Caixa Capital Risc, S.G.E.I.C. S.A. | Vice-President –Managing Director |
| | | Inmo Criteria Caixa, S.A.U. | Director |
| | | Mediterránea Beach & Golf S.A.U. | Chairman and Managing Director |
| | | Saba Infraestructuras, S.A. | Director |
| | | Caixa Innvierte Industria, S.C.R., S.A. | Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A. |
| | | Criteria Industrial Ventures, S.A. | Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A. |
| | | Criteria Venture Capital, S.I.C.C. S.A. | Physical Person representing the Sole Administrator Caixa Capital Risc, S.G.E.I.C, S.A. |
| Mr Enrique Alcántara-García Irazoqui | Criteria Caixa S.A.U | | Proprietary |
| Mr Scott Stanley | Global Infrastructure Management LLP | | Proprietary |
| Mr Rajaram Rao | Global Infrastructure Management LLP | | Proprietary/Shareholder |
| Mr Javier De Jaime Guijarro | CVC Capital Partners SICAV-FIS S.A. | | Proprietary |
| Mr José Antonio Torre De Silva López De Letona | CVC Capital Partners SICAV-FIS S.A. | | Proprietary/Employee |

## A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES [X] NO [ ]

| Parties to parallel shareholders | % of share capital affected | Brief outline of agreement | Expiration date of the agreement, if there is one |
|---|---|---|---|
| Criteria Caixa, S.A.U.<br>Gip III Canary 1, S.À R.L. | 44.76% | The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees. | |
| Alba Europe S.À R.L. Rioja Capital Research and Management Company Investment S.À R.L., | 20.410% | The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions S.À R.L. replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions S.À R.L., 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares. | |

**Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:**

YES [ ] NO [X]

| Parties to concerted action | % of share capital affected | Brief description of the concerted action | Expiry date of the concerted action, if there is one |
|---|---|---|---|
| | | | |

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

**1)** Through Relevant Fact Nº 281047 on 1 August 2019, Corporación Alba reported that, on said date, all the parties to the Parallel Shareholders Agreement agreed the modification of the same, as of 1 August 2019, in order to adapt it to the merger by absorption of Rioja Bidco by its sole member, namely, Rioja Acquisition, S.À R.L., with termination date, as reported in the Relevant Fact, in September 2019 and, for that purpose, only the Parallel Shareholder Agreement was modified.

**2)** Through Relevant Fact Nº 283453, of 8 November 2019, Criteria Caixa reported that on 5 November 2019 it was resolved, separately, both Parallel Shareholder Agreements signed on 28 September 2018 with the companies G3T, S.L. and BCN Godia, S.L.U., respectively, in regards to shares in Naturgy Energy Group, S.A.

## A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES ☐ NO ☒

| Name or company name |
|---|
| |

| Observations: |
|---|
| |

## A.9 Complete the following table on the company's treasury share:

**At year-end:**

| Number of direct shares | Number of indirect shares (*) | % of total share capital |
|---|---|---|
| 5,183,890 | 8,639,595 | 1.40% |

| Observations: |
|---|
| |

**Explain the significant changes over the year:**

| Details of significant changes |
|---|
| Naturgy holds 8,639,595 shares in a separate corporate vehicle that were purchased I 2018 to generate a yield that will finance the long-term incentive of certain executives if they fulfil the established conditions (see Relevant Facts dated 3 August, 1 October and 6 December 2018 and section B.7. of the Annual Remuneration Report).<br><br>In addition, at 31 December 2019, the company has 5,183,890 shares available for the purpose of repurchasing shares for possible redemption, with the intention of acquiring shares in volume of up to 400M euros in the period ending on 30 June 2020. |

## A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

**1.-** The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

**Fifth.-** To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

**2.-** The General Meeting of Shareholders on 5 March 2019, in item 9 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2019 through redemption of a maximum of 18,998,662 own shares by implementing a Share Buy-Back programme.

**Ninth.-** Reduce the share capital of Naturgy Energy Group, S.A. (hereinafter the "Company") by the amount resulting from the sum of:

**1.** 2,998,622 euros, through redemption of the 2,998,622 Own Shares, each with a nominal value of one euro, on close of the Market on 6 December 2018, having been acquired under the authorisation conferred by the General Meeting of Shareholders held on 14 May 2015 under item fourteen (14) on the Agenda and within the limits of that set forth in Articles 144 to 148 and 509 of the consolidated text of the Spanish Corporate Enterprises Act, approved by the Royal Legislative Decree 1/2010, of 2 July of the Spanish Corporate Enterprises Act and intended for the purposes of repurchasing own shares (buy-back), contemplated in the Strategic Plan, and possible redemption, as detailed in the Relevant Facts on 6 December 2018 (Registry Number 272,238 and 18 January 2019 (Registry Number 273,935); and

**2.** The aggregate nominal value, up to a maximum of 16,000,000 euros, corresponding to the additional 16,000,000 shares, each with a nominal value of one euro. Said shares shall be ordinarily purchased for their redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter, the "Buy-Back Programme"), approved by the Company under the EU Regulation Nº 596/2014 on market abuse and published as Relevant Fact on 6 December 2018 (Registry Number 272,237), whose closing acquisition date expires on 30 June 2019, inclusive.

As a result, the maximum amount of the reduction in share capital (the "Share Capital Reduction") is 18,998,622 euros, through the redemption of up to a maximum of 18,998,622 own shares with a nominal value of one euro each, proportional, approximately 1.90% of the share capital of the Company at the time of the adoption of the agreement. In view of the foregoing, on the 31 January 2019 the Company held, in accordance with the two previous points, 9,438,556 Own Shares for possible redemption.

The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section. However, in the case that the resolution contained in item eleven (11) of the Agenda of the General Meeting of Shareholders, the total amount of 8,639,595 shares acquired with respect to the Long-Term Incentive Plan, as detailed in the Relevant Fact on 6 December 2018 (Registry Number 272,238), for purposes of redemption, reducing by the same amount the needs of the Buy-Back Programme, to the extent that the underscored maximum share capital reduction amount shall not be changed".

**3.-** The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

**"Fourteen.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.

**1.** Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of five hundred million three hundred and forty-four thousand six hundred and seventy euros (€500,344,670.-.) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.

**2.** The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.

**3.** As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

"Transitory article.- Delegation to the Board of Directors.

The company's Board of Directors, with the powers of replacing this delegation with the Executive Committee, has been authorised to increase the share capital by five hundred million three hundred and forty four thousand and six hundred and seventy euros (Euros 599,344,670), within five (5) years from this date (20/04/2017), through a cash contribution, in one or more payments and as and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right vote, with or without a premium, without the need for new authorisation from the General Meeting of Shareholders, up to the limit of 20% of the share capital at the time of this authorisation, as well as to amend the Articles of Association required for the share capital increase carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Spanish Corporate Enterprises Act".

## A.11 Estimated floating capital:

| | % |
|---|---|
| **Estimated floating capital** | 27.7 |

**A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.**

YES ☒ NO ☐

| Description of the restrictions |
|---|
| As a Company that incorporates certain regulated and quasi-regulated assets and activities into its group, the acquisition of Naturgy Energy Group, S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition.<br><br>Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets. |

**A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.**

YES ☐ NO ☒

**If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:**

**A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.**

YES ☐ NO ☒

**If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.**

## B. General meeting of shareholders

**B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act (“LSC” in Spanish).**

YES ☐ NO ☒

| | % quorum different to that laid down in Article 193 LSC for general cases | % quorum different to that laid down in Article 194 LSC for special cases |
|---|---|---|
| Quorum required for the first call to meeting | | |
| Quorum required for the second call to meeting | | |

**Describe the differences**

## B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act ("LSC" in Spanish):

SI ☐ NO ☒

**Describe how the system differs from that of the LSC.**

| | Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC | Other cases of reinforced majorities |
|---|---|---|
| % laid down by the institution for the adoption of agreements | | |

**Describe the differences**

## B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

**1)** The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

**2)** The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

**3)** The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.

**4)** Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

## B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

| | Attendance data | | | | |
|---|---|---|---|---|---|
| | | | % remote voting Electronic | | |
| Date of General Meeting of Shareholders | % physical presence | % represented | Vote | Other | Total |
| 20/04/17 | 68.66% | 13.34% | 0% | 0% | 82% |
| Of the floating capital 2017 | 0.1% | 13.3% | 0% | 0% | 13.4% |
| 27/06/18 | 68.69% | 15.13% | 0% | 0% | 83.82% |
| Of the floating capital 2018 | 0.2% | 15.1% | 0% | 0% | 15.3% |
| 05/03/2019 | 72.12% | 13.06% | 0% | 0% | 85.18% |
| Of the floating capital 2019 | 2.55% | 13.06% | 0% | 0% | 15.61% |

## B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

YES ☐ NO ☒

| Agenda items that have not been approved | % of votes against (*) |
|---|---|
| | |

(*) If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".

## B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES ☐ NO ☒

| | |
|---|---|
| **Number of shares required to attend the General Meeting of Shareholders** | |
| **Number of shares required to vote remotely** | |

**Observations:**

**B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.**

YES ☐ NO ☒

| Explanation of the decisions that must be submitted to the board other than those established by law |
|---|
| |

**B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.**

With regard to the Corporate Governance section, the path is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

## C. Structure of the company's management

### C.1 Board of Directors

**C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:**

| | |
|---|---|
| Maximum number of directors | 15 |
| Minimum number of directors | 11 |
| Number of directors set by the General Meeting of Shareholders | 12 |

| Observations: |
|---|
| |

### C.1.2 Complete the following table with Board members' details.

| Name or company name of Director | Representative | Type of director | Position on the board | Date of first appointment | Date of last appointment | Election procedure | Date of birth |
|---|---|---|---|---|---|---|---|
| Mr Francisco Reynés Massanet | | Executive | Chairman | 6/02/2018 | 27/06/2018 | Agreement General Meeting of Shareholders | 08-04-1963 |
| Mr Ramón Adell Ramón | | Independent | Coordinating Director | 18/06/2010 | 27/06/2018 | Agreement General Meeting of Shareholders | 09-01-1958 |
| Mr Enrique Alcántara-García Irazoqui | | Proprietary | Director | 27/06/1991 | 20/04/2017 | Agreement General Meeting of Shareholders | 21-10-1944 |
| Mr Marcelino Armenter Vidal | | Proprietary | Director | 21/09/2016 | 20/04/2017 | Agreement General Meeting of Shareholders | 02-06-1957 |
| Mr Francisco Belil Creixell | | Independent | Director | 14/05/2015 | 27/06/2018 | Agreement General Meeting of Shareholders | 24-05-1946 |
| Mrs Helena Herrero Starkie | | Independent | Director | 04/05/2016 | 04/05/2016 | Agreement General Meeting of Shareholders | 13-06-1959 |
| Mr Rajaram Rao | | Proprietary | Director | 21/09/2016 | 20/04/2017 | Agreement General Meeting of Shareholders | 03-04-1971 |
| RIOJA S.À R.L. | Mr Javier de Jaime Guijarro | Proprietary | Director | 01/08/19 | 01/08/2019 | Board Co-opted | 26-11-1964 |
| Mr Claudio Santiago Ponsa | | Independent | Director | 27/06/ 2018 | 27/06/2018 | Agreement General Meeting of Shareholders | 20-09-1956 |
| Mr Pedro Sáinz De Baranda | | Independent | Director | 27/06/ 2018 | 27/06/2018 (aceptación 6/07/2018) | Agreement General Meeting of Shareholders | 23-03-1963 |
| Mr Scott Stanley | | Proprietary | Director | 29/01/2019 | 05/03/2019 | Agreement General Meeting of Shareholders | 07-02-1957 |
| Theatre Directorship Services Beta, S.À R.L. | Mr José Antonio Torre de Silva López de Letona | Proprietary | Director | 18/05/2018 | 27/06/2018 | Agreement General Meeting of Shareholders | 23-10-71 |

| Total number of directors | 12 |
|---|---|

**Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:**

| Name or company name of Director | Category of director at time of vacancy | Date of last appointment | Fecha de baja | Specialist committees of which he or she was a member | Indicate whether the removal from office occurred |
|---|---|---|---|---|---|
| William Alan Woodburn | Proprietary | 20/04/2017 | 29/01/2019 | ARC | YES |
| Rioja Bidco Shareholdings, SLU | Proprietary | 27/06/2018 | 01/08/2019 | ARC | YES |

**Reason for the resignation and other observations:**

Proprietary Director Mr Woodburn resigned due to his new responsibilities in Group GIP.

Rioja Bidco Shareholdings, SLU was replaced on the decision of the Shareholder due to a company restructuring of its business group.

### C.1.3 Complete the following tables on board members and their respective categories:

#### Executive directors

| Name or company name of Director | Position in the company's management structure | Profile |
|---|---|---|
| Mr Francisco Reynés Massanet | Executive Chairman | Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany. |

| | |
|---|---|
| **Total number of executive directors** | 1 |
| **% of the entire board** | 8.33% |

**Observations:**

#### External propietary directors

| Name or company name of Director | Name or title of significant shareholder represented by the director or that has proposed the director's appointment | Profile |
|---|---|---|
| Mr Enrique Alcántara-García Irazoqui | Criteria Caixa S.A.U | Legal profile: Former Public Prosecutor. He is Secretary of the Board of Directors and of the Trusts of multiple Societies and Foundations. |
| Mr Marcelino Armenter Vidal | Criteria Caixa S.A.U | Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE. |
| Mr Rajaram Rao | GIP III Canary 1 S.À R.L. | IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School. |
| Mr Scott Stanley | GIP III Canary 1 S.À R.L. | Economics and international business profile: Degree in Ceramic Engineering from the Ohio State University. |
| Rioja S.À R.L. (Mr Javier de Jaime Guijarro) | Rioja Adcquisitions S.À R.L., S.L.U | Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University. |
| Theatre Directorship Services Beta, , S.À R.L. (Mr José Antonio Torre de Silva López de Letona) | Rioja Acquisitions S.À R.L. | Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE). |

| | |
|---|---|
| **Total number of proprietary directors** | 6 |
| **% of the entire board** | 50.00% |

**Observations:**

### External independent directors

| Name or company name of Director | Profile |
|---|---|
| Mr Ramón Adell Ramón | Expert financial and accounting profile: Doctorate in Economics and Business Administration. Graduate in Law. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc). |
| Mr Claudi Santiago Ponsa | IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University. |
| Mr Francisco Belil Creixell | Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry. |
| Mr Pedro Sáinz De Baranda Riva | Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT). |
| Mrs Helena Herrero Starkie | IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal. |

| | |
|---|---|
| **Total number of independent directors** | 5 |
| **% total of the board** | 41.66% |

**Observations:**

**Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.**

**Where appropriate, include a reasoned statement from the board on the grounds why it believes this director many perform his/her duties as an Independent Director.**

| Name or company name of Director | Description of the relationships | Reason statement |
|---|---|---|

### Other external directors

**Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:**

| Name or company name of Director | Reasons | Company, executive or shareholder with whom the relationship is maintained | Profile |
|---|---|---|---|
| | | | |

| | |
|---|---|
| Total number of external directors | |
| % total of the board | |

**Observations:**

**List any changes in the category of each director which have occurred during the year:**

| Name or company name of Director | Date of change | Former category | Current category |
|---|---|---|---|
| | | | |

**Observations:**

**C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:**

| | Number of female directors | | | | % of total directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial year Q | Financial year Q-1 | Financial year Q-2 | Financial Q-3 | Financial year Q | Financial year Q-1 | Financial year Q-2 | Financial year Q-3 |
| **Executive** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Proprietary** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Independent** | 1 | 1 | 3 | 3 | 8.33% | 8.33% | 17.65 % | 17.65 % |
| **Other external** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total:** | **1** | **1** | **3** | **3** | **8.33%** | **8.33%** | **17.65%** | **17.65%** |

**Observations:**

In the preceding table, the number of female directors at the end of each year has been recorded

**C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.**

YES ☐ NO ☐ PARTIAL POLICIES ☒

**If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.**

**If the company does not apply a diversity policy, explain the reasons why.**

| Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained |
|---|
| Naturgy's Director Selection Policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said Policy is applied with full respect to the right of proportional representation legally recognised to shareholders.<br><br>The Appointments and Remuneration Committee ensures that the selection procedures do not include any implicit bias that could involve any discrimination whatsoever.<br><br>Throughout 2019 there has not been any significant renewal processes of the Board of Directors. The only renewal circumstance that occurred was the replacement of a natural person representative Proprietary Director, Mr William Woodburn, who resigned from his position in the light of the new responsibilities that he had to assume in the business group to which he provides services. Mr Scott Stanley, candidate who was replaced through the co-option system, representing a significant shareholder, was proposed by said shareholder, and certified by the General Meeting of Shareholders held on 5 March 2019.<br><br>The replacement of a legal entity proprietary director also took place, albeit due to the company restructuring of the group of the significant shareholder but did not affect the appointment of the natural person representative of the same.<br><br>Within the framework of this process of renewal of proprietary directors, the Company has first of all been respectful of the right to proportional representation that lawfully corresponds to shareholders. The detail of the assessment made by the Appointments and Remuneration Committee of the different candidates proposed by the shareholders is included in the corresponding report of the Committee that was published with the call to Meeting.<br><br>In any case, in line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in extension of term of office. Said process, concluding with the proposal to the General Meeting of Shareholders was made by the Appointments and Remuneration Committee in the aforementioned meeting in October 2019, after approval of the Competency Matrix. |

**C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:**

| Explication of the measures |
|---|
| The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought.<br><br>On the same lines, the Board meeting held in October 2019 approved, according to the recommendations of the CNMV (Spanish Securities Market Authority) 1/2019 Technical Guide, a Competency Matrix that has already been used in the process for selecting candidates to cover the position of Independent Director that is in extension of term of office and that is planned in financial year 2020, to be incorporated in the Policy for selecting Directors once the corresponding modification of said policy is approved by the Board. |

**When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:**

| Explanation of the reasons |
|---|
| The Company's Appointments and Remuneration Committee fully respects the legally recognised right to proportional representation of its significant shareholders. To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director that is in extension of term of office. |

**C.1.7 Explain the Appointments Committee's conclusions on the checks carried out to ensure that the Director Selection Policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020 comes to an end.**
The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

In line with the recommendations contained in the 2019 Appointments and Remuneration Committee Practical Guide of Naturgy, the Appointments and Remuneration Committee of Naturgy has worked in 2019 on the preparation of a Competency Matrix of the Board that may be used in the selection process of directors. Said matrix was finally approved by the Board of Directors at a meeting held in October 2019, and it has been already applied to the selection process of candidates to cover the position of Independent Director that is in extension of term of office. Said process, concluding with the ensuing proposal to the General Meeting of Shareholders to be held in 2020, was made by the Appointments and Remuneration Committee in the said meeting in October 2019, after approval of the Competency Matrix.

The percentage of female profiles among independent directors represents 20% of the total, although it is expected to increase when it is appropriate to make new proposals.

**C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:**

| Name or company name of shareholder | Explanation |
|---|---|
| | |

**Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:**

YES ☐ NO ☒

| Name or company name of shareholder | Explanation |
|---|---|
| | |

**C.1.9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:**

| Name or company name of the director or committee | Brief outline |
|---|---|
| Mr Francisco Reynés Massanet | He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman. |

**C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:**

| Name or company name of Director | Company name of group entity | Position | Do they have executive duties? |
|---|---|---|---|
| | | | |

| Observations: |
|---|
| |

**C.1.11 dentify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported by the company:**

| Name or company name of Director | Corporate name of the listed company | Position |
|---|---|---|
| Mr Ramón Adell Ramón | Oryzon Genomics, S.A. | Director |
| Mr Marcelino Armenter Vidal | Caixabank S.A. | Director |
| Mr Pedro Sáinz de Baranda Riva | Gestamp Automoción, S.A. | Director |

**C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:**

YES ☐ NO ☒

| Explanation of the rules and identification of the document where it is regulated |
|---|
| |

**C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:**

| | |
|---|---|
| **Overall remuneration earned by the Board of Directors during the year (thousands of euros)** | 7,803 |
| **Cumulative amount of rights of current directors in pension scheme (thousands of euros)** | 5,232 (*) |
| **Cumulative amount of rights of former directors in pension scheme (thousands of euros)** | 0 |

| Observations: |
|---|
| (*) It includes the amount corresponding to the variable remuneration 2018 and 2019 that are settled as a contribution to the Executive Chairman´s Social Security Plan as it is beneficiary. |

**C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:**

| Name or company name | Position/s |
|---|---|
| Mr Carlos Javier Álvarez Fernández | Chief Financial Officer |
| Mr Antonio Gallart Gabas | Director of Business Infrastructures Latin America South Zone |
| Mr José García Sanleandro | Director of Business Infrastructures Latin America North Zone |
| Mr Antonio Basolas Tena | Manager Corporate Strategy & Development |

| | |
|---|---|
| Mr Manuel Fernández Álvarez | Business Director Gas & Electricity |
| Mr Manuel García Cobaleda | General and Board Secretary |
| Mr Jordi Garcia Tabernero | Communication & Institutional Relations Managing Director |
| Mrs Rosa Mª Sanz García | España & Empl – Medgaz Infrastructure Business Managing Director |
| Mr Miguel Angel Aller Blanco | Lean Project Manager |
| Mr Steven Fernández Fernández | Capitals Market Director |
| Mr Jon Ganuza Fernández De Arroyabe | Controlling |
| Mr Carlos Ayuso Salinas | Director of Internal Audit |

| | |
|---|---|
| **Total remuneration of senior management (in thousands of euros)** | 16,366 |

**Observations:**

Messrs. Egea Krauel and Peris Mingot stopped working for the company in 8 april 2019 and 31 December 2019, respectively.

**C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:**

YES [X] NO [ ]

**Description of modifications**

At the meeting of 29 October 2019 Article 6 of the Board Regulations was amended to (i) extend from six (6) to eight (8) the minimum yearly meetings that the Board should meet and (ii) to facilitate any Director requesting the inclusion of matters in the Agenda.

**C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.**

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

**1.-** Appointment:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a previous report/proposal from the Appointments and Remuneration Committee.

In particular, the proposals for the appointment of Directors which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

**2.-** Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date have a term of three (3) years). The Directors appointed by co-option will exercise their position under the terms established in prevailing legislation.

The Appointments and Remuneration Committee is also entrusted with evaluating the quality of the work and the dedication of the Directors proposed during the preceding mandate. It will make suggestions regarding Independent Directors and report on the remaining Directors, on a compulsory basis, on the proposals for the re-election of Directors which the Board of Directors chooses to submit to the General Meeting of Shareholders.

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

According to the foregoing, the new Competency Matrix approved by the Board is also to be used in the process for re-electing Directors.

**3.-** Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, a Competency Matrix has been used in the process for covering the position of Independent Director whose re-election/appointment must be put forward to the General Meeting of Shareholders, since the term of office has expired of the Director currently in this position and it is planned modify in financial year 2020 the Policy for selecting Directors to include this Matrix in all processes to cover vacancies or re-election of Directors.

**C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

**Description of modifications**

The evaluation of the Board of Directors for 2017 included the participation of an independent expert as consultant, which implemented throughout 2018 of an Action Plan on the subject of corporate governance which led to the approval in the General Meeting of Shareholders in 2018 of some new Company's Articles of Association, the reduction of the number of Directors, the removal of the Executive Committee, and the attribution to the Appointments and Remuneration Committee of new powers in matters of corporate governance.

Since a there has been in-depth renewal with respect to corporate governance in financial year 2018, the assessment of the board relating to financial year 2018 has not identified the need to make any significant changes to internal organisation or in the procedures applicable to the activities during financial year 2019.

Nonetheless, the publication by the CNMV of the Technical Guide for Appointments and Remuneration Committees led to both the Committee and the Board as a whole to examine the processes to which said Guide makes reference. The most significant outcome of the same is that the Board approved a Competency Matrix in October 2019 and the modification to the Directors Selection Policy to include the need to take said Matrix into account in the processes for selecting Directors was approved in the meeting held in February 2020.

**Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.**

**Description of the evaluation process and areas evaluated**

The Board was advised by an external consultant for the self-assessment of its operation during 2017, which allowed it to have a base with which to address the process of simplification and the broad renewal of the Board in June 2018. For this reason, the Board has not resorted to such external consultation in 2018, on the understanding that it is appropriate to let a certain period of time pass in order to adequately analyse the effectiveness of the agreed measures, since they have been implemented progressively throughout 2018.

Notwithstanding, the experience gained in said evaluation process has served to improve the internal self-assessment process. Likewise, similar to that done in 2018, some detailed questionnaires were prepared on which the Appointments and Remuneration Committee have worked, and that were sent to all Members of the Board and the Committees so that they could express their opinions relating to the functioning of the Board. This meant that the questionnaires could be submitted anonymously if the Director so deemed to do so. The conclusions of said questionnaires have been analysed in detail when preparing the corresponding self-assessment reports.

The Assessment of the Board assisted by an external consultant shall most likely be carried out in financial year 2020.

**C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.**

NOT APPLICABLE ☒

### C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

### C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES ☒ NO ☐

**Where appropriate, describe the differences.**

| Description of the differences |
| --- |
| Article 7.4 of the Regulations of the Board of Directors states the following:<br><br>“4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority.<br>In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable:<br><br>a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company.<br>b) The approval of the budget and the strategic or business plan of the Company.<br>c) The modification of the dividend distribution policy and the approval of a new one.<br>d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000.<br>e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts.<br>f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.<br>g) The reformulation of the Company’s annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.<br>h) Capital investments (capex) not provided for in the Company’s annual budget for an amount exceeding Euros 200,000,000 euros.<br>i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them.” |

**C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.**

YES ☐ NO ☒

| Description of requirements |
| --- |
| |

**C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:**

YES ☐ NO ☒

| | Age limit |
| --- | --- |
| **Chairman** | |
| **Chief Executive Officer** | |
| **Director** | |

| Observations: |
| --- |
| |

**C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:**

YES ☐ NO ☒

| Additional requirements and/or maximum number of years of in office |
| --- |

**C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.**

As established in Article 7.5 of the Articles of Association "Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary".

In addition, Article 7.3 of the Regulations of the Board states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman's Office or the Board Secretary before the beginning of the session".

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

**C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.**

| | |
|---|---|
| Number of board meetings | 16 |
| Number of board meetings without the Chairman attending | 0 |

**Observations:**

**Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.**

| | |
|---|---|
| Number of meetings | 0 |

**Observations:**

Since the Coordinating Director is also the Chairman of the Appointments and Remuneration Committee and had held this position on the Audit Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

**Indicate the number of meetings held by the different board committees over the year:**

| | |
|---|---|
| Number of meetings of the Executive Committee | 0 |
| Number of meetings of the Audit Committee | 6 |
| Number of meetings of the Appointments and Remuneration Committee | 6 |
| Number of meetings of the Appointments Committee | |
| Number of meetings of the Remuneration Committee | |
| Number of meetings of the ____________ Committee | |

**Observations:**

**C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:**

| | |
|---|---|
| Number of meetings attended in person by at least 80% of the Directors | 16 |
| % of attendance over the total number of votes during the year | 97% |
| Number of meetings with attendance in person, or representations made with specific instructions of all the Directors | 12 |
| % votes cast with attendance in person and representations made with specific instructions, on total votes during the year | 96% |

**Observations:**

**C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.**

YES [X] NO [ ]

**Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:**

| Name | Position |
|---|---|
| Mr Carlos Javier Álvarez Fernández | Chief Financial Officer |

**C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.**

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, the Audit Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that no accounting qualifications have been made.

**C.1.29 Is the Secretary of the Board also a Director?**

YES [ ] NO [X]

**Complete if the secretary is not also a Director:**

| Name or corporate name of the Secretary | Representative |
|---|---|
| Mr Manuel García Cobaleda | - |

**Observations:**

**C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.**

Among the legal functions that correspond to the Audit Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective. In order to increase transparency, this area has been enhanced by differentiating it from the Financial Department.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

**C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:**

YES ☐ NO ☒

| Outgoing auditor | Incoming auditor |
|---|---|
| | |

**Observations:**

**In the case of disagreements with the outgoing auditor, explain the content of the said disagreements.**

YES ☐ NO ☒

| Explanation of the disagreements |
|---|
| |

**C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:**

YES ☒ NO ☐

| | Company | Group | Total |
|---|---|---|---|
| Amount of tasks other than auditing activities (in thousands of euros) | 17 | 168 | 185 |
| Amount of tasks other than auditing/Amount billed by the audit company (%) | 1.90% | 4.5% | 4.0% |

| Observations: |
|---|
| |

**C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to.**

YES ☐ NO ☒

| Explication of the reasons |
|---|
| |

**C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:**

| | Individual | Consolidated |
|---|---|---|
| Number of years without interruption | 2 | 2 |

| | Individual | Consolidated |
|---|---|---|
| Number of years audited by the current audit company / Number of years the company has been audited (in %) | 6.90% | 6.90% |

| Observations: |
|---|
| |

**C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:**

YES [X] NO [ ]

| Details of the procedure |
|---|
| Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: "2-Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held".<br><br>The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting.<br><br>To this end, the Board's documentation is made available to the directors through a computer platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.<br><br>Furthermore, during the meeting, those Directors whose issues are being dealt with at the meeting are available to be called -and they frequently are called -so that the Directors in attendance can ask them directly for any clarifications, details or opinions in relation to the items discussed in the session and can directly appreciate their suitability for the position.<br><br>Finally, the Directors may request additional information they deem necessary for the exercise of their duties through the Board Secretary. |

**C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the Company's credit and reputation:**

YES [X] NO [ ]

**Explain the rules**

In accordance with Article 11.3 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.3, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

Also, Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

**C.1.37 Indicate whether or not any Member of the Board of Directors has informed the Company that he/she has been prosecuted or hearings against him/her have been opened for any difference laid down in Article 213 of the Spanish Corporate Enterprises Act:**

YES ☐ NO ☒

| Director's name | Criminal Case | Observations |
|---|---|---|

**Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.**

YES ☐ NO ☒

| Decision taken/action taken | Reasoned explanation |
|---|---|

**C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.**

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 9.7 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases.

**C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.**

| **Number of beneficiaries** | 17 |
|---|---|
| **Beneficiary type** | **Description of the agreement** |
| **Executive Chairman** | The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan.<br><br>The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established.<br><br>The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year. |
| **Executives** | The contracts signed with 11 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.<br><br>In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute.<br><br>Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years. |

**Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:**

| | **Board of Directors** | **General Meeting of Shareholders** |
|---|---|---|
| **Body that authorises the clauses** | YES | No |

| | YES | NO |
|---|---|---|
| **Is the General Meeting of Shareholders informed of the clauses?** | X | |

**Observations:**

In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries

## C.2. Committees of the Board of Directors

**C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:**

### Executive or delegated committee

| Name | Position | Category |
|---|---|---|
| | | |

| | |
|---|---|
| % of executive directors | |
| % of proprietary directors | |
| % of independent directors | |
| % of other external directors | |

**Observations:**

It does not apply as the executive committee no longer exists

**Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.**

**Not applicable.**

**Indicate whether the composition of the Delegated or Executive Committee reflects the participation in the board by the various directors depending on their category:**

YES ☐ NO ☐

**If the answer is negative, explain the composition of your Delegated or Executive Committee**

**Not aplicable.**

**Audit committee**

| Name | Position | Category |
|---|---|---|
| Mr Francisco Belil Creixell | Chairman | Independent |
| Mr Ramón Adell Ramón | Board Member | Independent |
| Mr Enrique Alcántara-García Irazoqui | Board Member | Proprietary |
| Mr Pedro Sainz de Baranda Riva | Board Member | Independent |
| Mrs Helena Herrero Starkie | Board Member | Independent |
| Mr Rajaram Rao | Board Member | Proprietary |
| Theatre Directorship Services Beta, S.À R.L., represented by Mr Jose Antonio Torre de Silva Lopez de Letona | Board Member | Proprietary |

| | |
|---|---|
| **% of proprietary directors** | 42.86% |
| **% of independent directors** | 57.14% |
| **% of other external directors** | - |

**Observations:**

**Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.**

**a) Functions of the Audit Committee:**

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

In response to different resolutions of the Board of Directors of 27 November 2015, 29 January 2016 and 6 March 2018, it exercises the following functions:

– Prepare the report or auditor independence.

– Prepare the Report on the performance of the Audit Committee.

– Prepare the Report on related operations.

– Strive to ensure that the Board of Directors can present the company's accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Committee and the Auditors should give a clear account to shareholders of their scope and content of said limitations.

– With respect to control and reporting systems:

a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.

b) Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.
c) Setting up and supervising a mechanism whereby employees can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

– With regard to the External Auditor.

a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.
b) Ensuring that the remuneration of the external auditor does not compromise its quality or independence.
c) Supervising that the company notifies any change of external auditor to the National Securities Market Commission as a relevant event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
d) Ensuring that the external auditor has a yearly plenary session of the board to inform them of the work undertaken and developments in the company's risk and accounting positions.
e) Ensuring that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

– Call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

– Analyse and report to the Board of Directors on the economic conditions and the accounting impact and, especially, where applicable on the exchange ratio, in relation to the operations of structural and corporate modifications that, due to their nature or amount, are of special relevance. Transactions whose net value exceeds the value of 25% of the assets that appear on the last approved balance sheet of the Company will be deemed relevant.

– In addition:

a) Supervision of compliance with the internal codes of conduct.
b) Overseeing the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
c) The regular evaluation of the adequacy of the company's governance system
d) Monitoring and assessing the processes of liaising with different stakeholders.
e) The evaluation of the company's non-financial risks

**b) Procedures, and organisational and operational rules:**

In accordance with Article 26 of the Regulations of the board

The Audit Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

**c) Main actions taken during the year 2019:**

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- Quality and efficiency of its operation.
- External audit of individual and consolidated Annual Accounts.
- Supervision of the process of preparation of financial reporting.
- Tax situation.
- Independence of the Auditor.
- Related-party transactions.
- Verification of the crime prevention system.
- Supervision of risk control systems and specific risk analysis.
- Supervision of internal control and internal audit systems.
- Monitoring of own-share operations.
- Action Plan in terms of Compliance.
- Internal Audit Supervision.

**Identify the Directors who are Members of the Audit Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.**

| | |
|---|---|
| **Name of Directors with experience** | Mr Ramón Adell Ramón |
| **Name of Directors with experience** | 27/06/2018 |

**Observations:**

**Appointments and remuneration committee**

| Nombre | Cargo | Category |
|---|---|---|
| Mr Ramón Adell Ramón | Chairman | Independent |
| Mr Francisco Belil Creixell | Board Member | Independent |
| Mr Pedro Sainz De Baranda Riva | Board Member | Independent |
| Mr Claudio Santiago Ponsa | Board Member | Independent |
| Mr Marcelino Armenter Vidal | Board Member | Proprietary |
| Mr Scott Stanley | Board Member | Proprietary |
| RIOJA S.À R.L. (Rep Mr Javier De Jaime Guijarro) | Board Member | Proprietary |

| | |
|---|---|
| **% of proprietary directors** | 42.86% |
| **% of independent directors** | 57.14% |
| **% of other external directors** | - |

**Observations:**

**Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.**

---

**a) Duties of the Appointments and Remuneration Committee:**

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

– Prepare the report on performance of the Appointments and Remuneration Committee.

– Verify the selection policy for Directors and report on this in the Annual Corporate Governance Report.

– Through delegation that must be granted by the Chairman of the Board, to organise and coordinate the regular assessment of the Board and that of the Chief Executive of the Company.

– Prepare the report on the operation of the Board of Directors.

– Propose to the Board of Directors the standard conditions for Senior Executive contracts.

– Monitor compliance with the remuneration policy set by the Company.

– Regularly review the remuneration policy for Directors and Senior Executives.

– Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

– Verify information on remuneration of Directors and Senior Executives contained in the various corporate documents.

– Through a resolution of the Board of Directors on 29 January 2016, it was entrusted with the exercise of all the corporate social responsibility powers that hitherto had been exercised by the Audit Committee.

– Through a resolution of the Board of Directors on 6 March 2018, it was agreed to entrust the Appointments and Remuneration Committee with the following tasks previously entrusted to the Audit Committee:

i) Monitor of the most relevant incidents in terms of health, safety and the environment.

ii) Raise proposals and report on initiatives in corporate governance.

**b) Procedures, and organisational and operational rules in accordance with Article 25 of the Regulations of the Board:**

The Appointments and Remuneration Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

**c) Main actions taken during the year 2019:**

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

i) Corporate Governance: i) the Technical Guide of CNMV for Appointments and Remuneration Committees has been analysed and, to adapt to its recommendations, measures have been adopted. As part of the same of note is the proposal to the Board of Directors for their approval of a Competency Matrix for which external assessment was sought, ii) a modification to the Policy for selecting Directors to include the need for preparing said Competency Matrix was proposed, iii) the Committee has worked hard on the self-assessment process of the Board in which some specific questionnaires have been designed that must be completed by the Directors, iv) different measures for modifying the Articles of Association and the Board of Directors Regulation have been proposed to progress in the alignment to the best corporate governance practices (minimum number of meetings of the Board and right to any Director to include items on the Agenda of the Board Meeting) Proposal for new Directors: given that the Independent Director Mrs Herrero is in extension of term of office, the coverage of this position has been analysed with the help of the aforementioned Competency Matrix. As a result of the same, the Committee proposed to the Board the renewal of Mrs Herrero in her position.

ii) Health and Safety: the Committee has followed the indicators on Health and Security of the group and have been informed of the accidents reported and the proposals for corrective and preventative measures. Likewise, the integrated model of the group for managing safety has been analysed in detail.

iii) Remuneration: the Committee has been engaged in applying the new Director Remuneration Policy by the General Meeting of Shareholders of 2019, as well as supervising the remuneration policy of the Management Team.

iv) Corporate Social Responsibility: the Committee have analysed and submitted to the Board for their approval a new Strategic Sustainability Plan for 2019-2022.

**Appoiments committee**

| Name | Position | Category |
|---|---|---|
| | | |

| | |
|---|---|
| **% of proprietary directors** | |
| **% of independent directors** | |
| **% of other external directors** | |

**Observations:**

Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

## Remuneration committee

| Name | Position | Category |
|---|---|---|
| | | |

| | |
|---|---|
| % of proprietary directors | |
| % of independent directors | |
| % of other external directors | |

Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

## Committee ___________

| Name | Position | Category |
|---|---|---|
| | | |

| | |
|---|---|
| % of proprietary directors | |
| % of independent directors | |
| % of other external directors | |

Explain the committee's duties, describe the procedure and organisation and operational rules and summarise the main actions taken during the year.

### C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

| | Number of female directors | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Year 2019 Number % | | Financial Year 2018 Number % | | Financial Year 2017 Number % | | Financial Year 2016 Number % | |
| **Executive Committee** | - | - | - | - | 1 | 10% | 1 | 10% |
| **Audit Committee** | 1 | 14.28% | 1 | 14.28% | 2 | 28.57% | 2 | 28.57% |
| **Appointments and Remuneration Committee** | 0 | 0% | 0 | 0% | 1 | 20% | 1 | 20% |
| **Appointments Committee** | - | - | - | | - | - | | |
| **Remuneration Committee** | - | - | - | | - | - | | |
| **Committee _____** | - | - | - | | - | - | | |

### C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors →Corporate governance →Corporate governance standards.

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

# D. Related-party transactions and intra-group transactions

## D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

### Procedures for approving related party transactions

In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit Committee, of the operations that the Company or its Group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.

In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit Committee every year.

## D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

| Name or Company Name of Significant Shareholder | Name or Company Name of the Company or Entity of the group | Nature of the Relationship | Type of Operation | Amount (thousands of euros) |
|---|---|---|---|---|
| Criteria Caixa S.A.U | Naturgy Energy Group, S.A. | Commercial | Provision of Services | 10 |
| Gip III Canary 1, S.À R.L. | Naturgy Energy Group, S.A. | Commercial | Sales of manufactured goods or not | 13,368 |
| Criteria Caixa S.A.U | Naturgy Energy Group, S.A. | Commercial | Sales of manufactured goods or not | 1,217 |
| CVC Capital Partners Sicav-Fis S.A. | Naturgy Energy Group, S.A. | Commercial | Sales of manufactured goods or not | 27,028 |
| Criteria Caixa S.A.U | Naturgy Energy Group, S.A. | Commercial | Dividends and other distributed earnings | 333,486 |
| CVC Capital Partners Sicav-Fis S.A. | Naturgy Energy Group, S.A. | Commercial | Dividends and other distributed earnings | 268,548 |
| Gip III Canary 1, S.À R.L. | Naturgy Energy Group, S.A. | Commercial | Dividends and other distributed earnings | 267,584 |

**Observations:**

## D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

| Name or Company Name of the Administrators or Executives | Name or Company Name of the Related Party | Relationship | Nature of the Operation | Amount (thousands of euros) |
|---|---|---|---|---|
| | | | | |

**Observations:**

## D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

| Company Name of the Entity of the Group | Brief description of the Operation | Amount (thousands of euros) |
|---|---|---|
| | | |

**Observations:**

## D.5 Indicate the amount from related party transactions.

0 (thousands of euros).

## D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

**1**.- Directors:

In accordance with the Regulations of the Board:

– The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

- The Director must refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.

- Also, the director shall adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the Company.

- In his/her capacity as loyal representative of the Company, the director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in Naturgy Energy Group, S.A. and investee companies.

- The director must notify the Company of significant changes to their professional circumstances and changes which affect the nature or capacity by which he/she was categorised.

- The director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent proprietary directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

The Director must abstain from conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the Company or which, in any other manner, place them in permanent conflict with the Company's interests. Particularly, the director, may not hold, himself or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Naturgy Energy Group, S.A. or any other company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Naturgy Energy Group, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Naturgy Energy Group, S.A.

The Director Selection Policy establishes that candidates are to be asked if they may have any possible conflicts of interests.

**2.**- Directors and executives:

On the other hand, pursuant to Article 5 of the Internal Code of Conduct in Matters relating to the Securities Markets (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities ((i) The transferable securities issues by the Company and/or by the companies of the Naturgy Group that are traded on a secondary market or other regulated markets, in multilateral trading systems or on other organised secondary markets, or in respect of which an application for admission to trading in one of such markets or systems has been filed, (ii) Financial instruments and contracts of any kind that grant the right to acquire the securities indicated in (i); (iii) Financial instruments and contracts whose underlying assets are the securities indicated in (i), and (iv) For the sole purpose of the rules of conduct in relation to the privileged information contained in Title III of the Regulations, the securities and financial instruments issued by other companies or entities other than the Company, for which Inside Information is available).

Internal Audit, upon written request to the Board Secretary by the stakeholder, may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. Internal Audit will inform the Audit Committee at least once a year about the authorisations that have been requested.

For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest.

**3.**- Significant shareholders:

It will be the responsibility of the Board of Directors, pursuant to a report from the Audit Committee, to approve transactions carried out by the company or the companies in its group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

## D.7 Is more than one group company listed in Spain?

YES ☐ NO ☒

**Identify the subsidiary companies that are listed in Spain:**

| Listed subsidiary companies |
|---|
| |

**Indicate whether or not their respective activity area and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group:**

YES ☐ NO ☐

| Define the possible business relationships between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group |
|---|
| |

**Indicate the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:**

| Mechanisms for solving possible conflicts of interests |
|---|
| |

## E. Control systems and risk management

### E.1 Describe the risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

### E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

**Audit Committee**
A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

**Risk Committee**
Is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks.

**Risk Control Units**
Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include: Risks and Insurance, Gas&Power Risks and Internal Auditing.

**Business, Corporate and Project Units**
They are responsible for the application of the main principles of the Control and Risk Management Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

## E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its business targets.

| | Description | Management |
|---|---|---|
| **Market risk** | | |
| Gas price | Volatility in international markets which determine gas prices. | Physical and financial hedges. Portfolio management. |
| Electricity price | Volatility in electricity markets in Spain and Portugal. | Physical and financial hedges. Optimisation of generation park. |
| Gas volume | Gap between gas supply and demand. | Optimisation of contracts and assets. Trading. |
| Electricity volume | Reduction in available thermal gap. Uncertainty in the volume of hydraulic production | Optimisation of commercialisation/generation gap. |
| Regulation | Exposure to revision of criteria and levels of return recognised for regulated activities. | Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates. |
| Exchange rates | Volatility in international currency markets. | Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position. |
| Interest rates and credit spread | Volatility in financing rates. | Financial hedges. Diversification in financing sources. |
| Fiscal | Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same. | Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence. |
| **Credit risk** | | |
| Credit | Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle. | Customer solvency analysis to define specific contractual conditions. Collection process. |
| **Operational risks** | | |
| Operational: image and reputation | Deterioration in perception of Naturgy by different stakeholders. | Identification and tracking of potential reputation events. Transparency in communication. |
| Operational: insurable | Accidents, damages or non-availabilities in assets of Naturgy. | Ongoing improvement plans. Optimisation of total cost of risk and hedging. |

| | | |
|---|---|---|
| Operational: environment | Damages to the natural and/or social environment. Evolution of environmental regulation. | Emergency plans in installations with risk of environmental accidents.<br>Specific insurance policies.<br>Complete environmental management. |
| Operational: climate change | Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it. | Corporate positioning with regard to climate change.<br>Active participation on influence forums. |
| Operational: cybersecurity | Attacks on computer systems. | Implementation of security measures.<br>Analysis of events and application of remedies<br>Training |
| **Compliance risk** | | |
| Reputational and criminal risk | Administrative and criminal sanctions. Deterioration of the reputational image of Naturgy. | Crime Prevention Model.<br>Ethics Code and Anticorruption Policy.<br>Whistleblowing Channel.<br>Compliance Training. |
| Thrid-Party risk | Administrative and criminal sanctions. Damage derived from contractual breach. | Third-Party Due Diligence Procedure |

## E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Unit's responsibility to assess the risks identified, based on:

a) Risk position: definition and characteristics.
b) Impact variables.
c) Qualitative and quantitative severity of the risk occurring.
d) Probability of risk occurring.
e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

### E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks that have materialised during the financial year have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange, interest, credit or counterparty rates.
The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.
Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.
Subsequent to the approval of the new Strategic Plan 2018-2022, asset impairment or write-offs of Euros 4,851 million have been recorded, caused by the reassessment of future cash flow estimates based on the aforementioned plan, as well as other factors that have occurred during the period.

### E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:
– Definition and characteristics of the main risk factors.
– Evolutionary aspects of the Risks Map.
– Impact variables.
– Main measurement methodologies used for each kind of risk.
– Qualitative, quantitative and probable severity of the risk materialising.
– Defined controls and their effectiveness.
The Risk Control Units and other specific areas (Regulation, Environment, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

## F. Internal systems of control and risk management with regard to the internal control systems over financial reporting (ICFR)

**Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).**

### F.1 The company's control environment:

**Report on, duly detailing their main characteristics, at least:**

**F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.**

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing Global Policy and General Procedure, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

– Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit Committee.

The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

– Audit Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit Committee is supported by the Internal Auditing Unit.

– Corporate Financial Department: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the Internal Control of Financial Reporting team.

– Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.

– Internal Auditing Unit: In general, it is responsible for assisting the Audit Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.

– Compliance Unit, responsible of the Crime Prevention Model at Naturgy, provides information and support to the Audit Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information.

– Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed.

**F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:**

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control, the responsibilities, previously centralized in the Corporate Finance Department, have been decentralized to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Corporate Finance Department is responsible for establishing the criteria and principles for the design and organization of the operation of the SCIIF (with the Internal Financial Information Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.).

In this process, the Administration and Operational Monitoring units are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single Naturgy Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the existing critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business and additionally the Financial Management prepares the Interrelationship Maps of the transversal and corporate processes.

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

(i) the information required to prepare the financial reporting;

(ii) the parties in charge that are either the source or recipient of the financial reporting and

(iii) the distribution of tasks among the different organizational units

(iv) the scope of this distribution to all Group companies

(v) the frequency of information transfer

(vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter “Code of Ethics”), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of Naturgy Energy Group, S.A. and for all investee companies in which Naturgy holds management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of Naturgy Energy Group, S.A.

Since it was approved, it has been amended four times, on the last occasion on 27 June 2014, with the purpose of updating it and including new commitments acquired by Naturgy in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anti-Corruption Policy of Naturgy and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose; (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

– Respeto a la legalidad, derechos humanos y a los valores éticos. (Apartado 4.1)

– Respect for the law, human rights and ethical values (Section 4.1)

"Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)"

– Processing of information and knowledge (Section 4.11):

"All employees that enter any kind of information in the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts".

Naturgy has also established an Anti-Corruption Policy, which was approved by the Management Committee in a meeting held on 3 March 2014, amended in the meeting held on 24 November 2015, and which is compulsory for all employees of all the companies which make up the Naturgy Group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of Chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and remedy of any corrupt practice within the organisation.

The Code of Ethics Committee of Naturgy has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

– Externally: Naturgy corporate website.

– Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy have been developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anti-Corruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential.**

Naturgy has a Whistleblowing Channel, accessible to all its employees and third parties.

The aforementioned Whistleblowing Channel corresponds to an open channel (internal web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code. All this outside the hierarchy of the usual operations of the employees.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this sense, the president of the Ethics and Compliance Committee (Compliance Director) has access, in the first instance, to know all the information of all the queries and notifications received from the group through the consultation and notification procedure. Likewise, notices related to fraud, audit or failures in accounting processes or internal control are reported directly to the Audit Committee.

More detailed information on the Code of Ethics, the Anti-Corruption Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel is given in the 2019 Corporate Responsibility report of Naturgy.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2019 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

The relevant programmes performed in 2019 included the roll-out of the digital Teams tool. The purpose of this programme is to promote agile and flexible work habits, creating collaborative and mobile environments that facilitate new ways of working, taking advantage of the opportunities that this new technology offers. The global scope of Teams intends to be a transformation leverage for Naturgy.

Complimenting this programme training actions on Agile, SCRUM, Power BI, Big Data and SQL have been given that support the new ways of working in the Company.

Another of the relevant programmes carried out is the development of the online Cybersecurity course for all employees, with a focus on technical knowledge and on the duties and obligations in this area.

The specific knowledge for the economic-financial area covers several objectives, including normalising the economic-financial processes developed in any area of the organisation: updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2019 more than 1,600 professionals from the economic-financial area devoted nearly 1,600 hours to training in specific content, highlighting, among other matters, auditing, financial risks, renewable financing, functioning of the markets, internal control criteria for international bank payments, compliance, unbundling and activity separation and international tax planning.

## F.2 Assessment of financial reporting risks

**Provide information, at least, on the following:**

**F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:**

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

– A matrix for defining the scope of the financial reporting.

– A matrix of risks associated with the financial reporting.

– A matrix of financial reporting control activities.

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled “Matrix for defining scope of financial reporting of Naturgy”.

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the “Risks matrix of financial reporting of Naturgy”.

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

– Fraud prevention.

– Fraud detection.

– Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation of the SAP GRC Process Control tool was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to other countries of the group, such as Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support.

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

– It centralises all the ICFR documentation and management of Naturgy in a uniform way.

– It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.

– It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.

– It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.

– It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests have been performed in the following years according to the established schedules, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called "Consolidated closing cycle of Naturgy". Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- Which governing body of the company supervises the process.

The Audit Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit Committee uses the Internal Audit Unit (see section F.5).

## F.3 Control activities

**State, duly detailing their main characteristics, whether, at least, the following aspects exist:**

**F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.**

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Naturgy is regularly reviewed by the head of the Corporate Financial Department, identifying possible deviations.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated annual accounts of Naturgy Energy Group, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the "Global Policy for the Internal Control System of Financial Reporting (ICFR)" of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

– Process description.

– Process information flow chart.

– Map of systems which interact in the process.

– Description of financial reporting risks associated with the different processes and control objectives.

– Definition of control activities to mitigate risks identified and their attributes.

– Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

– Scope: depending on the scope of the control activities, they can be divided into:

▪ General control activities.

▪ Processes control activities.

– Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.

– Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.

– Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1).

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

**F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.**

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR).

**a)** Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location…), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change.

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

**b)** Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

**c)** Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

**d)** Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

**e)** Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

**f)** Regulatory compliance: GDPR.

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

**F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.**

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “Global Policy for External Contracting”, Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy ha subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain customer service processes.
- Logistics operator.

- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the "Counterparty Due Diligence Procedure" which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In 2019, monitoring of online reputational risks of the supplier portfolio was introduced with respect to their commercial relationship with Naturgy through the use of a Screening tool for identifying exposure to the reputational risk of the counterparties and decision-taking depending on the risk identified in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

## F.4 Information and communication

**State, duly detailing their main characteristics, whether, at least, the following aspects exist:**

**F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.**

One of the responsibilities, inter alia, of the Corporate Financial Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the "Naturgy Accounting Plan", which includes the group's accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The "Naturgy Accounting Plan" is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

**F.4.2.Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.**

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (CSCs) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy Group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process in tasks such as:

– Standardisation of the information.

– Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy's consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

## F.5 Supervision of the functioning of the system

**Report on, duly detailing their main characteristics, at least:**

**F.5.1. The supervision activities of the ICFR carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.**

The Audit Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.

– Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit Committee has the information and documentation provided by the Internal Audit and the Corporate Financial Department.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit Unit, reports to the Audit Committee of Naturgy Energy Group, S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, in particular the operational, corruption, fraud and legal risks. Likewise, it is responsible for the report of the internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the operational risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the effectiveness and efficiency of operations and mitigate the main risks in each sphere of Naturgy, in particular the operational, corruption, fraud and legal risks.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk areas included in the Corporate Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit Committee and from top-tier management.

In accordance with the Strategic Audit Plan for processes, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations if the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

– Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).

– Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).

– Within the scope defined, inform the Audit Committee of the results and the weaknesses identified in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2019 were as follows:

– Gas networks: outages, disconnection/reconnection, energy control, network construction, training and commissioning, network maintenance,

-Electricity grids: grid development, grid maintenance, service provision, logistics.

-Generation: operation and generation assets maintenance, storage management, development and implementation of new projects, fuel purchases.

- Commercialisation (gas, electricity and services): contracts administration and access, access management, maintenance of power installations.

- Gas supply: management and monitoring of contracts.

- LNG: LNG invoicing, collection and payments.

- Customer Service: invoicing, debt management.

- Physical resources management: management of purchases and service contracting.

-Management of internal control: monitoring of corrective actions, ICFR

- Management of information systems: information security and cybersecurity, guarantee of continuity and availability of the Information Systems (IS).

-Economic and financial resources management: treasury stock, economic-administrative management operations.

-Legal advice and support: powers of attorney.

-Review of the group's regulatory system

- Code of Ethics channel.

- Crime Prevention Model.

- Continuous auditing.

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

**F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.**

As established in Article 6 of the Regulation of the Board:

The Board shall meet eight (8) times a year and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the Company or when requested by at least one-third (1/3) of the Directors.

The Members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the effectiveness of the internal control system.

In accordance with the Articles of Association and Regulations of the Board of Directors and its Committees, the Audit Committee shall comprise of a minimum of three (3) and a maximum of seven (7) directors appointed by the Board of Directors from among the non-executive directors, and at least one (1) of them will

be assigned with taking into account their knowledge and experience in issues of accountancy and auditing or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors. The majority of the Committee Members will be Independent Directors.
At 31 December 2019, the Committee was made up of seven (7) Directors, three (3) Proprietary Directors and four (4) Independent Directors with one (1) being, in turn, the Chairman.

The Board of Directors shall elect the Chairman from among the Members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of the Board of Directors.

The Committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his/her own initiative or upon prior request of two (2) of its Members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

The sphere of activity of the Audit Committee extends to:

– Naturgy Energy Group, S.A.

– Companies that are majority-owned by Naturgy Energy Group, S.A.

– Other entities and companies for which Naturgy Energy Group, S.A. has in some form the effective control or responsibility for management or operation.

The Internal Audit Unit regularly reports to the Audit Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the group.

They also present:

– The Annual Internal Audit Plan for the committee's approval.

– The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.

– The assessment and the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including corresponding to Action Plans to improve the level of internal control.

– The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit Committee.

The External Auditor informs the Audit Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

## F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2019 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

| | Spain | International | Total |
|---|---|---|---|
| Business and corporate units | 178 | 183 | 361 |
| Processes identified | 59 | 176 | 235 |
| Controls certified | 906 | 1.485 | 2.391 |

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 33, out of which four (4) were in Spain. During 2019, 34% of the action plans identified in 2018 were resolved, and new plans arose during 2019. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

## F.7 Report of the external auditor

**State:**

**F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.**

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

# G. Decree of compliance with the corporate governance recommendations

**State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.**

**If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.**

**1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.**

Compliant [X] Explain [ ]

**2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:**

**a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;**

**b) The mechanisms in place to solve possible conflict of interest that may occur.**

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

**3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

**a) Changes taking place since the previous annual general meeting.**

**b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant [X] Partially compliant [ ] Explain [ ]

**4. The Company should draw up and implement a policy of communication and contracts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Compliant [X] Partially compliant [ ] Explain [ ]

**5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.**

**When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Compliant [X] Partially compliant [ ] Explain [ ]

**6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:**

**a) Report on auditor independence.**

**b) Reports on the operation of the Audit Committee and the Appointments and Remuneration Committee.**

**c) Audit Committee report on related party transactions.**

**d) Report on corporate social responsibility policy.**

Compliant [X] Partially compliant [ ] Explain [ ]

**7. The company should broadcast its general meetings on the corporate website.**

Compliant [X] Partially compliant [ ] Explain [ ]

**8. The Audit Committee should strive to ensure that the Board of Directors can present the Company's accounts to the General Meeting of Shareholders without limitations or qualifications in the Auditor's report. In the exception case that qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to Shareholders of their scope and content.**

Compliant [X] Partially compliant [ ] Explain [ ]

**9. The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.**

Compliant [X] Partially compliant [ ] Explain [ ]

**10. When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

**a) Immediately circulate the supplementary items and new proposals.**

**b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.**

**c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.**

**d) After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**11. In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.**

Compliant ☒ Partially compliant ☐ Explain ☐

**13. The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant ☒ Partially compliant ☐ Explain ☐

**14. The Board of Directors should approve a Director Selection Policy that:**

**a) Is specific and verifiable.**

**b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.**

**c) Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of the Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Meeting of Shareholders is convened that will ratify the appointment and re-election of each director.**

**The Director Selection Policy should pursue the goal of having at least 30% of total Board places occupied by female directors in 2020.**

**The Appointments Committee should run an annual check on compliance with the Director Selection Policy and set out its findings in annual corporate governance report.**

Compliant ☐ Partially compliant ☒ Explain ☐

The policy for the selection of Directors ensures that the selection procedures do not suffer from implicit biases that may imply any discrimination, within the framework of full respect for the right of proportional representation of the shareholders recognised in Law. The policy for the selection of directors is aimed at ensuring adequate diversity in the composition of the Board of Directors, which has led to Board members responding to professional profiles and different and complementary career paths among themselves, based on the conviction that said diversity results in better performance of the Board. Within this framework, the Board pays attention to issues of gender diversity. Although the goal of having females represent one third (1/3) of the Board in 2020 has not been made explicit, the Board is firmly committed to the principle of diversity in its composition in all its manifestations, and has made proposals for the incorporation of new directors following the recommendations of profiles resulting from the self-assessment exercise assisted by the independent External Consultant, as well as those resulting from the Competency Matrix approved by the Board of Directors.

Although the Company shares the willingness to increase the presence of females on the Board up to at least 30%.

**15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Compliant [X] Partially compliant [ ] Explain [ ]

**16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

**a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

**b) In companies with a plurality of shareholders represented on the Board but not otherwise related.**

Compliant [X] Explain [ ]

**17. Independent directors should be at least half of all Board members.**

**However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.**

Compliant [ ] Explain [X]

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation.

Out of respect for prevailing legislation and the special shareholder configuration of the Company means that, for legal reasons, this recommendation cannot be complied with if shareholders with more than 8.33% of the share capital wish to exercise their right to proportional representation, which is the case. Current legislation establishes the principle of proportional representation, for which reason the Company is obliged to guarantee respect for the legitimate exercise of that right by its shareholders.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 65.62% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date.

 a) Background and professional experience.

 b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

 c) Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.

 d) Dates of their first appointment as Board member and subsequent re-elections.

 e) Shares held in the company, and any options on the same.

Compliant [X] Partially compliant [ ] Explain [ ]

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant [X] Explain [ ]

22. Companies are to stipulate rules obliging directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ]

**23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.**

**When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all Members of the Board. Whether or not such resignation is disclosed as a Relative Fact, the motivating factors should be explained in the annual corporate governance report.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.**

Compliant [ ] Partially compliant [X] Explain [ ]

Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

**26. The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

Compliant [X] Partially compliant [ ] Explain [ ]

**27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

Compliant [X] Partially compliant [ ] Explain [ ]

**28. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**29. The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant [X] Partially compliant [ ] Explain [ ]

**30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**31. The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

**For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.**

Compliant [X] Partially compliant [ ] Explain [ ]

**32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its group.**

Compliant [X] Partially compliant [ ] Explain [ ]

**33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.**

Compliant [X] Partially compliant [ ] Explain [ ]

**34. When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

**35. The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant [X] Explain [ ]

**36. The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

**a) The quality and efficiency of the Board's operation.**

**b) The performance and composition of its Committees.**

**c) The diversity of the composition and competence of the Board of Directors**

**e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.**

**f) The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.**

**The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.**

**Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.**

**Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.**

**The process followed and areas assessed should be detailed in the annual corporate governance report.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**37. When an executive committee exists, its membership mix by type of director reassembles that of the Board and the Secretary acts as such to the same.**

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

**38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.**

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

**39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters and that the majority of said Members be Independent Directors.**

Compliant [X] Partially compliant [ ] Explain [ ]

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit Committee.**

Compliant [ ] Partially compliant [X] Explain [ ]

The Internal Audit Department ensures, amongst others, the proper functioning and internal control reporting to the Financial Department.

Supervision of the performance of the Internal Audit Department corresponds to the Audit Committee, so that it reports it activities to said Committee, which also authorises its annual budget and proposes its work plan and remuneration targets of the internal Audit Director. Likewise, the Audit Committee, together with the Appointments and Remuneration Committee, is responsible for the annual performance of the Internal Audit Director, for remuneration purposes.

41. The head of the unit in their internal auditing role submits to the Audit Committee their Work Plan for the year, informing the same in-person of any incidents arising during its development and submit an activities report at the end of each financial year.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

42. The Audit Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Supervise the preparation and integrity of the financial information related to the Company and, where applicable, the group, reviewing compliance with the regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct application of the accounting criteria.

b) Ensure the independence of the unit in charge of the internal audit function; propose the selection, appointment, re-election and termination of the party responsible for the internal auditing service; propose the budget for this service; approve the approach and work plans of the same, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management is acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby employees can report, confidentially and, if possible and if considered appropriate, anonymously, any potentially significant irregularities that they detect in the course of their duties, in particular of a financial and accounting nature within the company.

2. With regard to the External Auditor:

a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Supervise that the company notifies any change of external auditor to the National Securities Market Commission as a Relevant Event accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant ☒ Partially compliant ☐ Explain ☐

43. The Audit Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant ☒ Partially compliant ☐ Explain ☐

44. The Audit Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

**45. The risk control and management policies should identify at least:**

**a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

**b) The level of risk considered acceptable by the Company.**

**c) The measures laid down to reduce the impact of the risks that are identified should they occur.**

**d) Internal control and reporting systems which shall be sued to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.**

Compliant [X] Partially compliant [ ] Explain [ ]

**46. That, under the direct supervision of the Audit Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:**

**a) Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**

**b) Participate actively in the preparation of risk strategies and in key decisions about their management.**

**c) Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant [X] Partially compliant [ ] Explain [ ]

**47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.**

Compliant [X] Partially compliant [ ] Explain [ ]

**48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.**

Compliant [X] Explain [ ] Not applicable [ ]

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, on of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant [X] Partially compliant [ ] Explain [ ]

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

a) Propose to the Board of Directors the standard conditions for Senior Executive contracts.

b) Monitor compliance with the remuneration policy set by the Company.

c) Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

Compliant [X] Partially compliant [ ] Explain [ ]

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.

b) Committees should be chaired by an Independent Director.

c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.

d) The may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate responsibility policy, ensuring that it is geared towards value creation.

e) Monitor the corporate responsibility strategy and practices and assess their degree of compliance.

f) Monitor and assess the processes of liaising with different stakeholders.

g) Evaluate all aspects of non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant [X] Partially compliant [ ] Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant [X] Partially compliant [ ] Explain [ ]

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant [X] Partially compliant [ ] Explain [ ]

**56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant [X] Explain [ ]

**57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Compliant [X] Partially compliant [ ] Explain [ ]

**58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

**a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**

**b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**

**c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long-term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

**59. A major part of variable remuneration components should be deferred for a long enough period that predetermined performance criteria have effectively been met.**

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

**60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Compliant [ ] Partially compliant [ ] Explain [X] Not applicable [ ]

The variable remuneration of the Executive Chairman does not explicitly take into account the qualifications that may appear in the external auditor's report and which reduce the profits, nor is it a situation that has previously arisen in the Company. However, the Appointments and Remuneration Committee only sets the degree to which targets are met for the variable remuneration once the company's accounts have been audited, so it is in a position to take into account the aforementioned qualifications, if any, when determining the degree to which targets have been achieved.

Accordingly, the degree of compliance with the targets established by the Board of Directors, mainly associated with the audited annual accounts, is reviewed and validated by the Internal Audit Department prior to approval of its favourable report by the Appointments and Remuneration Committee and the Company and is made at the time the annual accounts are formulated.

**61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant [X]   Partially compliant [ ]   Explain [ ]   Not applicable [ ]

**62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three (3) years after the award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Compliant [ ]   Partially compliant [ ]   Explain [X]   Not applicable [ ]

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

**63. Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Compliant [X]   Partially compliant [ ]   Explain [ ]   Not applicable [ ]

**64. Termination payments should not exceed a fixed amount equivalent to two (2) years of the director's total annual remuneration and should not be paid until the company confirms that said director has met the predetermined performance criteria.**

Compliant [ ]   Partially compliant [X]   Explain [ ]   Not applicable [ ]

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

## H. Other information of interest

1. **If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**

2. **In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

   **More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.**

3. **The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

   At its meeting on 17 September 2010, the Board of Directors agreed that Naturgy would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Naturgy has effectively complied with the content of this code and, more specifically, at the meeting held on 4 February 2020, the Board was notified, through the Audit Committee about the tax policies adhered to by the group in 2019.

   Furthermore, at its session on 9 January 2018, and with the favourable report from the Audit Committee, the Board of Directors approved the Fiscal Strategy and the Fiscal Risks Control and Management Policy, which regulated the basic principles that must guide the fiscal function of Naturgy, as well as the key action lines to mitigate and guide proper control of fiscal risks.

**This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on 4 February 2020.**

**Please indicate whether any Directors have voted against or abstained from the approval of this report.**

YES ☐ NO ☒

| Name and Company Name of the Members of the Board that have voted against approving this report | Reasons (against, abstention, non-attendance) | Explain the reasons |
|---|---|---|
| | | |

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