

**CONSOLIDATED ANNUAL ACCOUNTS**

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This 2018 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

All the documentation included in the 2018 Annual Report has been translated into English except for the Annual Report on Corporate Governance which is included in Spanish.

**Naturgy**  
**Consolidated Balance Sheet**

(million euro)

	31.12.2018	31.12.2017
<b>ASSETS</b>		
Intangible assets (Note 6)	7,845	9,921
Goodwill	3,215	4,760
Other intangible assets	4,630	5,161
Property, plant and equipment (Note 7)	20,707	22,654
Investments recorded using the equity method (Note 8)	816	1,500
Non-current financial assets (Note 9)	910	1,219
Other non-current assets (Note 10)	334	96
Deferred tax assets (Note 21)	1,689	849
<b>NON-CURRENT ASSETS</b>	<b>32,301</b>	<b>36,239</b>
Non-current assets held for sale (Note 11)	202	1,682
Inventories (Note 12)	850	720
Trade and other receivables (Note 10)	5,134	4,994
Trade receivables	4,415	4,347
Other receivables	534	469
Current tax assets	185	178
Other current financial assets (Note 9)	428	462
Cash and cash equivalents (Note 13)	1,716	3,225
<b>CURRENT ASSETS</b>	<b>8,330</b>	<b>11,083</b>
<b>TOTAL ASSETS</b>	<b>40,631</b>	<b>47,322</b>
<b>EQUITY AND LIABILITIES</b>		
Capital	1,001	1,001
Share premium	3,808	3,808
Treasury shares	(325)	(9)
Reserves	11,290	9,904
Profit for the period attributed to the parent company	(2,822)	1,360
Interim dividend	(730)	(330)
Other equity items	(1,274)	(1,000)
<b>Equity attributed to the parent company</b>	<b>10,948</b>	<b>14,734</b>
<b>Non-controlling interests</b>	<b>3,647</b>	<b>3,571</b>
<b>EQUITY (Note 14)</b>	<b>14,595</b>	<b>18,305</b>
Deferred income (Note 15)	863	842
Non-current provisions (Note 16)	1,125	1,129
Non-current financial liabilities (Note 17)	13,352	15,916
Borrowings	13,352	15,914
Other financial liabilities	-	2
Deferred tax liabilities (Note 21)	2,149	2,312
Other non-current liabilities (Note 19)	1,540	1,210
<b>NON-CURRENT LIABILITIES</b>	<b>19,029</b>	<b>21,409</b>
Liabilities related to non-current assets held for sale (Note 11)	93	621
Current provisions (Note 16)	297	183
Current financial liabilities (Note 17)	2,079	2,543
Borrowings	2,068	2,477
Other financial liabilities	11	66
Trade and other payables (Note 20)	4,067	3,920
Trade payables	3,267	2,885
Other payables	767	888
Current tax liabilities	33	147
Other current liabilities (Note 19)	471	341
<b>CURRENT LIABILITIES</b>	<b>7,007</b>	<b>7,608</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40,631</b>	<b>47,322</b>

The accompanying Notes 1 to 38 and Appendices are an integral part of the consolidated balance sheet at 31 December 2018 and 2017.

**Naturgy**  
**Consolidated Income Statement**

(million euro)

	2018	2017 <sup>(1)</sup>
Revenue (Note 22)	24,339	23,207
Procurements (Note 23)	(17,723)	(16,628)
Other operating income (Note 24)	166	237
Personnel expenses (Note 25)	(1,010)	(1,009)
Other operating expenses (Note 26)	(1,816)	(1,969)
Gain/(loss) on disposals of fixed assets (Note 27)	21	23
Release of fixed assets grants to income and others (Notes 15)	42	42
<b>GROSS OPERATING RESULTS</b>	<b>4,019</b>	<b>3,903</b>
Depreciation, amortisation and impairment losses (Notes 5,6,7,12 and 28)	(6,007)	(1,621)
Impairment due to credit losses (Note 10)	(179)	(154)
<b>OPERATING PROFIT/(LOSS)</b>	<b>(2,167)</b>	<b>2,128</b>
Financial income	122	111
Financial expenses	(802)	(807)
Variations in fair value of financial instruments	(5)	(2)
<b>NET FINANCIAL INCOME (Note 29)</b>	<b>(685)</b>	<b>(698)</b>
Profit/(loss) of entities recorded by equity method (Note 8)	(513)	14
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>(3,365)</b>	<b>1,444</b>
Corporate income tax (Note 21)	779	(195)
<b>PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>(2,586)</b>	<b>1,249</b>
Profit for the year from discontinued operations, net of taxes (Note 11)	(10)	448
<b>CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	<b>(2,596)</b>	<b>1,697</b>
Attributable to:		
the parent company	(2,822)	1,360
From continuing operations	(2,853)	940
From discontinued operations	31	420
Non-controlling interests (Note 14)	226	337
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company (Note 14)	(2.86)	0.94
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company (Note 14)	0.03	0.42
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company (Note 14)	(2.83)	1.36

(1) The 2017 consolidated income statement has been restated in accordance with IFRS 5 (Notes 3.3 and 11).

*The accompanying Notes 1 to 38 and Appendices are an integral part of the consolidated income statement for the years ended 31 December 2018 and 2017.*

**Naturgy**  
**Consolidated Statement of Comprehensive Income (million euro)**

	<b>2018</b>	<b>2017</b>
<b>CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	<b>(2,596)</b>	<b>1,697</b>
<b>OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY</b>	<b>(422)</b>	<b>(1,052)</b>
<b>Items that will not be transferred to profit/(loss):</b>		
Financial assets at fair value through other comprehensive income ( <i>Note 9</i> )	(188)	(54)
Actuarial gains and losses and other adjustments ( <i>Note 16</i> )	15	5
Tax effect of actuarial gains and losses and other adjustments ( <i>Note 21</i> )	(3)	-
<b>Items that will subsequently be transferred to profit/(loss):</b>		
Cash flow hedges	3	(109)
Tax effect cash flow hedges ( <i>Note 21</i> )	(6)	13
Currency translation differences	(240)	(831)
Equity-consolidated companies ( <i>Note 8</i> )	(3)	(76)
<i>Cash flow hedges</i>	-	(4)
<i>Tax effect cash flow hedges (Note 21)</i>	-	-
<i>Currency translation differences</i>	(3)	(72)
<b>RELEASES TO INCOME STATEMENT</b>	<b>139</b>	<b>15</b>
Cash flow hedges	107	(1)
Tax effect cash flow hedges ( <i>Note 21</i> )	(18)	1
Currency translation differences	50	13
Equity-consolidated companies ( <i>Note 8</i> )	-	2
<i>Cash flow hedges</i>	-	3
<i>Tax effect cash flow hedges (Note 21)</i>	-	(1)
<i>Currency translation differences</i>	-	-
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(283)</b>	<b>(1,037)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(2,879)</b>	<b>660</b>
Attributable to:		
the parent company	(3,089)	498
From continuing operations	(3,136)	97
From discontinued operations	47	401
Non-controlling interests	210	162

*The accompanying Notes 1 to 37 and Appendices are an integral part of the consolidated comprehensive income statement for the years ended 31 December 2018 and 2017.*

**Naturgy**  
**Statement of Changes in Consolidated Equity**

(million euro)

	Equity attributed to the parent company										Non-controlling interests (Note 14)	Equity
	Share capital (Note 14)	Share premium (Note 14)	Treasury shares (Note 14)	Reserves and retained earnings	Profit/(loss) for the year	Currency translation differences	Cash flow hedges	Financial assets at fair value	Other equity items (Note 14)	Subtotal		
<b>Balance at 01.01.2017</b>	<b>1,001</b>	<b>3,808</b>	<b>(21)</b>	<b>9,219</b>	<b>1,347</b>	<b>(183)</b>	<b>47</b>	<b>7</b>	<b>(129)</b>	<b>15,225</b>	<b>3,780</b>	<b>19,005</b>
Total comprehensive income for the year	-	-	-	9	1360	(716)	(101)	(54)	(871)	498	162	660
<b>Operations with shareholders or owners</b>	-	-	<b>12</b>	<b>346</b>	<b>(1,347)</b>	-	-	-	-	<b>(989)</b>	<b>(313)</b>	<b>(1,302)</b>
Dividend distribution (Note 14)	-	-	-	346	(1,347)	-	-	-	-	(1,001)	(233)	(1,234)
Transfer of subsidiary	-	-	-	-	-	-	-	-	-	-	(73)	(73)
Trading in treasury shares (Note 14)	-	-	12	-	-	-	-	-	-	12	(8)	4
Other transactions with shareholders or owners	-	-	-	-	-	-	-	-	-	-	1	1
<b>Other changes in equity</b>	-	-	-	-	-	-	-	-	-	-	<b>(58)</b>	<b>(58)</b>
Other changes	-	-	-	-	-	-	-	-	-	-	(58)	(58)
<b>Balance at 31.12.2017</b>	<b>1,001</b>	<b>3,808</b>	<b>(9)</b>	<b>9,574</b>	<b>1,360</b>	<b>(899)</b>	<b>(54)</b>	<b>(47)</b>	<b>(1,000)</b>	<b>14,734</b>	<b>3,571</b>	<b>18,305</b>
Impact of first application of new standards (Note 3.2)	-	-	-	10	-	-	-	(14)	(14)	(4)	(13)	(17)
<b>Balance at 01.01.2018</b>	<b>1,001</b>	<b>3,808</b>	<b>(9)</b>	<b>9,584</b>	<b>1,360</b>	<b>(899)</b>	<b>(54)</b>	<b>(61)</b>	<b>(1,014)</b>	<b>14,730</b>	<b>3,558</b>	<b>18,288</b>
Total comprehensive income for the year	-	-	-	15	(2,822)	(162)	63	(183)	(282)	(3,089)	210	(2,879)
<b>Operations with shareholders or owners</b>	-	-	<b>(316)</b>	<b>959</b>	<b>(1,360)</b>	-	-	<b>22</b>	<b>22</b>	<b>(695)</b>	<b>(61)</b>	<b>(756)</b>
Dividend distribution (Note 14)	-	-	-	(40)	(1,360)	-	-	-	-	(1,400)	(505)	(1,905)
Transfer of subsidiary	-	-	-	(22)	-	-	-	22	22	-	(9)	(9)
Trading in treasury shares (Note 14)	-	-	(316)	-	-	-	-	-	-	(316)	(5)	(321)
Share-based payments (Note 14)	-	-	-	5	-	-	-	-	-	5	-	5
Other transactions with shareholders or owners	-	-	-	1,016	-	-	-	-	-	1,016	458	1,474
<b>Other changes in equity</b>	-	-	-	<b>2</b>	-	-	-	-	-	<b>2</b>	<b>(60)</b>	<b>(58)</b>
Other changes	-	-	-	2	-	-	-	-	-	2	(60)	(58)
<b>Balance at 31.12.2018</b>	<b>1,001</b>	<b>3,808</b>	<b>(325)</b>	<b>10,560</b>	<b>(2,822)</b>	<b>(1,061)</b>	<b>9</b>	<b>(222)</b>	<b>(1,274)</b>	<b>10,948</b>	<b>3,647</b>	<b>14,595</b>

The accompanying Notes 1 to 38 and Appendices are an integral part of the statement of changes in equity for the years ended 31 December 2018 and 2017.

**Naturgy**  
**Consolidated Cash Flow Statement**

(million euro)

	2018	2017
<b>Profit/(loss) before tax</b>	<b>(3,365)</b>	<b>1,444</b>
<b>Adjustments to income (Note 30)</b>	<b>7,131</b>	<b>2,529</b>
Depreciation, amortisation and impairment losses (Notes 6,7,11 and 28)	6,007	1,694
Other adjustments to net profit (Note 30)	1,124	835
<b>Changes in working capital (Note 30)</b>	<b>(208)</b>	<b>(155)</b>
<b>Other cash flow generated from operations (Note 30):</b>	<b>(677)</b>	<b>(1,050)</b>
Interest paid	(621)	(686)
Interest collected	23	26
Dividends collected	184	48
Income tax paid	(263)	(438)
<b>CASH FLOW GENERATED FROM OPERATING ACTIVITIES <sup>(1)</sup></b>	<b>2,881</b>	<b>2,768</b>
<b>Cash flows into investing activities:</b>	<b>(1,904)</b>	<b>(1,880)</b>
Group companies, associates and business units (Note 30)	(27)	(14)
Property, plant and equipment and intangible assets	(1,808)	(1,774)
Other financial assets	(69)	(92)
<b>Proceeds from divestitures:</b>	<b>1,230</b>	<b>220</b>
Group companies, associates and business units (Note 30)	1,109	136
Property, plant and equipment and intangible assets	40	39
Other financial assets	81	45
<b>Other cash flows from investing activities:</b>	<b>57</b>	<b>54</b>
Other proceeds from investing activities (Note 15)	57	54
<b>CASH FLOWS FROM INVESTING ACTIVITIES <sup>(1)</sup></b>	<b>(617)</b>	<b>(1,606)</b>
<b>Receipts/(payments) on equity instruments:</b>	<b>1,189</b>	<b>5</b>
Issue/refund (Note 30)	1,500	5
Acquisition (Note 30)	(311)	-
<b>Receipts and payments on financial liability instruments:</b>	<b>(2,813)</b>	<b>1,635</b>
Issue (Note 30)	8,343	9,317
Repayment and amortisation (Note 30)	(11,156)	(7,682)
<b>Dividends paid (and remuneration on other equity instruments) (Note 14)</b>	<b>(1,976)</b>	<b>(1,284)</b>
<b>Other cash flows from financing activities</b>	<b>(159)</b>	<b>(124)</b>
<b>CASH FLOW GENERATED FROM FINANCING ACTIVITIES</b>	<b>(3,759)</b>	<b>232</b>
<b>Other changes in cash and cash equivalents (Note 30)</b>	<b>(21)</b>	<b>(116)</b>
<b>Effect of fluctuations in exchange rates</b>	<b>7</b>	<b>(120)</b>
<b>VARIATION IN CASH AND CASH EQUIVALENTS</b>	<b>(1,509)</b>	<b>1,158</b>
Cash and cash equivalents at beginning of the year (Note 14)	3,225	2,067
Cash and cash equivalents at year end (Note 14)	1,716	3,225

<sup>(1)</sup> Includes cash flows from continuing and discontinued operations (Note 11).).

The accompanying Notes 1 to 38 and Appendices are an integral part of the consolidated cash flow statement for the years ended 31 December 2018 and 2017.

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## **Notes to the consolidated annual accounts of Naturgy for 2018**

### **Note 1. General information**

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida 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.

Naturgy Energy Group, S.A. and subsidiaries ("Naturgy") form a group that is mainly engaged in the business of gas (supply, liquefaction, regasification, transport, storage, distribution and sale), electricity (generation, transport, distribution and sale) and any other existing source of energy. It may also act as a holding company and in this respect may incorporate or hold shares in other entities, no matter what their corporate objects or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same.

Naturgy operates mainly in Spain and also outside Spain, particularly in Latin America, in the rest of Europe and Africa.

Note 4 includes financial information by operating segment.

Appendix I lists the investee companies of Naturgy at the reporting date.

The shares of Naturgy Energy Group, S.A. are listed on the four official Spanish stock exchanges, are traded on the continuous market and form part of the Ibex35.

### **Note 2. Regulatory framework**

#### **European Regulatory Environment**

In 2009 the Treaty on European Union and the Treaty on the Functioning of the European Union included, for the first time, a title on energy, established as a shared competence between the EU and the Member States, particularly with respect to solidarity and sustainability. This is considered as the year of commencement of the European energy policy, based on European internal energy market legislation (known as the "third package" and envisaging the Gas and Electricity Directives, the creation of the Agency for the Cooperation of Energy Regulators and the Regulations on access to gas and electricity infrastructures), and the so-called "Green Package" (Renewables Directive, national emissions targets in diffuse sectors, vehicle emissions standards) also adopted in 2009.

In this period, growing concern over the environment has also had its reflection in the regulation that affects the energy sector. On an international scale, of particular relevance is the Paris Agreement concluded on 12 December 2015, ratified on 5 October 2016 by the European Union and on 2 February 2017 by Spain within the framework of the United Nations Framework Convention on Climate Change that establishes measures for the reduction of greenhouse gas (GHG) emissions through the mitigation, adaptation and resilience of global warming effects. Its application will commence in 2020, when the Kyoto Protocol expires.

On 15 December 2018, the 24th Conference of the Parties was concluded in Katowice, Poland, in which 200 governments, in the case of the EU represented at the negotiating table by the European Commission reached an agreement on the roadmap to follow to implement the Paris Agreement which will enable the measurement, in a framework of common transparency, of efforts with respect to the fight against climate change, adaptation to its impacts and funding that the countries involved have committed to. This package establishes the manner in which countries will report, as from 2024, on their climate-related actions within the framework of the respective contributions determined at national level.

Within this framework, between 2014-2018 the European Union has set various European energy and climate targets from the present until 2030, in line with its strategy of reducing emissions to 2050. Some of these have are reflected in binding national sub-targets (e.g. reduction in emissions in diffuse sectors)

but others will be freely defined by Member States during 2019 (e.g. renewable energy objectives within final energy or energy efficiency in 2030).

In 2018 a large part of European energy legislation was revised and agreements were concluded that will define EU energy regulation until 2030 and, in some cases, beyond. The legalisation covers, among other matters, the reform of the emission allowances market, the distribution of national efforts to reduce emissions in diffuse sectors, the development of renewable energies and energy efficiency measures, the adoption of Integrated National Energy and Climate Plans, internal electricity market regulations and CO<sub>2</sub> emission standards for vehicle manufacturers. Some of these agreements have already been published and others will be published in the coming months.

- On 8 April 2018, the reform of Directive (EU) 2018/410 which amended Directive 2003/87/EC to enhance cost-effective emission reductions came into force, and will be applicable for the period 2021-2030. In the case of sectors subject to the emission rights market, an emissions reduction of 43% against 2005 emissions is assumed for 2030 and additional measures are established to reduce the excess of emission rights in the market, for the purpose of providing a CO<sub>2</sub> price signal.
- On 14 May 2018, the revision of the Directive on Energy Efficiency in Buildings was approved (Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018) for the period 2021-2030 which amended the previous directive (Directive 2010/31 /EU) and aims to decarbonise the European building stock by 2050, working towards a stock with zero emissions.
- On 30 May 2018, Directive (EU) 2018/850 of the European Parliament and of the Council amending Directive 1999/31/EC on the landfill of waste and Directive (EU) 2018/851 which amended Directive 2008/98/EC on waste. This legislation, which came into force in July 2018, sets out clear objectives for waste reduction and establishes a long-term path for waste management and recycling. Some highlights of the proposal are the setting of a European objective to recycle 65% of municipal waste by 2035, a 10% maximum limit on municipal waste in landfills by 2035 and the extension of separate waste collection to bio-waste.

The following were published on 21 December 2018:

- Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources which sets a European target for renewable energy of 32% with respect to final energy by 2030 and a target of a 14% share for renewable energy in domestic transport demand, both revisable in 2023.
- Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action, directly applicable to the Member States. The Regulation delimits the content of the Integrated National Energy and Climate Plans, as well as the process for adopting them at European level.
- Spain must submit its National Energy and Climate Plan 2021-2030 with domestic targets for the 5 dimensions of the Energy Union (security, market, efficiency, decarbonisation and R&D+i), with the corresponding policies and measures. This Plan will be examined by the European Commission and observations can be made on it before its final adoption at the end of 2019.
- Directive (EU) 2018/2002 of the European Parliament and of the Council amending Directive 2012/27 /EU on energy efficiency. The European Commission considers energy efficiency as an energy source in itself and highlights its contribution to reducing the consumption of fossil fuels and dependence on external suppliers, in addition to reducing consumer bills, improving air quality and protecting the environment. According to the Directive, Member States must comply with a binding objective for savings equivalent to 0.8% of annual final energy consumption during the period 2021-2030. Energy distributors and retailers and transport fuel distributors and retailers are subject to this Directive.

In 2018, informal agreements were also reached on the following legislation:

- Directive on common rules for the internal electricity market, which must be transposed into Spanish legislation within 18 months of its publication in the Official Journal of the European Union.
- Regulation on the internal electricity market.
- Regulation on risk preparation in the electricity sector, which repealed Directive (EU) 2005/89.
- Revision of Regulation (EU) 713/2009, which created the Agency for the Cooperation of Energy Regulators.
- Regulation establishing emission standards for passenger cars and light commercial vehicles as part of the EU's integrated approach to reducing CO<sup>2</sup> emissions from light vehicles, which repealed Regulation (EU) 715/2007.

## **Regulation of the electricity industry in Spain**

### Main regulatory developments

In Spain, concern over the environment and energy prices is reflected in the announcement of a future Climate Change Law that will be accompanied by two other packages of measures: the National Energy and Climate Plan that it is expected to be ready by 31 December 2019 and the Low Emissions Strategy 2050. These regulations will contain the specific measures which the Government feels will allow the climate targets contained in the Law to be achieved. Among other matters, they will define the energy mix for the coming years.

Among the measures taken, it is worth noting the approval during 2018 of two Royal Decree-Laws on urgent measures that have introduced major changes in the industry legislation:

- Royal Decree-Law 15/2018 on urgent measures for the energy transition and the protection of consumers extends the coverage of the electricity social bond and creates a new thermal social bond as direct assistance for certain vulnerable consumers to pay their heating costs, hot water or cooking, irrespective of the fuel they use. It also temporarily suspends the generation tax and the exemption of electricity generation from the special tax on hydrocarbons, in order to urgently moderate electricity prices and adopt other consumer protection measures. Finally, in order to boost self-consumption, it eliminates the charges on self-consumed energy, allows shared self-consumption and simplifies technical and administrative procedures.
- Royal Decree-Law 20/2018 of 7 December on urgent measures to foment economic competitiveness in the industry and commerce sectors, has created the Electro-intensive Consumer Statute and the closed electrical energy distribution network, as the main support measures for electro-intensive companies

In addition, Royal Decree-Law 1/2019 has revised the allocation of regulatory powers to the National Commission for Markets and Competition (CNMC) and the Ministry for Ecological Transition (MITECO), formerly the Ministry of Energy, Tourism and the Digital Agenda (MINETAD), to comply with European regulations.

When carrying out its new functions, the CNMC must take into consideration the strategic priorities established by the Government and set out in its energy policy guidelines. The relevant Departments of the Regional Governments have competencies in both the development and enforcement of legislation.

By last, The Government has initiated a public consultation for the preparation of the text of the Draft Bill that establishes the rates of remuneration and reasonable profitability of the regulated activities of the electrical system (transport, electricity distribution and renewable energy cogeneration and waste) for the period 2020-2025.

## 2.1. Regulation of the natural gas industry in Spain

### Main characteristics of the natural gas sector in Spain

The Spanish gas sector is regulated by Law 34/1998 of 7 October on the hydrocarbons sector, as amended by Law 12/2007, Royal Decree-law 13/2012, Law 18/2014 and Law 18/2015, Royal Decree-Law 1/2019 and by their enabling regulations, the most relevant being Royal Decree 1434/2002 of 27 December, Royal Decree 949/2001 of 3 August and Royal Decree 984/2015 of 30 October.

In general, the Spanish gas sector is characterised by the following factors.

- It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The non-regulated activities comprise generation, supply and retailing of natural gas.
- The natural gas sector is almost entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.
- Under EU legislation (Directives 2003/55/CE of June 26, and 98/30/CE of June 22), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent right of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

### Regulation of natural gas activities in Spain

The natural gas activities are divided into: 1) regulated activities: transport, storage, regasification and natural gas distribution; and 2) non-regulated activities: production, supply and commercialisation of natural gas.

#### 2.1.1. Regulated activities

Regulated activities are characterised by:

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior administrative authorisation, which is regulated. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity.
- *Remuneration established by legislation:* The general directives that set the remuneration for these activities are governed by Law 18/24 and Royal Decree 949/2001, while the specific remuneration to be received is updated annually by ministerial order.

The economic framework of these activities therefore seeks to incentivise grid development and allow the companies that undertake them to ensure the recovery of the investments made and the operating costs incurred.

The regulatory framework for the natural gas industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of gas acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- *Subjection to specific obligations of third party access to the network and unbundling:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in marketing. The two main obligations in this sense consist of permitting access by third parties to the transport and distribution pipelines (including regasification and storage) and the obligation to keep the regulated and non-regulated activities separate.

Royal Decree 948/2015, October 30, regulates access by third parties to the network, which is managed by a single telematic platform, as well as the rights and obligations of each person involved in the system, changing the procurement regime capacity established in 2001 by Royal Decree

949/2001. The owners of the transport and distribution pipelines have the right to receive tolls and levies in consideration for this access, which are revised annually under ministerial order.

The legislation establishes the duty of functional separation, which means not only accounting separation, in order to avoid cross-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent operation of the regulated subsidiary company in relation to the other companies in the group, as well as the separation of the brand and brand image.

In relation to this last matter, on 6 September 2018 the CNMC issued a Ruling on the adoption of a binding decision regarding compliance with the legal obligation of the distribution and supply companies concerned not to create confusion for consumers with respect to brand information, brand presentation and brand image.

#### *2.1.1.1. Transport*

The transport activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas pipeline network:

- *Regasification:* Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, liquefied natural gas). The regasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at regasification plants, into a gaseous state, and then pumped into the national gas pipeline network.
- *Transport:* once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas pipeline transport network. The transport network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers and local distributors.

The transport network is owned mainly by Enagás, S.A., although certain Naturgy companies own a small proportion of it.

- *Storage:* facilities consist basically of underground tanks, which are necessary to ensure a constant supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation established by Royal Decree 1766/2007 (28 December) to maintain minimum security reserves. Prevailing legislation allows unregulated underground storage facilities with third-party access, negotiated and previously authorised by the Spanish Government, although there are currently no such facilities.

The Resolution of the Secretariat of State for Energy (SEE) laying down the procedure for the assignment of basic underground storage capacity and injection and extraction rights was published on 1 April 2017.

#### *2.1.1.2. Distribution*

Natural gas is transported from the high pressure transport pipeline network to the final consumer through the medium and lower pressure transport pipeline network.

The distribution business is based on a system of administrative authorisations that carry no exclusive use rights. A zone distributor has preference to obtain authorisations for adjoining zones.

A distributor's activity is restricted to the expansion and management of distribution networks; it cannot market power because specifically authorised supply companies are entrusted with supplies, as mentioned in point 2.1.2.2.

#### *2.1.1.3 Economic regime applicable to regulated activities*

Law 18/2014 (17 October) established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

- The principle of the gas system's economic and financial sustainability is established, whereby any regulation relating to the sector that entails an increase in costs for the gas system or a reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.
- The principle of economic and financial sustainability means that the revenue generated from the use of the facilities must meet all system costs. Gas system revenue will be employed solely to remunerate the regulated activities performed to supply gas.
- As regards the gas system's accumulated deficit at 31 December 2014, it is being recognised. This deficit will be financed by facility owners over a 15-year period; annual payments will be included as a system cost and an interest rate will be recognised on similar terms to market rates.
- Annual mismatches between system costs and revenue are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding yearly payments may not exceed 15%. If this sum is exceeded, tolls will be automatically revised to cover the portion that exceeds said limits. The portion of the mismatch which, without exceeding the limits, is not offset by the rise in tolls and charges, will be financed by the parties subject to the settlement system, in proportion to the remuneration applicable to them; they will be entitled to collect mismatch contributions over the following five years and an interest rate will be applied on market terms.
- The remuneration methodologies regulated in the natural gas sector will take into consideration the costs necessary for the activity to be performed by an efficient, well-managed company under the principle whereby the activity must be performed at the lowest possible cost to the system.
- Royal Decree-Law 1/2019, which updates the responsibilities of the CNMC, has changed the current arrangement into regulatory periods of six years to establish the remuneration of regulated activities and will apply as from the end of the current period which finalises on 31 December 2020.
- The remuneration system for transport, regasification and storage facilities is based on consistent principles: use of the asset's net value as a basis for calculating investment remuneration, inclusion of variable remuneration based on gas transported, regasified or stored by asset type, and elimination of all automatic review procedures for values and parameters based on price indices.
- With respect to new secondary transport facilities, remuneration now is included in the payment methodology for distribution facilities, linking remuneration to growth in customers and to new demand generated.
- Having regard to distribution facilities, remuneration is maintained for each distribution company and all its facilities based on the number of customers connected and the volume of gas supplied. Automatic reviews are eliminated, and the parametric remuneration formula is established to distinguish, in the remuneration category for supplies at pressures equal to or below 4 bars, between consumers with an annual consumption of less than 50 MWh and consumers with a higher consumption, so as to guarantee the adequacy of system revenue at all consumption levels, taking into account toll revenue in each case.
- In order to incentivise network expansion to non-gasified zones and bring remuneration into line with actual costs incurred by companies, different unit values are used depending on whether or not customers are in recently-gasified municipalities.

Order ETU/1283/2017 of 22 December 2017 established the remuneration for regulated gas sector activities for 2018 and Order TEC/1367/2018 of 24 December 2018 lays down the remuneration for 2019.

#### *2.1.1.4 LPG supply*

As well as natural gas distribution, Naturgy carries out the supply of piped liquefied petroleum gas (LPG), regulated by Law 34/1998 on the oil and gas industry. The MITECO establishes the selling rates for piped LPG for end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published under monthly resolutions.

## 2.1.2. Unregulated activities

### 2.1.2.1. Supply

Taking into account the small volume of natural gas production in Spain, this section will centre on the international supply of natural gas.

Natural gas is supplied in Spain mainly by gas operators such as Naturgy under long-term contracts with gas producers. Although such supplies are not regulated, they are subject to two types of limit, basically to assure supply diversification and competition in the market: 1) no country can supply more than 60% of the gas imported into Spain; and 2) no business person or group can contribute as a whole natural gas for consumption in Spain that is greater than 70% of national consumption, excluding self-consumption.

### 2.1.2.2. Commercialisation

Pursuant to Law 12/2007 and its enabling regulations, natural gas is supplied exclusively by supply companies, the former tariff supply operations previously performed by distribution companies having been eliminated. The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a maximum price referred to as the social tariff or last-resort tariff (TUR).

Order TEC/1368/2018 of 20 December was published on 22 December 2018, amending Order ITC/1660/2009 of 22 June, and lays down the method for calculating the TUR, updating the calculation formula, which additionally incorporates raw materials costs, access tolls, supply costs and costs derived from supply security. Specifically, the parameters of the base gas formula used to determine the cost of the raw material are updated. The application of this new formula results in a reduction in the average annual cost of gas, which will be applicable from 1 January 2019.

During 2018, the TUR has evolved as follows:

- On 28 December 2017, the DGPEM Ruling of 26 December 2017 was published, entailing an average 6.2% rise in the TUR applicable as from 01 January 2018.
- On 31 March 2018, the DGPEM Ruling of 22 March 2018 was published, entailing an average 3.2% cut in the TUR with respect to the first quarter of 2018, applicable as from 1 March 2018.
- On 30 June 2018, the DGPEM Ruling of 28 June 2018 was published, entailing an average 3.4% rise in the TUR applicable as from 1 June 2018.
- On 29 September 2018, the DGPEM Ruling of 25 September 2018 was published, entailing an average 7.8% rise in the TUR applicable as from 1 October 2018.
- On 28 December 2018, the DGPEM Ruling of 26 December 2018 was published which envisaged an average 4.3% decrease in the TUR of 4.3% due mainly to lower recognized costs of gas acquisition derived from the application of Order TEC / 1368/2018 mentioned above applicable as from 1 January 2019.

### Organised gas market

The organised gas market was set up under Law 8/2015 and was subsequently developed by Royal Decree 984/2015 and other enabling regulations. The organised gas market managed by MIBGAS began operating in December 2015 with an Iberian outlook, although until now only products with delivery on the Spanish side have been negotiated.

A resolution of the Council of Ministers dated 10 November 2017 established the obligation for the dominant operators in the natural gas industry, Naturgy and Endesa, to act as mandatory market makers in the organised gas market (MIBGAS). This obligation means that these operators must continuously present purchase and sale offers in the organised gas market, in order to increase market liquidity. The

conditions and requirements for complying with this obligation are set out in the Resolution of the Secretary of State for Energy published on 13 December 2017.

In April 2018, MIBGAS Derivatives initiated futures trading in natural gas products with physical delivery on a monthly (with due dates longer than the following month), quarterly, semi-annual and annual basis. OMIClear acts as the clearing and settlement house for the transactions.

Under a Resolution dated 27 November 2017 a new winter action plan for the operation of the gas system was approved. The purpose of the plan is to guarantee supply in the event of an increase in demand derived from unexpected seasonal supply fluctuations and sudden cold spells. In general terms, it will be applicable from 1 November each year until 31 March of the following year.

In relation to the previous winter plan, the required reserves have been increased and their location has been limited to tanks in regasification plants.

On 26 May 2018 Royal Decree 335/2018 was published, amending various Royal Decrees that regulated the gas sector. The most salient aspects with regard to the supply activity are the following:

- Royal Decree 949/2001 is amended to include the definition of the structure of the tolls applied to various services included in Royal Decree 984/2015, such as entrance at the virtual balancing point (VBP) from the distribution network, exit from the VBP to the regasification plant or storage in the VBP, which currently did not have a defined toll structure. In addition, the toll structure for the regasification plants has been adapted, including those applicable to ship unloading, LNG storage, regasification, entry in the VBP from the transport network and ship reloading, including in the latter case the supply to ships using LNG as fuel. This new structure will not be applicable until the relevant figures are published.
- Royal Decree 1434/2002 is amended to regulate the procedure for disqualifying as supply company and transferring its customers to the supply company (that does not fulfil its obligations) of last resort.
- Royal Decree 984/2015 is amended in order to make contracts on exit from the VBP to the final consumer indefinite, seeking to facilitate the processes for changing supply company.

Order TEC/1367/2018 of 20 December was published on 22 December 2018 and established the tolls and fees associated with third party access to gas facilities and the remuneration of regulated activities for 2019. The tolls for loading LNG onto ships have been changed, the structure of which was published in Royal Decree 335/2018, reducing them considerably and making Spanish plants more competitive. Ship unloading tolls have been equalised for all regasification plants, a VBP access toll from distribution networks has been established which will be applicable to biogas at a zero rate and the other current tolls are maintained. These figures will be applicable until the CNMC publishes the new ones, and the other tolls whose structure was modified by Royal Decree 335/2018 have yet to be published.

Concerning supply security, Regulation (EU) 2017/1938 on measures to guarantee the security of the gas supply came into force on 1 November 2017. It lays down reporting requirements for Spanish and European natural gas companies with respect to relevant gas contracts, for supply security reasons. This Regulation also strengthens regional cooperation and lays down a solidarity mechanism which is applicable in the event of a supply crisis in a member State.

### Vulnerability

Royal Decree-Law 15/2018 published on 6 October 2018 brought in the “Thermal Social Bond”, consisting of a single annual payment as direct assistance in paying for heating, hot water and cooking, to consumers that had availed themselves of the electricity social bond at 31 December the previous year, irrespective of the fuel they use, or support for savings actions or improvements in energy efficiency. The amount to be received will depend on the degree of vulnerability and the climate zone.



## 2.2. Regulation of the Electricity sector in Spain

### Main characteristics of the electricity sector in Spain

The regulation of the electricity industry in Spain has undergone a major reform process during the year 2013 which led to the publication of Law 24/2013, of 26 December, of the Electricity Sector, which adapts the previous law (Law 54/1997, of 27 November) to the circumstances of both the economy and the power and energy sector in Spain.

The electricity sector has the following main features:

- It is a sector in which regulated and non-regulated activities coexist. The regulated activities consist of electricity transmission and distribution (as well as the operation of the system). The non-regulated activities comprise generation and sale of electricity.
- The principle of the electricity system's economic and financial sustainability is established, which must be in line with the measures taken by the Administration and other relevant parties, whereby any regulation relating to the sector that entails an increase in costs for the electricity system or a reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.
- Mismatches due to a revenue deficit are limited to the extent that they may not exceed 2% of revenues estimated for the reference period and cumulative liabilities due to mismatches may not exceed 5% of those revenues.
- Revenues in the electricity sector derive from access tolls and other regulated prices, specific tax measures and, exceptionally, from certain items in the National Budget.

In 2013, Law 15/2012, of December 27 on fiscal measures for energy sustainability was published, the principal aspects of which were as follows.

- A new tax on energy production by all the generation facilities at a rate of 7% was introduced:
- Two new taxes were regulated: the tax on production of nuclear fuel spent and radioactive residue that are the result of the nuclear generation of electricity and the tax on the storage of nuclear fuel generated and radioactive residue in central installations, with the aim of compensating society for the charges that it must bear as a result of this generation.
- A positive rate was established for the use of natural gas in electricity generation and electricity and heat cogeneration, previously regulated at a zero rate, and the tax rate on coal is increased. At the same time, specific tax rates are created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.
- A new royalty was applied to public domain assets for the use or exploitation of continental waters for hydroelectric power generation, amounting to 22% of the economic value of hydro-electricity generated Royal Decree-Law 10/2017 published on 10 June 2017 increased the tax rate from 22% to 25.5%.

Revenues from these taxes cover the regulated costs in the electricity system.

- The principles to be taken into consideration in the remuneration methods for regulated activities are established: transport, distribution, renewables, cogeneration and waste.
- The remuneration calculation parameters will have a six-year term and will be reviewed prior to the start of the regulatory period taking into account the economic cycle, demand for electricity and an adequate return from these activities.
- A distinction is made between transport and distribution network access tolls and the charges that are necessary to cover other costs of the relevant system activities, which will be determined using methodology to be established by the Government; in general, tolls and charges will be reviewed

annually or in the event of circumstances that have a material impact on regulated costs or on the calculation parameters employed.

- Small consumer voluntary prices (PVPC) are regulated and will be the same throughout Spain. These prices are defined in line with the prices previously referred to as last-resort tariffs, as the maximum prices that the reference supply companies may charge consumers that avail themselves of the prices. The last-resort tariff (TUR) has become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the voluntary price for small consumers but are temporarily without a supply company in the free market.

### The regulation of electricity activities in Spain

Electricity activities are divided into: 1) regulated activities: electricity transport and distribution; and 2) non-regulated activities: electricity generation and marketing.

#### 2.2.1. Regulated activities

The regulated activities are characterised by the fact that access to them is subject to government authorisation, and remuneration for them is established by law, and undertaking these activities is subject to a series of specific obligations.

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior administrative authorisation, which is regulated. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory, which does not imply an exclusive right of use because of the third-party network access obligation.
- *Remuneration established by legislation:* Royal Decree 1047/2013, December 27, and Royal Decree 1048/2013, December 27, brought in remuneration methods applicable to the transmission and distribution activities, so as to ensure adequate remuneration and network development. The remuneration to be received is updated annually by ministerial order. The financial yield on assets during the first regulatory period, to 31 December 2019, is linked to the yield on government bonds plus a spread of 200 basis points.

*Royal Decree-law of 1/2019 which updates the CNMC's powers has changed the current configuration. The CNMC is now responsible for establishing the methodology and values for the remuneration that will be published by means of a circular letter and will be applicable upon the termination of the current regulatory period.*

The regulatory framework for the electricity industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of electricity acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- *Subjection to specific obligations of third party access to the network and unbundling:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in marketing. The two main obligations in this respect consist of permitting access by third parties to transport and distribution and the obligation to keep regulated and unregulated activities separate.

Royal Decree 1955/2000 regulates access by third parties to the grid, determining which persons will have access rights, how the application is made, the deadlines for the same, the grounds for rejection of access, as well as the rights and obligations of each person involved in the system.

The legislation establishes the duty of functional separation, which means not only accounting separation, in order to avoid cross-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent operation of the regulated subsidiary company in relation to the other companies in the group, including the separation of brand and brand image, as in the case of the natural gas sector.

### *2.2.1.1. Transmission*

Electricity transmission links the plants with the distribution networks and specific final customers. The network is owned mainly by REE, although other companies, including Naturgy's subsidiary UFD Distribución de Electricidad, S.A., own a small proportion of the secondary transport network.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1047/2013 (27 December), providing the new methodology for calculating electricity transmission remuneration, and Order IET/2659/2015 of 11th December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset, which will be used when calculating the remuneration to be paid to the owners of electricity transmission facilities.

Transmission remuneration is laid down annually by the Ministry, which recognises compensation for investment, operation and maintenance, calculated on the basis of the regulatory unitary values of investment, operation and maintenance plus an availability incentive. As already mentioned, Royal Decree-Law 1/2019 modifies this allocation in favor of the CNMC.

### *2.2.1.2. Distribution*

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1048/2013 (27 December), providing the methodology for calculating electricity transmission remuneration, and Order IET/2660/2015 of 11th December which approved standard installations and unitary values of reference for investment, operation and maintenance by fixed asset and the unitary remuneration figures for other regulated tasks which will be used when calculating the remuneration to be paid to electricity distribution companies, establishing the definitions for natural growth and relevant power increase and compensation for use and reservation of facilities.

The remuneration is calculated annually by the Ministry and recognises compensation for investment and operation and maintenance of the distribution facilities, as well as other regulated services calculated on the basis of the unitary values approve by regulation, including incentives to reduce network losses, detect fraud and improve service quality. As of 2020, this task will correspond to the CNMC.

### Tolls

On 27 December 2017 Order ETU/1282/2017 of 22 December was published, laying down the electricity access tolls for 2018. Under said Order, the access tolls remain unchanged. On 22 December 2018 Order TEC/1366/2018 of 20 December was published, laying down the electricity access tolls for 2019, which did not introduce any changes in tolls either.

## *2.2.2. Unregulated activities*

### *2.2.2.1. Electricity generation*

Law 24/2013 of 26 December on the Electricity Sector provides that the production of electrical energy is to be subject to the rules of free competition, although the commissioning, modification, temporary closure, transfer and final closure of facilities is subject to prior administrative authorisation. The remuneration for this activity derives from its participation in the electricity production market, made up of the forward, daily and intraday markets, unorganised markets and other services related to the security of the electricity system, such as adjustment and balancing services. In addition, production facilities may receive remuneration as capacity mechanisms that provide the system with an adequate coverage margin and encourage the availability of manageable power in the medium and long term.

Likewise, the Law contemplate the possibility of development of capacity mechanisms. This have been ruling by the former provisions that provided for an investment incentive, an incentive for environmental investment and an availability service. Specifically, this latter service was provisionally regulated by Order ITC/3127/2011 of 17 November and was extended annually until 2017. Order ETU/1133/2017 reduced the extension period of this service to six months (June 2018), in view of the imminent reform of the capacity mechanisms. In addition, it temporarily excluded hydroelectric plants from this service due to the

scarcity of resources, given the dry hydrological conditions. Subsequently, Order TEC/1366/2018 of 20 December, laying down the electricity access tolls for 2019, revoked the availability service on a definitive basis.

#### Renewable, high efficiency cogeneration and waste facilities

For the installations prior to the publication of Royal Decree-Law 9/2013, , the Law establishes a remuneration system in addition to the remuneration for the sale of electricity generated in the production market and its objective is to cover the costs that cannot be recovered by the market plus a reasonable yield, which allows these technologies to compete on an equal basis with other technologies. Royal Decree 413/2014 of 6 June develops this system, stipulating the review of the remuneration parameters in regulatory periods of 6 regulatory semi-periods of 3 years or semi-annually for the parameters associated with the return on operations involving certain technologies. On 10 November 2017, the European Commission authorised this Spanish support scheme, concluding that it complies with the EU rules on state aid.

On an exception basis a specific remuneratory system is to be established by means of a competitive tender procedure to encourage production based on renewable energy sources, high-efficiency cogeneration and waste, when there exists an obligation to fulfil energy objectives derived from Directives or other European Union legislation, or when the introduction thereof entails a reduction in energy costs and dependence on external energy sources. Within this framework, during 2016 and 2017 the Ministry of Energy, Tourism and the Digital Agenda arranged various auctions to grant the specific remuneration regime to new renewable generation facilities.

The remuneration parameters applicable to 2018 are included in Order ETU/130/2017 of 17 February which updates the remuneration parameters for standard facilities for the purposes of their application to the regulatory semi-period 2017-2019; in Order ETU/360/2018 of 6 April which lays down the rates for remuneration on operations corresponding to the first half-year of 2018; and in Order TEC/1174/2018 of 8 November which establishes the remuneration parameters for standard facilities applicable to animal waste treatment and reduction facilities.

In addition, Royal Decree-Law 20/2018 of 7 December 2018, on urgent measures to foment economic competitiveness in the industry and commerce sectors in Spain, extended for an additional 2 years the term of remuneration on operations involving high efficiency cogeneration facilities that use renewable fuels or natural gas and that have surpassed their regulatory useful life after 1 January 2018.

Order TEC/1380/2018 of 20 December established the regulatory bases for the granting of investment aid in electricity production facilities using wind and photovoltaic technologies located in the non-mainland territories, co-financed with FEDER Community Funds.

#### Generation in non-mainland territories

Electricity generation in the energy systems of the non-mainland territories may receive remuneration which is additional to market revenues, which takes into account the particularities of these territories.

#### Contaminating emissions

The operation of fossil fuel plants is subject to the limits on contaminating emissions established by Directive 2010/75/EU on industrial emissions and national regulations. These limits mainly affect the operation of coal-fired plants that must restrict their operation to comply with the provisions of the transitional national plan applicable during the period from 1 January 2016 to 30 June 2020. The operation of these facilities after that date will require prior investment in desulphurisation and denitrification facilities or, failing that, the closure of the facility.

#### European integration of markets

Regarding markets, the progress made in the integration of the Iberian market with the markets of other European countries should be noted. Since 2014, the daily market has been integrated with the main European markets, and in April 2018 the Iberian continuous intraday market was integrated with the rest of Europe, coexisting for the present with auctions in the Iberian area (Spain and Portugal). In addition,

work is being carried out to develop the regulations that will enable the integration of the balancing markets, scheduled for 2019.

#### *2.2.2.2. Electricity supply*

Supply is based on the principles of deregulated contracting and the customer's choice of provider. As a deregulated activity, supply is remunerated at a price freely agreed by the parties.

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market retailer, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (last-resort tariff). As from the Law 24/2013, this regulated tariff is referred to as the Small Consumer Voluntary Price (PVPC), the last-resort tariff (TUR) being the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market.

The criteria for setting the last-resort tariff, now PVPC, have been regulated through successive legal provisions. Under the relevant legislation it must incorporate all supply costs, including energy production costs, access tolls and supply costs.

On 29 March 2014, Royal Decree 216/2014, March 28, was published, providing the methodology for calculating small consumer voluntary prices (PVPC) and the related legal regime for contracting. It determines the structure of small consumer voluntary prices, which will apply to low-voltage consumers with a contracted capacity of up to 10 kW. The Royal Decree also stipulates the procedure for calculating the cost of power generation, which will include the small consumer voluntary price.

The cost of power generation is calculated based on the daily market hourly price during the billing period. Billing is performed by the reference supply company based on actual readings and taking into consideration consumption profiles, except for supplies using metering equipment capable of telemetering and telemanagement, effectively integrated into the relevant systems, in which billing will be effected using hourly consumption values.

Alternatively, a consumer may contract a fixed power price for one year with the reference supply company.

Royal Decree 469/2016 of 18 November amended Royal Decree 216/2014 of 28 March and introduced the method for calculating the supply cost to be included in the PVPC and a unitary remuneration for the exercising of the activity, establishing a fixed term (€/kW) and variable term (€/kWh) structure. The supply margin will be reviewed every three years, the first review pertaining to the three-year period 2019-2021.

#### Vulnerability

Royal Decree-Law 7/2016 amended the wording of Article 45.4 of Law 24/2013 and implemented a new social bond funding scheme under which this public services obligation is only to be funded by parties engaging in electricity marketing, specifically the parent companies of corporate groups engaging in the sale of electrical energy or the companies carrying out this activity that do not form part of any group. The percentage distribution is calculated in proportion to the customers' quotas and will be calculated annually by the CNMC.

Accordingly, on 3 October 2017 and 27 December 2017 Order ETU/929/2017 and Order ETU/1288/2017 were published which ordered the reimbursement, by charge to the electricity system surplus, of the amounts paid by Gas Natural SDG, S.A. as social bond financing in 2014, 2015 and 2016, plus legal interest calculated as from date on which payment was made until the date of its reimbursement.

On 7 October 2017 Royal Decree 897/2017 was published which regulates vulnerable consumers, the social bond and other protection measures for domestic electricity consumers, in compliance with the provisions of Royal Decree Law 7/2016. Order ETU/943/2017 under which said Royal Decree was developed was published on 9 October. The most relevant aspects are:

- Three types of vulnerable consumer are defined according to the kind of income or other circumstances unrelated to income levels: vulnerable consumer, severe vulnerable consumer and severe vulnerable consumer at risk of social exclusion.

- The social bond provides a discount of 25% on the PVPC for vulnerable consumers and 40% for severe vulnerable consumers, up to a consumption limit.
- Supplies to severe vulnerable consumers will not be interrupted in the event that the social services of a public authority finance at least 50% of their bill. The remaining 10% must be co-financed by the supply companies.
- The criteria and procedures for qualifying for the social bond are revised in terms of income, number of minors in the home and other conditions. The supply company concerned is responsible for processing the application and verifying the requirements.
- The social bond is granted for a period of two years, except for large families in which it lasts until such status expires.
- The procedure for suspending supply in habitual residences is reviewed.

Royal Decree Law 15/2018 on urgent measures for the energy transition and the protection of consumers, above, amended Royal Decree-Law 7/2017. The most relevant aspects are:

- It mandates the Government to approve a "National Strategy against Energy Poverty" within six months.
- The social bond coverage and the consumption limit are extended.
- It adds three new categories of essential supplies (to date, only consumers at risk of social exclusion).
- The social bond and the assumption of the cost of co-financing severely vulnerable customers' expenses are considered a public service obligation, to which the non-payment of bills in the three new essential categories is added.
- It reinforces the penalty regime for supply companies that unjustifiably hamper access to the electricity social bond.
- As already mentioned, the thermal social bond is created which consists of direct assistance in paying for heating, hot water and cooking, irrespective of the fuel used, which will be financed out of the Central Government budget and whose beneficiaries will be consumers that already qualify for the electricity social bond at 31 December.

Under Order TEC/1226/2018 of 13 November, the final distribution percentages of the amounts to finance the social bonus and the cost of co-financing severely vulnerable consumers and the non-payment of bills under the essential vulnerable categories is set at 15.82% for the Naturgy Group.

Additionally, Royal Decree law 15/2018 introduced major changes that affect the supply activity, such as the prohibition of "door-to-door" sales (also applicable to the gas sector) and an obligation to include additional information in bills, as well as strengthening the disqualification procedure for fraudulent supply companies.

Additionally, this Royal Decree law repealed practically all existing regulations on electricity self-consumption, enabling shared self-consumption, repealing the charges and tolls for self-consumed energy and simplifying registration formalities. Awaiting regulatory development.

Order TEC/1366/2018 of 20 December laying down electricity access tolls for 2019 was published on 22 December 2018. The supply cost to be included in the PVPC calculation set for the period 2016-2018 will be maintained until the Order setting the cost for the period 2019-2021 is approved.

### Energy efficiency

As regards energy efficiency in Spain, Royal Decree-Law 18/2014 stipulates the following:

- A national energy efficiency obligations system whereby gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers will be allocated an annual energy-saving quota (saving obligations). Aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.

- The National Energy Efficiency Fund concerns economic and financial support mechanisms, technical assistance, training and information, or other measures to enhance energy efficiency in different sectors, which are necessary to achieve the Energy Efficiency Directive's objectives.
- The financial equivalence of the saving obligations will be determined annually based on the average cost of the support mechanisms, incentives and measures required to mobilise the investments necessary to fulfil the annual saving target, through actions by the National Fund, based on the findings of the technical analysis by the Institute for Energy Diversification and Saving.
- The Government is also authorised to establish and develop a final energy savings accreditation system, by issuing Energy Saving Certificates (ESC). Once launched, this will allow companies to progressively fulfil their saving obligations by directly promoting energy efficiency enhancement actions that fulfil the necessary guarantees.

A ministerial order stipulates annually each liable party's obligations to make contributions to the National Energy Efficiency Fund. Order ETU/257/2018 of 16 March laid down the obligations for 2018, amounting to Euros 26 million for Naturgy.

### 2.3. Regulation of the natural gas industry in Latin America

In Brazil, Mexico, Argentina and Peru the rates and remuneration of natural gas distribution companies are determined by the regulatory authorities. There are stable regulatory and tariff frameworks that lay down the procedures and formalities necessary for the regular review of rates and distribution margins. This tariff review is carried out every five years (except in Peru, where it is every four years) through the filing of the respective reports with the regulators. In Chile, gas network distribution concessionaire companies operate under a free tariff regime subject to a maximum rate of return for each concession area. In the event that the average profitability for the preceding three years in a given concession area exceeds said maximum rate, the regulatory authority will initiate a rate-setting process. The regulatory framework that defines the supervision procedures are stable and annual.

In Mexico, all the geographical distribution areas developed by Naturgy (Monterrey, Nuevo Laredo, Toluca, Saltillo, DF and Bajío) have tariffs approved for the 2016-2020 five-year period. In addition, tariffs have been granted until 2020-21-22 for the Noroeste, Sinaloa and Valle de México zones, respectively. For the new distribution permits for Tabasco, Campeche and Mérida, the period ends in 2023. The permit for Península is currently being processed. The regulatory framework in Mexico is being adapted to the energy reform launched at the end of 2013, which has entailed the liberalisation of natural gas supply and marketing activities. For gas distribution, the remuneration methodology is expected to be simplified and made more flexible.

In Brazil, on 30 December 2013, the regulator for Río de Janeiro state approved the new rates applicable from 1 January 2014 to the end of 2017. In aggregate terms, unit revenue from this activity was maintained. The tariff review process for the next five-year period (2018-2022) commenced during the last quarter of 2017. The tariff review process was not concluded in 2018 and is now expected to be completed in May 2019 with the application of the new rates. In Brazil, the Sao Paulo state regulator is expected to approve new rates during 2019.

In Argentina, in 2015 and 2016 a tariff review process took place resulting in a resolution establishing new natural gas and propane distribution prices which was published on 30 March 2017, urging the regulator, Enargas, to publish the tariff lists resulting from the comprehensive tariff review. In addition, on 30 March 2017 Enargas resolution No. I/4354-17 was published, which approved the distribution tariff lists arising from the comprehensive tariff review of Gas Natural BAN, S.A. effective from 1 April 2017, and a rise in the average tariff of 123% compared with the tariff in effect prior to that date. This increase will be applied in stages over the first year of the five-year period (30% in April 2017, 40% in December 2017 and the remaining 30% in April 2018) together with a financial factor that complements it for the purposes of maintaining equivalence between this staged increase and the direct increase in the tariff.

The publication and enforcement of these tariffs gave rise to a traditional regulatory framework in which the tariff base is measured at restated accounting values that reasonably reflect fluctuations in prices relative to the economy and the restatement in local currency of investment that had deteriorated during the lapse in the licence. The determination of the required income has been reasonable. This includes the

cost of capital, using a WACC which has been reasonably quantified for the regulator by an external consultant.

On 30 November Enargas approved Resolution No. 122, which lays down the tariff lists that will be applicable as from 1 December 2017. Under this resolution the rates applied since April 2017 have been updated for inflation for the period and the second agreed level, which entails an increase of approximately 61% with respect to the tariff applied since April 2017.

On 27 March 2018, Enargas approved Resolution 301, which approved, with effect from 1 April 2018, the tariff schedules that will be applicable as of said date. The approved tariff entails an increase of approximately 42.5% with respect to the tariff applied since December 2017, which recognises the third step of 30% of the tariff increase approved from 1 April 2017; inflation measured using the Domestic Wholesale Price Index; and the financial compensation granted to distributors to correct the effect of the staged increases during the first year of the five-year period. The new Tariff Table for the period April - September 2018, considering an exchange rate of 20,345 ARS/USD to reflect gas acquisition costs in tariffs.

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

In the context of the tariff adjustment as from October 2018 the Government Energy Secretariat issued Resolution 20 of 4 October 2018 which provided, on a transitory and extraordinary basis, that the differences between the gas price laid down in contacts and the gas price recognised in tariffs as from 1 April until 30 September 2018 should be recovered under a scheme of 24 quotas as from 1 January 2019, which must be arranged by ENARGAS. This measure was repealed by Resolution 41 of the same Government Energy Secretariat.

On 5 October 2018, Resolution ENRG 280/18 laid down the new tariff tables with effect from 8 October that reflect the adjustment for inflation pertaining the preceding six-month period. The adjustment to the distribution margin was 20%.

Finally, under Decree 1053/2018 of November 2018 the National Government assumed the payment, on an exceptional basis, of the daily differences accumulated monthly between the value of gas bought by the network natural gas distribution service provides and the value of natural gas included in the tariff tables in effect between 1 April 2018 and 31 March 2019, generated solely by fluctuations in the exchange rate and relating to volumes of natural gas delivered during that period, thereby clearing up the doubts caused by the Government Energy Secretariat Resolution 41/2018.

In Chile there is a free tariff regime subject to control over profitability. Tariffs are therefore set by the distributor, which is also the supply company. Annual profitability must be lower than a certain yield established in the recent Industry Law. The yield consists of the discount rate that equals the present value of the flows associated with the business margin (sales revenue less operating costs) with the value of the assets. In the event that the yield exceeds the established rate, the Law would oblige the Regulator to set mandatory rates for low consumption customers. In October 2018, the National Energy Commission (CNE) published the final results of the 2017 profitability check, determining the profitability of the companies Metrogas, S.A. and Gas Sur, S.A., calculated in accordance with the new Gas Law for each concession area. The results were below the 10.5% limit corresponding to 2017 (the limit established in the Law is 9%), and therefore the companies will continue operating within the supervised free tariff system.

In Peru, activity commenced during the last quarter of 2017. The applicable rates are defined in the concession contract and will be valid for eight years from the start of the activity, with subsequent four-yearly reviews.



## 2.4. Regulation of the international electricity sector

### 2.4.1. Generation

Naturgy, through its subsidiary Global Power Generation (GPG), is present as a generator in Mexico, Panama, Costa Rica, the Dominican Republic, Puerto Rico and recently in Chile, Brazil and Australia.

In Costa Rica and Puerto Rico, the Group's generation operations are subject to the regime for Power Purchase Agreement (PPA) with the sector's domestic companies, Costa Rica Electricity Institute (ICE) and Puerto Rico Electric Power Authority (PREPA), respectively, these being public corporations that are vertically integrated and exclusively responsible for transport, distribution and marketing.

Generation under the PPA regime also exists in Mexico, with energy being sold to the Federal Commission for Electricity (CFE) and to end-customers under bilateral contracts. Surplus energy is sold on the market created under the energy reform carried out in 2015 and 2016. Additionally, the Bii Hioxo wind farm became operational during 2014, selling the power generated under bilateral contracts to final customers.

The liberalisation of the electricity market in Mexico continues. During 2018 the new method for calculating electricity rates was implemented. The energy market continues to become consolidated and medium-term auctions have been held. In addition, due to power supply problems with the National Electricity System in the summer of 2018, a reliability-based auction arrangement has been launched to supply energy when the electricity system so requires. Furthermore, the fourth long-term auction (focused mainly on renewable energies) scheduled for December 2018 was temporarily suspended by the new President of the Republic (who took office on 1 December 2018, for a period of 6 years). No date has yet been set for its activation.

In Panama and the Dominican Republic, electricity generated is sold under bilateral contracts with the distributors at market rates.

In Chile, GPG won a tender in August 2016 for generation under a long-term contract scheme (PPA) with distributors (20 years). To meet this commitment, GPG expects to carry out two projects (wind and solar) which will enter service in 2021 with a total installed capacity of approximately 330 MW.

In Australia, GPG has constructed and operated, since November 2018, a wind generation project through a 20-year contract, with regulated tariffs for energy injected into the system with an installed capacity of 91 MW. In 2018 GPG was awarded 180 MW of generation capacity in a wind project expected to enter operation in the second half of 2020. In this case the contract consists of a 15-year bilateral Power Purchase Agreement at a regulated tariff.

Finally, GPG is also present in Brazil through four photovoltaic generation plants with a total capacity of 152 MW involving 20-year contracts for the sale of reserve energy to the Chamber for Commercialising Electrical Energy (CCEE). These projects became operational in 2017 and 2018.

In all these countries, electricity sector regulations are well-established and stable; legislation is developed and administered by independent regulators.

### 2.4.2. Distribution

In the countries in which Naturgy is present as a distributor, Argentina, Chile, Moldova and Panama, the distribution activity is regulated. The distributors have the function of transporting electricity from the transport network to the customer hook up points and also the function of supplying electricity at regulated rates, to regulated customers, who, based on their consumption volumes, cannot choose to be supplied by another supplier. As for the unregulated customers that choose to purchase electricity from another supplier, they must pay the regulated distribution toll for the use of the networks. In Moldova the supply function at regulated tariffs is carried out through a company which is unrelated to the distributor, in compliance with European Union requirements, as a member of the Energy Community.

The tariffs are revised periodically to reflect the variations in energy purchase prices and the transport tariffs, as well as the variation in economic indicators.

There are regulatory and tariff frameworks in these countries that lay down the procedures and paperwork necessary for the periodical revision of tariffs and distribution margins. The tariff review is carried out every four or five years.

In Moldova, new methodologies were approved in March 2018 for the calculation of distribution and regulated electricity supply rates that will be in force until March 2023. On 15 July 2016 the Regulator approved a Resolution containing the procedure for the recovery of deviations from energy prices that are not passed on to end customers as they should be, in a period of four years, from 2017 to 2020. The Resolution was published on 4 October 2016. In compliance with this Resolution, the 2017 and 2018 rates have included the relevant recovery of the deficit. The new distribution and supply rates for 2018 were published on 29 June 2018, applicable from 1 July 2018.

In Chile, the transmission activity is regulated under a known and stable framework. Law 20.936 was published on 20 July 2016, which amended some provisions concerning transmission activities under the General Law on Electricity Services and set up an Independent Coordination Body for the National Electricity System.

In this context, with respect to National Transmission and Zonal Transmission, new projects are awarded through tender processes, the amounts of which are paid over 20 years. Once that period expires, their valuation is subject to the regulations applicable to existing projects. If facilities in these segments are expanded, the Annual Investment Value is remunerated for 20 years (Investment Value resulting from a tender and rate in effect at the time of the award).

The existing transmission facilities are remunerated through a regulated tariff, which is determined every four years through a tariff study. The current Zonal Transmission tariffs have been set by Decree 6T-2017 of the Ministry of Energy, published in the Official Gazette on 5 October 2017, entering force on 1 January 2018 and terminating in December 2019.

In relation to energy distribution in Chile, Decree 11T-2016 was published on 24 August 2017, which lays down the tariff formulae applicable to electricity distribution end-customers for the period 2016-2020, as well as the amounts applicable to each distribution company with effect from 1 November 2016 to November 2020. Notwithstanding the above, on 28 September 2018 Decree No. 5T-2018 was published under which some of the parameters of the tariff formulae established in the aforementioned decree were updated in order to include the higher costs associated with the quality and service safety and supply standards and requirements laid down in the Technical Standard on Service Quality in Distribution Systems, published in December 2017.

In Panama, work on the tariff review commenced in 2017 and the new tariff list will come into effect in July 2018.

### **Note 3. Basis of presentation and accounting policies**

#### **3.1. Basis of presentation**

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2017 were approved by the shareholders at a general meeting held on 27 June 2018.

The consolidated annual accounts for 2018, which were drawn up and signed by the Board of Directors of Naturgy Energy Group, S.A. on 29 January 2019, will be submitted, along with those of the investee companies to the approval of the respective General Meetings. It is expected that they will be adopted without any change.

The Consolidated annual accounts of Naturgy for 2018 have been prepared on the basis of the accounting records of Naturgy Energy Group, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter "IFRS-EU"), as per (EC) Regulation 1606/2002 of the European Parliament and Council.

In the preparation of these consolidated annual accounts the historical cost method has been used, although modified by the criteria for the recognition valued at fair value through profit or loss and other comprehensive income, derivative financial instruments, business combinations and defined benefit pension plans.

These consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Naturgy at 31 December 2018, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, changes in consolidated equity and the consolidated cash flows of Naturgy for the year then ended.

The aggregates set out in these Consolidated annual accounts are stated in million euro, unless indicated otherwise.

### **3.2 New IFRS-EU and IFRIC interpretations**

#### Rules that have come into force on January 1, 2018

As a result of their approval, publication and coming into force on 1 January 2018 the following standards, interpretations and amendments have been applied:

- IFRS 9, "Financial instruments";
- IFRS 15, "Revenue from ordinary activities from contracts with customers";
- IFRS 4 (Amendment), "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts";
- Annual improvements to IFRS, Cycle 2014-2016;
- IFRS 2 (Amendment), "Classification and measurement of share-based payments";
- IAS 40 (Amendment), "Transfers of investment property";
- IFRIC 22, "Transactions and advance payments in foreign currency"
- IFRS 15 (Amendment), "Clarifications of the standard"

The only standards, interpretations or amendments among the above that have a significant impact on the consolidated annual accounts are IFRS 9 and IFRS 15.

#### **IFRS 9 - "Financial instruments"**

IFRS 9 establishes the criteria for the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and provides a new model for the impairment of financial assets.

Naturgy chose not to adopt the new standard in advance, opting not to restate the comparative analysis for 2017, and reflecting the adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2018. However, in order to facilitate the comparison of the figures for the 2018 and 2017, the financial assets are classified in Notes 9 and 10 based on the new categories.

The impacts derived from the initial application of IFRS 9 are as follows:

- a) Classification of financial assets: With respect to investments in equity instruments currently classified under IAS 39 as available-for-sale financial assets, whose changes in fair value are recognised in equity and are taken to income when they are transferred or when their impairment is recognised, upon initial application of IFRS 9 Naturgy use for these investments, except in the case of Medgaz which was maintained for trading, the option permitted by the Standard concerning the irrevocable classification in the new category of investments in equity instruments at fair value through other comprehensive income. Increases and decreases in the fair value of these assets will be recorded under Other accumulated comprehensive income, impairment losses will not be recognised in results and gains or losses will not be reclassified to the consolidated income state at the time of sale. In addition, in relation to financial assets that are debt instruments and are not derivatives, Naturgy holds such assets mainly in order to obtain contractual cash flows and therefore they continue being measured at amortised cost as from 1 January 2018.
- b) Exchange of debt instruments: Naturgy carried out refinancing operations in which, in accordance with IAS 39, there had been no substantial variations in the debt instrument and therefore the carrying amount of the liability had been adjusted based on the relevant costs and commissions, which were amortised over the remaining useful life of the adjusted liability. Under IFRS 9, in operations involving changes to financial liabilities it is necessary to determine the value of the cash flows of the new financial liability calculated using the effective internal rate of return of the old financial liability,

recording the difference between the new and original carrying amounts in the consolidated income statement. The impact estimated at 1 January 2018 is a decrease of Euros 48 million in financial liabilities with the corresponding increase in deferred tax liabilities of approximately Euros 12 million.

- c) Impairment of financial assets: Naturgy applies the general expected loss model for financial assets with the exception of Trade and other receivables, for which the estimated simplified expected loss model is used. In this context, Naturgy has taken into account available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors. On the basis of the evaluations carried out at the effective date of the new standards, the impact at 1 January 2018 has been an increase in the impairment provision for financial assets of Euros 102 million with a corresponding increase in deferred tax assets of approximately Euros 26 million.
- d) Hedge accounting: Naturgy has chosen to apply the hedge accounting of IFRS 9, however, it has not made substantial modifications to its hedge model, confirming that its current hedging relationships qualify as hedges that continue with the adoption of IFRS 9. The Group will record, in a separate equity item, the temporary value of the option contracts, the forward element of forward contracts and the base exchange rate differential in financial instruments in the event of their being excluded from the hedging relationship.
- e) Other adjustments: These include adjustments due to the adoption of IFRS 9 for companies carried by the equity method, mainly due to the application of the new financial asset impairment model based on expected credit losses.

In summary, the impact of the adoption of IFRS 9 on the consolidated balance sheet at 1 January 2018 is as follows:

	Amount (million euro)	Adjustments
Investments recorded using the equity method	(23)	e)
Non-current financial assets	(1)	c)
Deferred tax assets	26	c)
<b>NON-CURRENT ASSETS</b>	<b>2</b>	
Trade and other receivables	(101)	c)
<b>CURRENT ASSETS</b>	<b>(101)</b>	
Equity attributed to the parent company	(50)	
Non-controlling interests	(13)	c)
<b>EQUITY</b>	<b>(63)</b>	
Non-current financial liabilities	(48)	b)
Deferred tax liabilities	12	b)
<b>NON-CURRENT LIABILITIES</b>	<b>(36)</b>	

### IFRS 15 - "Revenue from contracts with customers"

IFRS 15 lays down a new model for the recognition of revenue derived from contracts with customers, where the revenue must be recognised based on compliance with performance obligations towards customers. Revenue represents the transfer of committed goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for said goods and services.

Additionally, it is provided that an asset will be recognised for the incremental costs of obtaining a contract with a customer if they are expected to be recovered.

Naturgy has chosen the retroactive method as the transition method for the first application of IFRS 15, with the accumulated effect of said application at 1 January 2018 being reflected in reserves, and has chosen not to restate the comparative figures for 2017.

In addition, the entity has decided to apply the practical solutions consisting of not regarding the financing component as material when the payment period is less than one year, not applying the standard retrospectively to contracts terminating before 1 January 2018 and recognising the costs of obtaining the contracts as an expense when the expected amortisation period is one year or less.

The impacts derived from the initial application of IFRS 15 are as follows:

- a) The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them, or performance obligations that lead to the recognition of liabilities due to contracts with customers, have been detected.
- b) IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. They are amortised systematically in the consolidated income statement as the income related to the asset concerned is recognised, i.e. the average expected duration of contracts with customers, which varies from two to eight years. On the basis of the evaluations carried out at the effective date of the new standard, fees paid in prior years to obtain energy supply contracts with customers that are still in force at 1 January 2018, amounting to Euros 61 million, have been recognised under intangible assets, with the corresponding increase in deferred tax assets of approximately Euros 15 million.

Impact of the adoption of IFRS 15 on the consolidated balance sheet at 1 January 2018 is as follows:

	Amount (million euro)	Adjustments
Intangible assets	61	b)
<b>NON-CURRENT ASSETS</b>	<b>61</b>	
Equity attributed to the parent company	46	b)
<b>EQUITY</b>	<b>46</b>	
Deferred tax liabilities	15	b)
<b>NON-CURRENT LIABILITIES</b>	<b>15</b>	

#### Impact of IFRS 9 and IFRS 15 on the consolidated balance sheet at 1 January 2018

The effects on the consolidated balance sheet at 1 January 2018 and 31 December 2018 derived from the adoption of IFRS 9 and IFRS 15, explained above, are as follows:

## Consolidated balance sheet (million euro)

	1.1.2018	IFRS 9	IFRS 15	Total adjustments	1.1.2018 IFRS 9 and IFRS 15
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>	<b>36,239</b>	<b>2</b>	<b>61</b>	<b>63</b>	<b>36,302</b>
<b>CURRENT ASSETS</b>	<b>11,083</b>	<b>(101)</b>	<b>-</b>	<b>(101)</b>	<b>10,982</b>
<b>TOTAL ASSETS</b>	<b>47,322</b>	<b>(99)</b>	<b>61</b>	<b>(38)</b>	<b>47,284</b>
<b>EQUITY AND LIABILITIES</b>					
Equity attributed to the parent company	14,734	(50)	46	(4)	14,730
Non-controlling interests	3,571	(13)	-	(13)	3,558
<b>EQUITY</b>	<b>18,305</b>	<b>(63)</b>	<b>46</b>	<b>(17)</b>	<b>18,288</b>
<b>NON-CURRENT LIABILITIES</b>	<b>21,409</b>	<b>(36)</b>	<b>15</b>	<b>(21)</b>	<b>21,388</b>
<b>CURRENT LIABILITIES</b>	<b>7,608</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,608</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47,322</b>	<b>(99)</b>	<b>61</b>	<b>(38)</b>	<b>47,284</b>
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>	<b>32,241</b>	<b>2</b>	<b>58</b>	<b>60</b>	<b>32,301</b>
<b>CURRENT ASSETS</b>	<b>8,428</b>	<b>(98)</b>	<b>-</b>	<b>(98)</b>	<b>8,330</b>
<b>TOTAL ASSETS</b>	<b>40,669</b>	<b>(96)</b>	<b>58</b>	<b>(38)</b>	<b>40,631</b>
<b>EQUITY AND LIABILITIES</b>					
	-	-	-	-	-
Equity attributed to the parent company	10,951	(47)	44	(3)	10,948
Non-controlling interests	3,659	(12)	-	(12)	3,647
<b>EQUITY</b>	<b>14,610</b>	<b>(59)</b>	<b>44</b>	<b>(15)</b>	<b>14,595</b>
<b>NON-CURRENT LIABILITIES</b>	<b>19,052</b>	<b>(37)</b>	<b>14</b>	<b>(23)</b>	<b>19,029</b>
<b>CURRENT LIABILITIES</b>	<b>7,007</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,007</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40,669</b>	<b>(96)</b>	<b>58</b>	<b>(38)</b>	<b>40,631</b>

## Impact of IFRS 9 and IFRS 15 on the consolidated 2018 income statement

The effects on the 2018 consolidated income statement derived from the adoption of IFRS 9 and IFRS 15, explained above, are as follows:

	2018	NIIF 9	NIIF 15	Total adjustments	2018 NIIF9 y NIIF 15
Sales	24,339	-	-	-	24,339
Pocurements	(17,723)	-	-	-	(17,723)
Other operating income	166	-	-	-	166
Personnel costs	(1,010)	-	-	-	(1,010)
Other operating expenses	(1,850)	-	34	34	(1,816)
Gain/(loss) on disposals of fixed assets	21	-	-	-	21
Release of fixed assets grants to income and others	42	-	-	-	42
<b>GROSS OPERATING RESULTS</b>	<b>3,985</b>	<b>-</b>	<b>34</b>	<b>34</b>	<b>4,019</b>
Depreciation, amortisation and impairment expenses	(5,970)	-	(37)	(37)	(6,007)
Impairment of credit losses	(182)	3	-	3	(179)
<b>OPERATING RESULTS</b>	<b>(2,167)</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>(2,167)</b>
<b>NET FINANCIAL INCOME</b>	<b>(688)</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>(685)</b>
Profit/(loss) of entities recorded by equity method	(513)	-	-	-	(513)
<b>PROFIT BEFORE TAXES</b>	<b>(3,368)</b>	<b>6</b>	<b>(3)</b>	<b>3</b>	<b>(3,365)</b>
Corporate income tax	780	(2)	1	(1)	779
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>(2,588)</b>	<b>4</b>	<b>(2)</b>	<b>2</b>	<b>(2,586)</b>
Profit for the year from discontinued operations, net of taxes	(10)	-	-	-	(10)
<b>CONSOLIDATED PROFIT FOR THE YEAR</b>	<b>(2,598)</b>	<b>4</b>	<b>(2)</b>	<b>2</b>	<b>(2,596)</b>
Attributable to:					
the parent company	(2,823)	3	(2)	1	(2,822)
Non-controlling interests	225	1	-	1	226

With respect to the income statement at 31 December 2018, the application of IFRS 15 has entailed a decrease in operating expenses of Euros 34 million due to the recognition as assets of commercial costs for capturing customers and an increased amortisation charge of Euros 37 million due to the amortisation of the asset recognised in the initial application. Regarding IFRS 9, the impact on the consolidated income statement of the recognition of the impairment of financial assets based on the credit loss model has resulted in income amounting to Euros 3 million, while the impact of the new accounting treatment of operations for modifying financial liabilities, both those mentioned relating to previous years and the operation carried out in the current period (Note 9), have resulted in an increase in financial income of Euros 3 million. The impact on basic and diluted earnings per share is not significant.

### Rules that have come into force on January 1, 2019

The standards, amendments and interpretations that will come into force for years commencing after 01 January 2019 and later years are described below.

Standards adopted by the European Union		Entry into force for years commencing
IFRS 16, "Leases"	New standard that replaces IAS 17.	1 January 2019
IFRS 9 (Revised), "Prepayment features with negative compensation"	Enables entities to measure at amortised cost some prepayable financial assets.	1 January 2019
IFRIC 23, "Uncertainty over income tax treatments"	Clarifies the recognition and valuation of IAS 12 in cases of uncertainty as to whether the tax authorities accept a certain tax treatment used by the entity.	1 January 2019
Standards issued by the IASB and yet to be adopted by the European Union		Entry into force for years commencing
IAS 19 (Amendment) "Plan amendment, curtailment or settlement":	These changes require the use of updated actuarial assumptions to determine the service costs for the current year and net interest for the remainder of the year.	1 January 2019

IAS 28 (Amendment), "Long-term interests in associates and joint ventures"	Clarifies the application of IFRS 9 to long-term interests in associates or joint ventures when the equity method is not used.	1 January 2019
Annual improvements to IFRS, Cycle 2015-2017	Minor changes to various standards.	1 January 2019
References to the IFRS Conceptual Framework (Amendment)	Ensure that the standards are consistent, include a new chapter on valuations, improve definitions and guidelines, and clarify areas such as prudence and the assessment of uncertainty.	1 January 2020
IFRS 3 "Business combinations" (amendment)	New definition of 'business'	1 January 2020
IAS 1 and IAS 8 (amendment) Definition of "materiality"	New definition of materiality, ensuring its consistency with all Standards	1 January 2020
IFRS 17, "Insurance contracts"	New standard that replaces IFRS 4.	1 January 2021

None of these standards or amendments has been applied early.

## IFRS 16 - "Leases"

IFRS 16 "Leases" replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 and lays down the principles for the accounting recognition of leases under a single balance sheet model for all leases. IFRS 16 enters force on 1 January 2019 and has not been adopted early.

IFRS 16 provides that lessees must recognise a financial liability in the consolidated balance sheet for the present value of the payments to be made over the remaining life of the lease and an asset for the right to use the underlying asset, which is valued based on the amount of the associated liability to which the initial direct costs incurred are added. In addition, there is a change in the policy for recognising the lease expense, which is recorded as a depreciation expense for the relevant asset and a financial expense due to the revaluation of the lease liability. In terms of the current accounting treatment of the lessor, the standard does not vary substantially and the lease must continue to be classified as an operating or financial lease depending on the degree of material transfer of the risks and rewards of ownership.

Naturgy has applied the following policies, estimates and criteria:

- The exemption from the recognition of leases in which the underlying asset is of low value (less than US\$ 5,000) and is short term (maturity less than or equal to 12 months) has been applied.
- The practical solution indicated in paragraph C3, Appendix C of IFRS 16 has been applied, which stipulates that it is not necessary to reassess whether a contract is, or contains, a lease at the date of initial application.
- It has been decided not to separately record the components that are not leases from those that are for those asset classes in which the relative importance of these components is not significant with respect to the total value of the lease.
- For transition purposes, it has been decided to apply the modified retrospective approach, on the basis of which no comparative figures from previous years will be restated.
- It has been decided to measure the initial right of use of the asset for an amount equal to the lease liability at 1 January 2019 for all lease agreements.
- An incremental effective interest rate has been applied with respect to funding by portfolio of similar assets, in relation to the lease, country and duration of the agreement. The weighted average of the incremental interest rate at the date of initial application was 2.6% in Spain and 8.7% in Latin America.
- To determine the term of the leases as the non-cancellable period, the initial term of each contract has been considered unless Naturgy has a unilateral extension or termination option and there is reasonable certainty that this option will be exercised, in which case the corresponding extension term or early termination will be taken into account.

The reasonably estimated impacts derived from the initial application of IFRS 16 at 1 January 2019 are as follows:



- a) Recognition of assets under the heading "Right of use assets" (non-current assets) in the amount of Euros 325 million and an increase in debt under the headings "Financial liabilities for non-current and current leases" of Euros 258 million and Euros 67 million, respectively. These basically relate to leases on offices, gas tankers, vehicles and land for energy use where generation plants are located, mainly wind and photovoltaic facilities.
- b) With respect to financial leases prior to the date of first application and which involve the chartering of gas tankers (Note 19), their accounting treatment remains unchanged in comparison with IAS 17. However, the carrying amount will be reclassified in the amount of Euros 1,134 million with respect to finance leases recorded under Property, plant and equipment (Note 7) to the new heading "Right of use assets" and financial lease liabilities, currently included under "Other current and non-current liabilities", will be reclassified to the corresponding headings of "Current and non-current lease financial liabilities" (Note 19) for Euros 1,186 million and Euros 132 million, respectively.

In summary, the impact of the adoption of IFRS 16 on the consolidated balance sheet at 1 January 2019 is expected to be as follows:

	Amount (million euro)	Adjustments
Right of use assets	1,459	a) b)
Property, plant and equipment	(1,134)	b)
<b>NON-CURRENT ASSETS</b>	<b>325</b>	
Equity attributed to the parent company	-	
Non-controlling interests	-	
<b>EQUITY</b>	<b>-</b>	
Financial liabilities for non-current leases	1,444	a) b)
Other non-current liabilities	(1,186)	b)
<b>NON-CURRENT LIABILITIES</b>	<b>258</b>	
Financial liabilities for current leases	199	a) b)
Other current liabilities	(132)	b)
<b>CURRENT LIABILITIES</b>	<b>67</b>	

The estimated effects on the consolidated balance sheet at 1 January 2019 derived from the adoption of IFRS 16, explained above, are as follows:

#### Consolidated balance sheet (million euro)

	1.1.2019	IFRS 16	1.1.2019 IFRS 16
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>	<b>32,301</b>	325	<b>32,626</b>
<b>CURRENT ASSETS</b>	<b>8,330</b>	-	<b>8,330</b>
<b>TOTAL ASSETS</b>	<b>40,631</b>	325	<b>40,956</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributed to the parent company	10,948	-	10,948
Non-controlling interests	3,647	-	3,647
<b>EQUITY</b>	<b>14,595</b>	-	<b>14,595</b>
<b>NON-CURRENT LIABILITIES</b>	<b>19,032</b>	258	<b>19,290</b>
<b>CURRENT LIABILITIES</b>	<b>7,004</b>	67	<b>7,071</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40,631</b>	325	<b>40,956</b>

The reconciliation between the operating lease commitments disclosed in "Contractual Commitments" of Note 35 at 31 December 2018 and the liabilities recognised at 1 January 2019 in the initial application of IFRS 16 is as follows:

	<b>Amount (million euro)</b>
Operating lease commitments at 31 December 2018 broken down in Note 35	476
Discounted using the corresponding interest rate	(79)
Short-term low-value leases	(37)
Adjustments resulting from different treatment of extension and termination options and others	(35)
<b>Lease liabilities recognised at 1 January 2019</b>	<b>325</b>

Estimated impacts that the application of IFRS 16 would have had on the consolidated income statement and consolidated cash flow statement for 2018 are:

- lower operating expenses and consequently a higher gross operating profit of Euros 78 million, as the operating lease payments were recorded under this heading of operating expenses, offset by an increased asset amortisation charge due to the recognised right of use of Euros 70 million and a higher charge for higher financial expenses relating to lease liabilities of Euros 11 million, meaning that the consolidated results for the year would not be significantly affected.
- an increase in cash flows from operating activities of Euros 78 million as a result of the increase in gross operating profit, offset by a decrease in cash flows from financing activities for the same amount since repayments of principal under lease contracts will be classified as cash flows from financing activities, meaning that cash generation is not affected.

### 3.3 Comparability

#### a) Discontinued operations

As a result of the divestments of the South African mining business described in Note 11 "Non-current assets and disposal groups of assets held for sale and discontinued operations", the consolidated income statement for 2017 has been restated for purposes of comparison in compliance with IFRS 5.

A breakdown of the effects of the restatement on the consolidated income statement for 2017 is as follows:

## 2017 consolidated income statement

	2017	Application IFRS 5 (Note 11)	2017
Revenue	23,306	(99)	23,207
Procurements	(16,679)	51	(16,628)
Other operating income	238	(1)	237
Personnel expenses	(1,031)	22	(1,009)
Other operating expenses	(1,984)	15	(1,969)
Profit/(loss) on disposals of fixed assets	23	-	23
Release of fixed assets grants to income and other	42	-	42
<b>GROSS OPERATING RESULTS</b>	<b>3,915</b>	<b>(12)</b>	<b>3,903</b>
Depreciation, amortisation and fixed-asset impairment losses	(1,648)	27	(1,621)
Impairment due to credit losses	(155)	1	(154)
<b>OPERATING PROFIT/(LOSS)</b>	<b>2,112</b>	<b>16</b>	<b>2,128</b>
Financial income	111	-	111
Financial expenses	(808)	1	(807)
Variations in fair value of financial instruments	(2)	-	(2)
<b>NET FINANCIAL INCOME/(EXPENSE)</b>	<b>(699)</b>	<b>1</b>	<b>(698)</b>
Profit/(loss) of companies measured under the equity method	14	-	14
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>1,427</b>	<b>17</b>	<b>1,444</b>
Corporate income tax	(190)	(5)	(195)
<b>PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>1,237</b>	<b>12</b>	<b>1,249</b>
Profit for the year from discontinued operations, net of taxes	460	(12)	448
<b>CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	<b>1,697</b>	<b>-</b>	<b>1,697</b>
Attributable to:			
the parent company	1,360	-	1,360
From continuing operations	932	8	940
From discontinued operations	428	(8)	420
Non-controlling interests	337	-	337
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company	0.93	0.1	0.94
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company	1.36	-	1.36

### b) Classification of Argentina as a hyperinflationary country

With effect from 1 July 2018, according to the criteria established by IAS 29 "Reporting in Hyperinflationary Economies", the Argentinian economy should be treated as hyperinflationary with effects backdated to 1 January 2018. The financial information disclosed in previous years will not be restated.

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

The main impacts at 31 December 2018 have been as follows:

- An increase in equity as a result of applying the rise in inflation to the historic cost of non-monetary assets from the date of their acquisition or inclusion in the consolidated balance sheet and recording the relevant deferred tax liability.

The cumulative effect of the accounting restatement that corrects the effects of hyperinflation corresponding to financial years prior to 2018 is reflected under translation differences at the beginning of 2018.

- An adjustment to the income and expenses items to apply the rise in inflation from the date they were included in the income statement, as well as to reflect the losses derived from the net monetary position.
- The translation into euro of the figures thus adjusted in the consolidated financial statements applying the year end peso/euro exchange rate.

The main impacts on the consolidated financial statements a 31 December 2018 derived from these issues are as follows:

	Million euro
Revenue	(38)
EBITDA	10
Net financial income/(expense)	(14)
Net profits	(8)
Attributed equity	55
Investments	(4)

### 3.4.Accounting policies

The main accounting policies used in the preparation of these consolidated annual accounts have been as follows:

#### 3.4.1 Consolidation

##### a) *Subsidiaries*

Subsidiaries are companies controlled by Naturgy. Naturgy controls an entity when, as a result of its involvement, it is exposed or entitled to variable returns and has the capacity to influence those returns through the power exercised in the entity.

Subsidiaries are fully consolidated as from the date on which control is transferred to Naturgy and are excluded from consolidation on the date on which this control ceases.

In order to account for the acquisition of subsidiaries the acquisition method is used. The cost of acquisition is the fair value of the assets delivered of the equity instruments issued and the liabilities incurred and borne on the date of the exchange, the fair value of any additional consideration that depends on future events (provided that they are likely to occur and can be reliably measured).

The intangible assets acquired through a business combination must be recognised separately from goodwill if they met the criteria for asset recognition, whether they are separable or they arise from legal or contractual rights and when their fair value can be reliably measured.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transactions are initially stated at their fair value at the date of acquisition, irrespective of the percentage of the non-controlling interest.

For each business combination, Naturgy may opt to recognise any non-controlling interest in the acquiree at fair value or at the proportional part of the non-controlling interest of the recognised values of the net identifiable assets of the acquiree.

Acquisition costs are expensed in the year when they are incurred.

The surplus cost of the acquisition in relation to the fair value of Naturgy's shareholding 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 of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

The measurement period for business combinations begins on the acquisition date and ends when Naturgy concludes that it cannot obtain further information on the events and circumstances that existed at the acquisition date. This period may not in any case exceed one year as from the acquisition date. During the measurement period, the business combination is deemed to be provisional and adjustments to the provisional amount will be recognised, if applicable, as if the business combination had been fully recognised on the acquisition date.

In a business combination achieved in stages, Naturgy values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between Naturgy companies are eliminated in the consolidation process. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The shareholding of the minority shareholders in the equity and profit or loss of the subsidiary companies is broken down under "Non-controlling interests" in the consolidated balance sheet and "Profit attributable to non-controlling interests" in the consolidated income statement.

In relation to the acquisitions or sale of shareholdings without loss of control, the difference between the price paid or received and their net carrying value, or as the case may be, the result of their sale, is recorded as equity transactions and does not generate either goodwill or profits.

When an investment ceases to be consolidated due to a loss of control any interest retained in the entity is recalculated at fair value with the change in the carrying amount being recognised in the consolidated income statement. This fair value then becomes the initial carrying amount for the purposes of the subsequent recognition of the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amount previously recognised in other comprehensive income in relation to the entity concerned is recorded as if the Group had disposed of the related assets or liabilities directly.

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies are stated at the current value of the reimbursement, i.e., their exercise price and are carried under "Other liabilities".

#### *b) Joint Arrangements*

Joint arrangements are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the partners.

A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Interests in joint operations are accounted for by proportionate consolidation method and interests in joint arrangements are recorded under the equity method.

Under the equity method, interests in joint ventures are initially recognised at cost and are adjusted thereafter to reflect Naturgy's interest in gains and losses subsequent to the acquisition and movements in other comprehensive income.

At each reporting date, Naturgy determines whether there is objective evidence of the impairment of its investment in a joint venture. If impairment is identified, Naturgy calculates the amount of the impairment loss as the difference between the joint venture's recoverable amount and carrying amount, recognising it in the item "Profit/(loss) from equity-consolidated companies" in the consolidated income statement.

The assets and liabilities assigned to joint ventures are recorded in the consolidated balance sheet in accordance with their nature and based on Naturgy's percentage interest. The income and expenses from joint operations are reflected in the consolidated income statement in accordance with their nature and proportionally to Naturgy's percentage interest.

### c) *Associates*

Associates are all entities over which Naturgy has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for under the equity method.

### d) *Consolidation scope*

Appendix I includes the investee companies directly and indirectly owned by Naturgy that have been included in the consolidation scope.

Appendix II lists the main consolidation scope changes in 2018 and 2017, the most relevant being as follows.

#### **2018**

In February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy was completed.

In March 2018, through its subsidiary Global Power Generation, Naturgy agreed to the acquisition of two solar photovoltaic projects in Brazil that began operating in December 2018 (Note 31).

In March 2018, following approval by the competition authorities, the sale of a 20% minority interest in the company Holding de Negocios de Gas, S.A., which owns the gas network assets in Spain, was completed.

In May 2018 the deadline expired for the acceptance of the public offering on Gas Natural S.A. ESP, thereby completing the sale of the remaining 41.9% of the gas distribution business in Colombia.

Kangra Coal Proprietary Limited, recognised as held for sale since May 2018 (Note 11), was sold in December 2018.

#### **2017**

In 2017 the main change in scope related to the sale of 17.2% of Gas Natural S.A. ESP and subsidiaries, reducing the percentage holding from 59.1% to 41.9%. As a result of losing the majority of voting rights and members of the Board of Directors, Gas Natural S.A. ESP ceased to control the company, which thereafter was regarded as an associate and carried using the equity method (Note 11).

### **3.4.2 Transactions in foreign currency**

Items included in the financial statements of each of Naturgy's entities are measured using the currency of the primary economic environment in which the entity operates. The Consolidated financial statements are presented in Euros, which is Naturgy's presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The results and financial position of all Naturgy entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities for each Balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each Income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

- All the currency translation differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the heading Cumulative translation adjustments in equity.

Before being converted to euros the financial statements of Group companies with the functional currency of a hyperinflationary economy are adjusted for inflation according to the procedure described below. Once restated, all of the items of the financial statements are converted to euro applying the year-end exchange rate. The figures for previous periods, which are given for comparative purposes, are not altered.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment, as well fluctuations in inflation rates in the last three years. The financial statements of companies whose functional currency is that of an economy considered to be highly inflationary are adjusted to reflect changes in the purchasing power of the local currency, such that all items on the statement of Balance sheet that are not expressed in current terms (non-monetary items), are restated taking as reference a representative price index at the year end and all income and expenses, gains and losses, are restated on a monthly basis applying appropriate corrective factors. The difference between the initial amounts and the adjusted figures is taken to profit and loss.

The adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as its assets and liabilities and are translated at the closing exchange rate.

The exchange rates against the euro (EUR) of the main currencies of Naturgy companies at 31 December 2018 and 2017 have been as follows:

	31 December 2018		31 December 2017	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.15	1.18	1.20	1.13
Argentinean Peso (ARS)	43.11	32.99	22.31	18.71
Brazilian Real (BRL)	4.44	4.31	3.97	3.61
Chilean Peso (CLP)	794.63	757.34	737.89	732.91
Mexican Peso (MXN)	22.49	22.71	23.67	21.34
Australian Dollar (AUD)	1.62	1.58	1.53	1.47

### 3.4.3 Intangible assets

#### a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Naturgy's share of the net identifiable assets of the acquired subsidiary, joint arrangements or associates acquired, at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint arrangements is included in Intangible assets while goodwill related to acquisitions of associates is recorded under Investments using the equity method.

Goodwill is not amortised and it is tested annually to analyse possible impairment losses. It is recognised in the consolidated balance sheet at cost value less cumulative impairment losses.

The impairment of goodwill cannot be reversed.

#### b) Concessions under IFRIC 12 and other similar concessions

This heading records the cost of acquisition of concessions if they are acquired directly from a public entity or similar, the fair value attributed to the concession in the event of being acquired as part of a

business combination or the cost of construction and improvements of infrastructures assigned to concessions, in accordance with IFRIC 12 “Service concession agreements”.

The aforementioned assets related to the service concession agreements under IFRIC 12 are those that the licensor controls the services that Naturgy (operator) must provide and the significant residual stake in the infrastructure at the end of the agreement, are set forth in this section in accordance with the accounting model for intangible assets based on the nature of the economic profits to be received by the operator. The income and expenses on construction services or infrastructure improvements are recognized for their gross amount. Given that concession agreements do not specify remuneration for these concepts, it is assumed that fair value of income corresponds to incurred costs without margin.

The assets included in this accounts are amortised on a straight-line basis over the duration of each concession, except in the case of the Maghreb-Europe pipeline, which, in order to properly reflect the expected consumption scheme for the future economic profits, is based on the value of gas transported during the life of the right of use, which represents accumulated amortisation that is no less than what would be the result of using a straight-line amortisation method.

Furthermore, the concessions for electricity distribution and transmission in Spain and Chile, and the concessions for the gas distribution in Chile acquired, all of them, basically as part of a business combination has no legal or any other type of limit. Accordingly, since we are dealing with intangible assets with an undefined life, they are not amortised, although they are tested for possible impairment annually as per that set out in Note 3.4.5.

*c) Computer software*

Costs associated directly with the production of computer software programs that are likely to generate economic profits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs that has developed the computer programs.

Computer software development costs recognized as assets are amortised on a straight–line basis in five years as from the time the assets are prepared to be brought into use.

*d) Research costs*

Research activities are expensed in the consolidated income statement as incurred.

*e) Customer acquisition costs*

The incremental costs incurred directly to obtain customer contracts that reflect the commissions paid to obtain energy supply contracts with such customers and which are expected to be recovered over the expected duration of the contract are recorded as intangible assets.

Customer acquisition costs recognised as assets are amortised systematically in the consolidated income state over the average expected useful life of the contracts with customers, varying between two and eight years.

*f) Other intangible assets*

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive regasification rights at the regasification plant in Peñuelas (Puerto Rico), which are amortised on a straight-line basis until the end of their term (2025).
- The licence costs for renewable generation farms, mainly acquired as part of a business combination, which will be amortised on a straight-line basis over their useful lives.
- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valued at fair value and amortised over the contract term that does not differ of expected consumption scheme.

There are no intangible assets with an undefined useful life apart from goodwill and the aforementioned



concessions for electricity distribution and transmission and the concessions for gas distribution.

### 3.4.4 Property, plant and equipment

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

#### a) Cost

All property, plant and equipment are presented at cost of acquisition or production, or the value attributed to the asset in the event that it was acquired as part of a business combination.

The financial cost for the technical installation projects until the asset is ready to be brought into use, form part of property, plant and equipment.

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

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

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

The non-extractable gas necessary as a cushion for the exploitation of the underground storage units of natural gas is recorded as Property, plant and equipment ("cushion gas"), and depreciated over the useful life of the underground storage deposit.

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.

The future costs which Naturgy must meet in relation to the closure of certain facilities are included in the value of the assets at the restated value, including the respective provision (Note 3.4.17).

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

#### b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33-50
Gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-65
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	35
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	25
Technical installations (electricity transmission lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer hardware	4
Vehicles	6
Other	3-20

The hydro-electric plants are subject to the temporary administrative concession regime. Upon termination of the terms established for the administrative concessions, the plants revert to the

Government in proper condition, which is achieved by stringent maintenance programs. The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2022 and 2063).

Naturgy depreciates its nuclear energy plants over a useful life of 40 years which corresponds to the theoretical useful life of its main components. Operating licences for these plants usually have 10-year terms, it not being possible to request their renewal until near to the end of each licence. Nonetheless, in view of the optimal performance of these facilities and related maintenance programmes, the permits are expected to be renewed at least until a 40-year useful life is reached.

During the first quarter of 2017 Naturgy concluded the technical studies it was carrying out on the estimation of the useful life of combined cycle plants and, in line with the practice followed by the main operators in the industry, the useful life of the combined cycle plants has been changed on a prospective basis from 25 to 35 years, with effect from 1 January 2017. The effect of this estimated useful life change on "Depreciation, amortisation and impairment losses" in the 2017 consolidated income statement is a Euros 87 million reduction in the depreciation charge.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (Note 3.4.5).

#### *c) Exploration and production operations*

Operating costs, excluding drilling costs, are recognised in the income statement as they arise, using the successful-efforts method. If, as a result of test drilling, proven reserves are found that justify commercial development, costs are transferred to investments in zones with reserves; otherwise, they are charged to the income statement.

Costs of investments in zones with reserves are capitalised and depreciated over the estimated commercial life of the gas field, based on the relationship between annual production and proven reserves at the start of the depreciation period. At the year end, or at any time when there is an indication that there may be asset impairment, the recoverable value is compared to their carrying value.

#### **3.4.5 Non financial asset impairment losses**

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, goodwill and intangible assets not in use or with indefinite useful lives are tested at least annually for impairment.

When the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised in the consolidated income statement for the difference between both. 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 discount cash flow method. Naturgy 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, including assets with an undefined useful life, and goodwill are assigned to these cash-generating units (CGUs).

For those CGUs requiring impairment testing, cash flows have been based on the Strategic Plan approved by Naturgy updated in line with the most recent budgets, extrapolated to a total maximum of five years, on the basis of regulations and expectations regarding the development of the market based on available industry forecasts and historical experience of the performance of prices and output.

The cash flows after the five-year projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the 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.
- Equity-debt ratio: Sector average.

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

An impairment loss is recognized for a CGU if its recoverable amount is less than the carrying amount. This loss is allocated a) firstly, to the goodwill, and then to the other CGU assets in proportion to their respective carrying values. These reductions are treated as impairment losses on individual assets. The carrying amount of an asset is not reduced below the higher of its recoverable value and zero dividing this amount of not allocated loss apportioned among the other CGU assets.

Impairment adjustments to the value of an assets recognised in previous periods, other than goodwill, may be reversed if and only if there is a change in the estimates used to determine the recoverable amount since the latest impairment loss was recognised.

### **3.4.6 Financial assets and liabilities**

#### Financial assets

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

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:

#### a) Financial assets at amortised cost

These are financial assets, not derivatives, which are held to collect contractual cash flows when those cash flows consist only of principal and interest payments. 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. Interest income from these financial assets is included in financial income. Any gain or loss

that arises when they are derecognised is recognized directly in consolidated results and any impairment losses are recorded as a separate item in the consolidated income statement for the year.

b) Financial assets at fair value through profit or loss

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

Equity instruments classified in this category are recognised at fair value and any gain or loss arising from changes in fair value, or the proceeds of their sale, are included in the consolidated income statement.

The fair values of listed investments are based on listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows (Levels 2 and 3). If recent available information is insufficient to determine fair value, or if there are a range of possible fair value measurements and the cost value is the best estimate within that range, the investments are recorded at their acquisition cost reduced by any impairment losses.

c) Equity instruments at fair value through other comprehensive income

These are equity instruments with respect to which Naturgy has made an irrevocable decision at the time of initial recognition to record them in this category. They are recognised at fair value and any increases or reductions arising from fair value fluctuations are recorded under other comprehensive income, except for dividends derived from these investments which are recognised under income for the year. Therefore no impairment losses are recognised in the income statement, and at the time of their sale, no gains or losses are reclassified to the consolidated income statement.

Fair value measurements recognised in these consolidated annual accounts are classified using a fair value hierarchy that reflects the relevance of the variables employed to perform the measurement. This ranking has three levels:

- Level 1: Valuations based on the quotation price of identical instruments in an official market. The fair value is based on quoted market prices at the balance sheet date.
- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets included in this category is determined using valuation techniques. These measurement techniques maximise the use of available observable market data inputs and rely as little as possible on entity-specific estimates made by Naturgy. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.
- Level 3: Valuations based on variables that are not based on observable market information.

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.

Receivables assignment agreements are treated as factoring without recourse provided that the risks and rewards inherent in ownership of the financial assets assigned are transferred.

The impairment of financial assets is based on an expected loss model. Naturgy accounts for the expected loss and the changes therein at each reporting date to reflect the changes in credit risk from the date of initial recognition, without waiting for an impairment event to occur.

Naturgy applies the general expected loss model for financial assets with the exception of Trade and other receivable without a significant financial component, for which the simplified expected loss model is used.

The general model requires the recognition of the expected loss resulting from a default event in the coming 12 months or over the duration of the contract, depending on the evolution of credit risk on the financial asset since initial recognition in the balance sheet. In the simplified model, credit losses expected over the duration of the contract are recorded from the outset, taking into account available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors.

#### Financial liabilities

##### a) Financial liabilities at amortised cost

Borrowings are initially recognised at their fair value, net of any transaction costs 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, classifying financial liabilities as measured subsequently at amortised cost.

In the event of contractual modifications of a liability at amortized cost that does not result in derecognition, the contractual flows of the refinanced debt must be calculated maintaining the original effective interest rate, and the resulting difference will be recorded in the income statement on the date of said modification.

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 proration clauses that can be exercised by Naturgy.

In addition, 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.

##### b) Financial liabilities at fair value through profit or loss

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

### **3.4.7 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.

Naturgy 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, Naturgy documents that the economic relationship between the hedging instrument and the hedged asset is aligned with the risk management objective.

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

- Derivatives listed on an official market are calculated on the basis of their year-end quotation (Level 1).
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of

cash flows based on year end market conditions, based on market conditions as at Consolidated balance sheet date or, for some non-financial items, on best estimation on forward curves of said non-financial item (Level 2 and 3).

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

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

For accounting purposes, the operations are classified as follows:

*1. Derivatives eligible for hedge accountings*

*a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in the income statement together with any changes in the fair value of the hedged items.

*b) Cash flow hedge*

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

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

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect the consolidated income statement. However, if this amount is a loss, and for an amount that is not expected to be recovered, it will be immediately reclassified in the consolidated income statement as a reclassification adjustment.

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

- If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.
- The gain or loss relating to the effective portion of interest rate swaps is recognised in the financial expense at the same time as the interest expense on the hedged loans.

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

*c) Hedges of net foreign investments*

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

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

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated income statement.

## *3. Energy purchase and sale agreements*

During the normal course of its business Naturgy 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 of physical delivery of energy projected by Naturgy in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted always by physical delivery. Consequently, these are contracts for “own use” and therefore fall outside the scope of IFRS 9.

### **3.4.8 Non-current assets held for sale and discontinued activities**

Naturgy classifies as assets held for sale all the assets and related liabilities for which active measures have been taken in order to sell them and if it is estimated that the sale will take place within the following twelve months.

Additionally, it 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, since the date 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 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.

Non-current assets held for sale are disclosed as follows on the consolidated balance sheet: the assets are carried under a single account “Non-current assets held for sale” and the liabilities are also carried under a single account called “Liabilities linked to non-current assets held for sale”. The profit or loss from discontinued activities is stated on a single line on the Consolidated income statement called “Profit for the year from discontinued operations net of tax”.

### **3.4.9 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to the acquisition and/or production, including the costs of transporting inventories to the current location.

The nuclear fuel is valued on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the income statement on the basis of the energy capacity consumed.

Emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the allowances are delivered, they are derecognised against the provision recorded when the CO<sub>2</sub> emissions take place (Note 3.4.17).

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, the Group assesses whether or not the net realisable value of finished goods is greater than their production cost.

### **3.4.10 Share capital**

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves.

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 disposal of treasury shares are recognized under "Reserves" in the consolidated balance sheet.

### **3.4.11 Share-based payments**

Share-based payments are measured and are liquidated in shares by reference to the fair value of the equity instruments granted on the grant date.

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

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

### **3.4.12 Earnings per share**

Basic earnings per share are calculated as a quotient between Consolidated profit for the year attributable to equity holders of the company and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

Diluted earnings per share are calculated as a quotient between Consolidated profit for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself.

### **3.4.13 Borrowings and equity instruments**

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

Naturgy 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.



### **3.4.14 Preference shares and subordinated perpetual debentures**

The issues of preference shares and subordinated perpetual debentures are considered equity instruments if and only if:

- They do not include the contractual obligation for the issuer to repurchase them, under conditions involving certain amounts and at certain dates or determinable amounts and at determinable dates, or the right of the holder to demand their redemption.
- The payment of interest is at the discretion of the issuer.

In the case of issues of preference shares made by a subsidiary of the Group, which comply with the above conditions, the amount received is classified on the consolidated balance sheet under "Non-controlling interest".

### **3.4.15 Deferred income**

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted. The imputed amounts are recognized in profit or loss in a systematic way over time according to the useful life of the corresponding asset, thus compensating the expense for the amortization provision.
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities. As the nature of the performance obligation resulting from contracts with customers includes both the connection service and the continuous network access service, the amounts allocated are recognised in the income statement systematically over the duration of the contracts, which coincides with the useful lives of the facilities.

### **3.4.16 Provisions for employee obligations**

#### *a) Post-employment pension obligations and the like*

- Defined contribution plans

Naturgy Energy Group, S.A., together with other group companies, is the promoter of a joint occupational pension plan, which is defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are assured.

Additionally, there is a defined contribution plan for a group of executives, for which Naturgy undertakes to make certain contributions to an insurance policy. Naturgy guarantees 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 recorded under Personnel expenses on the consolidated income statement.

- Defined benefit plans

For certain groups there are defined benefit liabilities relating to the payment of retirement pension, death and disability supplements, in accordance with the benefits agreed by the entity and which have been transferred out in Spain through single premium insurance policies under Royal Decree 1588/1999/15 October, which adopted the Regulations on the arrangement of company pension liabilities.

The liability recognised for the defined benefit pensions plans is the current value of the liability at the

balance sheet date less the fair value of the plan-related assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised directly in the equity item "Other comprehensive income", for the entire amount, in the period in which they arise.

Past-service costs are recognized immediately in consolidated income statement under Personnel expenses.

*b) Other post-employment benefit obligations*

Some of Naturgy's companies provide post-employment benefits to their employees. 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, directly in equity, to Other comprehensive income.

*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. Naturgy 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 Naturgy has decided to give its consent to voluntary redundancies once they have been requested by the employees.

### **3.4.17 Provisions**

Provisions are recognised when Naturgy 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 present value of the Company's best estimate of expenditure required to settle the present obligation at the Balance sheet date.

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

Naturgy has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it is recorded under Property, plant and equipment the current value of the cost that these tasks would amount, which, in the case of nuclear plants, includes the time until ENRESA, the public entity takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

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

In order to cover the obligation concerning the delivery of CO2 emission allowances for emissions made during the year, Current provisions record the CO2 allowances to be delivered valued at acquisition cost for allowances purchased recorded under Inventories and, if not all necessary emission allowances are held, at fair value for allowances pending purchase.

### **3.4.18 Leases**

#### *1) 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.

Naturgy acts as a lessee under a number of finance lease agreements. 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 arising from the lease, net of the finance charge, is recognised in liabilities in the consolidated balance sheet. The interest component of the finance charge is taken to the consolidated income statement over the term of the lease so as to produce a constant periodic rate of interest on the debt pending payment for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

#### *2) 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 consolidated income statement on a straight-line basis over the lease period.

### **3.4.19 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 Consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when Naturgy can control the reversal of the timing 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 income tax assets and credit taxes are recorded only when there are no doubts as to their future recoverability through the future tax profits that can be used to offset timing differences and make credit taxes effective.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to the consolidated income statement or to the item "Other comprehensive income for the year" in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

### **3.4.20 Revenue and expenses recognition**

#### *a) General*

Revenues derived from contracts with customers must be recognised based on compliance with performance obligations with customers.

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

Five steps are established for the recognition of revenue:

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

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

The 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 and transactions between Naturgy companies are eliminated.

*b) Revenues from the gas network acces*

The remuneration of the regulated gas distribution activity is fixed for each distribution company for all its facilities according to the clients connected to them and the volume of gas supplied.

The remuneration of the regulated gas transport is fixed in respect of availability and continuity of supply of the companies owning transmission assets.

The provision of the distribution facilities to place the gas at the supply points is considered a single performance obligation so that the amount of the remuneration of the regulated gas transport and distribution activity is recorded as revenue on a straight-line basis since the service provided is similar over time.

The regulatory framework of the natural gas sector in Spain (2.1.) regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained, so that each company receives the remuneration recognised for its regulated activities.

At the date of preparation of these consolidated annual accounts, no final settlements from prior years are outstanding.

Order ETU/1977/2016 of 23 December recognised both the accumulated gas system deficit for 2014 and the mismatch between revenues and costs for 2015, which coincide with the amount approved in the respective final settlements for each year. Companies subject to the settlement system, which include Naturgy, are entitled to recover these amounts, as from 25 November 2016, in fifteen and five annual payments, respectively.

Order ETU/1283/2017 of 22 December recognises the mismatch between revenues and costs for 2016, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, re entitled to recover these amounts as from 1 December 2017, in fifteen annual payments.

In December 2017 the irrevocable assignment without recourse of the 2014 deficit and the mismatches for 2015 and 2016 took place (Note 9).

Order ETU/1367/2018 of 20 December recognises the mismatch between revenues and costs for 2017, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, will be entitled to recover these amounts as from 29 November 2018, in fifteen annual payments.

The above order also recognises, as parties subject to the settlement system, irrespective of the activity they engage in, the holders of collection rights relating to the deficit accumulated at 31 December 2014, and lays down the final interest rates applicable to the calculation of the annual amounts of the accumulated deficit at the end of 2014 and the annual amounts pertaining to the mismatches for years

2015, 2016 and 2017.

*c) Gas sales revenues*

Revenue includes the amount of both last-resort gas sales and free market sales, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made.

The exchanges of gas that do not have a different value and do not include costs that causes differences in value are not classified as transactions that generate revenues and are not included, therefore, in the income figure.

The amount of gas sales is recorded as income at the time of delivery to customers, based on the quantities supplied and including the estimate of energy supplied not yet calculated in customers' meters.

*d) Revenues from the electricity network acces*

The remuneration for the electricity distribution and transmission activity is established annually by the Ministry, recognising remuneration for investment and operation and maintenance.

The amount of the remuneration of the regulated electricity transmission and distribution activity is recorded as revenue on a straight-line basis since the service provided consists of making the assets available and, therefore, is similar over time.

The regulatory framework of the electricity sector in Spain (2.2) regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained, so that each company receives the remuneration recognised for its regulated activities.

The remuneration for electricity distribution is settled provisionally applying the 2016 figures until the respective Ministerial Orders that definitively determine the remuneration for 2017 and 2018 and the remuneration that would apply to date in FY 2019 are published.

At the date of formulation of these Consolidated annual accounts the final payments for the period 2014-2017 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

From 2006 to 2013, given that the income collected by the companies in the Spanish electricity industry has not been sufficient to remunerate the different activities and costs of the system, The companies themselves, including Naturgy, were forced to finance this income deficit until its definite funding. Following successive auctions and assignments of the outstanding debt claims, on 15 December 2014 the electricity system deficit securitisation process was completed.

Following the publication of Electricity Sector Law 24/2013, December 26 (Note 2.2), temporary mismatches between electricity system revenues and costs are funded by the companies subject to the settlement system, including Naturgy, generating the right to recover the relevant amount over the following five years, including interest at a market rate. Consequently, the financing for the electricity system revenue deficit is recognised as a financial asset since, on the basis of this regulation, Naturgy is entitled to a reimbursement and there are no future contingent factors. In the period 2014 to 2018, following the reforms that were undertaken, there has been no income shortfall in the sector, according to the data on provisional settlements for those years.

*e) Electricity sales revenues*

Revenue includes the amount of electricity sales in both the PVPC market and the free market, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made. Consequently, power purchases and sales are recognised for the total amount. Nonetheless, power purchases and sales from the pool made by the Group's generation and supply companies in the same time band are eliminated during the consolidation process.

The amount of electricity sales is recorded as income at the time of delivery to customers, based on the quantities supplied and including the estimate of energy supplied not yet calculated in customers' meters.

f) *Other income*

Naturgy has power generation capacity assignment contracts with the Federal Electricity Commission for its combined-cycle plants in Mexico (CFE), for a 25-year term as from the start date of commercial operations. These contracts stipulate a pre-established collection schedule for the assignment of power supply capacity. As Naturgy has the capacity to operate and manage the plants, sells the power at market prices and retains the rewards and risks of operations, taking relevant decisions that will affect future cash flows, these contracts represent provisions of services and are thus recognised on a percentage-of-completion basis over time.

Revenue from register of subscribers, which consist of the operation of coupling the gas reception facility to the network, as well as the verification income of facilities, is recognized at the time these actions are carried out since it is at that moment when the client obtains the benefits of the service provided and there is no associated future obligation.

The fees for the rental of meters and installations are recorded as income over the period of the provision of the rental service that constitutes the performance obligation

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.

### **3.4.21 Cash Flow Statement**

The consolidated cash flow statement has been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.
- b) Investing activities: acquisition, sale or disposal band other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

### **3.4.22 Significant accounting estimates and judgements**

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

- a) *Intangible assets and property, plant and equipment (Notes 3.4.3 and 3.4.4)*

The determination of useful life of intangible assets and property, plant and equipment requires estimates of their degree of use, as well as expected technological evolution. 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 non-financial assets (Note 3.4.5)*

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 Naturgy, which have historically been substantially met.

Main assumptions used to determine the estimated recoverable value of non-financial assets are detailed in Note 5.

c) *Derivatives and other financial instruments (Note 3.4.7)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated 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. Naturgy uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated 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 consolidated balance sheet date. The fair value of commodity prices derivatives is determined using quoted forward price curves at the consolidated balance sheet date.

The carrying value less the expected loss provision of trade receivables are assumed to approximate their fair values. The fair value of financial liabilities for reporting purposes is calculated by discounting the future contractual cash flows at the current market interest rate to which Naturgy has access for similar financial instruments.

d) *Provisions for employee benefits (Note 3.4.16)*

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. Naturgy estimates at each year end the provision necessary to meet its pension liabilities and the like, 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 3.4.17)*

Naturgy makes an estimate of the amounts to be settled in the future, including amounts relating to, contractual obligations, outstanding litigation, future costs for dismantling and closure of certain facilities and restoration of land 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) *Income tax (Note 3.4.19)*

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Naturgy operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. Naturgy evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income and the capacity to generate sufficient profits during the periods in which said deferred taxes are deductible. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g) *Revenue recognition (Nota 3.4.20)*

Revenues from energy sales are recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from

the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts recorded as unbilled income and none are expected in the future.

Certain aggregates for the electricity and gas system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialise in the respective final payments, could affect the calculation of the deficit in the payments for the electricity and gas regulated business in Spain.

#### **Note 4. Segment financial information**

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, whose operating results are reviewed regularly by the Naturgy's Board of Directors when taking its operating decisions in order to decide on the resources that must be allocated to the segment and to evaluate its performance, in respect of which separate financial information is available.

The new Strategic Plan 2018-2022, approved by the Board of Directors on 27 June 2018, has determined a new segment model with full management responsibility and independence. As a result, the operating segments have been redefined based on the following criteria:

- Gas and Electricity:
  - Supply of gas, electricity and services: the objective is to manage a new integrated business model for gas, electricity and services, maximising the value of the portfolio by focusing on customers, with high growth potential in services and solutions.
  - International LNG supply: includes both the sale of liquefied natural gas and the sea transport business.
  - Electricity generation in Europe: includes both conventional generation (hydro, coal, nuclear and combined cycle plants) and renewable generation (wind, mini-hydro, solar and cogeneration), all of which are currently in Spain.
  - International electricity generation: includes the electricity generation facilities of Global Power Generation (GPG) in Latin America (Brazil, Chile, Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter consolidated using the equity method through EcoEléctrica LP) and Australia.
- EMEA Infrastructures:
  - Gas distribution Spain: encompasses the regulated gas distribution business in Spain.
  - Electricity distribution Spain: encompasses the regulated electricity distribution business in Spain.
  - Maghreb infrastructures: Manages the Maghreb - Europe gas pipeline.
- Latin America South Zone Infrastructures:
  - Gas and electricity distribution in Argentina.
  - Gas distribution in Brazil.
  - Gas distribution and supply and electricity distribution in Chile.
  - Gas distribution in Perú.
- Latin America North Zone Infrastructures:
  - Gas distribution in México.



- Electricity distribution in Panamá.
- Rest. Basically includes the activity of Unión Fenosa Gas (consolidated by the equity method) and the gas storage business.

Net financial income and income tax expense are not allocated to the operating segments, since until 2018 both financing activities and the income tax effects were managed jointly although, as of 2019, it will be assigned according to the new organizational model that provides business with independent management

Segment results and investments for the periods of reference are as follows:



## Segmental financial information – Assets, liabilities and investments

2018	Gas and Electricity					EMEA Infrastructures				Latin America South Infrastructures					Latin America North Infrastructures			Rest	Eliminations	TOTAL
	Supply business	LNG	Gener. Europe	Gener. International	Gener. Total	Gas Networks Spain	Electricity Networks Spain	Maghreb Infr.	EMEA Total	Argentina	Brazil	Chile	Peru	Latin America South Total	Mexico	Panama	Latin America North Total			
Operating assets (a)	3,219	1,670	5,705	2,051	12,645	3,921	5,127	164	9,212	379	1,046	6,116	9	7,550	845	1,067	1,912	580	(749)	31,150
Investments under equity method	-	-	126	271	397	-	7	-	7	14	-	38	-	52	2	-	2	358	-	816
Operating liabilities (a)	(1,673)	(357)	(973)	(207)	(3,210)	(684)	(938)	(13)	(1,635)	(188)	(242)	(394)	(2)	(826)	(113)	(267)	(380)	(993)	742	(6,302)
Investment in intangible assets (b)	36	-	12	1	49	9	23	5	37	46	54	17	13	130	7	4	11	54	-	281
Invest. in property, plant & equipment (c)	25	380	450	231	1,086	231	205	-	436	2	6	321	-	329	74	99	173	16	-	2,040
Business combinations (Note 31)	-	-	-	35	35	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35

2017	Gas and Electricity					EMEA Infrastructures				Latin America South Infrastructures					Latin America North Infrastructures			Rest	Eliminations	TOTAL
	Supply business	LNG	Gener. Europe	Gener. International	Gener. Total	Gas Networks Spain	Electricity Networks Spain	Infr. Maghreb	EMEA Total	Argentina	Brazil	Chile	Peru	Latin America South Total	Mexico	Panama	Latin America North Total			
Operating assets (a)	3,227	991	7,500	1,796	13,514	4,068	5,090	238	9,396	187	1,199	6,603	41	8,030	786	960	1,746	1,430	(778)	33,338
Investments under equity method	-	-	116	358	474	-	7	-	7	21	-	36	-	57	9	-	9	953	-	1,500
Operating liabilities (a)	(1,639)	(193)	(405)	(131)	(2,368)	(838)	(1,025)	(16)	(1,879)	(120)	(222)	(568)	(4)	(914)	(93)	(227)	(320)	(1,119)	783	(5,817)
Investment in intangible assets (b)	1	-	7	-	8	15	35	11	61	46	113	10	19	188	6	3	9	123	-	389
Invest. in property, plant & equipment (c)	47	-	171	168	386	197	217	-	414	2	7	299	-	308	109	107	216	69	-	1,393
Business combinations (Note 31)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(a) There follows a breakdown of the reconciliation of "Operating assets" and "Operating liabilities" with consolidated "Total assets" and "Total liabilities":

	2018	2017		2018	2017
<b>Operating assets</b>	<b>31,150</b>	<b>33,338</b>	<b>Operating liabilities</b>	<b>(6,302)</b>	<b>(5,817)</b>
Goodwill	3,215	4,760	Equity	(14,595)	(18,305)
Investments carried under the equity method	816	1,500	Non-current financial liabilities	(13,352)	(15,916)
Non-current financial assets	910	1,219	Finance lease liabilities (Note 19)	(1,318)	(933)
Deferred tax assets	1,689	849	Deferred tax liabilities	(2,149)	(2,312)
Non-current assets held for sale (Note 11)	202	1,682	Liabilities related to non-current assets held for sale (Note 11)	(93)	(621)
Derivative financial instruments (see Note 11)	207	38	Current financial liabilities	(2,079)	(2,543)
Public administrations (Note 10)	113	71	Derivative financial instruments (Notes 19 and 20)	(132)	(90)
Current tax assets	185	178	Dividend payable (Note 19)	(37)	(45)
Other current financial assets	428	462	Public administrations (Note 20)	(541)	(593)
Cash and cash equivalents	1,716	3,225	Current tax liabilities	(33)	(147)
<b>Total assets</b>	<b>40,631</b>	<b>47,322</b>	<b>Total liabilities</b>	<b>(40,631)</b>	<b>(47,322)</b>

(b) Includes the investment in "Intangible assets" (Note 6), broken down by operating segment.

(c) Includes the investment in "Property, plant and equipment" (Note 7), broken down by operating segment.

### Reporting by geographic area

Naturgy's assets, which include the operating assets described above, and the investments recorded using the equity method, are as follows based on their location:

	At 31.12.18	At 31.12.17
Spain	18,965	21,759
Rest of Europe	613	384
Latin American	11,674	11,962
Other	714	733
<b>Total</b>	<b>31,966</b>	<b>34,838</b>

The investments in property, plant and equipment and other intangible assets of Naturgy, as described above, assigned according to the location of the assets are as follows:

	At 31.12.18	At 31.12.17
Spain	1,437	820
Rest of Europe	1	38
Latin American	783	871
Other	100	53
<b>Total</b>	<b>2,321</b>	<b>1,782</b>

### Note 5. Non financial asset impairment losses

#### Definition of Cash Generating Unit

Following the approval on 27 June 2018 of the new Strategic Plan 2018-2022 which has introduced a new industrial and business unit model, and due to the circumstances described in Note 5 Segment reporting" and the alignment of the new structure with the new vision and management method for the lines of business and cash flows under the new Strategic Plan, a new definition of the Cash Generating Units (CGU) has been introduced, 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 and with high potential for growth in services and solutions, for which there is a single CGU.
  - International LNG sales: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
  - Electricity Generation Europe: It is considered that there is a CGU for conventional electricity generation (hydro, coal, nuclear and combined cycle 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.

In the past, these activities formed part of single CGU because they were managed and controlled jointly and centralised based on conditions of demand, where all power plants using different technologies played a major, complementary and necessary role in light of different market situations, providing the electricity required by customers at any given time. However, as a result of the auctions carried out during 2017 in which Naturgy was awarded a total capacity of 971 MW for wind and solar energy, the generation of renewable electricity will increase from 8% in 2017 with respect to conventional generation to more than 30% in 2020, increasing the quantitative contribution of income, investments and results, which are increasingly affected by the availability of parks, the volatility of electricity prices and the revisions of supplements remuneration, all of which means that the cash inflows from said renewable generation assets are considered independent of those from conventional generation assets by the substantial increase in scale.

- 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.
- Maghreb 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 the development, operation and maintenance of which is managed jointly.
  - EMPL: 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.
- Rest: Basically includes the Unión Fenosa Gas CGU and the gas storage business.

In summary, and with respect to the previous year, in addition to various CGU relocations between segments, the Electricity Spain CGU has been divided into: i) Supply of electricity ii) Generation of conventional electricity; and iii) Generation of renewable electricity.

#### Information on recorded impairments

Following the approval of the new Strategic Plan 2018-2022, in 2018 impairment or write-downs of assets amounting to Euros 4,851 million were recorded, arising from the revaluation of future cash flow estimates based on said Plan or by other factors arising in the period, which are detailed as follows:

- Euros 3,929 million recorded under "Depreciation/amortization and impairment losses" on conventional power generation plants in Spain. This amount includes Euros 1,538 million for all goodwill (Note 6), Euros 118 million for intangible assets (Note 6), Euros 2,258 million relating to tangible fixed assets (Note 7) and Euros 15 million for Inventories (Note 12).

Due to the existence of impairment evidence, following the approval of the new Strategic Plan and taking into account external reports by analysts who regularly cover Naturgy tracking that indicate a value for the electricity business in Spain which is lower than the relevant carrying value, an impairment analysis has been carried out on the three CGUs that made up the Electricity CGU in Spain in previous years: conventional electricity generation, renewable electricity generation and electricity supply. Impairment was detected only with respect to the conventional electricity generation CGU in Spain.

The new assumptions and projections that affect these CGUs are based on the new Strategic Plan 2018-2022, approved by the Board of Directors following the last General Shareholders' Meeting which update those that had been used to date, and have been 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 assumptions taken into consideration are the following:

	2018	2019	2020	2021	2022
Evolution of Spanish GNP	2.70%	2.20%	1.90%	1.70%	1.70%
Pool price €/MWh	58.5	56.8	54.8	51.3	50.3
Brent (USD/bbl)	75.3	75.5	71.0	67.8	65.6
Gas Henry Hub (USD/MMBtu)	2.9	2.8	2.7	2.7	2.7
Coal (API2 CIF ARA) (USD/t)	89.6	88	85.2	82.9	81.9
CO2 €/t	14.0	16.1	16.3	16.6	17.0

The most sensitive aspects that are included in the new estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.4.5 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. The main variation with respect to the past projections is that, as a result of this analysis, price paths have been obtained which, as a result of the above-mentioned uncertainty over energy policy in Spain, have been adjusted downwards on average with futures curves and analysts' forecasts. The sources used for analysts' forecasts relate to IHS CERA.
- 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 and analysts' forecasts (IHS CERA).
- Operation and maintenance costs. Estimated from historical costs of managed park.
- Taxes laid down in Law 15/2012 (Note 2.2).
- Similarly, a long-term growth rate of 1.9% and a discount rate before taxes of 7.0% have been used for the conventional electricity generation 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 2017 the long-term growth rate for the Electricity Spain CGU was 2.2%, while the pre-tax discount rate applied for said CGU was 6.3%.

The recoverable amount calculated as the value in use of the conventional electricity generation CGU, which is equivalent to its carrying value, was Euros 3.591 million. A sensitivity analysis was carried out independently for each of the following variations in the key assumptions:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 333 million.
  - a decrease in the growth rate of 50 basis points would increase impairment by Euros 258 million.
  - a decrease in electricity output of 5% would increase impairment by Euros 203 million.
  - an increase in fuel costs of 5% would increase impairment by Euros 364 million.
  - a decrease in electricity prices of 5% would increase impairment by Euros 528 million.
- Euros 538 million relates to the impairment of the 50% interest in Unión Fenosa Gas recorded under the heading "Profit/(loss) from equity-consolidated companies".

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 Unión Fenosa Gas to file various arbitration petitions, the progress of which is described in Note 35. As a result of impairment already arising prior to 2017, the recoverable value of Unión Fenosa Gas was approximately equivalent to its carrying value and therefore any negative variation in the assumptions meant that the recoverable value would be less than the carrying value.

The most significant 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 liquefying at the plant during the Strategic Plan 2018-2022 because the agreement with EGAS has still not materialised and 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% (1.8% in 2017) and a pre-tax discount rate of 15.1% (13.4% in 2017) have been used.

The accumulated impairment at 31 December 2018 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 1,166 million (Euros 628 million at 31 December 2017). At 31 December 2018, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 340 million (Note 8). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 16 million.

- Euros 171 million recorded under "Depreciation/amortization and impairment losses" relates to computer software (Note 6), resulting from the review thereof under the new Strategic Plan 2018-2022 and taking obsolescence into account.
- Euros 34 million relating to the impairment of the 50% interest in the electricity generation company EcoEléctrica LP recorded under the heading "Profit/(loss) from equity-consolidated companies" as a result of the need to update, for impairment testing purposes, the assumptions concerning electricity production and electricity prices subsequent to the renewal scheduled for March 2022 of the Power Purchase Agreement (PPA) with the Puerto Rico Electric Power Authority (PREPA), which is conditional on the expected long-term evolution of the energy scenario. In addition, a pre-tax discount rate of 8.3% (6.5% in 2017) have been used.

At 31 December 2018, the recoverable amount calculated as the value in use of EcoEléctrica L.P., which is equivalent to its carrying value, was Euros 271 million (Note 8). A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 6 million.

- Euros 179 million relating to the impairment of capitalised costs in various gas distribution projects included in Latin America South Infrastructures for an amount of Euros 45 million recorded under the heading "Depreciation/amortisation and impairment losses" in Intangible Assets (Note 6) and other miscellaneous projects included under Remainder amounting to Euros 134 million due to their non-feasibility, of which Euros 86 million was recorded under the heading "Depreciation/amortization and impairment losses" under Property, plant and equipment (Note 7) and Euros 48 million recorded in Inventories (Note 12).

Additionally, prior to the approval of the new Strategic Plan 2018-2022, other impairments or write-downs of various assets for an amount of Euros 54 million have been recorded:

- Euros 30 million from the electricity generation business in the Dominican Republic recognised in

March 2018 under the heading "Depreciation/amortization and impairment losses" in Property, plant and equipment (Note 7) as a result of the update for impairment testing purposes of the electricity production and electricity price assumptions that have been necessary in a scenario of growth in the generation park capacity with other technologies in that country. In addition, a long-term growth rate of 4.0% (4.0% in 2017) and a pre-tax discount rate of 13.8% (12.8% in 2017) have been used.

At 31 December 2018 the recoverable amount calculated as the value in use of the electricity generation CGU in the Dominican Republic, which is equivalent to its carrying value, was Euros 57 million. A sensitivity analysis has been carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 2 million.

- Euros 24 million recorded in April and May 2018 under "Depreciation/amortization and impairment losses" in Property, plant and equipment (Note 7) corresponding to the impairment of capitalised costs in various projects included under Remainder due to their non-feasibility.

#### 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, in 2018 and 2017 the recoverable amounts, calculated according to the methodology described in Note 3.4.5, have been higher than the carrying values recorded in these consolidated 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 1.9% and a pre-tax discount rate of 6.8% 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 2017 the long-term growth rate for the Electricity Spain CGU was 2.2%, while the pre-tax discount rate applied for said CGU was 6.3%.
- 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.
  - 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 laid down in Law 15/2012 (Note 2.2).
  - In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 6.1% 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 2017 the long-term growth rate for the Electricity Spain CGU was 2.2%, while the pre-tax discount rate applied for said CGU was 6.3%.
- 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 2.1% - 4.0% (2.6% -4.0 % in 2017) and pre-tax discount rates of 7.9% - 14.8% (6.5% - 12.8% in 2017) have been used for these CGUs.
- Electricity distribution Spain:
  - Remuneration. Amount and increase in remuneration approved by the regulator.
  - 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, a long-term growth rate of 1.2% (1.2% in 2017) and a pre-tax discount rate of 6.0% (5.2% in 2017) have been used for this 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 1.3% - 3.8% (1.6% -3.0 % in 2017) and pre-tax discount rates of 9.9% - 17.6% (8.8% - 17.0% in 2017) have been used for these CGUs.

Naturgy has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact on 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%	-
Rate/ 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 each of these CGUs.

## Note 6. Intangible assets

The movement in 2018 and 2017 in intangible assets is as follows:

	Concessions IFRIC 12	Other concessions and similar	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	2,661	3,662	1,341	1,374	9,038	5,036	14,074
Sinking fund and impairment losses	(1,053)	(711)	(850)	(540)	(3,154)	-	(3,154)
<b>Carrying amount at 1.1.2017</b>	<b>1,608</b>	<b>2,951</b>	<b>491</b>	<b>834</b>	<b>5,884</b>	<b>5,036</b>	<b>10,920</b>
Investment (Note 4)	186	21	170	12	389	-	389
Amortisation charge	(86)	(42)	(131)	(65)	(324)	-	(324)
Currency translation differences	(165)	(111)	(7)	(7)	(290)	(110)	(400)
Reclassifications and other <sup>(1)</sup>	(468)	5	(29)	(6)	(498)	(166)	(664)
<b>Carrying amount at 31.12.2017</b>	<b>1,075</b>	<b>2,824</b>	<b>494</b>	<b>768</b>	<b>5,161</b>	<b>4,760</b>	<b>9,921</b>
Gross cost	1,662	3,489	1,430	1,371	7,952	4,760	12,712
Sinking fund and impairment losses	(587)	(665)	(936)	(603)	(2,791)	-	(2,791)
<b>Carrying amount at 31.12.2017</b>	<b>1,075</b>	<b>2,824</b>	<b>494</b>	<b>768</b>	<b>5,161</b>	<b>4,760</b>	<b>9,921</b>
Impact of application IFRS 15	-	-	-	61	61	-	61
<b>Carrying amount at 1.1.2018</b>	<b>1,075</b>	<b>2,824</b>	<b>494</b>	<b>829</b>	<b>5,222</b>	<b>4,760</b>	<b>9,982</b>
Investment (Note 5)	101	13	111	56	281	-	281
Amortisation charge	(59)	(47)	(127)	(115)	(348)	-	(348)
Impairment losses (Note 5)	(45)	-	(171)	(118)	(334)	(1,538)	(1,872)
Currency translation differences <sup>(1)</sup>	(56)	(142)	(4)	(3)	(205)	(4)	(209)
Business combinations	-	-	-	28	28	9	37
Reclassifications and other <sup>(2)</sup>	(5)	(4)	2	(7)	(14)	(12)	(26)
<b>Carrying amount at 31.12.2018</b>	<b>1,011</b>	<b>2,644</b>	<b>305</b>	<b>670</b>	<b>4,630</b>	<b>3,215</b>	<b>7,845</b>
Gross cost	1,702	3,386	1,313	1,282	7,683	3,215	10,898
Sinking fund and impairment losses	(691)	(742)	(1,008)	(612)	(3,053)	-	(3,053)
<b>Carrying amount at 31.12.2018</b>	<b>1,011</b>	<b>2,644</b>	<b>305</b>	<b>670</b>	<b>4,630</b>	<b>3,215</b>	<b>7,845</b>

(1) Includes effect of inflation in Argentina (Note 3.3).

(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Note 4 includes a breakdown of investments in intangible assets by segment.

IFRIC Concessions includes concessions regarded as intangible assets under IFRIC 12 "Service concession agreements" (Note 32).

The heading "Other concessions and similar" includes principally:

- The Maghreb-Europe pipeline concession (Note 32) amounting to Euros 131 million at 31 December 2018 (Euros 164 million at 31 December 2017).
- Indefinite useful life concessions per the following breakdown:

	31.12.2018	31.12.2017
Electricity distribution Spain	684	684
Electricity distribution Chile	1,004	1,097
Gas distribution Chile	795	856

The heading "Other intangible assets" mainly includes:

- Licences to renewable generation farms totalling Euros 185 million at 31 December 2018 (Euros 169 million at 31 December 2017). Includes Euros 22 million (Euros 21 million in 2017) from the business combination of Ibereólica Cabo Leones II S.A. and Euros 25 million from the business combination of Guimaranias (Note 31).
- The value of contracts activated under IFRS 15 amounting to Euros 60 million at 31 December 2018.

- The value of gas supply contracts and other contractual rights acquired as a result of the business combinations involving CGE for an amount of Euros 159 million at 31 December 2018 (Euros 165 million at 31 December 2017); Unión Fenosa for an amount of Euros 213 million at 31 December 2018 (Euros 358 million at 31 December 2017) and includes a Euros 118 million impairment as explained in Note 5, and Naturgy Energy (UK) Ltd for an amount of Euros 12 million at 31 December 2018 (Euros 13 million at 31 December 2017).

Movements in and the composition of goodwill by CGU are set out below:

	1.1.2018	Business Combinations	Currency translation differences	Transfer held for sale	CGU reclassification	Impairment	31.12.2018
Gas and Electricity	3,148	9	20	-	-	(1,538)	1,639
Electricity Spain	2,708	-	-	-	(2,708)	-	-
Conventional generation Spain	-	-	-	-	1,538	(1,538)	-
Renewable generation Spain	-	-	-	-	743	-	743
Supply of gas, electricity and services	16	-	-	-	427	-	443
International generation Mexico	420	-	21	-	-	-	441
International generation Chile	4	-	-	-	-	-	4
International generation Brazil	-	9	(1)	-	-	-	8
EMEA Infrastructures	1,070	-	-	-	-	-	1,070
Electricity distribution Spain	1,070	-	-	-	-	-	1,070
Latin America South Infrastructures:	386	-	(30)	-	-	-	356
Gas distribution Brazil	18	-	(1)	-	-	-	17
Gas distribution Chile	74	-	(6)	-	-	-	68
Electricity distribution Chile	294	-	(23)	-	-	-	271
Latin America North Infrastructures	144	-	6	-	-	-	150
Gas distribution Mexico	20	-	-	-	-	-	20
Electricity distribution Panama	124	-	6	-	-	-	130
Rest	12	-	-	(12)	-	-	-
<b>Total</b>	<b>4,760</b>	<b>9</b>	<b>(4)</b>	<b>(12)</b>	<b>-</b>	<b>(1,538)</b>	<b>3,215</b>

“CGU reclassification” includes, as a result of the redefinition of the CGUs indicated in Note 6, the reallocation of the goodwill of the Electricity Spain CGU to the Gas supply, electricity and services CGU, the Conventional electricity CGU and the Renewable electricity generation CGU, based on the relative values of the goodwill associated with the reorganised units, at 30 June 2018. An impairment analysis has been carried out for these CGUs, resulting in impairment only in the conventional electricity generation in Spain CGU for the entire goodwill amounting to Euros 1,538 million (Note 6).

At 31 December 2018, Naturgy records investment commitments totalling Euros 31 million relating basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

The intangible assets include, at 31 December 2018, fully amortised assets still in use totalling Euros 665 million (Euros 529 million at 31 December 2017).

## Note 7. Property, plant and equipment

The movements in the accounts in 2018 and 2017 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas tankers	Other Property, plant and equipment	PPE under construction	Total
Gross cost	668	10,972	12,666	8,269	1,118	1,042	992	35,727
Sinking fund and impairment losses	(123)	(5,354)	(4,336)	(1,625)	(245)	(417)	-	(12,100)
<b>Carrying amount at 1.1.17</b>	<b>545</b>	<b>5,618</b>	<b>8,330</b>	<b>6,644</b>	<b>873</b>	<b>625</b>	<b>992</b>	<b>23,627</b>
Investment (Note 4)	25	315	140	297	-	46	570	1,393
Divestment	(19)	(2)	(3)	(3)	-	(5)	(4)	(36)
Amortisation charge	(22)	(391)	(522)	(322)	(52)	(61)	-	(1,370)
Currency translation differences	(6)	(121)	(211)	(160)	-	(60)	(51)	(609)
Reclassifications and other (1)	-	(43)	44	60	-	(10)	(402)	(351)
<b>Carrying amount at 31.12.2017</b>	<b>523</b>	<b>5,376</b>	<b>7,778</b>	<b>6,516</b>	<b>821</b>	<b>535</b>	<b>1,105</b>	<b>22,654</b>
Gross cost	644	11,020	12,454	8,405	1,118	987	1,105	35,733
Sinking fund and impairment losses	(121)	(5,644)	(4,676)	(1,889)	(297)	(452)	-	(13,079)
<b>Carrying amount at 31.12.2017</b>	<b>523</b>	<b>5,376</b>	<b>7,778</b>	<b>6,516</b>	<b>821</b>	<b>535</b>	<b>1,105</b>	<b>22,654</b>
Investment (Note 4)	13	314	96	258	380	36	943	2,040
Divestment	(19)	-	-	-	-	-	-	(19)
Amortisation charge	(34)	(398)	(421)	(349)	(67)	(70)	-	(1,339)
Impairment losses (Note 5)	(31)	-	(2,257)	-	-	(110)	-	(2,398)
Currency translation differences (1)	(8)	(21)	44	(42)	-	(11)	(53)	(91)
Reclassifications and other (2)	-	54	240	20	-	(132)	(358)	(140)
<b>Carrying amount at 31.12.2018</b>	<b>444</b>	<b>5,325</b>	<b>5,480</b>	<b>6,439</b>	<b>1,134</b>	<b>248</b>	<b>1,637</b>	<b>20,707</b>
Gross cost	578	11,352	12,791	8,565	1,498	549	1,637	36,970
Sinking fund and impairment losses	(134)	(6,027)	(7,311)	(2,126)	(364)	(301)	-	(16,263)
<b>Carrying amount at 31.12.2018</b>	<b>444</b>	<b>5,325</b>	<b>5,480</b>	<b>6,439</b>	<b>1,134</b>	<b>248</b>	<b>1,637</b>	<b>20,707</b>

(1) Includes effect of inflation in Argentina (Note 3.3).

(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Note 4 include a breakdown of investments in property, plant and equipment by segment.

In November 2018 Naturgy sold the building located in calle Goya, Madrid, for Euros 24 million, generating a capital gain before income tax of Euros 9 million (Note 27).

In November 2018 Naturgy sold the building located in calle Lérida, Madrid, for Euros 12 million, generating a capital gain before income tax of Euros 3 million. In addition, an operating lease without a purchase option was concluded with the acquiring company for a period of ten years which may be extended for a further five-year period. At the date of the transaction, the remaining useful life of the property transferred was considerably greater than the maximum lease period. In December 2017 it sold the building located in calle Ombú, Madrid, for Euros 26 million, generating a capital gain before income tax of Euros 15 million (Note 27).

The heading "Gas tankers" at 31 December 2018 includes the present value at the acquisition date of committed payments to charter gas tankers under finance leases (Note 19), net of depreciation. At 31 December 2018 Naturgy owns eight oil tankers under finance leases following the inclusion of two new vessels for Euros 380 million in 2018 (Note 19).

At 31 December 2017, the item “Other fixed assets” included, basically, the investments in the coalfield of the company Kangra Coal (Proprietary), Ltd. in South Africa and exploration and development costs. In 2018 Kangra Coal (Proprietary), Ltd was transferred to Assets held for sale (Note 11).

Set out below is a breakdown of fixed assets in course of construction by business area:

	<b>31.12.2018</b>	<b>31.12.2017</b>
Gas and Electricity	859	443
EMEA Infrastructures	92	93
Latin America South Infrastructures	612	493
Latin America North Infrastructures	63	69
Rest	11	7
<b>Total</b>	<b>1,637</b>	<b>1,105</b>

The increase in Gas and Electricity fixed assets under construction relates mainly to investments in wind and photovoltaic generation parks in Spain, Australia and Brazil.

At 31 December 2018, Naturgy had no significant real estate investments.

At 31 December 2018, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2,150 million (Euros 2,059 million at 31 December 2017).

It is the Naturgy’s policy to take out insurance where deemed necessary to cover risks that could affect its fixed assets.

At 31 December 2018, Naturgy records investment commitments totalling Euros 621 million relating basically to the construction of new renewable generation facilities and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2018 in fixed assets projects during their construction total Euros 8 million (Euros 8 million in 2017). The financial expenses capitalised in 2018 account for 1.1% of total financial costs on net borrowings (1.1% in 2017). The average capitalisation rate for 2018 and 2017 was 3.2% and 4.0%, respectively.

## **Note 8. Investments in companies**

### **Associates and jointly-controlled entities**

Set out below is a breakdown of equity-consolidated investments:

	<b>At 31.12.2018</b>	<b>At 31.12.17</b>
Associates	57	49
Jointly-controlled entities	759	1,451
<b>Total</b>	<b>816</b>	<b>1,500</b>

Appendix I lists all the associates and jointly-controlled entities in which Naturgy holds an interest, stating their activity and the percentage of the shareholding and equity interest.

The most significant shareholdings are Unión Fenosa Gas and EcoEléctrica L.P. (Note 4).

Movements during 2018 and 2017 in equity-consolidated investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Other jointly-controlled entities	Total jointly-controlled entities	Associates	Total
<b>Value of shareholding at 1.1.2017</b>	<b>1,034</b>	<b>344</b>	<b>151</b>	<b>1,529</b>	<b>46</b>	<b>1,575</b>
Investment	-	-	14	14	-	14
Divestment	-	-	(5)	(5)	-	(5)
Shares of profits/(losses)	(88)	58	38	8	6	14
Dividends received	-	-	(18)	(18)	-	(18)
Currency translation differences	(23)	(41)	(8)	(72)	-	(72)
Other comprehensive income	2	(3)	-	(1)	(1)	(2)
Reclassifications and other	-	-	(4)	(4)	(2)	(6)
<b>Value of shareholding at 31.12.2017</b>	<b>925</b>	<b>358</b>	<b>168</b>	<b>1,451</b>	<b>49</b>	<b>1,500</b>
Impact of application IFRS 9	(9)	(14)	-	(23)	-	(23)
<b>Value of shareholding at 1.1.2018</b>	<b>916</b>	<b>344</b>	<b>168</b>	<b>1,428</b>	<b>49</b>	<b>1,477</b>
Investment	-	-	1	1	-	1
Divestment	-	-	(2)	(2)	-	(2)
Shares of profits/(losses)	(583)	22	40	(521)	8	(513)
Dividends received	-	(107)	(29)	(136)	-	(136)
Currency translation differences (1)	5	12	(20)	(3)	-	(3)
Other comprehensive income	-	-	-	-	-	-
Reclassifications and other	2	-	(10)	(8)	-	(8)
<b>Value of shareholding at 31.12.2018</b>	<b>340</b>	<b>271</b>	<b>148</b>	<b>759</b>	<b>57</b>	<b>816</b>

(1) Includes effect of inflation in Argentina (Note 3.3).

In 2018, impairment in the Unión Fenosa Gas shareholding amounting to Euros 538 million and in Ecoeléctrica, L.P. amounting to Euros 34 million (Note 5) was recognised.

In 2017 the investments related to a Euros 14 million capital increase in Nueva Generadora del Sur, S.A. (Note 30).

There follows a breakdown of assets, liabilities, revenue and results of Naturgy's main interests in jointly-controlled entities (by shareholding percentage):

	At 31.12.2018		At 31.12.2017	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Non-current assets	780	229	1,392	261
Current assets	117	58	231	107
Cash and cash equivalents	62	7	65	40
Non-current liabilities	(397)	(4)	(565)	(3)
Non-current financial liabilities	(171)	-	(159)	-
Current liabilities	(160)	(12)	(133)	(7)
Current financial liabilities	(10)	-	(21)	-
<b>Net assets</b>	<b>340</b>	<b>271</b>	<b>925</b>	<b>358</b>
Net borrowings (1)	119	(7)	115	(40)

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2018		2017	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Revenue	843	141	723	151
Procurements	(762)	(63)	(692)	(55)
Personnel expenses	(9)	(4)	(8)	(4)
Other operating income/expenses	(23)	(12)	(13)	(12)
<b>Gross operating results</b>	<b>49</b>	<b>62</b>	<b>10</b>	<b>80</b>
Depreciation, amortisation and impairment losses	(69)	(14)	(102)	(16)
Impairment due to credit losses	(24)	9	-	(2)
<b>Operating profit</b>	<b>(44)</b>	<b>57</b>	<b>(92)</b>	<b>62</b>
Net financial income/(expense)	(18)	1	(21)	(1)
Results of equity-consolidated companies	5	-	1	-
<b>Profit/(loss) before tax</b>	<b>(57)</b>	<b>58</b>	<b>(112)</b>	<b>61</b>
Corporate income tax	11	(2)	20	(3)
Attributed to non-controlling interests	1	-	4	-
<b>Profit/(loss) attributed for the year from continuing operations</b>	<b>(45)</b>	<b>56</b>	<b>(88)</b>	<b>58</b>
Impairment of shareholding (Note 5)	(538)	(34)	-	-
<b>Share of profits</b>	<b>(583)</b>	<b>22</b>	<b>(88)</b>	<b>58</b>

There are no contingent liabilities affecting interests in jointly-controlled entities.

The contractual commitments for the acquisition and sale of interests in joint ventures at 31 December 2018 and 31 December 2017 are as follows:

Acquisition	At 31 December 2018	At 31 December 2017
Energy purchases (1)	3,840	5,103
Energy transmission (2)	117	120
<b>Total contractual obligations</b>	<b>3,957</b>	<b>5,223</b>

Sale	At 31 December 2018	At 31 December 2017
Energy sales (3)	1,339	1,665
Provision of capacity assignment services (4)	134	166
<b>Total contractual obligations</b>	<b>1,473</b>	<b>1,831</b>

- (1) Reflects long-term commitments to buy natural gas from Unión Fenosa Gas and EcoEléctrica L.P.
- (2) Includes operating costs associated with gas tanker chartering agreements with Unión Fenosa Gas under a financial lease arrangement.
- (3) Reflects long-term commitments to sell natural gas of Unión Fenosa Gas.
- (4) Reflects service provision commitments under power generation capacity assignment contracts from EcoEléctrica L.P. to Puerto Rico Electricity Power Authority.

Certain investment projects related to interests in jointly-controlled entities have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2018, the outstanding balance of this type of financing totals Euros 210 million (Euros 237 million at 31 December 2017).

## Joint ventures

Naturgy participates in different joint ventures that meet the conditions indicated in Note 3.4.1.b and which are described in Appendix I, section 3. The relevant interests in joint ventures at 31 December 2018 and 2017 are as follows:

	2018	2017
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%

The contribution from the joint operations to Naturgy's assets, liabilities, revenue and results is analysed below:

	At 31.12.18	At 31.12.17
Non-current assets	45	524
Current assets	87	95
Cash and cash equivalents	1	1
Non-current liabilities	(75)	(75)
Non-current financial liabilities	-	-
Current liabilities	(70)	(91)
Current financial liabilities	(10)	(11)
<b>Net assets</b>	<b>(13)</b>	<b>453</b>
Net borrowings (1)	9	10

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2018	2017
Revenue	269	287
Operating expenses	(175)	(194)
<b>Gross operating results</b>	<b>94</b>	<b>93</b>
Depreciation, amortisation and impairment losses (1)	(498)	(61)
<b>Operating profit</b>	<b>(404)</b>	<b>32</b>
Net financial income/(expense)	-	-
<b>Profit/(loss) before tax</b>	<b>(404)</b>	<b>32</b>
Corporate income tax	101	(8)
<b>Profit/(loss) attributed for the year from continuing operations</b>	<b>(303)</b>	<b>24</b>

(1) Includes generation asset impairment (Note 5)

## Note 9. Financial assets

The breakdown of financial assets line classified according to their nature and account, is as follows:

At 31 December 2018	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Equity instruments	262	85	-	347
Derivatives (Note 18)	11	7	-	18
Other financial assets	-	-	545	545
<b>Non-current financial assets</b>	<b>273</b>	<b>92</b>	<b>545</b>	<b>910</b>
Derivatives (Note 18)	6	24	-	30
Other financial assets	-	-	398	398
<b>Current financial assets</b>	<b>6</b>	<b>24</b>	<b>398</b>	<b>428</b>
<b>Total</b>	<b>279</b>	<b>116</b>	<b>943</b>	<b>1,338</b>

At 31 December 2017	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Equity instruments	465	95	-	560
Derivatives (Note 18)	4	11	-	15
Other financial assets	-	-	644	644
<b>Non-current financial assets</b>	<b>469</b>	<b>106</b>	<b>644</b>	<b>1,219</b>
Derivatives (Note 18)	20	45	-	65
Other financial assets	-	-	397	397
<b>Current financial assets</b>	<b>20</b>	<b>45</b>	<b>397</b>	<b>462</b>
<b>Total</b>	<b>489</b>	<b>151</b>	<b>1,041</b>	<b>1,681</b>



Financial assets recognised at fair value at 31 December 2018 and at 31 December 2017 are classified as follows:

	31 December 2018				31 December 2017			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
<b>Financial assets</b>								
Fair value through other comprehensive income	-	17	262	279	-	24	465	489
Fair value through profit or loss	-	31	85	116	-	56	95	151
<b>Total</b>	-	48	347	395	-	80	560	640

The movement in equity instruments in 2018 and 2017, based on the method applied for calculating their fair value, is as follows:

	31 December 2018				31 December 2017			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
<b>At 1 January</b>	-	-	560	560	-	-	619	619
Additions	-	-	-	-	-	-	-	-
Changes recognised directly in equity	-	-	(181)	(181)	-	-	(54)	(54)
Changes recognised in income statement	-	-	(10)	(10)	-	-	-	-
Currency translation differences	-	-	-	-	-	-	(2)	(2)
Transfers and other <sup>(1)</sup>	-	-	(22)	(22)	-	-	(3)	(3)
<b>At 31 December</b>	-	-	347	347	-	-	560	560

(1) In 2018 it corresponds to the transfer to hold for the sale of the stake in Richards Bay (Note 11).

### Fair value through other comprehensive income

#### – Equity instruments:

Mainly includes the 85.4% interest in Electricadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016 the Superintendencia for Residential Public Services of the Republic of Colombia ("the Superintendencia") reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendencia. On 14 March 2017 the Superintendencia announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 USD million. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately 500 USD million, the viability of which is considered remote.

At 31 December 2017 this shareholding was valued at Euros 416 million, corresponding to its fair value at the date of the loss of control which did not differ from its carrying value, adjusted for exchange rate fluctuations.

At 31 December 2018 this interest is valued for an amount of Euros 253 million. Given the difficulty in assessing the fair value due to the specific situation of this asset, the shareholding in question was valued on the basis of last information of the audited financial statements available, which reflect an attributed equity value of 85.4% of the Euros 253 million shareholding, entailing the recognition of a decrease in the fair value of this investment is of Euros 163 million.

For this equity investment the option permitted by IFRS 9 was used to irrevocably classify it in the new category of "Equity instruments at fair value through other comprehensive income" (Note 3.2) and therefore this decrease in fair value has been recorded under "Other accumulated comprehensive income".

Additionally, at 31 December 2017, the 2.23% interest was included in Richards Bay Coal Terminals Ltd, a company that operates a terminal for exporting of coal in South Africa which has been transferred to held for sale (Note 11), amounting to Euros 22 million (Euros 40 million at 31 December 2017), the fair value of which was determined based on the sale price.

## Fair value through profit and loss

- Equity instruments: the 14.9% holding in Medgaz, S.A., the company that operates the submarine pipeline between Algeria and Spain, for an amount of Euros 85 million (Euros 95 million at 31 December 2017), the fair value of which is determined based on the discounting of cash flows from future dividends.

## Amortised cost

The breakdown at 31 December 2018 and 2017 is as follows:

	At 31.12.18	At 31.12.17
Commercial loans	47	41
Gas system income deficit financing	7	19
Deposits and guarantees deposits	104	135
Other loans	387	449
Other non-current financial assets	<b>545</b>	<b>644</b>
Commercial loans	30	70
Electricity system income deficit financing	95	91
Gas system income deficit financing	131	145
Dividend receivable	5	2
Other loans	137	89
Other current financial assets	<b>398</b>	<b>397</b>
<b>Total</b>	<b>943</b>	<b>1,041</b>

The breakdown by maturities at 31 December 2018 and 2017 is as follows:

Maturities	At 31.12.18	At 31.12.17
No later than 1 year	398	397
Between 1 year and 5 years	224	279
More than 5 years	321	365
<b>Total</b>	<b>943</b>	<b>1,041</b>

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

The heading “Gas system income deficit financing” includes the timing mismatches arising between gas system revenue and costs accumulated for 2017 and 2018 financed by Naturgy pursuant to Law 18/2014 in the amount of Euros 138 million (Euros 164 million at 31 December 2017). This amount will be recovered through the gas system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been recognised in long term and short term items based on the estimated recovery period.

In December 2017 the irrevocable assignment without recourse of the 2014 deficit (nominal amount of Euros 315 million) and the mismatches for 2015 and 2016 (Euros 40 million) to various financial institutions took place, transferring all associated risks and rewards. All the balances at the date of the assignment were therefore derecognised.

The heading “Electricity system income deficit financing” includes the temporary mismatches between electricity system revenues and costs financed by Naturgy pursuant to Law 24/2013 of 26 December in the amount of Euros 95 million (Euros 91 million at 31 December 2017) and which generate a recovery right over the following five years and interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

“Commercial loans” mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 11% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

The item “Deposits and guarantees deposits” basically include amounts deposited with the competent Public Administrations, under applicable legislation, in respect of guarantees and deposits received from

customers when contracts are concluded to secure the supply of electricity and natural gas (Note 19).

“Other loans” includes, basically:

- A loan of Euros 145 million (Euros 174 million at 31 December 2017) for financing ContourGlobal La Rioja. S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011, of which Euros 22 million is classified under current assets (Euros 21 million in 2017). The loan, which is secured by the shares of this company and by its assets, bears annual interest at a market rate and matures in 2021.
- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” (Note 3.4.3.b and Note 32), in the amount of Euros 224 million (Euros 229 million at 31 December 2017), of which Euros 16 million is classified in current assets (Euros 13 million in 2017). These credits are classified in this item as they represent an unconditional right to receive cash in fixed or determinable amounts.

## Derivatives

The variables upon which the valuation of the derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 18 shows the details of the derivative financial instruments.

### Note 10. Other non-current assets and trade and other receivables

The breakdown of “Other non-current assets” y “Current trade and other receivables”, at 31 december 2018 and 2017, classified by nature and category is as follows:

<b>At 31 December 2018</b>	<b>Fair value through other comprehensive income</b>	<b>Amortised cost</b>	<b>Total</b>
Derivatives (Note 18)	162	-	<b>162</b>
Other assets	-	172	<b>172</b>
<b>Other non-current assets</b>	<b>162</b>	<b>172</b>	<b>334</b>
Derivatives (Note 18)	45	-	<b>45</b>
Other assets	-	5,089	<b>5,089</b>
<b>Current trade and other receivables</b>	<b>45</b>	<b>5,089</b>	<b>5,134</b>
<b>Total</b>	<b>207</b>	<b>5,261</b>	<b>5,469</b>

<b>At 31 December 2017</b>	<b>Fair value through other comprehensive income</b>	<b>Amortised cost</b>	<b>Total</b>
Derivatives (Note 18)	-	-	-
Other assets	-	96	<b>96</b>
<b>Other non-current assets</b>	<b>-</b>	<b>96</b>	<b>96</b>
Derivatives (Note 18)	38	-	38
Other assets	-	4,956	4,956
<b>Current trade and other receivables</b>	<b>38</b>	<b>4,956</b>	<b>4,994</b>
<b>Total</b>	<b>38</b>	<b>5,052</b>	<b>5,090</b>

Financial assets recognised at fair value at 31 December 2018 and at 31 December 2017 are classified as follows:

	31 December 2018				31 December 2017			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
<b>Financial assets</b>								
Fair value through other comprehensive income	-	207	-	207	-	38	-	38
Fair value through profit and loss	-	-	-	-	-	38	-	38
<b>Total</b>	-	207	-	207	-	38	-	38

### Fair value through other comprehensive income

Non-current derivative financial assets at fair value through other comprehensive income includes the market value of two contracts between the Australian group company Crookwell Development Pty Ltd (Crookwell) and the distributor ActewAGL (ACT) and the Australian group company Berrybank Development Pty Ltd (Berrybank) and the State of Victoria (Australia) whereby Crookwell and Berrybank undertake to sell on the market, at the spot price, the output from a plants owned by them and to settle with ACT and the State of Victoria the difference between the price of each delivery and a fixed price for a specific volume of MW. Both contacts cover the sale price of the plants' output for a period of 20 years in the first case and 15 years in the second, and have been recorded as a cash-flow hedging financial instrument.

### Amortised cost

	At 31.12.18	At 31.12.17
Receivable, revenue from capacity services	146	85
Other loans	26	11
<b>Other non-current assets</b>	<b>172</b>	<b>96</b>
Trade receivables	5,187	4,910
Receivables with related companies (Note 32)	17	87
Provision for impairment due to debtor credit losses	(789)	(650)
Trade receivables	4,415	4,347
Public Administrations	113	71
Prepayments	85	81
Sundry receivables	291	279
Other receivables	489	431
Current income tax asset	185	178
<b>Current trade and other receivables</b>	<b>5,089</b>	<b>4,956</b>
<b>Other non-current assets and trade and other receivables</b>	<b>5,261</b>	<b>5,052</b>

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

The heading "Receivable, revenue from capacity services" relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission (Note 3.4.20.f).

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 21

At 31 December 2018 the accumulated balances for electricity and gas sales yet to be invoiced are included under "Trade receivables" and amount to Euros 1,748 million (Euros 1,724 million at 31 December 2017).

## Other financial assets

The movement in the impairment provision for debtor credit losses is as follows:

	2018	2017
<b>At 31 December</b>	<b>(650)</b>	<b>(676)</b>
First application IFRS9 (Note 3.2)	(101)	-
<b>At 1 January</b>	<b>(751)</b>	<b>(676)</b>
Provision for impairment due to credit losses	(179)	(155)
Write offs	136	123
Currency translation differences	5	14
Transfers and other (1)	-	44
<b>At 31 December</b>	<b>(789)</b>	<b>(650)</b>

(1) In 2017 mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

### Note 11. Non-current assets and disposal groups of assets held for sale and discontinued operations

At 31 December 2018, non-current assets held for sale relate to the electricity generation business in Kenya and the distribution of electricity in Moldova.

At 31 December 2017 the gas distribution and sale business in Italy, gas distribution in Colombia electricity generation in Kenya and electricity in Moldova that were sold during 2018 were recorded as non-current assets held for sale.

On 1 and 22 February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy to the companies 2i Rete Gas and Edison, respectively, was completed. Additionally, on 18 April 2018 the assignment of the gas supply contract was completed. The total sale price amounted to Euros 766 million, generating a capital gain of Euros 188 million after taxes.

On 17 November 2017, Naturgy entered into a binding agreement with Brookfield Infrastructure for the sale of its 59.1% interest in Gas Natural SA ESP, a Colombian company engaged in the distribution and retail sale of gas, for 1,678,927 million Colombian pesos (Euros 468 million). The transaction was structured in two phases, the first of which was completed in December 2017 through successive sales operations on the Colombian stock exchange. Following that phase, Naturgy's percentage holding was reduced to 41.9% and control over Gas Natural S.A. ESP was lost. This investment was subsequently recorded using the equity method. On 28 May 2018, the acceptance period for the public offering on Gas Natural S.A. ESP expired, thereby completing the sale of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, which was settled on 1 June 2018. This amount is equivalent to the carrying value of the dividends received and therefore there has been no impact on the consolidated income statement.

On 27 June 2018 Naturgy reached a preliminary agreement for the sale of its 70% interest in Kangra Coal Proprietary Limited (mining business in South Africa) to Menar Holding. The completion of the transaction took place in December 2018. The transaction represents an equity value of USD 28 million for 70% of Naturgy's shares. The conclusion of the transaction was subject to compliance with the terms and procedures laid down in Kangra's shareholders' agreement and the finalisation of the transaction was subject to the necessary regulatory approvals and competition authorisation. In May 2018, as the sale of this business was highly probable, these assets were classified as non-current assets held for sale. At that date, for the estimate of the fair value minus costs to sell required by IFRS 5, a Level 3 valuation was made taking into account the price of the sale offers received less costs to sell. Given that previously, in March 2018, an impairment of Euros 140 million had been foreseen, the result of the reduction in the carrying value of the resulting investment amounting to Euros 141 million did not have a significant additional impact, like the final sale of the company.

In addition, on 27 June 2017, Naturgy reached an agreement with AEP Energy Africa Limited for the sale of 100% of its shareholding in Iberafrica Power Limited, in Kenya. The transaction involved a total value (*enterprise value*) of USD 62 million. After regulatory and competition approvals, the transaction is expected to be executed in the first quarter of 2019. This investment had already been considered as held for sale at 31 December 2017. The fair value was determined based on the selling price less costs to sell. To estimate the fair value less costs to sell as required by IFRS 5, the level 3 valuation has been updated taking into consideration the prices of sale offers received less costs to sell, resulting in a

decrease in the carrying amount of the investment of Euros 7 million, which is included in profits from discontinued operations net of taxes.

Finally, as a result of the strategic review of its business and positioning in various countries, Naturgy decided to carry out competitive sales processes for its electricity distribution business in Moldova, which was treated as held for sale at 31 December 2017. The Moldova sale has been delayed due to causes beyond the control of Naturgy. The commitment to sell the holding remains firm and therefore, as required by IFRS 5 (paragraph 9) at 31 December 2018 it continues to be recognised as held for sale. To estimate the fair value less costs to sell as required by IFRS 5, the level 3 valuation has been updated taking into consideration market variables and the progress of the sale process, resulting in a decrease in the carrying amount of the investment of Euros 73 million, which is included in profits from discontinued operations net of taxes in 2018.

As Naturgy has sold or has a firm commitment to sell these assets that are clearly identified, the process is under way and it is considered that the sale is highly probable, or the sale has already been completed, the accounting balances of these assets and liabilities were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or area of operation. Therefore, all income and expenses pertaining to the these lines of business for 2018 and 2017 are disclosed under "Profit for the year from discontinued operations, net of taxes".

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 31 December 2018 and 2017:

2018	Electricity distribution Moldova	International Electricity Kenya	Total
Intangible assets	1	-	1
Property, plant and equipment	64	41	105
Investments recorded using the equity method	-	-	-
Non-current financial assets	1	-	1
Deferred tax assets	1	-	1
<b>NON-CURRENT ASSETS</b>	<b>67</b>	<b>41</b>	<b>108</b>
Inventories	-	8	8
Trade and other receivables	35	10	45
Other current financial assets	-	-	-
Cash and cash equivalents	41	-	41
<b>CURRENT ASSETS</b>	<b>76</b>	<b>18</b>	<b>94</b>
<b>TOTAL ASSETS</b>	<b>143</b>	<b>59</b>	<b>202</b>
Grants	9	-	9
Non-current provisions	1	-	1
Non-current financial liabilities	-	-	-
Deferred tax liabilities	1	9	10
Other non-current liabilities	-	-	-
<b>NON-CURRENT LIABILITIES</b>	<b>11</b>	<b>9</b>	<b>20</b>
Current financial liabilities	3	30	33
Trade and other payables	33	2	35
Other current liabilities	-	5	5
<b>CURRENT LIABILITIES</b>	<b>36</b>	<b>37</b>	<b>73</b>
<b>TOTAL LIABILITIES</b>	<b>47</b>	<b>46</b>	<b>93</b>

2017	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Total
Intangible assets	597	-	6	35	-	638
Property, plant and equipment	26	-	116	3	43	188
Investments recorded using the equity method	-	327	-	-	-	327
Non-current financial assets	2	-	15	1	-	18
Deferred tax assets	25	-	-	6	-	31
<b>NON-CURRENT ASSETS</b>	<b>650</b>	<b>327</b>	<b>137</b>	<b>45</b>	<b>43</b>	<b>1,202</b>
Inventories	1	-	-	31	8	40
Trade and other receivables	60	-	51	175	15	301
Other current financial assets	1	-	-	2	-	3
Cash and cash equivalents	86	-	49	1	-	136
<b>CURRENT ASSETS</b>	<b>148</b>	<b>-</b>	<b>100</b>	<b>209</b>	<b>23</b>	<b>480</b>
<b>TOTAL ASSETS</b>	<b>798</b>	<b>327</b>	<b>237</b>	<b>254</b>	<b>66</b>	<b>1,682</b>
Grants	-	-	9	-	-	9
Non-current provisions	6	-	-	2	-	8
Non-current financial liabilities	44	-	3	-	-	47
Deferred tax liabilities	20	-	2	-	9	31
Other non-current liabilities	-	-	-	19	-	19
<b>NON-CURRENT LIABILITIES</b>	<b>70</b>	<b>-</b>	<b>14</b>	<b>21</b>	<b>9</b>	<b>114</b>
Current financial liabilities	219	-	3	69	37	328
Trade and other payables	40	-	29	90	4	163
Other current liabilities	11	-	-	-	5	16
<b>CURRENT LIABILITIES</b>	<b>270</b>	<b>-</b>	<b>32</b>	<b>159</b>	<b>46</b>	<b>507</b>
<b>TOTAL LIABILITIES</b>	<b>340</b>	<b>-</b>	<b>46</b>	<b>180</b>	<b>55</b>	<b>621</b>

Breakdowns by nature of the heading “Profit for the year from discontinued operations net of taxes” in the consolidated income statement for 2018 and 2017 are as follows:

2018	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Revenue	7	-	237	36	17	41	338
Procurements	-	-	(198)	(30)	(7)	(21)	(256)
Other operating income	2	-	1	1	1	-	5
Personnel expenses	(1)	-	(7)	(2)	(1)	(11)	(22)
Other operating expenses	(3)	-	(13)	(1)	(4)	(8)	(29)
Release of fixed assets grants to income and other	-	-	-	-	-	-	-
<b>GROSS OPERATING RESULTS</b>	<b>5</b>	<b>-</b>	<b>20</b>	<b>4</b>	<b>6</b>	<b>1</b>	<b>36</b>
Fixed asset depreciation/amortisation	-	-	-	-	-	(13)	(13)
Impairment due to credit losses	-	-	-	(1)	-	-	(1)
Other results (1)	58	-	(73)	130	(7)	(141)	(33)
<b>OPERATING PROFIT/(LOSS)</b>	<b>63</b>	<b>-</b>	<b>(53)</b>	<b>133</b>	<b>(1)</b>	<b>(153)</b>	<b>(11)</b>
Financial income	-	-	1	-	-	1	2
Financial expenses	-	-	(1)	-	(2)	(1)	(4)
Exchange differences	-	-	-	-	-	-	-
<b>NET FINANCIAL INCOME/(EXPENSE)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>
Profit/(loss) on equity method	-	7	-	-	-	-	7
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>63</b>	<b>7</b>	<b>(53)</b>	<b>133</b>	<b>(3)</b>	<b>(153)</b>	<b>(6)</b>
Corporate income tax	(1)	-	(3)	(1)	(2)	3	(4)
<b>PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED</b>	<b>62</b>	<b>7</b>	<b>(56)</b>	<b>132</b>	<b>(5)</b>	<b>(150)</b>	<b>(10)</b>
Attributable to:							
the parent company	62	7	(56)	132	(4)	(110)	31
Non-controlling interests	-	-	-	-	(1)	(40)	(41)

(1) Gas Distribution Italy and Gas Supply Italy include the capital gain on the sale of the interest. Electricity Distribution Moldova, International Electricity Kenya and Mining South Africa includes the reduction in the carrying amount of the investment to measure it at fair value less costs to sell.

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
<b>2017</b>							
Revenue	85	745	203	140	53	99	1,325
Procurements	(1)	(511)	(162)	(91)	(25)	(51)	(841)
Other operating income	36	11	-	4	1	1	53
Personnel expenses	(12)	(14)	(7)	(6)	(2)	(15)	(56)
Other operating expenses	(49)	(89)	(16)	(25)	(8)	(22)	(209)
Release of fixed assets grants to income and other	-	-	-	-	-	-	-
<b>GROSS OPERATING RESULTS</b>	<b>59</b>	<b>142</b>	<b>18</b>	<b>22</b>	<b>19</b>	<b>12</b>	<b>272</b>
Fixed asset depreciation/amortisation	(18)	(13)	(6)	(1)	(8)	(27)	(73)
Impairment due to credit losses	-	(3)	-	(10)	-	(1)	(14)
Other results (1)	-	350	-	-	(24)	-	326
<b>OPERATING PROFIT/(LOSS)</b>	<b>41</b>	<b>476</b>	<b>12</b>	<b>11</b>	<b>(13)</b>	<b>(16)</b>	<b>511</b>
Financial income	1	18	5	-	-	-	24
Financial expenses	(3)	(13)	(1)	-	(4)	(1)	(22)
Exchange differences	-	-	(1)	-	-	-	(1)
<b>NET FINANCIAL INCOME/(EXPENSE)</b>	<b>(2)</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>(4)</b>	<b>(1)</b>	<b>1</b>
Profit/(loss) on equity method companies	-	-	-	-	-	-	-
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>39</b>	<b>481</b>	<b>15</b>	<b>11</b>	<b>(17)</b>	<b>(17)</b>	<b>512</b>
Corporate income tax	(9)	(51)	(3)	(4)	(2)	5	(64)
<b>PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS</b>	<b>30</b>	<b>430</b>	<b>12</b>	<b>7</b>	<b>(19)</b>	<b>(12)</b>	<b>448</b>
Attributable to:							
the parent company	30	393	12	7	(14)	(8)	420
Non-controlling interests	-	37	-	-	(5)	(4)	28

(1) Gas Distribution Colombia includes the capital gain on the sale of the shareholding and the impact of the fair-value measurement of the remaining interest. International Electricity Kenya includes the reduction in the carrying amount of the investment to measure it at fair value less costs to sell.

Total comprehensive income on this activity in the years ended 31 December 2018 and 2017 breaks down as follows:

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
<b>2018</b>							
<b>Consolidated profit/(loss) for the year</b>	<b>62</b>	<b>7</b>	<b>(56)</b>	<b>132</b>	<b>(5)</b>	<b>(150)</b>	<b>(10)</b>
<b>Other comprehensive income recognised directly in equity:</b>							
Financial assets at fair value through other comprehensive income	-	-	-	-	-	(18)	(18)
Currency translation differences	-	-	9	-	-	(8)	1
<b>Transfer to the income statement</b>							
Currency translation differences	-	-	-	-	-	50	50
<b>Total comprehensive income for the year</b>	<b>62</b>	<b>7</b>	<b>(47)</b>	<b>132</b>	<b>(5)</b>	<b>(126)</b>	<b>23</b>

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
<b>2017</b>							
<b>Consolidated profit/(loss) for the year</b>	<b>30</b>	<b>430</b>	<b>12</b>	<b>7</b>	<b>(19)</b>	<b>(12)</b>	<b>448</b>
<b>Other comprehensive income recognised directly in equity:</b>							
Currency translation differences	-	(13)	(6)	-	(4)	(12)	(35)
<b>Transfer to the income statement</b>							
Currency translation differences	-	13	-	-	-	-	13
<b>Total comprehensive income for the year</b>	<b>30</b>	<b>430</b>	<b>6</b>	<b>7</b>	<b>(23)</b>	<b>(24)</b>	<b>426</b>



The cash flows from discontinued operations included in the consolidated cash flow statements are:

2018 Cash flow from:	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Operation	(14)	-	62	(6)	8	4	54
Investment	(1)	-	(19)	-	-	(1)	(21)
Financing	-	-	(51)	10	(8)	-	(49)

2017 Cash flow from:	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas marketing Italy	International Electricity Kenya	Mining South Africa	Total
Operation	42	88	53	13	8	11	215
Investment	(28)	(23)	(15)	(3)	(1)	(3)	(73)
Financing	-	(75)	(17)	(10)	(7)	-	(109)

Transactions between the companies making up the discontinued business with other group companies are not significant. Therefore, intragroup cash flows with the discontinued business are not significant.

## Note 12. Inventories

The breakdown of Inventories is as follows:

	At 31.12.18	At 31.12.17
Natural gas and liquefied gas	498	388
Coal and fuel oil	53	62
Nuclear fuel	56	57
CO <sub>2</sub> emission allowances	147	68
Raw materials and other inventories	96	145
<b>Total</b>	<b>850</b>	<b>720</b>

At 31 December 2018 Naturgy has commitments for the acquisition of inventories amounting to Euros 34 million (Euros 36 million at 31 December 2017) corresponding to nuclear fuel (Euros 35 million at 31 December de 2017). At 31 December 2017 there was also a figure of Euros 1 million related to CO<sub>2</sub>.

Gas inventories basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

In 2018 it includes inventory impairments of Euros 63 million (Note 5).

## Note 13. Cash and cash equivalents

The breakdown of the line "Cash and cash equivalents" is as follows:

	At 31.12.18	At 31.12.17
Cash at banks and in hand	1,469	1,946
Short term investments (Spain and rest of Europe)	161	1,192
Short term investments (International)	86	87
<b>Total</b>	<b>1,716</b>	<b>3,225</b>

The investments in cash equivalents mature in less than three months and bear a weighted effective interest rate 0.78% at 31 December 2018 (1.64% at 31 December 2017).

At 31 December 2018 and 2017 there are no investments in sovereign debt, nor are there any significant restrictions on cash withdrawals.

All investments in "Cash and cash equivalents" are valued at amortised cost.

## Note 14. Equity

The main elements of Equity are broke down as follows:

### Share capital and share premium

The variations in 2018 and 2017 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 2017	1,000,689,341	1,001	3,808	4,809
Variation	-	-	-	-
At 31 December 2017	1,000,689,341	1,001	3,808	4,809
Variation	-	-	-	-
At 31 December 2018	1,000,689,341	1,001	3,808	4,809

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

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 Companies Act 2010.

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

The most representative holdings in the share capital of Naturgy Energy Group at 31 December 2018, in accordance with the public information available or the information released by the Company itself, are as follows:

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

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

(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) Company controlled by funds advised by CVC.

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 the owner of said company.

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

Naturgy's share price at the end of 2018 is Euros 22.26 (Euros 19.25 at 31 December 2017).

## Reserves and retained earnings

“Reserves” includes the following reserves:

	2018	2017
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	109	191
Other reserves and retained earnings	10,881	9,413
Voluntary reserve Naturgy Energy Group, S.A.	7,305	7,200
Other reserves and retained earnings	3,576	2,213
	<b>11,290</b>	<b>9,904</b>

At the annual general meeting held on 27 June 2018, the shareholders agreed to the transfer to Voluntary Reserves of Euros 82 million from the Goodwill Reserve.

### 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 articles of association of Naturgy Energy Group, S.A., 2% of net income 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 parent company's balance sheet.

### Other reserves and retained earnings

Relates basically to voluntary reserves for retained earnings.

## Share-based payments

Within the framework of the new Strategic Plan 2018-2022 the Board of Directors, at meeting held on 31 July, approved a long term variable incentive plan (LTI) involving the Executive Chairman and 25 other executives. The main characteristics of the plan are as follows:

- The incentive covers the duration of the Strategic Plan 2018-2022, which is scheduled to expire in July 2023. It is directly related to the total yield obtained by the shareholders of Naturgy Energy Group S.A. in the period concerned.
- It is arranged through the acquisition of 8,639,595 shares in Naturgy Energy Group S.A. at a price of Euros 23.15 (see Treasury Shares) through a group company 100% owned. It has been endowed with resources (Euros 200 million), through a contribution of own funds made by Naturgy Energy Group, S.A. (100 millones de euros) y financiación bancaria externa (Euros 100 million), with which has acquired the aforementioned shares.

- At the finalisation of the plan this company will obtain income derived from the receipt of the dividends attributed to its shares, the variation of the stock price and other income and expenses, mainly financial. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling all its obligations it will distribute any surplus among its members in the form of shares.
- This surplus will be received only if a minimum profitability threshold has been surpassed, considering a quotation of Euros 19.15 at the expiration of the (LTI) and assuming that all the dividends foreseen in the Strategic Plan 2018-2022 are distributed.
- 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 with the following assumptions:

Share price on the grant date (euro/share)	23.15
Forecast share price volatility (1)	17.73%
Plan duration (years)	4.7
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 €4.5 million has been recorded in the consolidated income statement for 2018 under Personnel expenses, credited to "Reserves" in the consolidated balance sheet at 31 December 2018.

### Treasury shares

Movements during 2018 and 2017 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
<b>At 1 January 2017</b>	<b>750,545</b>	<b>13</b>	<b>0.1</b>
Acquisitions	7,623,586	147	0.8
Delivered to employees	(336,625)	(7)	-
Disposals	(8,037,506)	(153)	(0.8)
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>
Acquisitions	10,782,040	227	1.1
Acquisitions LTI coverage	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	-
Disposals	(5,029,881)	(99)	(0.5)
<b>At 31 December 2018</b>	<b>14,037,332</b>	<b>321</b>	<b>1.4</b>

On 14 May 2015, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, a maximum of 10% of share capital or the maximum figure applicable under legislation prevailing at the time of acquisition. The relevant Company shares must be fully paid in and the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, may not exceed 10% of share capital or any other limit established by law.

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 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 2018, 354,422 of the Company's own shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (336,625 own shares amounting to Euros 7 million in 2017).

In 2018 the proceeds on transactions involving Naturgy treasury shares of amounted to a loss of Euros 0.4 million, recognised under “Other reserves” (Euros 0.5 million profit in 2017).

During 2018 Naturgy acquired 8,639,595 treasury shares at an average price of 23.15 euro/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 (see Share-based payments in this Note).

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 31 December 2018, a total of 5,397,737 treasury shares had been acquired under this programme at an average price of Euros 22.42 per share, representing a total cost of Euros 121 million.

At a meeting held on 29 January 2019, the Board of Directors of Naturgy Energy Group, S.A. agreed to propose to the general shareholders’ meeting a capital reduction in Naturgy Energy Group, S.A. in 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 valued, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

Movements during 2018 and 2017 involving the treasury shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. are as follows:

	Number of shares		In million euro
	Compañía General de Electricidad, S.A.	CGE Gas Natural, S.A.	
<b>At 1 January 2017</b>	<b>8,695,395</b>	<b>8,695,395</b>	<b>8</b>
Acquisitions	6,466,178	5,373,555	9
Disposals and other	(8,695,395)	(8,695,395)	(8)
<b>At 31 December 2017</b>	<b>6,466,178</b>	<b>5,373,555</b>	<b>9</b>
Acquisitions	4,087,225	-	4
Disposals and other	(6,466,178)	(5,373,555)	(9)
<b>At 31 December 2018</b>	<b>4,087,225</b>	<b>-</b>	<b>4</b>

The shares recorded in 2016 were acquired following the merger in which Compañía General de Electricidad, S.A. was absorbed into Gas Natural Chile, S.A., as a result of which the shareholders of both companies obtained a right of withdrawal under which they were able to sell their shares to the company. This right was exercised by 44 shareholders holding 8,695,395 shares in Compañía General de Electricidad, S.A., equivalent to 0.4% of capital.

The shares recorded in 2017 were acquired from shareholders that held rights of withdrawal following the mergers by absorption of Transet, S.A., Emel Norte, S.A. and Emelat Inversiones, S.A. into Compañía General de Electricidad on 8 February 2017 and 27 July 2017, and following the merger by absorption of Gas Natural Chile, S.A. into CGE Gas Natural, S.A. on 31 May 2017.

On 30 November 2017 an extraordinary shareholders’ meeting was held by Compañía General de Electricidad S.A. which approved the merger between the company and its subsidiaries CGE Distribución S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. As a result of this operation the shareholders of both companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 60 shareholders holding 1,936,176 shares.

On 31 May 2018 an extraordinary shareholders' meeting was held which approved the merger by absorption of Empresa Eléctrica de Arica S.A., Empresa Eléctrica de Iquique S.A. and Empresa Eléctrica de Antofagasta S.A. into Compañía General de Electricidad S.A. As a result of this operation the shareholders of both companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 66 shareholders holding 2,151,049 shares.

Treasury shares resulting from the right of withdrawal must be disposed of in the securities market within a maximum of one year, at the end of which they must be redeemed if they have not been sold. During 2018 capital was reduced as a matter of law since 6,466,178 treasury shares has not been subscribed within the term of one year as from their payment date.

### Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31.12.2018	At 31.12.17
Profit attributable to equity holders of the parent company	(2,822)	1,360
Weighted average number of ordinary shares in issue	997,663,816	1,000,478,210
Earnings per share from continuing operations (in euro):		
- Basic	(2.86)	0.94
- Diluted	(2.86)	0.94
Earnings per share from discontinued activities (in euro):		
- Basic	0.03	0.42
- Diluted	0.03	0.42

The average weighted number of ordinary shares used in the calculation of earnings per share in 2018 and 2017 is as follows:

	2018	2017
Weighted average number of ordinary shares	1,000,689,341	1,000,689,341
Weighted average number of treasury shares	(3,025,525)	(211,131)
Weighted average number of shares in issue	997,663,816	1,000,478,210

The basic earnings per share coincide with the diluted ones, since there were no instruments that could be converted into ordinary shares during those years and at the end of the year 2018 the conditions to consider the actions corresponding to the incentive described in the section "Share-based payments" in the calculation of diluted earnings were not met.

### Dividends

Set out below is a breakdown of the payments of dividends made in 2018 and 2017:

	31.12.2018			31.12.2017		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	140%	1.40	1,400	100%	1.00	1,001
Other shares (without voting rights, redeemable, etc.)	-	-	-	-	-	-
<b>Total dividends paid</b>	<b>140%</b>	<b>1.40</b>	<b>1,400</b>	<b>100%</b>	<b>1.00</b>	<b>1,001</b>
a) Dividends charged to income statement	140%	1.40	1,400	100%	1.00	1,001
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

Additionally, dividends paid to non-controlling shareholders in 2018 amounted to Euros 576 million (Euros 283 million in 2017). See "Non-controlling interests" in this Note, with which dividend payments have amounted to Euros 1,976 million (Euros 1,284 million in 2017).

## 2018

The proposal for the application of the result for the year 2017 approved by the General Shareholders Meeting held on 27 June 2018 included a complementary dividend of Euros 0.670 per share for a total of Euros 670 million, paid entirely in cash on 05 July 2018.

On 24 July 2018 the Naturgy Energy Group, S.A. Board of Directors approved the payment of an interim dividend out of 2018 profits of Euros 0.28 per share, for a total of Euros 280 million, paid on 31 July 2018.

Naturgy Energy Group, S.A. 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 30 June 2018 is as follows:

Profit after tax	5,597
Reserves to be replenished	-
Maximum amount distributable	5,597
Forecast interim dividend payment	280
Cash resources	2,564
Undrawn credit facilities	6,555
Total liquidity	9,119

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.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 30 September 2018 is as follows:

Profit after tax	5,542
Reserves to be replenished	-
Maximum amount distributable	5,542
Interim dividend 2018 profits	280
Forecast interim dividend payment	450
Cash resources	757
Undrawn credit facilities	6,551
Total liquidity	7,308

On 29 January 2019, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2018, for submission to the Annual General Meeting:

### **AVAILABLE FOR DISTRIBUTION**

*Available for distribution* ..... 5.282

### **DISTRIBUTION:**

TO DIVIDENDS: the gross aggregate amount shall be equal to the sum of the following quantities:

- (i) Euros 730 million relating to the two interim dividends for 2018 paid by Naturgy Energy Group, S.A., equivalent jointly to Euros 0.73 per share by the number of shares that were not direct treasury shares on the relevant dates; and

- (ii) the amount obtained by multiplying 0.57 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined.

The supplementary dividend will be paid through entities participating in 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 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 VOLUNTARY RESERVES Determinable amount obtained by subtracting the dividend amount from the distribution base.

*Total distributed ..... Euros 5,282*

This proposal for the distribution of profits prepared by the Board for approval by the Annual General Meeting includes as supplementary payment of Euros 0.57 per share for each qualifying share outstanding at the proposed date of payment, 20 March 2019. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2018 dividend (Euros 0.57 per share) the same number of treasury shares is maintained as at the 2018 year end (5,397,737 shares excluding shares covering the LTI, see section on Treasury shares), the amount applied to voluntary reserves would be Euros 3,985 million.

## 2017

The General Shareholders Meeting held on 20 April 2017 approved a complementary dividend of Euros 0.670 per share for a total of Euros 671 million, paid on 27 June 2017.

On 25 July 2017 the Board of Directors approved the payment of an interim dividend out of 2017 profits of Euros 0.330 per share, for a total of Euros 330 million, paid on 27 September 2017.

## **Other equity items**

Movements in equity items break down as follows:

	Fair value financial assets	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
<b>1.1.2017</b>	<b>9</b>	<b>68</b>	<b>(23)</b>	<b>54</b>	<b>(183)</b>	<b>(129)</b>
Change in value	(54)	(117)	13	(158)	(729)	(887)
Taken to income statement	-	2	1	3	13	16
Other	-	-	-	-	-	-
<b>31.12.2017</b>	<b>(45)</b>	<b>(47)</b>	<b>(9)</b>	<b>(101)</b>	<b>(899)</b>	<b>(1,000)</b>
Impact first application of new standards (Note 3.5)	(16)	-	2	(14)	-	(14)
<b>31.12.2017</b>	<b>(61)</b>	<b>(47)</b>	<b>(7)</b>	<b>(115)</b>	<b>(899)</b>	<b>(1,014)</b>
Change in value	(183)	(24)	2	(205)	(212)	(417)
Taken to income statement	-	100	(15)	85	50	135
Other	22	-	-	22	-	22
<b>31.12.2018</b>	<b>(222)</b>	<b>29</b>	<b>(20)</b>	<b>(213)</b>	<b>(1,061)</b>	<b>(1,274)</b>

The heading "Currency translation differences" includes the exchange differences described in Note 3.4.2 as a result of the euro's fluctuation against the main currencies of Naturgy's foreign companies. This heading also includes the effect of the restatement of the financial statements of companies in hyperinflationary economies.



## Non-controlling interests

	Non-controlling interests
<b>Balance at 0./01.2017</b>	<b>3,780</b>
Total comprehensive income for the year	162
Distribution of dividends	(233)
Sale of Gas Natural, S.A. ESP (Note 11)	(73)
Payments return on other equity instruments	(58)
Other changes	(7)
<b>Balance at 31.12.2017</b>	<b>3,571</b>
Impact of first application of new standards (Note 3.5)	(13)
<b>Balance at 01.01.2018</b>	<b>3,558</b>
Total comprehensive income for the year	210
Distribution of dividends	(505)
Payments return on other equity instruments	(58)
Sale of 20% of gas distribution business in Spain without loss of control (Note 3.4.1)	458
Sale of Kangra Coal Proprietary Limited (Nota 11)	(9)
Other changes	(7)
<b>Balance at 31.12.2018</b>	<b>3,647</b>

The most significant movements for 2018 relate to:

- On 3 August 2017 Naturgy signed 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.

On 19 March 2018, once the necessary regulatory and competition approvals were completed, Naturgy transferred 20% of the shares in Holding de Negocios de Gas, S.A. to said consortium. As the transaction involves a sale of non-controlling interests not leading to a loss of control, it has been recorded as an equity transaction, entailing an increase of Euros 458 million in Non-controlling interests and an increase in Reserves of Euros 1,016 million.

- Derecognition of non-controlling interests corresponding to Kangra Coal Proprietary Limited (mining business in South Africa) as a result of the sale in December 2018 (Note 11).
- Other changes:

As a result of the redemption of treasury shares in Chile, the heading Non-controlling interests has been reduced by Euros 5 million.

The most significant movements for 2017 relate to:

- Derecognition of non-controlling interests pertaining to Gas Natural S.A. ESP due to the sale of 17.2% and loss of control at 31 December 2017 (Note 11).
- Other changes:

As a result of the redemption of treasury shares in Chile, the heading Non-controlling interests has been reduced by Euros 5 million.

### Subordinated perpetual debentures

In previous years, Naturgy Finance, B.V. issued the following perpetual subordinated debentures for an aggregate amount of Euros 1,500 million.

<b>Issuance</b>	<b>Nominal</b>	<b>Early redemption option</b>	<b>Coupon</b>
November 2014	1,000	2022	4.125%
April 2015	500	2024	3.375%

Interest accrued on these debentures is not payable but rather is cumulative. Nonetheless, Naturgy must pay it if dividends are paid out or the decision to exercise the early redemption option is taken.

Although no contractual maturity has been established for these debentures, Naturgy Finance, B.V. has the option to redeem them early on the early redemption option date and subsequently, on every interest payment date.

Naturgy recognised the cash received in “Non-controlling interests” under equity in the consolidated balance sheet on the understanding that the issues did not meet the conditions to be considered as a financial liability, because Naturgy Finance B.V. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Naturgy Finance, B.V.

The interest accrued during 2018 and 2017 amounts to Euros 58 million and has been recognised in “Non-controlling interests” in the consolidated income statement for 2018 and 2017.

#### Preference shares

In 2005 Unión Fenosa Preferentes, S.A. carried out a preference share issue for a nominal amount of Euros 750 million, of which Euros 640 million was repurchased in 2015, the remainder still being in circulation.

Dividends are variable and non-cumulative, accruing interest at the 3-month Euribor plus a 1.65% spread. The dividend is paid per calendar quarter in arrears, subject to the existence of distributable profits in Naturgy, (considering as such the lower between the declared net profit of Naturgy and the net profit of Naturgy Energy Group, S.A. as guarantor) and the payment of a dividend by Naturgy Energy Group, S.A. In addition, Unión Fenosa Preferentes, S.A.U. has the option, but not the obligation, to pay the holders of the preference shares a benefit in kind by increasing their nominal value.

The shares are perpetual, with the option for the issuer to redeem them at nominal value.

Naturgy recognised the cash received in “Non-controlling interests” under equity in the consolidated balance sheet on the understanding that the issue did not meet the conditions to be considered as a financial liability, because Unión Fenosa Preferentes, S.A.U. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Unión Fenosa Preferentes, S.A.U.

Set out below is a breakdown of the most significant non-controlling interests:

Company	2018			2017		
	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other remuneration	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other remuneration
Metrogas, S.A.	545	24	29	596	27	15
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	145	17	24	176	41	25
Global Power Generation, S.A	105	1	32	84	(3)	14
Fuerza y Energía de Tuxpan S.A. de C.V.	116	10	-	101	9	-
Empresa de Distribución Eléctrica Metro Oeste, S.A.	92	(1)	-	89	8	-
Ecoeléctrica L.P.	75	6	31	102	17	-
Kangra Coal (Proprietary), Ltd	-	(35)	-	59	(2)	-
Europe Maghreb Pipeline, Ltd.	41	53	70	54	56	56
Gas Natural Mexico, S.A. de C.V.	44	1	7	61	7	1
Gas Natural, S.A. ESP	-	-	-	-	25	35
Ceg Río, S.A.	37	6	8	43	10	4
Aprovisionadora global de energía, S.A.	29	16	27	45	15	40
Nedgia Catalunya, S.A.	181	27	-	-	-	-
Nedgia Madrid, S.A.	53	9	-	-	-	-
Other companies (*)	572	32	289	549	67	42
<b>Subtotal</b>	<b>2,035</b>	<b>166</b>	<b>517</b>	<b>1,959</b>	<b>277</b>	<b>232</b>
Preference shares	110	2	1	110	2	1
Subordinated perpetual debentures	1,502	58	58	1,502	58	58
<b>Other equity instruments</b>	<b>1,612</b>	<b>60</b>	<b>59</b>	<b>1,612</b>	<b>60</b>	<b>59</b>
<b>Total</b>	<b>3,647</b>	<b>226</b>	<b>576</b>	<b>3,571</b>	<b>337</b>	<b>291</b>

(\*) Includes in 2018 the payment dividends for an amount of Euro 265 million distributed by Holding de Negocios de Gas, S.A.

Dividends paid to non-controlling interests in 2018 amounted to Euros 576 million (Euros 283 million in 2017).

Set out below are financial highlights for the most significant non-controlling shareholdings (amounts at 100%):

Company	31 December 2018			31 December 2017		
	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	1,986	(709)	(51)	2,138	(726)	(75)
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	787	(284)	(174)	853	(239)	(217)
Global Power Generation, S.A.	316	-	(74)	420	(4)	(80)
Fuerza y Energía de Tuxpan S.A. de C.V.	1,092	(131)	(56)	987	(117)	(43)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	1,008	(291)	(399)	921	(321)	(294)
Ecoeléctrica L.P.	287	(4)	(12)	368	(3)	(7)
Kangra Coal (Proprietary), Ltd	-	-	-	295	(81)	(5)
Europe Maghreb Pipeline, Ltd.	186	(1)	(4)	256	(1)	(17)
Gas Natural Mexico, S.A. de CV	667	(237)	(138)	819	(202)	(211)
Gas Natural, S.A. ESP	-	-	-	-	-	-
Ceg Río, S.A.	234	(50)	(89)	271	(96)	(64)
Aprovisionadora global de energía, S.A.	108	(32)	(18)	151	(32)	(18)
Nedgia Catalunya, S.A.	1,207	(128)	(124)	-	-	-
Nedgia Madrid, S.A.	390	(46)	(59)	-	-	-

Appendix I contains a breakdown of Naturgy's investee companies, stating their activity and the percentage of the shareholding and equity interest.

The analysis performed to determine that Naturgy exercises control over the consolidated entities identified no cases requiring a complex judgement, since Naturgy is entitled to variable returns from its involvement in the investee and has the capacity to influence those returns through its power in the investee, based on Naturgy's representatives on the Board of Directors and its participation in significant decisions. Additionally, in general terms, there are no significant restrictions, such as protective rights, on Naturgy's capacity to access or utilise assets, or to settle liabilities.

## Note 15. Deferred income

The breakdown and the movements under this heading in 2018 and 2017 have been as follows:

	Capital grants	Revenues from pipeline networks and branch lines	Other	Total
<b>At 1.1.17</b>	<b>156</b>	<b>598</b>	<b>88</b>	<b>842</b>
Amount received	4	48	2	54
Release to income	(10)	(25)	(7)	(42)
Currency translation differences	(2)	(3)	(2)	(7)
Assets and liabilities held for sale (Note 11)	(10)	-	-	(10)
Transfers and other	(17)	-	22	5
<b>At 31.12.17</b>	<b>121</b>	<b>618</b>	<b>103</b>	<b>842</b>
Amount received	1	52	4	57
Release to income	(9)	(24)	(9)	(42)
Currency translation differences <sup>(1)</sup>	-	2	8	10
Transfers and other	(3)	(1)	-	(4)
<b>At 31.12.18</b>	<b>110</b>	<b>647</b>	<b>106</b>	<b>863</b>

(1) Others includes hyperinflation of Argentina (Note 3.3).

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments or other entities for the gasification or electrification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted (Note 3.4.20).
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities (Note 3.4.20).

## Note 16. Provisions

The breakdown of provisions at 31 December 2018 and 2017 is as follows:

	At 31.12.18	At 31.12.17
Provisions for employee obligations	431	465
Other provisions	694	664
<b>Non-current provisions</b>	<b>1,125</b>	<b>1,129</b>
<b>Current provisions</b>	<b>297</b>	<b>183</b>
<b>Total</b>	<b>1,422</b>	<b>1,312</b>

### Provisions for employee obligations

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

	2018			2017		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
<b>At 1 January</b>	<b>455</b>	<b>10</b>	<b>465</b>	<b>479</b>	<b>10</b>	<b>489</b>
Appropriations/reversals charged to income statement	24	(1)	23	23	9	32
Payments during the year	(28)	-	(28)	(29)	-	(29)
Currency translation differences	(11)	-	(11)	(10)	-	(10)
Changes recognised directly in equity	(15)	-	(15)	(5)	-	(5)
Transfers and other applications (1)	-	(3)	(3)	(3)	(9)	(12)
<b>At 31 December</b>	<b>425</b>	<b>6</b>	<b>431</b>	<b>455</b>	<b>10</b>	<b>465</b>

(1) In 2017 mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

## Pensions and other similar obligations

The breakdown of the provisions for post-employment pension obligations by country is as follows:

<b>Breakdown by country</b>	<b>At 31.12.18</b>	<b>At 31.12.17</b>	<b>At 01.1.2017</b>
Spain (1)	311	342	368
Brazil (2)	61	50	40
Chile (3)	45	50	54
Mexico (4)	6	11	11
Rest	2	2	6
<b>Total</b>	<b>425</b>	<b>455</b>	<b>479</b>

### 1) Pension plans and other post-employment benefits in Spain

Most of Naturgy's post-employment obligations in Spain consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2018 and 31 December 2017, it held the following defined benefit obligations for certain groups of workers:

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

### 2) Pension Plans and Other post-employment benefits in Brazil

At 31 December 2018 and at 31 December 2017, the following benefits payable by Naturgy for certain employees in Brazil were still in effect:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post-employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

### 3) Pension plans and Other post-employment benefits in Chile

At 31 December 2018 and at 31 December 2017, the following benefits payable by Naturgy for certain employees in Chile were still in effect:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.
- Pension supplements for employees hired prior to 1992 in some electricity distribution companies.
- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

4) *Pension Plans and Other post-employment benefits in Mexico*

At 31 December 2018 and at 31 December 2017, the following benefits payable by Naturgy for certain employees in Mexico were still in effect:

- Length-of-service award payable after 15 years of service
- Severance indemnity for employees without the service requirement, payable in the event of death at work, incapacity or redundancy.
- Severance indemnity equivalent to three months' salary plus 20 days' salary per year of service.
- Additional compensation only in the event of retirement equal to 1% of the base salary per year of service.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
<b>Present value of obligations</b>								
<b>At 1 January</b>	<b>1,103</b>	<b>149</b>	<b>50</b>	<b>12</b>	<b>1,203</b>	<b>146</b>	<b>54</b>	<b>12</b>
Service cost for the year	5	1	2	1	6	-	2	1
Interest cost	18	14	2	1	15	15	3	1
Changes recognised in equity	(47)	12	3	(6)	(47)	19	(1)	(1)
Benefits paid	(68)	(10)	(7)	-	(74)	(11)	(6)	-
Currency translation differences	-	(17)	(5)	-	-	(20)	(3)	(1)
Transfers and other	-	-	-	-	-	-	1	-
<b>At 31 December</b>	<b>1,011</b>	<b>149</b>	<b>45</b>	<b>8</b>	<b>1,103</b>	<b>149</b>	<b>50</b>	<b>12</b>
<b>Fair value of plan assets</b>								
<b>At 1 January</b>	<b>761</b>	<b>99</b>	<b>-</b>	<b>1</b>	<b>835</b>	<b>106</b>	<b>-</b>	<b>1</b>
Expected yield	11	9	-	-	9	11	-	-
Contributions	4	1	-	-	7	3	-	-
Changes recognised in equity	(21)	(2)	-	-	(29)	4	-	-
Benefits paid	(55)	(8)	-	1	(61)	(11)	-	-
Currency translation differences	-	(11)	-	-	-	(14)	-	-
Transfers and other	-	-	-	-	-	-	-	-
<b>At 31 December</b>	<b>700</b>	<b>88</b>	<b>-</b>	<b>2</b>	<b>761</b>	<b>99</b>	<b>-</b>	<b>1</b>
<b>Provisions for pensions and similar obligations</b>	<b>311</b>	<b>61</b>	<b>45</b>	<b>6</b>	<b>342</b>	<b>50</b>	<b>50</b>	<b>11</b>

The amounts recognised in the consolidated income statement for the above-mentioned pension plans are as follows:

	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Service cost for the year	5	1	2	1	6	-	2	1
Past service cost	-	-	-	-	-	-	-	-
Interest cost	18	14	2	1	15	15	3	1
Expected return on plan assets	(11)	(9)	-	-	(9)	(11)	-	-
<b>Total charge to the income statement</b>	<b>12</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>12</b>	<b>4</b>	<b>5</b>	<b>2</b>

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

	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
1 to 5 years	1	-	-	-	2	-	-	-
5 to 10 years	16	-	26	1	22	2	28	3
More than 10 years	294	61	19	5	318	48	22	8
<b>Provisions for pensions and similar obligations</b>	<b>311</b>	<b>61</b>	<b>45</b>	<b>6</b>	<b>342</b>	<b>50</b>	<b>50</b>	<b>11</b>

The weighted average term of defined benefit commitments is as follows:

Years	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Weighted average term of pension commitments	11.8	10.2	9.7	16.52	11.66	10.10	10.10	17.76

Movements in the liability recognised in the consolidated balance sheet are as follows:

	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
<b>At 1 January</b>	<b>342</b>	<b>50</b>	<b>50</b>	<b>11</b>	<b>368</b>	<b>40</b>	<b>54</b>	<b>11</b>
Charge against the income statement	12	6	4	2	11	4	5	2
Contributions paid	(17)	(3)	(7)	(1)	(19)	(3)	(6)	-
Changes recognised in equity	(26)	14	3	(6)	(18)	15	(1)	-
Transfers	-	-	-	-	-	-	1	(1)
Currency translation differences	-	(6)	(5)	-	-	(6)	(3)	(1)
Other	-	-	-	-	-	-	-	-
Business Combinations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
<b>At 31 December</b>	<b>311</b>	<b>61</b>	<b>45</b>	<b>6</b>	<b>342</b>	<b>50</b>	<b>50</b>	<b>11</b>

The amount of cumulative actuarial gains and losses recognised directly in equity is negative by Euros 87 million in 2018 (Spain: negative by Euros 11 million, Brazil: negative by Euros 71 million, Chile: negative by Euros 3 million, and Mexico: negative by Euros 2 million). In 2017, the cumulative negative figure was Euros 102 million (Spain: negative by Euros 37 million, Brazil: negative by Euros 57 million, Chile: negative by Euros 4 million, and Mexico: negative by Euros 4 million).

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

	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Financial assumptions	-	(3)	-	(2)	(23)	21	(2)	(1)
Demographic assumptions	-	-	-	-	-	-	-	-
Experience	(26)	13	3	(4)	5	1	1	-
Limits on assets	-	4	-	-	-	(7)	-	-
<b>At 31 December</b>	<b>(26)</b>	<b>14</b>	<b>3</b>	<b>(6)</b>	<b>(18)</b>	<b>15</b>	<b>(1)</b>	<b>(1)</b>

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

% of total	2018				2017			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Shares	-	12%	-	-	-	14%	-	-
Bonds	100%	81%	-	100%	100%	79%	-	100%
Real estate and other assets	-	7%	-	-	-	7%	-	-

Real yields on the plan-related assets in 2018, relating basically to Spain and Brazil, have been Euros 21 million (Euros 21 million in 2017).

The main annual actuarial assumptions used were as follows:

	At 31.12.18				At 31.12.17			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Discount rate (1)	0.3 a 2.39%	9.75%	2.05%	9.25%	0.0 a 2.25%	10.7%	1.9%	7.25%
Expected return on plan assets (1)	0.3 a 2.39%	9.75%	-	9.25%	0.0 a 2.25%	10.7%	-	7.25%
Future salary increases (1)	2.0%	5.55%	2.0%	5.5%	2.0%	7.7%	2.0%	5.5%
Future pension increases (1)	2.0%	4.5%	NA	3.4%	2.0%	5.5%	NA	3.4%
Inflation rate (1)	2.0%	4.5%	3.0%	4.0%	2.0%	5.5%	2.7%	4.0%
Mortality table	PERMF 2000	AT-2000	RV-2014	EMSSA 2009	PERMF 2000	AT-2000	RV-2014	EMSSA 2009
Life expectancy:								
Men								
Retired in the current year	22.9	20.5	19.4	22.7	22.9	20.45	18.36	22.56
Retiring within 20 years	42.9	37.9	37.0	39.7	42.7	37.94	35.57	39.53
Women								
Retired in the current year	27.4	23.0	24.1	25.1	27.4	23.02	23.24	25.04
Retiring within 20 years	48.8	41.4	42.8	44.9	48.6	41.44	41.89	44.81

(1) annual

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.

Benefits payable and estimated contributions to be made for 2018 in million euros are as follows:

	Benefits				Contributions			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Post-employment	56	7	-	-	10	1	3	-
Post-employment medical	-	-	-	-	3	3	-	-
Long term	-	-	-	-	-	-	-	-
<b>At 31 December</b>	<b>56</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>4</b>	<b>3</b>	<b>-</b>

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation + 1%	Discount +1%	Healthcare +1%
Present value of obligations	110	(124)	20
Fair value of plan assets	10	(65)	-
<b>Provision for pensions</b>	<b>90</b>	<b>(59)</b>	<b>20</b>
Service cost for the year	1	(1)	-
Interest cost	3	8	1
Expected return on plan assets	-	(7)	-

### Other obligations with personnel

Within the framework of the new Strategic Plan 2018-2022, a new long-term incentive plan has been implemented for Naturgy executives not included in the plan referred to in Note 14, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. At 31 December 2018 the provision for this commitment amounted to Euros 3 million.

At 31 December 2018 a provision has been recorded corresponding to the remuneration programmes 2016-2018 and 2017-2019 amounting to Euros 6 million (Euros 19 million at 31 December 2017 for the



programmes 2015-2016, 2016-2018 y 2017-2019), of which Euros 3 million is classified as non-current in 2018 (Euros 10 million 2017).

### **Other current and non-current provisions**

Movements in current and non-current provisions are as follows:

	Non-current provisions			Current provisions	Total
	Due to facility closure costs	Other provisions	Total		
<b>At 1.1.17</b>	<b>414</b>	<b>345</b>	<b>759</b>	<b>158</b>	<b>917</b>
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	6	2	8	-	<b>8</b>
– Appropriations charged to other results	-	16	16	125	<b>141</b>
– Reversals	(6)	(10)	(16)	-	<b>(16)</b>
Appropriations/reversals charged to fixed assets:					
Payments	(3)	(2)	(5)	(88)	<b>(93)</b>
Currency translation differences	(1)	(7)	(8)	(13)	<b>(21)</b>
Transfers and other (1)	(7)	(88)	(95)	1	<b>(94)</b>
<b>At 31.12.17</b>	<b>408</b>	<b>256</b>	<b>664</b>	<b>183</b>	<b>847</b>
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	7	16	23	-	<b>22</b>
– Appropriations charged to other results	-	52	52	222	<b>274</b>
– Reversals	(9)	(14)	(23)	-	<b>(23)</b>
Appropriations/reversals charged to fixed assets:					
Payments	(1)	-	(1)	(112)	<b>(113)</b>
Currency translation differences	(1)	(3)	(4)	(2)	<b>(6)</b>
Transfers and other	(23)	6	(17)	6	<b>(11)</b>
<b>At 31.12.18</b>	<b>381</b>	<b>313</b>	<b>694</b>	<b>297</b>	<b>991</b>

(1) It mainly includes the transfer to “Non-current assets held for sale”, at the date on which this classification is applied (Note 11). In 2017 it also includes, in the amount of Euros 93 million, of the provision for the tax assessments related to export deductions in 2003-2005 as a result of the unfavourable judgement by the Supreme Court (Note 21), due to the offset made against balances to be refunded by the Spanish tax authorities.

The heading “Provisions due to facility closure costs” includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

The heading “Other provisions” mainly includes provisions recorded to cover obligations derived principally from tax claims, lawsuits and arbitration, insurance and other liabilities (Note 35). Provisions have been recorded during the year due to the development of certain civil, administrative and tax-related claims existing in various Group companies.

The item “Current provisions” relates mainly to CO<sub>2</sub> emissions estimated for the year in the amount of Euros 143 million at 31 December 2018 (Euros 66 million in 2017).

No provision for onerous contracts was deemed necessary at 31 December 2018 or 2017.

The estimated payment periods for the non current obligations provisioned in this item are Euros 368 million in between one and five years (Euros 215 million at 31 December 2017), Euros 151 million in between five and 10 years (Euros 98 million at 31 December 2017) and Euros 175 million after more than 10 years (Euros 351 million at 31 December 2017).

## Note 17. Borrowings

The breakdown of borrowings at 31 December 2018 and 2017 is as follows:

	At 31.12.18	At 31.12.17
Issuing of debentures and other negotiable obligations	9,763	10,726
Borrowings from financial institutions	3,534	5,140
Derivative financial instruments (Note 18)	55	48
Other financial liabilities	-	2
<b>Non-current borrowings</b>	<b>13,352</b>	<b>15,916</b>
Issuing of debentures and other negotiable obligations	995	1,488
Borrowings from financial institutions	1,043	988
Derivative financial instruments (Note 18)	30	1
Other financial liabilities	11	66
<b>Current borrowings</b>	<b>2,079</b>	<b>2,543</b>
<b>Total</b>	<b>15,431</b>	<b>18,459</b>

Financial liabilities recognised at fair value at 31 December 2018 and at 31 December 2017 are classified as follows:

	31 December 2018				31 December 2017			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Financial liabilities								
Fair value through profit or loss	-	-	-	-	-	-	-	-
Hedging derivatives	-	85	-	85	-	49	-	49
<b>Total</b>	<b>-</b>	<b>85</b>	<b>-</b>	<b>85</b>	<b>-</b>	<b>49</b>	<b>-</b>	<b>49</b>

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

	Carrying amount		Fair value	
	At 31.12.18	At 31.12.17	At 31.12.18	At 31.12.17
Issuing of debentures and other negotiable securities	9,763	10,726	10,529	11,776
Loans from financial institutions and other financial liabilities	3,534	5,142	3,570	5,176

Listed bond issues and other negotiable obligations are quoted in such a way that their fair value is estimated according to their quotation (Level 1). Of the borrowings from financial institutions and other financial liabilities, the fair value of the debts with fixed interest rates is determined which is estimated on the basis of discounted cash flows over the remaining terms of said debt. The discount rates were determined based on market rates available at 31 December 2018 and 31 December 2017 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The following tables describe consolidated gross borrowings by instrument at 31 December 2018 and 31 December 2017 and their maturity profile, taking into account the impact of the derivative hedges.

	2019	2020	2021	2022	2023	2024 and later years	Total
<b>At 31 December 2018:</b>							
Issuing of debentures and other negotiable securities							
Fixed	992	959	1,203	512	778	6,221	10,665
Floating	4	-	89	-	-	-	93
Institutional Banks and other financial institutions							
Fixed	95	115	158	125	91	1,143	1,727
Floating	131	131	90	70	36	29	487
Commercial Banks and other financial liabilities							
Fixed	128	226	177	297	228	7	1,063
Floating	729	367	181	42	77	-	1,396
<b>Total Fixed</b>	<b>1,215</b>	<b>1,300</b>	<b>1,538</b>	<b>934</b>	<b>1,097</b>	<b>7,371</b>	<b>13,455</b>
<b>Total Floating</b>	<b>864</b>	<b>498</b>	<b>360</b>	<b>112</b>	<b>113</b>	<b>29</b>	<b>1,976</b>
<b>Total</b>	<b>2,079</b>	<b>1,798</b>	<b>1,898</b>	<b>1,046</b>	<b>1,210</b>	<b>7,400</b>	<b>15,431</b>

	2018	2019	2020	2021	2022	2023 and later years	Total
<b>At 31 December 2017:</b>							
Issuing of debentures and other negotiable securities							
Fixed	1,426	1,234	1,137	1,436	768	6,150	12,151
Floating	63	-	-	-	-	-	63
Institutional Banks and other financial institutions							
Fixed	185	150	170	170	137	1,272	2,084
Floating	80	76	76	78	57	28	395
Commercial Banks and other financial liabilities							
Fixed	64	163	350	114	185	3	879
Floating	725	517	944	231	470	-	2,887
<b>Total Fixed</b>	<b>1,675</b>	<b>1,547</b>	<b>1,657</b>	<b>1,720</b>	<b>1,090</b>	<b>7,425</b>	<b>15,114</b>
<b>Total Floating</b>	<b>868</b>	<b>593</b>	<b>1,020</b>	<b>309</b>	<b>527</b>	<b>28</b>	<b>3,345</b>
<b>Total</b>	<b>2,543</b>	<b>2,140</b>	<b>2,677</b>	<b>2,029</b>	<b>1,617</b>	<b>7,453</b>	<b>18,459</b>

Had the impact of the derivatives on borrowings been excluded, the financial debt at fixed rate would amount to Euros 11,801 million at 31 December 2018 (Euros 13,008 million at 31 December 2017) and, at floating rates, Euros 3,545 million at 31 December 2018 (Euros 5,403 million at 31 December 2017).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2018 and 31 December 2017 and its maturity profile, taking into account the impact of the derivative hedges:

	2019	2020	2021	2022	2023	2024 and later years	Total
<b>At 31 December 2018:</b>							
Euro debt	1,216	1,240	1,429	684	960	6,453	11,982
Foreign Currency Debt:							
US Dollar	394	24	97	106	1	2	624
Chilean peso	244	340	232	171	246	789	2,022
Mexican peso	102	48	89	44	-	120	403
Brazilian real	97	137	50	41	3	36	364
Colombian peso	1	-	-	-	-	-	1
Argentinian peso	25	9	1	-	-	-	35
<b>Total</b>	<b>2,079</b>	<b>1,798</b>	<b>1,898</b>	<b>1,046</b>	<b>1,210</b>	<b>7,400</b>	<b>15,431</b>

	2018	2019	2020	2021	2022	2023 and later years	Total
<b>At 31 December 2017:</b>							
Euro debt	1,634	1,626	1,863	1,864	1,411	6,710	15,108
Foreign Currency Debt:							
US Dollar	230	175	272	93	102	3	875
Chilean peso	414	194	334	71	62	689	1,764
Mexican peso	128	41	43	-	42	51	305
Brazilian real	108	89	157	-	-	-	354
Colombian peso	-	1	-	-	-	-	1
Argentinian peso	29	14	8	1	-	-	52
<b>Total</b>	<b>2,543</b>	<b>2,140</b>	<b>2,677</b>	<b>2,029</b>	<b>1,617</b>	<b>7,453</b>	<b>18,459</b>

Borrowings in euros in 2018 have borne an effective average interest rate of 2.32% (2.96% in 2017) while borrowings in foreign currency have borne an effective average interest rate of 6.58% in 2018 (6.03% in 2017) including derivative instruments assigned to each transaction.

At 31 December 2018, Naturgy has credit facilities totalling Euros 5,468 million (Euros 7,796 million at 31 December 2017), of which Euros 5,234 million has not been drawn down (Euros 7.283 million at 31 December 2017).

Bank borrowings totalling Euros 2,784 million (Euros 2,687 million at 31 December 2017) and bonds issued for an amount of Euro 50 millions are subject to the fulfilment of certain financial ratios.

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.

Specifically, the bonds issued, in a volume of Euros 9,708 million, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

There are also loans for an amount of Euros 2,014 million that could be subject to early repayment in the event of a change in control (Euros 2,851 million at 31 December 2017). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the preparation date of these consolidated annual accounts, Naturgy 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.

Naturgy is in the process of optimising the financing assigned to each of the business units to increase visibility in the accounts and financial autonomy in the same currency as that in which the cash flows originate, and obtain greater flexibility.

We set out below the most relevant financial instruments:

### Issuing of debentures and other negotiable securities

In 2018 and 2017 the evolution of the issues of debt securities has been as follows:

	At 31.12.2017	IFRS 9	At 1.1.2018	Issuances	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2018
Issued in a European Union Member State which required the filing of a prospectus	10,958	(48)	10,910	6,478	(8,026)	(73)	9,289
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-	-	-
Issued outside a European Union Member State	1,256	-	1,256	389	(187)	11	1,469
<b>Total</b>	<b>12,214</b>	<b>(48)</b>	<b>12,166</b>	<b>6,867</b>	<b>(8,213)</b>	<b>(62)</b>	<b>10,758</b>

	At 1.1.2017	Issuances	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2017
Issued in a European Union Member State which required the filing of a prospectus	10,262	6,694	(5,794)	(204)	10,958
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-
Issued outside a European Union Member State	1,399	-	(8)	(135)	1,256
<b>Total</b>	<b>11,661</b>	<b>6,694</b>	<b>(5,802)</b>	<b>(339)</b>	<b>12,214</b>

An analysis of the most relevant characteristics of the main issuance programmes for debentures and other negotiable securities by Naturgy is as follows, excluding the impact of accrued unpaid interest:

At 31 December 2018							
Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
<b>Euro Commercial Paper (ECP) programme</b>							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	6,478
<b>European Medium Term Notes (EMTN) programme</b>							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands / Spain	1999	Euro	15,000	9,708	5,292	-
<b>Negotiable bonds and Certificates Programme</b>							
Empresa de Distribución Eléctrica Metro-Oeste, S.A.	Panama	2010	USD	44	-	44	-
Sobral I Solar energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	30
Sertao I Solar energia SPE Ltda	Brazil	2018	Brazilian real	25	25	-	29
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	445	213	232	156
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	12	-	12	-
Grupo CGE	Chile	2015	Chilean peso	2,011	900	1,111	174

At 31 December 2017							
Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
<b>Euro Commercial Paper (ECP) programme</b>							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	4,594
<b>European Medium Term Notes (EMTN) programme</b>							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands / Spain	1999	Euro	15,000	11,205	3,795	2,100
<b>Negotiable bonds and Certificates Programme</b>							
Empresa de Distribución Eléctrica Metro-Oeste, S.A.	Panama	2010	USD	42	-	42	-
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	422	180	242	-
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	22	-	22	-
Grupo CGE	Chile	2015	Chilean peso	1,924	771	1,153	-

The breakdown of the nominal balance issued under the EMTN programme is as follows:

Issuance	Drawn-down nominal amount		Maturity	Coupon %
	31.12.2018	31.12.2017		
July 2009	339	500	2019	6.375
November 2009	590	631	2021	5.125
January 2010	579	686	2020	4.500
January 2010	-	513	2018	4.125
May 2011	237	500	2019	5.375
February 2012	-	586	2018	5.000
September 2012	355	434	2020	6.000
January 2013	462	600	2023	3.875
January 2013 (1)	204	204	2019	2.125
April 2013	491	750	2022	3.875
July 2013 (2)	101	101	2023	3.974
October 2013	300	500	2021	3.500
March 2014	500	500	2024	2.875
May 2014	200	200	2023	2.625
January 2015	500	500	2025	1.375
April 2016	600	600	2026	1.250
April 2016	300	300	2021	0.515
January 2017	1,000	1,000	2027	1.375
April 2017	1,000	1,000	2024	1.125
October 2017	300	300	2029	1.875
November 2017	800	800	2025	0.875
January 2018	850	-	2028	1.500
<b>Total</b>	<b>9,708</b>	<b>11,205</b>		

(1) CHF 250 million as nominal value.

(2) NOK 800 million as nominal value

## 2018

In January 2018 Naturgy issued bonds under its 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.

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

In 2018 two bonds have matured for a total amount of Euros 1,099 million and with an average coupon of 4.59%.

In March 2018, Gas Natural México S.A. de C.V. issued Euros 156 million through 3-year bonds at floating interest consisting of the interbank interest rate (TIIE) plus 0.40%, and 7-year bonds with fixed interest of 8.89%.

In October 2018, Sobral I Solar Energia SPE S.A. and Sertao I Solar Energia SPE S.A. issued bonds amounting to Euros 59 million, of which Euros 30 million are at 15 years and 3 months at a floating interest rate consisting of the NTN-B rate (linked to the IPCA inflation rate) plus 1.95%, and the remainder at 14 years and 3 months at a variable interest rate consisting of the NTN-B plus 1.20%.

On 6 December 2018, Compañía General de Electricidad S.A, the Chilean subsidiary of Naturgy Energy Group, S.A., completed a bond issue for a total amount of 5 million Unidades de Fomento (UF), equivalent to Euros 174 million. The issue comprises two bond series: one series of 2 million UF (Euros 70 million) with a term of 7 years and an annual coupon of 1.95%, and another series of 3 million UF (Euros 104 million) with a term of 23 years and an annual coupon of 2.85%.

## 2017

In April 2017 bonds were issued under the EMTN programme for a value of Euros 1,000 million which was used to repurchase debentures amounting to Euros 1,000 million maturing in 2018, 2020 and 2021. In accordance with the applicable accounting criteria, the repurchase qualified as an exchange of debt, given that there had been no substantial changes in the debt instrument, so the carrying amount of the liability had been adjusted based on costs and commissions incurred.

However, according to the new interpretation under IFRS 9 in 2018, the carrying amount of the modification of the financial liability has been re-estimated (see Note 3.2).

## **Borrowings from financial institutions**

### European bank loans (commercial / institutional banks)

During 2018, Naturgy has used part of its cash surplus to repay practically all corporate bank financing, including Euros 1,660 million.

At 31 December 2018, bank borrowings include bank loans of Euros 102 million (Euros 1,644 million at 31 December 2017) while no credit lines had been utilised.

Concerning borrowings from institutional credit entities, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 2,011 million which had been fully utilised at 31 December 2018 (Euros 2,240 million drawn down at 31 December 2017). In addition, borrowings are recorded from the Official Credit Institute (ICO) totalling Euros 200 million, arranged through loans maturing in 2029 at the latest (Euros 234 million at 31 December 2017).

### Loans from Latin American credit institutions (commercial / institutional banks)

At 31 December 2018 borrowings from various Latin American financial institutions totalled Euros 2,264 million (Euros 2,012 million at 31 December 2017). The geographic breakdown of these loans is as follows:

<b>Country</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Chile	1,163	1,034
Panama	524	475
Brazil	314	354
Mexico	190	126
Peru	55	-
Colombia	1	1
Other	17	22
	<b>2,264</b>	<b>2,012</b>

All borrowings from credit institutions in Latin America at 31 December 2018, relate to commercial banks.

### **Note 18. Risk management and derivative financial instruments**

#### **Risk management**

Naturgy has a series 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 and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

On 23 June 2016 UK voters supported the departure of their country from the European Union ("Brexit"). The referendum has caused significant uncertainty 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 replicated or replace in the event of its departure. The development of the negotiations has had and may continue to have adverse effects on global economic conditions and the stability of global financial markets.

#### **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.

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

The financial debt structure at 31 December 2018 and 2017 (Note 17), after taking into account the hedges arranged through derivatives, is as follows:

	<b>At 31.12.2018</b>	<b>At 31.12.17</b>
Fixed interest rate	13,455	15,114
Floating interest rate	1,976	3,345
<b>Total</b>	<b>15,431</b>	<b>18,459</b>

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

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

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2018	+50	(10)	52
	-50	10	(52)
2017	+50	(17)	133
	-50	17	(133)

### 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 Naturgy 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 within the limits approved for hedging instruments.

The non-Euro currency with which Naturgy operates most is the US Dollar. The sensitivity of the Naturgy's profits and consolidated equity ("Other equity items") to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		Effect on profit before tax	Effect on equity before tax
2018	+5%	-	13
	-5%	-	(13)
2017	+5%	-	7
	-5%	-	(7)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial. At 31 December 2018 Naturgy's equity denominated in Argentinian pesos totals Euros 155 million (Euros 44 million at 31 December 2017) representing a pre-tax impact on equity of Euros 8 million at 5% sensitivity (Euros 2 million at 31 December 2017).

### Commodity price risk

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<sub>2</sub> emission allowances trading by Naturgy, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

The sensitivity of results and equity (Other equity items) to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2018	+10%	-	(23)
	-10%	-	23
2017	+10%	-	(16)
	-10%	-	16

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2018	+10%	-	9
	-10%	-	(9)
2017	+10%	-	12
	-10%	-	(12)

Naturgy has no relevant investments in upstream businesses or commodities production, therefore a low price scenario in commodities would have no significant impact on asset values.

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

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

### Credit risk

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

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

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses (Note 10) estimated by Naturgy on the basis of available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

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 whose rating is equal or over "BB". No significant defaults or losses arose in 2018 or 2017.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 31 December 2018, Naturgy had received guarantees totalling Euros 39 million to cover the risk of large industrial customers (Euros 41 million at 31 December 2017). In 2018, bank guarantees amounting to Euros 4 million were enforced (Euros 2 million at 31 December 2017).

At 31 December 2018 and 2017 Naturgy did not have significant concentrations of credit risk. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, by having a customer base that is broadly distributed on an international scale; secondly, a diverse product range, from energy supply to the implementation of tailored energy solutions; thirdly, there are different customer types, such as residential customers, self-employed entrepreneurs and small and large businesses in both the public and private sectors and in different segments of the economy.

An ageing analysis of financial assets and related expected losses at 31 December 2018 is set out below:

<b>31 December 2018</b>	<b>Total</b>	<b>Current</b>	<b>0-180 days</b>	<b>180-360 days</b>	<b>More than 360 days</b>
Expected loss ratio	15.0%	1.3%	20.2%	87.6%	95.3%
Trade receivables for sales and provisions of services	5,204	4,156	338	87	623
Expected loss	789	44	69	77	599

The impaired financial assets are broken down in Note 10.

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.

### **Liquidity risk**

Naturgy 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.

Available cash resources at 31 December 2018 and 2017 are analysed below:

<b>Liquidity source</b>	<b>Availability 2018</b>	<b>Availability 2017</b>
Undrawn credit facilities (Note 17)	5,234	7,283
Undrawn loans	-	42
Cash and cash equivalents (Note 13)	1,716	3,225
<b>Total</b>	<b>6,950</b>	<b>10,550</b>

There is also additional capacity to issue debt in the capital markets unused for Euros 7,691 million (Note 17).

The breakdown of the maturities of the financial liabilities at 31 December 2018 and 2017 is as follows:

	2019	2020	2021	2022	2023	2024 and later years	Total
<b>At 31 December 2018</b>							
Trade and other payables	(4,067)	-	-	-	-	-	(4,067)
Loans and other financial payables	(2,501)	(2,280)	(2,351)	(1,480)	(1,325)	(9,017)	(18,954)
Financial derivatives	-	(1)	-	4	(15)	(25)	(37)
Other liabilities	(202)	(125)	(118)	(110)	(104)	(732)	(1,391)
<b>Total (1)</b>	<b>(6,770)</b>	<b>(2,406)</b>	<b>(2,469)</b>	<b>(1,586)</b>	<b>(1,444)</b>	<b>(9,774)</b>	<b>(24,449)</b>

	2018	2019	2020	2021	2022	2023 and later years	Total
<b>At 31 December 2017</b>							
Trade and other payables	(3,920)	-	-	-	-	-	(3,920)
Loans and other financial payables	(3,121)	(2,723)	(3,205)	(2,519)	(2,071)	(8,744)	(22,383)
Financial derivatives	62	6	(2)	(5)	-	(30)	31
Other liabilities	(93)	(149)	(73)	(51)	(51)	(541)	(958)
<b>Total (1)</b>	<b>(7,072)</b>	<b>(2,866)</b>	<b>(3,280)</b>	<b>(2,575)</b>	<b>(2,122)</b>	<b>(9,315)</b>	<b>(27,230)</b>

(1) The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 17.

## Capital management

The main purpose of Naturgy'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 the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2018	2017
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Its leverage rating is as follows:

	2018	2017
<b>Net borrowings:</b>	<b>13,667</b>	<b>15,154</b>
Non-current borrowings (Note 17)	13,352	15,916
Current borrowings (Note 17)	2,079	2,543
Cash and cash equivalents (Note 13)	(1,716)	(3,225)
Derivatives (Note 18)	(48)	(80)
<b>Equity:</b>	<b>14,595</b>	<b>18,305</b>
Equity holders of the Company (Note 14)	10,948	14,734
Non-controlling interests (Note 14)	3,647	3,571
<b>Leverage (Net borrowings / (Net borrowings + Net equity))</b>	<b>48.4%</b>	<b>45.3%</b>

## Derivative financial instruments

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

	At 31.12.18		At 31.12.17	
	Assets	Liabilities	Assets	Liabilities
<b>Hedging derivative financial instruments</b>	<b>180</b>	<b>100</b>	<b>15</b>	<b>48</b>
Cash flow hedge				
- Interest rate	-	26	14	17
- Interest rate and foreign exchange rate	18	29	-	25
- Price of commodities	162	45	-	-
Fair value hedge				
- Interest rate and foreign exchange rate	-	-	1	6
<b>Other financial instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivative financial instruments – non current</b>	<b>180</b>	<b>100</b>	<b>15</b>	<b>48</b>
<b>Hedging derivative financial instruments</b>	<b>61</b>	<b>98</b>	<b>99</b>	<b>85</b>
Cash flow hedge				
- Interest rate	-	9	1	-
- Interest rate and foreign exchange rate	18	14	43	-
- Exchange rate	10	7	18	1
- Price of commodities	33	68	32	83
Fair value hedge				
- Interest rate and foreign exchange rate	-	-	-	-
- Exchange rate	-	-	5	1
<b>Other financial instruments</b>	<b>14</b>	<b>19</b>	<b>4</b>	<b>6</b>
- Price of commodities	8	19	4	6
- Exchange rate	6	-	-	-
<b>Derivative financial instruments current</b>	<b>75</b>	<b>117</b>	<b>103</b>	<b>91</b>
<b>Total</b>	<b>255</b>	<b>217</b>	<b>118</b>	<b>139</b>

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

“Other financial instruments” includes the derivatives not qualifying for hedge accounting.

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

	2018		2017	
	Operating results	Financial results	Operating results	Financial results
Cash flow hedge	(50)	(55)	24	(23)
Fair value hedge	(6)	(5)	-	(15)
Other financial instruments	-	(2)	(3)	(2)
<b>Total</b>	<b>(56)</b>	<b>(62)</b>	<b>21</b>	<b>(40)</b>

The breakdown of derivatives at 31 December 2018 and 2017, their fair value and maturities of their notional values is as follows:

	Fair value	31.12.2018 Notional value					Subsequent years	Total
		2019	2020	2021	2022	2023		
<b>INTEREST RATE HEDGES:</b>								
Cash flow hedges:								
Financial swaps (EUR)	(35)	95	844	63	141	91	1,392	2,626
Options (EUR)	-	-	-	-	-	40	-	40
<b>EXCHANGE RATE HEDGES:</b>								
Cash flow hedges:								
Foreign exchange insurance (USD)	4	278	-	-	-	-	-	278
Foreign exchange insurance (GBP)	-	24	-	-	-	-	-	24
Foreign exchange insurance (MXN)	(6)	167	-	-	-	-	-	167
Foreign exchange insurance (AUD)	6	84	-	-	-	-	-	84
Foreign exchange insurance (BRL)	(1)	54	-	-	-	-	-	54
Fair value hedges:								
Foreign exchange insurance (BRL)	-	14	-	-	-	-	-	14
Foreign exchange insurance (USD)	-	47	-	-	-	-	-	47
Foreign exchange insurance (DHN)	-	5	-	-	-	-	-	5
Foreign exchange insurance (EUR) <sup>(1)</sup>	-	52	-	-	-	-	-	52
<b>INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:</b>								
Cash flow hedges:								
Financial swaps (CHF)	16	204	-	-	-	-	-	204
Financial swaps (NOK)	(27)	-	-	-	-	101	-	101
Financial swaps (UF)	4	-	11	11	183	245	46	496
<b>COMMODITIES HEDGES:</b>								
Cash flow hedges:								
Commodities price derivatives (EUR)	(25)	270	7	-	-	-	-	277
Commodities price derivatives (USD)	(22)	195	141	108	108	110	-	662
Commodities price derivatives (AUD)	129	16	21	39	39	40	565	720
<b>OTHER:</b>								
Commodities price derivatives (EUR)	(11)	7	-	-	-	-	-	7
Commodities price derivatives (USD)	-	1	-	-	-	-	-	1
Foreign exchange derivatives (USD)	6	439	-	-	-	-	-	439
<b>TOTAL</b>	<b>38</b>	<b>1,952</b>	<b>1,024</b>	<b>221</b>	<b>471</b>	<b>627</b>	<b>2,003</b>	<b>6,298</b>

(1) Arranged by companies using a functional currency other than the euro.

	Fair value	31.12.2017 Notional value					Subsequent years	Total
		2018	2019	2020	2021	2022		
<b>INTEREST RATE HEDGES:</b>								
Cash flow hedges:								
Financial swaps (EUR)	(9)	95	95	844	63	91	2,484	3,672
Financial swaps (USD)	1	228	-	-	-	-	-	228
<b>EXCHANGE RATE HEDGES:</b>								
Cash flow hedges:								
Foreign exchange insurance (USD)	8	647	-	-	-	-	-	647
Foreign exchange insurance (GBP)	-	30	-	-	-	-	-	30
Foreign exchange insurance (EUR) <sup>(1)</sup>	2	38	-	-	-	-	-	38
Foreign exchange insurance (COP)	(1)	54	-	-	-	-	-	54
Foreign exchange insurance (AUD)	-	-	42	-	-	-	-	42
Foreign exchange insurance (BRL)	8	60	-	-	-	-	-	60
Fair value hedges:								
Financial swaps (MXN)	-	-	-	-	-	-	-	-
Foreign exchange insurance (BRL)	-	19	-	-	-	-	-	19
Foreign exchange insurance (USD)	4	333	-	-	-	-	-	333
Foreign exchange insurance (DHN)	-	10	-	-	-	-	-	10
Foreign exchange insurance (EUR) <sup>(1)</sup>	-	69	-	-	-	-	-	69
<b>INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:</b>								
Cash flow hedges:								
Financial swaps (CHF)	6	-	204	-	-	-	-	204
Financial swaps (MXN)	43	200	-	-	-	-	-	200
Financial swaps (NOK)	(25)	-	-	-	-	-	101	101
Financial swaps (COP)	-	-	-	-	-	-	-	-
Fair value hedges:								
Financial swaps (CLP)	(5)	-	-	-	160	-	-	160
<b>COMMODITIES HEDGES:</b>								
Cash flow hedges:								
Commodities price derivatives (EUR)	20	149	8	-	-	-	-	157
Commodities price derivatives (USD)	(71)	342	115	9	9	18	24	517
<b>OTHER:</b>								
Commodities price derivatives (EUR)	(2)	4	-	-	-	-	-	4
Foreign exchange derivatives (USD)	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>(21)</b>	<b>2,278</b>	<b>464</b>	<b>853</b>	<b>232</b>	<b>109</b>	<b>2,609</b>	<b>6,545</b>

(1) Arranged by companies using a functional currency other than the euro.

## Note 19. Other current and non-current liabilities

The breakdown of this heading at 31 December 2018 and 2017 is as follows:

	At 31.12.18	At 31.12.17
Debt for finance lease contracts (1)	1,186	839
Deposits and guarantees deposits (2)	210	206
Derivative financial instruments (see Note 18)	45	-
Other liabilities	99	165
<b>Other non-current liabilities</b>	<b>1,540</b>	<b>1,210</b>
Dividend payable	37	45
Expenses accrued pending payment	202	172
Debt for finance lease contracts (Note 1)	132	94
Derivative financial instruments (see Note 18)	11	2
Other liabilities (3)	89	28
<b>Other current liabilities</b>	<b>471</b>	<b>341</b>
<b>Total other liabilities</b>	<b>2,011</b>	<b>1,551</b>

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

### (1) Finance lease liabilities

The main finance lease liabilities recognised in this item at 31 December are as follows:

- In 2003 Naturgy acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m<sup>3</sup> through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.
- In 2007 and 2009 two 138,000 m<sup>3</sup> tankers were acquired, together with Repsol, under 25-year time-charter agreements, extendable for consecutive 5-year periods. In 2014, Naturgy and Shell entered into an agreement, as part of the sale of the Repsol Group's liquefied natural gas business, to obtain exclusive use of each of the two tankers, Naturgy using the tanker acquired in 2009 under a time charter expiring in 2029 and extendable for consecutive five-year periods.
- In March 2014, Naturgy acquired a 173,000 m<sup>3</sup> tanker to carry liquefied natural gas under an 18-year finance lease expiring in 2032.
- In November 2016, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176.300 m<sup>3</sup> under a 20-year finance lease expiring in 2036.
- In March and June 2018, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176.000 m<sup>3</sup> each under a 20-year finance lease expiring in 2037.

Minimum lease payments are as follows:

	At 31.12.18			At 31.12.17		
	Nominal value	Discount	Present value	Nominal value	Discount	Present value
Less than 1 year	141	(9)	132	100	(6)	94
Between 1 and 5 years	564	(111)	453	402	(80)	322
More than 5 years	1,414	(681)	733	940	(423)	517
<b>Total</b>	<b>2,119</b>	<b>(801)</b>	<b>1,318</b>	<b>1,442</b>	<b>(509)</b>	<b>933</b>

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2018 is 6.7% (6.6% at 31 December 2017).

(2) Deposits and guarantees deposits

The item “deposits and guarantees deposits” basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 10) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(3) Other liabilities

This includes the purchase commitment (without a premium) made to Sinca Inbursa, S.A. de C.V. (Inbursa) on 22 September 2008 covering 14.125% of Gas Natural México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. The maturity date of this commitment is May 2019, when Inbursa will be able to offer all shares held at that time to Naturgy, which will be obligated to purchase them. The acquisition price will be the market value of each share, based on the investees' results. As a result of the commitment, this sale is recognized as a deferred payment and the repurchase commitment percentage is still allocated to the Parent company. The liability recognised in this item at 31 December 2018 totals Euros 69 million, representing the present value of the amount repayable (Euros 77 million at 31 December 2017).

**Note 20. Trade and other payables**

The breakdown at 31 December 2018 and 2017 is as follows:

	<b>At 31.12.18</b>	<b>At 31.12.17</b>
Trade payables	3,222	2,810
Trade payables with related parties (Note 33)	43	74
Amounts due to associates	2	1
<b>Trade payables</b>	<b>3,267</b>	<b>2,885</b>
Public Administrations	541	593
Derivative financial instruments (see Note 18)	76	88
Accrued wages and salaries	130	189
Other payables	20	18
<b>Other payables</b>	<b>767</b>	<b>888</b>
Current tax liabilities	33	147
<b>Total</b>	<b>4,067</b>	<b>3,920</b>

At 31 December 2018, Euros 38 Million (Euros 110 million at 31 December 2017 paid in the first quarter of 2018) was recognised under the heading Accrued wages and salaries in relation to termination benefits resulting from agreements with employees to terminate their employment contracts, that will be paid in the first quarter of 2019.

The fair value and carrying value of these liabilities do not differ significantly.

**Disclosure of deferrals of 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 periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers in Spain, is as follows:

	<b>2018</b>	<b>2017</b>
Total payments (Euro million)	13,457	12,256
Total payments outstanding (Euro million)	450	403
Average supplier payment period (days) <sup>(1)</sup>	22	25
Transactions paid ratio (days) <sup>(2)</sup>	22	24
Transactions pending payment ratio (days) <sup>(3)</sup>	23	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.



## Note 21. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Consolidated 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 Consolidated Group for 2018 is indicated in Appendix III.

The remaining Naturgy companies pay their taxes individually, in accordance with the schemes applicable to them.

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" for 2018 and 2017:

	2018	%	2017 <sup>(1)</sup>	%
<b>Profit/(loss) before tax</b>	<b>(3,365)</b>		<b>1,444</b>	
<b>Statutory tax</b>	<b>(841)</b>	<b>(25%)</b>	<b>361</b>	<b>25.0%</b>
Effect of net results under equity method	128	3.8%	(4)	(0.3%)
Application of tax rates of foreign companies	(31)	(0.9%)	(27)	(1.9%)
Tax deductions	(11)	(0.3%)	(18)	(1.2%)
Remeasurement deferred taxes on mergers	(43)	(1.3%)	(117)	(8.1%)
Remeasurement deferred taxes due to tax reform	-	-	1	0.1%
Other items <sup>(2)</sup>	19	0.6%	(1)	(0.1%)
<b>Corporate income tax</b>	<b>(779)</b>	<b>(23.2%)</b>	<b>195</b>	<b>13.5%</b>

Breakdown of current/deferred expense:

Current-year tax	195	353
Deferred tax	(974)	(158)
<b>Corporate income tax</b>	<b>(779)</b>	<b>195</b>

(1) The 2017 consolidated income statement has been restated in accordance with IFRS 5 (Notes 3.3 and 11).

Part of the asset impairments and write-downs recorded in 2018 (Note 5) will be tax deductible in future periods and accordingly temporary differences have been identified, recognising deferred tax revenue in the amount of Euros 966 million.

On 30 November 2017, within the business reorganization and corporate streamlining process in Chile, Compañía General de Electricidad, S.A. carried out a vertical merger of its subsidiaries CGE Distribución, S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. The resulting goodwill was allocated to the value for tax purposes of the non-monetary assets received from the absorbed company (electricity distribution networks), equivalent to its carrying amount at the date of the operation, generating a decrease in deferred tax liabilities of Euros 117 million with a balancing entry under Corporate income tax in the consolidated income statement.

On 31 May 2018, following the business reorganization and corporate streamlining process in Chile, Compañía General de Electricidad, S.A. carried out a vertical merger of its subsidiaries Empresa Eléctrica de Arica, S.A., Empresa Eléctrica de Iquique, S.A. and Empresa Eléctrica de Antofagasta, S.A. The resulting goodwill was allocated to the value for tax purposes of the non-monetary assets received from the absorbed company equivalent to its carrying amount at the date of the operation, generating a decrease in deferred tax liabilities of Euros 43 million with a balancing entry under Corporate income tax in the consolidated income statement.

On 29 December 2017, Decree 1112/2017 on Tax Reform was published in Argentina which provides for a progressive reduction in income tax from 35% to 30% for 2018 to 2019 and 25% from 2020 onward. As a result, deferred taxes were revalued at the expected reversal rate, with a higher expense recorded under Corporate income tax in the consolidated income statement for an amount of Euros 1 million.

Income qualifying for the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2004 of March 5 (TRLIS) 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 on the sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	4	4	2	2011
2012	1	1	-	2012
2013	1	1	1	2013
2014	414	414	210	2014
<b>Total</b>	<b>420</b>	<b>420</b>	<b>213</b>	

The reinvestment was made in fixed assets used in business activities and was carried out by both the parent company the other companies included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax 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) and the investments in which it has been used in prior years are explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	141	141	79	-	79
2004	292	292	177	9	168
2005	432	432	300	1	299
2006	309	309	226	-	226
2007	105	105	93	-	93
2009	161	161	87	-	87
2010	799	799	560	-	560
2011	450	450	394	-	394
2012	38	38	32	-	32
<b>TOTAL</b>	<b>3,644</b>	<b>3,644</b>	<b>2,410</b>	<b>29</b>	<b>2,381</b>

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of "Other comprehensive income" of the Consolidated Statement of Comprehensive Income for the year is as follows:

	At 31.12.18			At 31.12.17		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Far value financial assets	(188)	-	(188)	(54)	-	(54)
Cash flow hedges	110	(24)	86	(111)	13	(98)
Currency translation differences	(193)	-	(193)	(890)	-	(890)
Actuarial gains and loss (Note 16)	15	(3)	12	5	-	5
<b>Total</b>	<b>(256)</b>	<b>(27)</b>	<b>(283)</b>	<b>(1,050)</b>	<b>13</b>	<b>(1,037)</b>

Set out below is an analysis of and movements in deferred taxes:

Deferred tax assets	Provisions for employee benefit obligations	Provision of depreciation of receivables and other provisions	Tax credits (1)	Depreciation/amortisation differences	Financial instruments and asset valuation	Other	Total
<b>At 1.1.17</b>	<b>161</b>	<b>165</b>	<b>67</b>	<b>307</b>	<b>39</b>	<b>133</b>	<b>872</b>
Charged/(credited) to income statement	26	26	(21)	(10)	2	3	26
Movements related to equity adjustments	-	-	-	-	8	-	8
Currency translation differences	(3)	(9)	(8)	(9)	14	(10)	(25)
Transfers and other (2)	1	(2)	-	(25)	1	(7)	(32)
<b>At 31.12.17</b>	<b>185</b>	<b>180</b>	<b>38</b>	<b>263</b>	<b>64</b>	<b>119</b>	<b>849</b>
Impact IFRS 9 and IFRS 15	-	13	-	-	-	13	26
<b>At 1.1.18</b>	<b>185</b>	<b>193</b>	<b>38</b>	<b>263</b>	<b>64</b>	<b>133</b>	<b>876</b>
Charged/(credited) to income statement (3)	25	396	(13)	388	3	17	816
Movements related to equity adjustments	(2)	(1)	-	-	12	(1)	8
Currency translation differences	(4)	(3)	(1)	3	(1)	(4)	(10)
Transfers and other (2)	-	(2)	2	-	-	-	-
<b>At 31.12.18</b>	<b>204</b>	<b>583</b>	<b>26</b>	<b>654</b>	<b>78</b>	<b>144</b>	<b>1,689</b>

(1) At 31 December 2018 and 2017 the tax credits mainly relate to tax loss carryforwards from various CGE companies basically generated by the application of the accelerated depreciation tax incentive. The recover of these credits is reasonably assured as they are not subject to any time limit and pertain to companies that historically generate recurring profits.

(2) In 2018, it includes an increase in deferred tax assets due to impairment recognised in the year.

(3) In 2018 and 2017 it mainly includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

Deferred tax liabilities	Depreciation/amortisation differences	Deferred gains	Business combination valuation (1)	Financial instruments and asset valuation	Other	Total
<b>At 01/01/2017</b>	<b>835</b>	<b>209</b>	<b>1,322</b>	<b>44</b>	<b>99</b>	<b>2,509</b>
Charged/(credited) to income statement (2)	(119)	-	(40)	-	27	(132)
Business combinations (Note 31)	-	-	-	-	-	-
Movements related to equity adjustments	-	-	-	(3)	-	(3)
Currency translation differences	(21)	-	-	(12)	1	(32)
Transfers and other (3)	(28)	(12)	5	2	3	(30)
<b>At 31.12.17</b>	<b>667</b>	<b>197</b>	<b>1,287</b>	<b>31</b>	<b>130</b>	<b>2,312</b>
Impact IFRS 9 and IFRS 15	-	-	-	-	27	27
<b>At 1.1.18</b>	<b>667</b>	<b>197</b>	<b>1,287</b>	<b>31</b>	<b>157</b>	<b>2,339</b>
Charged/(credited) to income statement (2)	(104)	-	(81)	3	24	(158)
Business combinations (Note 31)	-	-	9	-	-	9
Movements related to equity adjustments	29	-	-	27	-	56
Currency translation differences	(12)	-	(40)	1	6	(45)
Transfers and other (3)	(12)	-	(37)	(1)	(2)	(52)
<b>At 31.12.2018</b>	<b>568</b>	<b>197</b>	<b>1,138</b>	<b>61</b>	<b>185</b>	<b>2,149</b>

(1) The heading "Business combination valuation" includes the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Naturgy Energy Group, S.A. in 2009, allocated to net assets acquired, which will not have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Naturgy in 2014 and of various prior acquisitions completed by CGE.

(2) In 2018, it includes the decrease in deferred tax assets resulting from impairment recognised in the year. The decrease in deferred tax liabilities of Euros 43 million in 2018 and Euros 117 million in 2017 resulting from the Compañía General de Electricidad merger operations mentioned above is included under "Depreciation/amortisation differences".

(3) In 2018 and 2017 it mainly includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

At 31 December 2018 the tax credits that have not been recorded totalled Euros 17 million (Euros 27 million at 31 December 2017).

In July 2018 tax inspection proceedings were instigated against Naturgy Energy Group, S.A. 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 corporate income tax 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 Group companies.

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Spanish Group'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.

In general, the other Naturgy companies are open to inspection for the following periods:

Country	Period
Argentina	2012-2018
Brazil	2013-2018
Colombia	2015-2018
Chile	2014-2018
Italy	2013-2018
Mexico	2012-2018
Panama	2012-2018

On 3 November 2017 an unfavourable judgment was received from the Supreme Court in relation to the tax inspection assessments resulting from inspections on corporate income tax for 2003-2005, due to the application of the deduction for export activities. These assessments had been fully provided for (Note 16) and amounted to Euros 93 million, which has been fully offset by balances to be refunded by the Spanish tax authorities.

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. Naturgy 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 16).

## Note 22. Revenue

The breakdown of this heading in the consolidated income statement for 2018 and 2017 is as follows, by category with the relevant operating segment reporting structure:

2018	Gas and Electricity	EMEA Infrastructures	Latin America South Infrastructures	Latin America North Infrastructures	Other	Total
Sales of gas and access to distribution networks	6,430	1,178	2,781	541	-	10,930
Sales of electricity and access to distribution networks	5,052	792	2,137	768	-	8,749
LNG sales	3,409	-	-	-	-	3,409
Registrations and facility checks	40	26	11	14	-	91
Electricity generation capacity assignment	276	-	-	-	-	276
Rental of meters and instalations	338	33	10	-	-	381
Other income	253	15	140	40	55	503
<b>Total</b>	<b>15,798</b>	<b>2,044</b>	<b>5,079</b>	<b>1,363</b>	<b>55</b>	<b>24,339</b>

2017 (1)	Gas and Electricity	EMEA Infrastructures	Latin America South Infrastructures	Latin America North Infrastructures	Other	Total
Sales of gas and access to distribution networks	5,603	1,161	3,149	496	-	10,409
Sales of electricity and access to distribution networks	4,966	799	2,275	793	-	8,833
LNG sales	2,535	-	-	-	-	2,535
Registrations and facility checks	48	20	12	20	-	100
Electricity generation capacity assignment	288	-	-	-	-	288
Rental of meters and instalations	364	42	11	-	-	417
Other income	318	16	179	32	80	625
<b>Total</b>	<b>14,122</b>	<b>2,038</b>	<b>5,626</b>	<b>1,341</b>	<b>80</b>	<b>23,207</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

## Reporting by geographic area

Naturgy's revenue by country of destination is analysed below:

	<b>2018</b>	<b>2017<sup>(1)</sup></b>
Spain	11,225	10,765
Rest of Europe	2,926	2,711
France	1,594	1,282
Portugal	527	416
Ireland	181	141
United Kingdom	159	150
Other Europe	465	722
Latin American	8,065	8,495
Chile	2,976	3,447
Brazil	1,695	1,883
Mexico	1,441	1,455
Panama	774	799
Argentina	723	574
Dominican Republic	146	118
Other Latin America	310	219
Other	2,123	1,236
China	420	63
India	359	372
Japan	299	153
Egypt	286	112
Pakistan	174	21
Other countries	585	515
<b>Total</b>	<b>24,339</b>	<b>23,207</b>

(\*) The 2017 consolidated income statement has been restated by reclassifying to discontinued operations (Note 3.3 and 11).

### Note 23. Procurements

The breakdown of this heading for 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017<sup>(1)</sup></b>
Energy purchases	15,425	14,279
Access to distribution networks	1,942	1,798
Other purchases and changes in inventories	356	551
<b>Total</b>	<b>17,723</b>	<b>16,628</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

### Note 24. Other operating income

The breakdown of this heading for 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017<sup>(1)</sup></b>
Other management income	165	236
Operating grants	1	1
<b>Total</b>	<b>166</b>	<b>237</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 68 million (Euros 116 million in 2017); whose fair value is estimated by reference to the expenses incurred (Note 26), with no margin.

## Note 25. Personnel expenses

The breakdown of this heading for 2018 and 2017 is as follows:

	2018	2017 <sup>(1)</sup>
Wages and salaries	702	751
Termination benefits	180	126
Social security costs	123	134
Defined contribution plans	36	44
Defined benefit plans (Note 16)	9	9
Share-based payments (Note 14)	5	-
Own work capitalised	(115)	(122)
Other	70	67
<b>Total</b>	<b>1,010</b>	<b>1,009</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

The average number of Naturgy employees was 13,945 in 2018 and 14,712 in 2017, analysed by category as follows:

	2018	2017 <sup>(1)</sup>
Executives	1,359	1,360
Middle management	2,708	2,620
Specialists	4,504	4,644
Workers	5,374	6,088
<b>Total</b>	<b>13,945</b>	<b>14,712</b>

(1) Restated under IFRS 5 (Note 3.3 and 11).

The average number of employees in the year with disability equal to or greater than 33% is as follows, by category:

	2018	2017
Executives	6	8
Middle management	18	22
Specialists	82	82
Workers	82	114
<b>Total</b>	<b>188</b>	<b>226</b>

The number of Naturgy employees at the end of 2018 and 2017 broken down by category, gender and geographical area, is as follows:

	2018			2017 <sup>(1)</sup>		
	Men	Women	Total	Men	Women	Total
Executives	933	365	1,298	1,025	361	1,386
Middle management	1,884	565	2,449	2,160	585	2,745
Specialists	2,687	1,608	4,295	3,011	1,654	4,665
Workers	3,299	1,359	4,658	4,186	1,736	5,922
<b>Total</b>	<b>8,803</b>	<b>3,897</b>	<b>12,700</b>	<b>10,382</b>	<b>4,336</b>	<b>14,718</b>

(1) Restated under IFRS 5 (Note 3.3 and 11).

	2018	2017 <sup>(1)</sup>
Spain	6,469	7,350
Rest of Europe	156	176
Latin American	5,895	7,039
Rest	180	153
<b>Total</b>	<b>12,700</b>	<b>14,718</b>

(1) Restated under IFRS 5 (Note 3.3 and 11).

Both calculation of the average number of employees and the calculation of the number of employees at the end of Naturgy's financial year include the number of employees in the joint venture entities prorated by the percentage interest. At 31 December 2018, the number of employees at the year end of these entities stood at 189 (192 at 31 December 2017) and the average number of employees was 190 (191 at 31 December 2017).

In both the calculation of the number of employees at the year end and the calculation of the average number of employees, the employees of companies classified as discontinued operations (Note 11) and the employees of companies consolidated using the equity method have not been taken into account, in accordance with the following breakdown:

	2018		2017	
	Number of employees at year end	Average number of employees	Number of employees at year end	Average number of employees
Discontinued operations	786	1,453	2,053	2,055
Equity-consolidated companies	818	818	819	835

#### Note 26. Other operating expenses

The breakdown of this heading for 2018 and 2017 is as follows:

	2018	2017 <sup>(1)</sup>
Taxes	437	450
Operation and maintenance	368	359
Advertising and other commercial services	208	297
Professional services and insurance	143	180
Concession construction or improvements services (IFRIC 12) (Note 24)	68	116
Supplies	79	88
Services to customers	71	82
Other	442	397
<b>tal</b>	<b>1,816</b>	<b>1,969</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

#### Note 27. Profit/(loss) on disposals of fixed assets

In 2018 this heading included the capital gain of Euros 9 million from the sale of a building in calle Goya, Madrid, and other smaller sales in Spain and Chile.

In 2017, this heading included the capital gain of Euros 18 million from the sale of various buildings in Madrid (Note 7).

#### Nota 28. Depreciation, amortisation and fixed-asset impairment losses

The breakdown of this heading in the consolidated income statement for the year 2018 and 2017 is as follows:

	2018	2017 <sup>(1)</sup>
Amortisation intangible assets (Note 6)	348	306
Depreciation of property, plant and equipment (Note 7)	1,326	1,315
Intangible asset and goodwill impairment (Notes 5 and 6)	1,872	-
PPE impairment (Notes 5 and 7)	2,398	-
Inventory impairment (Notes 5 and 12)	63	-
<b>Total</b>	<b>6,007</b>	<b>1,621</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

**Note 29. Net financial income/(expense)**

The breakdown of this heading for 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017<sup>(1)</sup></b>
Dividends	17	14
Interest income	19	19
Other	86	78
<b>Total financial income</b>	<b>122</b>	<b>111</b>
Cost of borrowings	(557)	(630)
Interest expenses pension plans	(14)	(14)
Other financial expense	(231)	(163)
<b>Total financial expense</b>	<b>(802)</b>	<b>(807)</b>
Variations in the fair value of derivate financial instruments (Note 18)	(5)	(2)
Net exchange differences	-	-
<b>Net financial income/(expense)</b>	<b>(685)</b>	<b>(698)</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

**Note 30. Cash generated by operating activities and other cash-flow breakdowns**

The breakdown of cash generated from operations in 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
<b>Profit/(loss) before tax</b>	<b>(3,365)</b>	<b>1,444</b>
<b>Adjustments to profit/(loss):</b>	<b>7,131</b>	<b>2,529</b>
Depreciation, amortisation and impairment expenses (Notes 5.6 and 7)	6,007	1,694
Other adjustments to net income:	1,124	835
Net financial income (Note 11 and 29)	685	697
Profit of entities recorded by equity method (Note 8 and 11)	513	(14)
Transfer of deferred income (Note 15)	(42)	(42)
Net variation in Provisions	(27)	8
Pre-tax profit/(loss) from discontinued activities net of capital gains and impairment (Note 11)	(5)	186
<b>Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences):</b>	<b>(208)</b>	<b>(155)</b>
Inventories	(125)	(15)
Trade and other receivables	(392)	(176)
Trade and other payables	309	36
<b>Other cash flows from operating activities:</b>	<b>(677)</b>	<b>(1,050)</b>
Interest paid	(621)	(686)
Interest collected	23	26
Dividends received	184	48
Income tax paid	(263)	(438)
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>	<b>2,881</b>	<b>2,768</b>



Payments on investments in Group companies, associates and business units at 31 December 2018 and 2017 break down as follows:

	2018	2017
Acquisition of Guimaranias (Note 31)	27	-
Capital increase Nueva Generadora del Sur, S.A. (Note 8)	-	14
<b>Total</b>	<b>27</b>	<b>14</b>

Receipts due to divestments in Group companies, associates and business units at 31 December 2018 and 2017 break down as follows:

	2018	2017
Sale Italy (Note 11)	746	-
Sale Kangra (Note 11)	20	-
Gas Natural, S.A. ESP (Note 11)	334	134
Other	9	2
<b>Total</b>	<b>1,109</b>	<b>136</b>

The breakdown of payments for the acquisition of equity instruments at 31 December 2018 and 2017 is as follows:

	2018	2017
Sale 20% Nedgia	1,500	-
Naturgy Energy Group, S.A. treasury shares (Note 14)	(309)	14
CGE treasury shares (Note 14)	(2)	(9)
<b>Total</b>	<b>1,189</b>	<b>5</b>

Movements in borrowings in 2018 2017 are set out below, disclosing separately the changes that generate cash flows from those that do not:

	Generate cash flow					Do not generate cash flow		At 31.12.2018
	At 31.12.2017	Impact IFRS 9	At 1.1.2018	Increase	Decrease	Currency translation differences	Transfers and other	
Issuing of debentures and other negotiable obligations	12,214	(48)	12,166	6,867	(8,213)	(51)	(11)	10,758
Borrowings from financial institutions	6,128	-	6,128	1,306	(2,728)	(129)	-	4,577
Derivative financial instruments	49	-	49	-	-	(1)	37	85
Other financial liabilities	68	-	68	170	(215)	(12)	-	11
<b>Total</b>	<b>18,459</b>	<b>(48)</b>	<b>18,411</b>	<b>8,343</b>	<b>(11,156)</b>	<b>(193)</b>	<b>26</b>	<b>15,431</b>

	Generate cash flow			Do not generate cash flow		At 31.12.2017
	At 1.1.2017	Increase	Decrease	Currency translation differences	Transfers and other (1)	
Issuing of debentures and other negotiable obligations	11,661	6,694	(5,802)	(60)	(279)	12,214
Borrowings from financial institutions	5,693	2,292	(1,466)	(240)	(151)	6,128
Derivative financial instruments	80	-	-	(11)	(20)	49
Other financial liabilities	168	331	(414)	(13)	(4)	68
<b>Total</b>	<b>17,602</b>	<b>9,317</b>	<b>(7,682)</b>	<b>(324)</b>	<b>(454)</b>	<b>18,459</b>

(1) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Other changes in cash and cash equivalents includes cash fluctuations due to changes in the consolidation scope and transfers held for sale.

## Note 31. Business combinations

### 2018

#### Guimaranã Solar Spe

In March 2018, through its subsidiary Global Power Generation, Naturgy agreed to the purchase of the companies Guimaranã I Solar Spe Ltda. and Guimaranã II Solar Spe Ltda., two solar plants in Brazil, from Canadian Solar.

Guimaranã Solar is an 83 MW photovoltaic project located in the state of Minas Gerais. The power generated by the projects, which will start operating at the end of 2018 after the planned investments, will be 165 GWh per year. These companies have also signed a 20-year energy reserve contract with Câmara de Comercialização de Energia Elétrica (CCEE) under which the sale of the energy produced is reserved for the CCEE as the sole customer, at rates set in BRL and indexed to local inflation.

The total cost of the business combination amounted to Euros 35 million. Goodwill was calculated at Euros 9 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 01 January 2018 and goodwill break down as follows:

Acquisition cost	35
Fair value of the net assets	26
<b>Goodwill (Note 6)</b>	<b>9</b>

	<u>Fair value</u>	<u>Carrying amount</u>
Intangible assets (Note 6)	28	1
Other current assets	6	6
Cash and cash equivalents	1	1
<b>TOTAL ASSETS</b>	<b>35</b>	<b>8</b>
Deferred tax liabilities (Note 21)	9	-
<b>TOTAL LIABILITIES</b>	<b>9</b>	<b>-</b>
<b>Fair value of the net assets acquired</b>	<b>26</b>	
Acquisition price	35	
Cash and cash equivalents in subsidiary acquired	1	
<b>Net acquisition cost</b>	<b>34</b>	

In the purchase price allocation process, the assets were identified that could be revalued based on the balance sheet of Guimaranã I Solar Spe Ltda. and Guimaranã II Solar Spe Ltda. at 30 April 2018, relating to intangible assets represented by the value of the authorisations necessary to operate the facility. The deferred tax liabilities relating to the revaluations were also recognised.

These net assets of Guimaranã I Solar Spe Ltda. and Guimaranã II Solar Spe Ltda. were basically measured using the following methodology:

- The business was valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the valuation were an IRR of 3.17% as the return required on the investment, and cash-flow projections based on income at the price agreed in the energy reserve contract and the distribution and maintenance costs typical of the business.

### 2017

No significant business combinations took place in 2017.

### Note 32. Service concession arrangements

Naturgy manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Note 2). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	9
Energía San Juan S.A.	Electricity distribution	Argentina	60	38
Companhia Distribuidora de Gás do Rio de Janeiro, S.A., Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	9-12
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	4-12
Naturgy Generación S.L.U., S.A. and Naturgy Renovables, S.L.	Hydraulic power generation	Spain	14-65	4-45
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	9-20
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendable)	3
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriquí, S.A.	Electricity distribution	Panama	15	10
Gas Natural Perú, S.A.	Gas distribution	Peru	20-year extendable	16

As indicated in Note 3.4.3.b, Naturgy applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil and Peru, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 3.4.4.b) fall out with the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall out with the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

### Note 33. Information on transactions with related parties

Related parties are as follows:

- Significant Naturgy 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”), Repsol, S.A. (Repsol) until 17 May 2018, Rioja Bidco Shareholdings, S.L.U. (controlled by the funds advised by CVC) since 18 May 2018, Global Infrastructure Partners III (GIP) and related companies.

- Directors and executives of the company, and their immediate families. The term “director” means with a member of the Board of Directors; “executive” means with direct dependence of the Executive President and the Internal Audit Director. Operations with directors and executives are disclosed in Note 34.
- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

At 1 January 2018 Naturgy ceased to regard CaixaBank and the companies that make up its consolidated group as a related entity. However, CriteriaCaixa and its consolidated group continue to be regarded as a related party as the criteria laid down by international and commercial legislation have been maintained.

Aggregate transactions with significant shareholders are as follows (thousand euro):

2018	Significant shareholders				Group companies
	"la Caixa" group (*)	Repsol group (**)	Rioja Bidco/CVC (***)	GIP group	
<b>Expense and Income (thousand euro)</b>					
Financial expenses	-	-	-	-	6
Leases	-	-	-	-	6
Receipt of services	12	3,944	-	-	10,838
Purchase of goods (1)	-	160,003	-	-	355,707
Other expenses (2)	-	-	-	-	-
<b>Total expenses</b>	<b>12</b>	<b>163,947</b>	-	-	<b>366,557</b>
Financial income	-	-	-	-	2,294
Leases	-	-	-	-	-
Provision of services	36	20,545	-	-	21,198
Sale of goods (1)	3,095	367,115	-	-	34,331
Other income	-	-	-	-	1,853
<b>Total income</b>	<b>3,131</b>	<b>387,660</b>	-	-	<b>59,676</b>

Other transactions (thousand euro)	Significant shareholders				Group companies
	"la Caixa" group (*)	Repsol group (**)	Rioja Bidco/CVC (***)	GIP group	
Acquisition of property, plant and equipment, intangible assets or other assets (3)	-	295	-	-	-
Financing agreements, loans and capital contributions(lender) (4)	-	-	-	-	3,695
Sale of property, plant and equipment, intangibles or other assets (5)	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (6)	-	-	-	-	-
Warranties and guarantees received	-	-	-	-	-
Dividends and other profits distributed (****)	346,808	-	281,202	280,193	-
Other operations (7)	-	-	-	-	-

(\*\*\*\*) The "la Caixa" dividend includes Euros 22.516 thousand paid to Energía Boreal 2018, S.A.

Trade debtors and creditors (thousand euros)	Significant shareholders				Group companies
	"la Caixa" group (*)	Repsol group (**)	Rioja Bidco/CVC (***)	GIP group	
Trade and other receivables	137	-	-	-	16,765
Trade and other payables	-	-	-	-	42,734

(\*) Since 1 January 2018 only transactions with Fundación la Caixa and CriteríaCaixa are reported.

(\*\*) Until 17 May 2018.

(\*\*\*) Since 18 May 2018.

2017	Significant shareholders				Group companies
	"la Caixa" group	Repsol group	GIP group		
<b>Expense and Income (thousand euro)</b>					
Financial expenses	1,509	-	-	-	55
Leases	-	-	-	-	5
Receipt of services	11,955	-	14,045	-	10,426
Purchase of goods (1)	-	-	345,504	-	330,014
Other expenses (2)	35,265	-	-	-	-
<b>Total expenses</b>	<b>48,729</b>	<b>359,549</b>	-	-	<b>340,500</b>
Financial income	653	-	-	-	154
Leases	-	-	-	-	-
Provision of services	559	-	38,629	-	21,430
Sale of goods (1)	22,971	-	817,607	-	44,812
Other income	-	-	-	-	2,296
<b>Total income</b>	<b>24,183</b>	<b>856,236</b>	-	-	<b>68,692</b>

Other transactions (thousand euro)	Significant shareholders				Group companies
	"la Caixa" group	Repsol group	GIP group		
Acquisition of property, plant and equipment, intangible assets or other assets (3)	-	10,879	-	-	-
Financing agreements, loans and capital contributions(lender) (4)	1,323,987	-	-	-	3,436
Sale of property, plant and equipment, intangibles or other assets (5)	362,465	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (6)	119,541	-	-	-	-
Warranties and guarantees received	160,000	-	-	-	-
Dividends and other profits distributed	244,558	200,859	200,138	-	-
Other operations (7)	1,030,014	-	-	-	-

Trade debtors and creditors (thousand euros)	Significant shareholders				Group companies
	"la Caixa" group	Repsol group	GIP group		
Trade and other receivables	481	68,970	-	-	17,286
Trade and other payables	-	42,755	-	-	31,219

- (1) Basically includes energy purchase and sale. In the case of group companies, basically corresponds to operations with Unión Fenosa Gas.
- (2) Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.
- (3) Basically includes the purchase of LPG supply points under the agreement with Repsol Butano dated 30 September 2015, that are located in the area of influence of its existing distribution zones and which is completed as the relevant administrative authorisations are obtained.
- (4) Includes cash and cash equivalents.
- (5) Includes basically the assignment of debt claims (factoring without recourse) with "la Caixa" during the period.
- (6) At 31 December 2017, credit lines contracted with "la Caixa" amounted to Euros 569,000 thousand, of which no amounts have been utilised. At 31 December 2017, other loans amounted to Euros 119,541 thousand.
- (7) At 31 December 2017, the heading "Other transactions" with the "La Caixa" Group includes Euros 915,920 thousand in respect of foreign exchange hedges and Euros 114,094 thousand in respect of interest rate hedges.

**Note 34. 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 Bylaws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit Committee (CA) and Appointments and Remuneration Committee (ARM), totalled Euros 4,412 thousand (Euros 4,668 thousand in 2017), broken down in euros as follows:

	Office	Board	EC	AC	ARC	Total
Mr. Francisco Reynés Massanet <sup>(1)</sup>	Executive Chairman	789,286	239,285	-	-	1,028,571
Mr. Isidro Fainé Casas <sup>(2)</sup>	Chairman	60,714	60,714	-	-	121,428
Mr. Rafael Villaseca Marco <sup>(2)</sup>	Chief Executive Officer	13,964	13,964	-	-	27,928
Mr. Ramón Adell Ramón	Coordinating Director	185,136	69,000	51,818	48,226	354,180
Mr. Enrique Alcántara-García Irazoqui	Director	156,500	-	51,818	-	208,318
Mr. Iñigo Alonso de Noriega <sup>(4)</sup>	Director	27,823	-	-	5,498	33,321
Mr. Xabier Añoveros Trías de Bes <sup>(8)</sup>	Director	69,000	-	21,818	-	90,818
Mr. Marcelino Armenter Vidal	Director	156,500	69,000	-	30,000	255,500
Mr. Mario Armero Montes <sup>(8)</sup>	Director	69,000	-	-	-	69,000
Mr. Francisco Belil Creixell	Director	156,500	69,000	50,162	43,636	319,298
Ms. Benita María Ferrero-Waldner <sup>(8)</sup>	Director	69,000	69,000	-	-	138,000
Mr. Alejandro García-Bragado Dalmau <sup>(7)</sup>	Director	53,790	28,935	-	10,411	93,136
Ms. Cristina Garmendia Mendizábal <sup>(8)</sup>	Director	69,000	-	16,657	10,411	96,068
Ms. Helena Herrero Starkie	Director	156,500	-	51,818	-	208,318
Mr. Josu Jon Imaz San Miguel <sup>(3)</sup>	First Deputy Chairman	23,000	23,000	-	-	46,000
Mr. Guillermo Llopis García <sup>(4)</sup>	Director	27,823	6,677	8,798	-	43,298
Mr. Miguel Martínez San Martín <sup>(3)</sup>	Director	23,000	23,000	-	4,546	50,546
Mr. Rajaram Rao	Director	156,500	69,000	51,818	-	277,318
Rioja Bidco Shareholdings, S.L.U., Mr. Javier de Jaime Gujjarro <sup>(6)</sup>	Director	103,823	16,322	-	33,226	153,371
Mr. Pedro Sainz de Baranda <sup>(9)</sup>	Director	87,500	-	30,000	30,000	147,500
Mr. Claudi Santiago Ponsa <sup>(9)</sup>	Director	87,500	-	-	30,000	117,500
Mr. Luis Suárez de Lezo Mantilla <sup>(5)</sup>	Director	52,677	27,823	11,496	-	91,996
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona <sup>(6)</sup>	Director	103,823	16,322	35,161	-	155,306
Theatre Directorship Services Beta, S.à.r.l., Mr. Juan Arbide Estensoro <sup>(6) y (8)</sup>		16,323	-	-	-	16,323
Mr. William Alan Woodburn	Director	156,500	69,000	-	43,636	269,136
		<b>2,871,182</b>	<b>870,042</b>	<b>381,364</b>	<b>289,590</b>	<b>4,412,178</b>

(1) Since 6 February 2018.

(2) Until 6 February 2018.

(3) Until 6 March 2018.

(4) From 6 March 2018 to 18 May 2018.

(5) Until 18 May 2018.

(6) Since 18 May 2018.

(7) Until 21 May 2018.

(8) Until 27 June 2018.

(9) Since 27 June 2018.

In 2018, as in 2017, no amounts were received for other items.

At 31 December 2017, the Board of Directors consisted of 17 members. 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.

Finally, on 27 June 2018, the General Shareholders' Meeting approved the reduction in the number of members of the Board of Directors 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.

Until 6 February 2018, the amounts accrued to the Chief Executive Officer for executive functions in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 130 thousand, Euros 115 thousand, Euros 898 thousand and Euros 4 thousand, respectively, in 2018 (Euros 1,285 thousand, Euros 1,131 thousand, Euros 757 thousand and Euros 16 thousand in 2017). He also received the agreed termination benefit of three years' total remuneration and compensation for the no-competition agreement of one year's total salary amounting to €14,248 thousand. Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 34 thousand in 2018 (Euros 321 thousand in 2017).

As from 6 February 2018, the amounts accruing to the Executive Chairman for executive functions carried out in respect of fixed remuneration, annual variable remuneration and other items amounted to Euros 809 thousand, Euros 2,097 thousand and Euros 11 thousand, respectively, in 2018.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 490 thousand in 2018. Funds accumulated due to these contributions amount to Euros 360 thousand at 31 December 2018.

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 14. The new incentive requires the adaptation of the Remuneration Policy and the Executive Chairman's contract, which are subject to the suspensive condition of being approved by the shareholders in general meeting.

In the central scenario, the Executive Chairman would receive an amount of 125% of the total annual fixed remuneration, multiplied by the expected duration in years of the LTI. This central scenario envisages the distribution of all the dividends foreseen in the Strategic Plan 2018-2022. Additionally, to ensure this scenario it is required that the final quotation that in July 2023 is above the purchase price of the shares of 23.15 euros.

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

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2018 by Naturgy, S.A. for the entire policy amounted to Euros 121 thousand (Euros 109 thousand in 2017).

### **Transactions with Directors**

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

The Directors of Naturgy 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 the years 2018 and 2017, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

### **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 Director.

At 31 December 2018, 13 people make up this group, without taking into account the Internal Audit Director (11 people at 31 December 2018), one of whom is a woman. During 2018 there were two new members in July and two departures in December.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 6,769 thousand, Euros 3,853 thousand, Euros 595

thousand and Euros 230 thousand, respectively, in 2018 (Euros 5,507 thousand, Euros 2,595 thousand, Euros 1,641 thousand and Euros 108 thousand, respectively, in 2017).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,599 thousand in 2018 (Euros 2,564 thousand in 2017). Funds accumulated due to these contributions amount to Euros 23,309 thousand at 31 December 2017 (Euros 26,367 thousand at 31 December 2017).

On 31 July 2018 the Board of Directors approved a long term variable incentive plan (LTI) in which the Executive President and 25 other directors take part, instrumented through the acquisition of shares whose main characteristics are described in Note 14.

Advances amounting to Euros 30 thousand had been granted to management personnel at 31 December 2018 (zero at 31 December 2017). At 31 December 2018, Naturgy had not granted any new guarantees on loans to management personnel (Euros 754 thousand at 31 December 2017). Severance benefits received by senior management personnel leaving Naturgy amounted to Euros 6,493 thousand in 2018 (zero in 2017).

The contracts signed with the 11 directors contain a clause that establishes compensation between a fixed annual remuneration in some cases and three and a half annual remuneration in others, in certain cases of extinction of the relationship, which include certain situations of change in control, unfair dismissal or the cases contemplated in articles 40, 41 or 50 of the Statute of Workers. Likewise, 10 of these contracts contain a clause that establishes compensation equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period of two years.

### **Note 35. Litigation, arbitration, guarantees and commitments**

#### **Litigation and arbitration**

The companies in the Naturgy Group are involved in certain judicial and extrajudicial disputes within the ordinary course of their activities. At the date of preparation of these consolidated annual accounts, the main litigation or arbitration in which Naturgy companies are involved are the following:

##### *Claims for PIS and COFINS taxes in Brazil*

In September 2005, the Río de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG, in which Naturgy holds an interest of 54.2%. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of tax payable in dispute, including interest, amounted to BRL 386 million (Euros 87 million). In November 2015, the above-mentioned first-instance court issued a judgement partially allowing CEG's appeal and reducing the total amount to BRL 260 million (Euros 59 million). This reduction in the amount of the contingency will not be final until the possible appeals have been lodged, which could take another four years according to a preliminary estimate. Naturgy has appealed against the judgment and considers, together with the company's legal advisors, that even the reduced amount is unfounded.

##### *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. 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.

##### *Claim against Metrogas, S.A.*

Transportadora de Gas del Norte S.A. lodged various complaints against Metrogas, S.A., a Chilean company 55.6% owned by Naturgy, before the civil and commercial courts of first instance in Argentina for supposed breach of contract in the transport of Argentinian gas to Chile during the Argentina gas crisis. In April 2017, Metrogas, S.A. received a judicial notice declaring a joinder of claims, meaning that



the total amount stands at USD 227 million (Euros 189 million). The procedures are at the first instance stage.

#### *Environmental incentive to coal plants in Spain*

In 2007, the Spanish authorities introduced an environmental incentive to support the installation of new sulphur oxide filters in existing coal plants. In November 2017, the European Commission opened an investigation to determine whether this incentive complied with the European Union's state aid rules. In the event of an unfavourable result, the risk estimated in the consolidated financial statements, which does not include the period in which the plants were subject to the economic regime of Royal Decree 134/2010, could be as much as Euros 67 million.

#### *Unión Fenosa Gas*

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. The decisions on the arbitration under way in Madrid have yet to be delivered. 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.

#### *Social Bond*

The Supreme Court has ordered to reimbursement of the amounts contributed by Naturgy Energy Group, S.A. to the social bond for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision has been appealed against by the government before the Constitutional Court. Though unlikely, said Court could revoke the Supreme Court ruling.

#### *Electricaribe*

On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 MUSD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote (Note 9).

Naturgy's consolidated balance sheet at 31 December 2018 includes provisions for litigation, based on the best estimate made using the information available at the date of preparation of these consolidated annual accounts on their progress and ongoing negotiations, which cover the estimated risks. Naturgy therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

## Guarantees

Guarantees furnished by Naturgy at 31 December 2018 and 2017 are as follows:

- Guarantees provided to third parties, basically for investment commitments, construction and distribution network expansion, tenders, bids and business contracts amounting to Euros 1,282 million (Euros 1,251 million at 31 December 2017).
- Guarantees relating to the economic obligations resulting from its participation in the Spanish gas system (MIBGAS) and the Spanish electricity system (MEFF and OMIE) for Euros 562 million (Euros 598 million at 31 December 2017).
- Financial guarantees relating to the guarantee for compliance with obligations under loans received by investee companies amounting to Euros 8 million (Euros 100 million at 31 December 2017). In addition, guarantees exist for compliance with obligations under loans received by investee companies amounting to USD 75 million (Euros 65 million).
- Guarantees for debt issues by group companies Gas Natural Capital Markets, S.A., Gas Natural Finance, B.V., Unión Fenosa Preferentes, S.A.U. and Gas Natural México S.A. de C.V. totalling Euros 11,531 million (Euros 12,879 million at 31 December 2017).
- Guarantees for obligations under gas purchase and transport contracts and the chartering of gas tankers of group companies Gas Natural Aprovevisionamientos, S.A. and Gas Natural Europe, S.A.S.
- Irrevocable guarantee by Naturgy Energy Group, S.A. for all the liabilities and commitments of Naturgy Energy (UK) and its subsidiaries in Ireland at 31 December 2018 and 2017, in accordance with Article 357 of the 2014 Companies Act of Ireland, in order to file the consolidated financial statements of Naturgy instead of its separate financial statements on the basis of the exemption allowed under Section 1 (b) of said Act.

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 2018, if any, that could arise from guarantees furnished, would not be significant.

## Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2018:

Acquisition	At 31 December 2018						and later years
	Total	2019	2020	2021	2022	2023	
Energy purchases (1)	83,664	7,677	7,765	7,729	6,709	6,494	47,290
Energy transmission (2)	2,661	422	408	406	225	125	1,075
Investment (3)	652	606	46	-	-	-	-
Operating leases (4)	476	131	75	38	35	31	166
Nuclear fuel purchases	34	19	15	-	-	-	-
<b>Total contractual obligations</b>	<b>87,487</b>	<b>8,855</b>	<b>8,309</b>	<b>8,173</b>	<b>6,969</b>	<b>6,650</b>	<b>48,531</b>

Sale	At 31 December 2018						and later years
	Total	2019	2020	2021	2022	2023	
Energy sales (5)	16,271	3,602	2,449	1,760	1,065	846	6,549
Provision of capacity assignment services (6)	3,282	260	307	276	279	291	1,869
<b>Total contractual obligations</b>	<b>19,553</b>	<b>3,862</b>	<b>2,756</b>	<b>2,036</b>	<b>1,344</b>	<b>1,137</b>	<b>8,418</b>

- 1) Basically reflects the long-term commitments for natural gas purchases amounting to Euros 83,630 million under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 3.4.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2018.

This also includes long-term commitments to buy electricity, calculated based on prices at 31 December 2018.

- 2) Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2018. It also reflects operating costs associated with charter contracts for gas tankers under finance leases for the eight tankers currently in operation (Note 19).
- 3) Reflects investment commitments basically for the construction of renewable generation plants in Spain and Australia, the development of the distribution network and other gas infrastructures and the development of the electricity distribution network. (Note 6).
- 4) Mainly reflects the commitments for operating leases on ships which mature in 2021 and commitments under leases on land and buildings related to generation facilities.

It includes the rent of the “Torre del Gas” building owned by Torre Marenostrom, S.L., for which Naturgy has an operating lease without a purchase option until 2019 extendible at market value for successive periods of three years, on a discretionary basis for Naturgy and an obligatory basis for Torre Marenostrom S.L.

It also includes operating leases without a purchase option for five properties in Madrid (Avenida San Luis 77, Antonio López 193, Acanto 11-13, Avenida América 38 and calle Lérida) for a nine-year term which may be extended for five years except in the case of Avenida América 38 (Note 6).

The cost of these operating leases amounted to Euros 138 million in 2018 (Euros 116 million for 2017).

- 5) Basically refers to long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for “own use” (Note 3.4.7.3). The commitments have been calculated based on natural gas prices at 31 December 2018.

This also includes long-term commitments to sell electricity, calculated based on prices at 31 December 2018.

- 6) Reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 03/04/2020). The commitments made in these contracts have been calculated based on prices at 31 December 2018.

### Note 36. Auditors’ fees

Total fees for auditing and related services and other services in 2018 amounted to Euros 5,239 thousand (Euros 7,414 thousand in 2017).

The fees accrued in thousand euro by the different companies operating under the Ernst & Young (EY) brand in 2018 (PwC in 2017) are as follows:

	Thousand Euros					
	2018			2017 <sup>(1)</sup>		
	Ernst & Young, S.L.	Rest EY network	Total	PwC Auditores, S.L.	Rest PwC network	Total
Auditing services	1,728	2,682	<b>4,410</b>	2,249	1,217	<b>3,466</b>
Assurance services and services related to the audit <sup>(2)</sup>	42	30	<b>72</b>	383	230	<b>613</b>
Other services <sup>(2)</sup>	298	423	<b>721</b>	146	1,059	<b>1,205</b>
<b>Total fees</b>	<b>2,068</b>	<b>3,135</b>	<b>5,203</b>	<b>2,778</b>	<b>2,506</b>	<b>5,284</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

(2) These headings include verification reports on non-financial information, comfort letters and advice on sustainability

Additionally, other audit firms have rendered the following services to Group companies:

	Thousand Euros	
	2018	2017 <sup>(1)</sup>
Auditing services	36	1,468
Assurance services and services related to the audit	-	-
Other services	-	662
<b>Total fees</b>	<b>36</b>	<b>2,130</b>

(1) The 2017 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 11).

The calculation of auditor fees for the current and period and in the comparative analysis with the previous year does not take into account the fees relating to companies that have been reclassified to discontinued operations, amounting to Euros 141 thousand accrued by other audit firms (Euros 678 thousand from PwC and Euros 61 thousand from other audit firms at 31 December 2017, respectively).

## Note 37. 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.

Responsible environment management is a strategic pillar for Naturgy and is structured around three strategic axes:

- Climate and air: contributing to the mitigation of climate change, the energy transition and the improvement of air quality.
- Circular economy: enhancing eco-efficiency in the use of resources to reduce negative environmental impacts.
- Natural capital and biodiversity: promoting the conservation of natural and cultural heritage in the areas of action.

To achieve this, environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to optimise environmental management.

In climate and air, the main lines of action carried out in 2018 to reduce emissions are the replacement of carbon-intensive fuels by more sustainable fuels, renewable generation and the reduction of leak emissions in gas distribution networks.

During 2018 there has been a reduction in direct CO<sub>2</sub> emissions compared to 2017 as a result of two factors. Firstly, the meteorological conditions have led to an increase in renewable generation (hydroelectric and, to a lesser extent, wind power) and a reduction in coal generation, resulting in a reduction in CO<sub>2</sub> emissions. Secondly, the disinvestments in Kenya, in CO<sub>2</sub>-intensive generation technologies and in Colombia (gas distribution) have also contributed to the reduction in greenhouse gas emissions.

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. With regard to water, measures have been taken to optimise water consumption, such as the actions taken at the Aceca combined cycle power plant to reduce consumption of clarified water. On a global level there was a decrease in 2018 compared to 2017, 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 plants to generate renewable gas from urban wastewater at the Arazuri (Navarra) or Bens treatment plants and the Metamorphosis project to convert waste treatment plants into bioenergy plants.

In 2018, 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.

Environmental activities undertaken in 2018 amounted to Euros 494 million (Euros 96 million in 2017), of which Euros 396 million relate to environmental investments and Euros 98 million relate to environmental management of facilities, excluding those derived from the coal market. The investments made include those relating to new renewable generation projects (Euros 314 million), mainly wind and photovoltaic farms which will contribute to reducing specific emissions of CO<sub>2</sub> and other atmospheric pollutants.

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

**Emissions**

In 2018, total consolidated CO<sub>2</sub> emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 9.1 million tonnes of CO<sub>2</sub> (11.2 million tonnes of CO<sub>2</sub> in 2017). This 2Mt decrease is due to the reduced operation of coal plants, since 2018 was a year with greater rainfall.

Naturgy devises a strategy each year for managing transfers to its CO<sub>2</sub> emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

**Note 38. Events after the balance sheet date**

There have been no significant events subsequent to the closing and until the date of formulation of the consolidated annual accounts.

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## APPENDIX I Naturgy companies

### 1. Subsidiaries

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Gas Natural BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	80.0
Holder de Negocios de Gas, S.A.	Spain	Gas distribution	F.C.	80.0	80.0
Nedgia Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Aragón, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Balears, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	76.0
Nedgia Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	72.1
Nedgia Catalunya, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	79.8
Nedgia Galicia, S.A.	Spain	Gas distribution	F.C.	68.5	54.8
Nedgia Madrid, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	70.0
Comercializadora Metrogas, S.A. de CV (3)	Mexico	Gas distribution	F.C.	100.0	85.0
Naturgy México, S.A. de C.V. (3)	Mexico	Gas distribution	F.C.	85.0	85.0
Naturgy Perú, S.A.	Peru	Gas distribution	F.C.	100.0	100.0
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Gas Natural Fenosa Furnizare Energie, S.R.L. (4)	Moldova	Electricity distribution	F.C.	100.0	100.0
Red Unión Fenosa, S.A. (4)	Moldova	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Naturgy Almacенamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Services	F.C.	100.0	100.0
Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2
Natural Energy, S.A.	Argentina	Gas marketing	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas marketing	F.C.	100.0	100.0
Naturgy Aproveisionamientos, S.A.	Spain	Gas marketing	F.C.	100.0	100.0
Naturgy LNG, S.L.	Spain	Gas marketing	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas marketing	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas marketing	F.C.	100.0	100.0
Gas Natural Fenosa LNG GOM Limited	Ireland	Gas marketing	F.C.	100.0	100.0
Naturgy LNG GOM Limited	Ireland	Gas marketing	F.C.	100.0	100.0
Naturgy LNG Marketing Ltd	Ireland	Gas marketing	F.C.	100.0	100.0
Naturgy Servicios, S.A. de C.V. (3)	Mexico	Gas marketing	F.C.	100.0	85.0
Naturgy LNG Singapore Pte. Ltd	Singapore	Gas marketing	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas marketing	F.C.	100.0	100.0
Comercializadora Regulada Gas & Power, S.A.	Spain	Gas and electricity marketing	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity marketing	F.C.	100.0	100.0
La Energía, S.A.	Spain	Gas and electricity marketing	F.C.	100.0	100.0
Mataró Energía Sostenible, S.A.	Spain	Gas and electricity marketing	F.C.	51.1	51.1
Naturgy Iberia, S.A.	Spain	Gas and electricity marketing	F.C.	100.0	100.0
Naturgy Energy, Ltd	Ireland	Gas and electricity marketing	F.C.	100.0	100.0
Naturgy Ltd	Ireland	Gas and electricity marketing	F.C.	100.0	100.0
Naturgy Energy (UK), Ltd	United Kingdom	Gas and electricity marketing	F.C.	100.0	100.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Global Power Generation Brasil Geracao de Energia Ltda	Brazil	Electricity generation	F.C.	100.0	75.0
Guimaranía I Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Guimaranía II Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Sertao i Solar Energia, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energia, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
GPG Solar Chile 2017 SpA	Chile	Electricity generation	F.C.	100.0	75.0
Iberólica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Parque Eólico Vientos del Pacífico, S.p.A	Chile	Electricity generation	F.C.	100.0	75.0
Hidroeléctrica Río San Juan S.A.S. ESP	Colombia	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
P.H. La Perla, S.A.	Costa Rica	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcohólicas, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Wind, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Fenosa, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Ruralia, S.L.U.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Wind 4, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñaroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Sociedad de Tratamiento La Andaya, S.L., en liquidación	Spain	Electricity generation	F.C.	100.0	100.0
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation	F.C.	79.8	79.8
Tratamiento Cinca Medio, S.L. en liquidación	Spain	Electricity generation	F.C.	90.0	90.0
Iberáfrica Power Ltd. (4)	Kenya	Electricity generation	F.C.	100.0	75.0
El Gritón Solar S.A. de C.V.	Mexico	Electricity generation	F.C.	80.0	60.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0



Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Naturgy Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A.	Brazil	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services	F.C.	100.0	100.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Naturgy Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Proyectos Balmes México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen. México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
GPG Energía México, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Engineering Panamá, S.A.	Panama	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Technology INC	Puerto Rico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Naturgy Alfa Investments, S.A.U	Spain	Financial services	F.C.	100.0	100.0
Naturgy Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Participaciones, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Finance B.V.	Netherlands	Financial services	F.C.	100.0	100.0
Clover Financial and Treasury Services, DAC.	Ireland	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV (3)	Mexico	Services	F.C.	100.0	85.0
Energía y Confort Administración de Personal, S.A. de C.V. (3)	Mexico	Services	F.C.	100.0	85.0
Sistemas de Administración y Servicios, S.A. de C.V. (3)	Mexico	Services	F.C.	85.0	85.0
Gas Natural Fenosa Servicios Panamá, S.A.	Panama	Services	F.C.	100.0	100.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Inversiones Hermill, S.A.	Dominican Rep.	Services	F.C.	100.0	100.0
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Global Power Generation Australia Pty, Ltd.	Australia	Holding company	F.C.	98.7	74.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
Naturgy Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Gas and Power, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Acciones, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Unión Fenosa Minería, S.A.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Minería, B.V. (4)	Netherlands	Holding company	F.C.	100.0	100.0
GPG México Wind, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
GPG México, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
First Independent Power (Kenya), Ltd. (4)	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100.0	75.0
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe, S.A.	Panama	Holding company	F.C.	100.0	75.0
Buenergía Gas &Power, LLC	Puerto Rico	Holding company	F.C.	95.0	71.3
<b>CGE Group:</b>					
Compañía General de Electricidad, S.A.	Chile	Electricity distribution	F.C.	95.8	95.8
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	95.8
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100.0	95.8
Los Andes Huarpes S.A.	Argentina	Electricity distribution	F.C.	98.0	95.8
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	95.8
CGE Magallanes S.A.	Chile	Electricity distribution	F.C.	99.9	95.7
Empresa de Transmisión Eléctrica Transemel S.A.	Chile	Electricity distribution	F.C.	100.0	95.8
Empresa Eléctrica de Magallanes S.A.	Chile	Electricity distribution	F.C.	55.2	52.8
Energy Sur Ingeniería, S.A.	Chile	Services	F.C.	55.0	52.7

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Sociedad de Computación Binaria S.A.	Chile	Services	F.C.	100.0	95.8
Transformadores Tusan S.A.	Chile	Services	F.C.	100.0	95.8
TV Red S.A.	Chile	Services	F.C.	90.0	47.6
CGE Gas Natural, S.A.	Chile	Holding company	F.C.	92.3	92.3
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	92.3
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60.0	55.4
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.4
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	55.4
Centrogas S.A.	Chile	Services	F.C.	100.0	55.6
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	55.6
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.5
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100.0	92.3
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100.0	92.3
CGE Servicios, S.A.	Chile	Services	F.C.	100.0	100.0

1. Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
2. Parent company's interest in the subsidiary.
3. The shareholding percentage relating to legally owned shares and to the share buy-back commitment at the percentages stated in Note 19, which are also allocated to the Parent company.
4. Companies recognised as held for sale

## 2. Joint ventures

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
<b>Grupo UF Gas:</b>					
Unión Fenosa Gas, S.A.	Spain	Gas marketing	E.M.	50.0	50.0
Segas Services, S.A.E.	Egypt	Gas infrastructures	E.M.	100.0	40.7
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas infrastructures	E.M.	80.0	40.0
Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas marketing	E.M.	100.0	50.0
Unión Fenosa Gas Infraestructuras B.V.	Netherlands	Holding company	E.M.	100.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación (3)	Mexico	Gas distribution	E.M.	51.3	43.6
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V. (3)	Mexico	Gas marketing	E.M.	50.0	42.5
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	E.M.	36.3	36.3
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
ENER Renova España, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	39.6	36.6
Molinos de la Rioja, S.A.	Spain	Electricity generation	E.M.	33.3	33.3
Molinos del Cidacos, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
Montouto 2000, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Spain	Electricity generation	E.M.	21.0	21.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services	E.M.	41.2	41.2
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100.0	35.6
<b>CGE Group:</b>					
Gascart S.A.	Argentina	Gas distribution	E.M.	50.0	46.2
Gasnor S.A.	Argentina	Gas distribution	E.M.	97.4	46.2
Gasmarket S.A.	Argentina	Gas distribution	E.M.	50.0	46.2

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Empresa de Distribución Eléctrica de Tucumán S.A.	Argentina	Electricity distribution	E.M.	80.5	47.9
Compañía Eléctrica de Inversiones S.A.	Argentina	Electricity distribution	E.M.	90.0	47.9
Empresa Jujeña de Energía S.A.	Argentina	Electricity distribution	E.M.	90.0	43.1
Empresa Jujeña de Sistemas Energéticos Dispersos S.A.	Argentina	Electricity distribution	E.M.	90.0	43.1
Norelec S.A.	Argentina	Electricity distribution	E.M.	50.0	47.9
Dimater, S.A.	Argentina	Electricity distribution	E.M.	100.0	47.9
Empresa de Construcción y Servicios , S.A.	Argentina	Electricity distribution	E.M.	100.0	47.9
Energética del Norte, S.A.U.	Argentina	Electricity distribution	E.M.	100.0	47.9
Noanet, S.A.	Argentina	Electricity distribution	E.M.	100.0	47.9
Gasoductos GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47.0	26.1
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	27.8
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.4
Gasoductos GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47.0	26.1
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary.

(3) The shareholding percentage relating to legally owned shares and to the share buy-back commitment at the percentages stated in Note 19, which are also allocated to the Parent company.

### 3. Jointly-controlled assets and operations

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Gas Natural West África, S.L.	Spain	Gas infrastructures	P.C.	40.0	40.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Tánger Larache	Morocco	Gas infrastructures	P.C.	24.0	24.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	P.C.	65.8	65.8
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary

#### 4. Associates

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Qalhat LNG S.A.O.C.	Oman	Gas infrastructures	E.M.	7.4	3.7
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20.0	20.0
CER's Commercial Corp	Panama	Services	E.M.	25.0	18.8
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5
Torre Marenstrum, S.L.	Spain	Services	E.M.	45.0	45.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method

(2) Parent company's interest in the subsidiary

## APPENDIX II Variations in consolidation scope

The main consolidation scope changes during 2018 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Compañía General de Electricidad, S.A.	Redemption own shares	1 February	0.3	97.3	Full
Gas Natural Italia S.P.A.	Disposal	22 February	100.0	-	-
Nedgia, S.P.A.	Disposal	22 February	100.0	-	-
Gas Natural Vendita Italia, S.P.A.	Disposal	22 February	100.0	-	-
Cilento Reti Gas, S.R.L.	Disposal	22 February	60.0	-	-
Guimaranía I Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Guimaranía II Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Holding de Negocios de Gas, S.A.	Disposal	19 March	20.0	80.0	Full
Global Power Generation Brasil Geração de Energia Ltda.	Incorporation	3 April	100.0	100.0	Full
Tratamiento Cinca Medio, S.L En liquidación	Acquisition	5 April	10.0	90.0	Full
Tratamiento Almazán, S.L, En liquidación	Acquisition	5 April	10.0	100.0	Full
Sociedad de Tratamiento La Andaya, S.L En liquidación	Acquisition	5 April	5.0	65.0	Full
Sociedad de Tratamiento Hornillos, S.L. En liquidación	Acquisition	5 April	5.6	100.0	Full
Gasoducto del Pacífico (Cayman) Ltd. en liquidación	Liquidation	16 April	56.7	-	-
Societat Eòlica de l'Enderrocada, S.A.	Capital reduction	10 May	0.2	79.8	Full
Serviconfort Colombia, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural, S.A. ESP	Disposal	1 June	41.9	-	-
Gas Natural del Oriente, S.A. ESP	Disposal	1 June	54.5	-	-
Gas Natural Cundiboyacense, S.A. ESP	Disposal	1 June	77.5	-	-
Gas Natural Servicios, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural del Cesar, S.A. ESP	Disposal	1 June	62.2	-	-
Compañía General de Electricidad, S.A.	Merger	30 June	1.5	95.8	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. en liquidación	Liquidation	1 July	100.0	-	-
Energética del Norte, S.A.	Incorporation	2 July	47.9	47.9	Equity
Compañía Española de Industrias Electroquímicas, S.A.	Disposal	31 July	100.0	-	-
Soluziona Technical Services, Ll.c. en liquidación	Liquidation	30 September	100.0	-	-
Compañía General de Electricidad, S.A.	Merger	1 October	0.1	95.9	Full
Naturgy Alfa Investments, S.A.U	Incorporation	10 October	100.0	100.0	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.S. en liquidación	Liquidation	29 October	100.0	-	-
Naturgy Infraestructuras EMEA, S.L.	Incorporation	7 November	100.0	100.0	Full
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Liquidation	14 November	63.9	-	-
Eólica Tramuntana, S.L.	Capital increase	28 November	5.8	65.8	Proportionate
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. En Liquidación	Disposal	30 November	100.0	-	-
Naturgy Gas and Power, S.L.U.	Incorporation	12 December	100.0	100.0	Full
Kangra Coal (Proprietary), Ltd.	Disposal	14 December	100.0	-	-
Unión Fenosa South Africa Coal (Proprietary), Ltd	Disposal	14 December	100.0	-	-
Welgedacht Exploration Company Ltd	Disposal	14 December	100.0	-	-
Sociedad de Tratamiento La Andaya, S.L. En liquidación	Acquisition	20 December	35.0	100.0	Full



The main changes in the consolidation scope in 2017 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Línea Trasmisión Cabo Leones, S.A.	Disposal	1 January	50.0	-	-
Proyectos Balmes México, S.A. DE C.V.	Incorporation	1 January	100.0	100.0	Full
Naturgy LNG Singapore PTE. LTD.	Incorporation	1 January	100.0	100.0	Full
Vayu Energy, B.V.	Liquidation	28 February	100.0	-	-
Arte Contemporáneo y Energía, A.I.E.	Liquidation	26 April	100.0	-	-
Lanzagorta y Palmes 2, S.L.	Acquisition	7 June	100.0	100.0	Full
Compañía General de Electricidad, S.A.	Capital increase	1 July	0.3	96.9	Full
Compañía General de Electricidad, S.A.	Redemption own shares	30 November	0.1	97.0	Full
CGE Gas Natural, S.A.	Capital increase	1 July	5.7	91.7	Full
CGE Gas Natural, S.A.	Redemption own shares	11 December	0.4	92.1	Full
Global Power Generation Australia Pty, Ltd.	Acquisition	5 July	1.7	98.7	Full
Parque Eólico Vientos del Pacífico, S.p.A	Acquisition	7 July	100.0	100.0	Full
GPG Solar Chile 2017, S.p.A.	Acquisition	21 August	100.0	100.0	Full
Agua Negra S.A.	Capital increase	25 September	3.1	100.0	Full
Energía San Juan S.A.	Capital increase	25 September	3.1	100.0	Full
Los Andes Huarpes S.A.	Capital increase	25 September	3.5	100.0	Full
El Gritón Solar S.A. de C.V.	Acquisition	26 October	80.0	80.0	Full
Naturgy Renovables Ruralia, S.L.U.	Acquisition	20 November	24.0	75.0	Full
Operación y Mantenimiento Energy Mexico, S.A. de C.V. en Liquidación	Liquidation	6 December	100.0	-	-
Infraestructuras Eléctricas La Mudarra, S.L.	Acquisition	13 December	2.8	36.6	Equity
Castrios, S.A.	Disposal	14 November	33.3	-	-
Inmobiliaria Parque Nuevo S.A.	Liquidation	10 November	50.0	-	-
Gas Natural, S.A. ESP	Disposal	22 December	17.2	41.9	Equity
Inimo Ingeniería, S.L.	Acquisition	27 December	100.0	100.0	Equity

## APPENDIX III Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

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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 Alcohólicas, S.A.	Naturgy Inversiones Internacionales, S.A.
Europe Maghreb Pipeline, Ltd.	Naturgy Participaciones, S.A.U.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Renovables, S.L.U.
Fenosa, S.L.U.	Naturgy Wind 4, S.L.U.
Gas Natural Comercializadora, S.A.	Naturgy Wind, S.L.U.
Gas Natural Exploración, S.L.	Nedgia Andalucía, S.A.
Gas Natural Fenosa LNG, S.L.	Nedgia Aragón, S.A.
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Nedgia Balears, S.A.
Gas Natural Redes GLP, S.A.	Nedgia Castilla La-Mancha, S.A.
Gas Natural Transporte SDG, S.L.	Nedgia Catalunya, S.A.
General de Edificios y Solares, S.L.	Nedgia Cegas, S.A.
Global Power Generation, S.A.	Nedgia Madrid, S.A.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Nedgia Navarra, S.A.
GPG México Wind, S.L.U.	Nedgia, S.A.
GPG México, S.L.U.	Operación y Mantenimiento Energy, S.A.
Holding de Negocios de Gas, S.A.	P.E. El Hierro, S.L.
J.G.C. Cogeneración Daimiel, S.L.	P.E. Montamarta, S.L.
La Energía, S.A.	P.E. Nerea, S.L.
La Propagadora del Gas Latam, S.L.U.	P.E. Peñaroldana, S.L.
La Propagadora del Gas, S.A.	Petroleum Oil & Gas España, S.A.
Lignitos de Meirama, S.A.	Sagane, S.A.
Naturgy Alfa Investments, S.A.U	Sociedad de Tratamiento Hornillos, S.L.
Naturgy Almacенamientos Andalucía, S.A.	Sociedad Parque Eólico Mouriños, S.L.U.
Naturgy Aprovisionamientos, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Naturgy Capital Markets, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Distribución Latinoamerica, S.A.	Tratamiento de Almazán, S.L.
Naturgy Electricidad Colombia, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Minería, S.A.
Naturgy Gas and Power, S.L.U.	Unión Fenosa Preferentes, S.A.U.

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## Consolidated Director's Report

**Consolidated Directors' Report for the year ended 31 December 2018.**

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## 1. Main milestones and key figures

### 1.1. Main milestones in 2018

#### January to March

- Naturgy issued Euros 850 million in 10-year bonds paying 1.5%, the proceeds from which were used to tender for Euros 916 million in bonds maturing between 2019 and 2023.
- Publication of the first report in compliance with Decree-Act 18/2017 on non-financial and diversity disclosures, which transposed into Spanish law European Directive 2014/95 as regards disclosure of non-financial and diversity information and requires companies to report on environmental, social and governance issues.
- On 1 and 22 February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy for Euros 766 million was completed, resulting in a capital gain of Euros 188 million after taxes.
- On 6 February 2018, following the resignation of Mr. Rafael Villaseca Marco as Managing Director of the company, the Board of Directors of Naturgy appointed Mr. Francisco Reynés Massanet as Executive Chairman. Additionally, Mr. Isidro Fainé Casas resigned as a director and was appointed Honorary Chairman of Naturgy.
- On 22 February 2018, Repsol reached an agreement to sell its 20.072% stake in the capital of Naturgy Energy Group, S.A. to Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC; the deal was completed in May 2018.
- Top Employers 2018 recognition due to having some of the highest standards in work conditions.
- Naturgy, through subsidiary Global Power Generation (GPG), acquired two solar photovoltaic projects in Brazil in March 2018. The development of these projects, located in the state of Minas Gerais and with a total capacity of 83 MW, represented an investment of over Euros 95 million; they entered commercial operation on 12 December 2018.
- On 19 March 2018, following approval by the competition authorities, a minority 20% stake in the company Holding de Negocios de Gas, S.A., which owns gas network assets in Spain, was sold to a consortium of long-term infrastructure investors comprising Allianz Capital Partners and Canada Pension Plan Investment Board for Euros 1.5 billion, resulting in a capital gain of Euros 1 billion.

#### April to June

- The volunteer programme with the Red Cross that commenced in 2017 concluded in June 2018, having attained a total of 481 Naturgy volunteers; 437 families were assisted in person, 108 express refurbishments were performed, and another 1,080 households received energy efficiency kits and energy advice workshops.
- The sale of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, i.e. its net carrying amount net of dividends received, was completed on 1 June 2018.
- On 27 June 2018, the Shareholders' Meeting approved the distribution of income consisting of allocating Euros 1,001 million out of 2017 income to dividends. That is a dividend of Euros 1 per share, of which Euros 0.33 per share was paid as an interim dividend in cash on 27 September 2017 and the remaining Euros 0.67 per share, also in cash, on 5 July 2018.
- The Shareholders' Meeting also approved the Business Plan 2018-2022, which establishes a new industrial and business unit model, providing for the continuity of the businesses and markets in the future, and updating the main premises and business projections.
- On 27 June 2018, Naturgy reached an outline agreement to sell its 70% stake in Kangra Coal (a mine in South Africa) to Menar Holding. The sale was completed in December 2018.
- Additionally, on 27 June 2018, Naturgy reached an agreement to sell its 100% stake in Iberafrica Power, in Kenya, to AEP Energy Africa Limited; the sale is expected to be completed the first quarter of 2019.
- In June, Naturgy was awarded the "*Empresa más igual*" seal by the Madrid regional government.

#### July to September

- In July 2018, the company obtained the Bequal plus certificate, which recognises companies with excellent management of people in terms of diversity of ability.

- In September 2018, Naturgy concluded the agreement to renew and extend the gas supply contract with Sonatrach to 2030 under better terms.
- On 3 September 2018, Unión Fenosa Gas (UFG), the company that owns the Damietta plant in Egypt and is owned 50% by Naturgy, received an arbitration award in its favour from the International Centre for Settlement of Investment Disputes (ICSID), an agency of the World Bank, resolving the dispute presented in 2014; the arbitrators ruled against the Arab Republic of Egypt for failure to supply to UFG's liquefaction facilities in Damietta.
- On 11 September 2018, the Government of Victoria in Australia announced the award to GPG of a total of 180 MW of power generating capacity in a wind project located approximately 150 km from the city of Melbourne.
- In September 2018, the Dow Jones Sustainability Index (DJSI) ranked Naturgy as the world leader in the Gas Utilities sector for the second consecutive year; the company was also certified as world leader in the multiutilities segment by FTSE4GOOD.
- In September 2018, the women's leadership programmes "Take The Lead" and "*Hazte Visible*" granted Naturgy the Talent Mobility 2018 award.

### **October to December**

- In October 2018, the company was awarded the "Equality in employment" seal by Spain's Ministry of the Presidency, Relations with Parliament and Equality in recognition of the implementation of equal opportunity policies through comprehensive, measurable equality plans that produced concrete results.
- The Solidarity Fund for Energy Rehabilitation was launched in October 2018; the funds were allocated to energy refurbishment of dwellings selected by NGOs with which the company has cooperation agreements.
- On 19 October 2018, Naturgy completed a Euros 314 million bond tender.
- On 6 December 2018, Compañía General de Electricidad, S.A., a subsidiary of Naturgy Energy Group, S.A. in Chile, completed a bond issue for a total of Euros 5 million Unidades de Fomento (UF), equivalent to approximately Euros 176 million.
- On 6 December 2018, Naturgy Energy Group S.A. resolved to conduct a share buyback programme in accordance with the announcement made in the Business Plan 2018-2022 that was presented on 28 June 2018; the shares may be retired if the Shareholders' Meeting to be held in the first half of 2019 so decides.
- On December 2018 Naturgy was awarded the EFR "Family-friendly enterprise" seal by *Fundación Más Familia* for its contribution to its employees' work-life balance.

## Financial performance (Euros million)

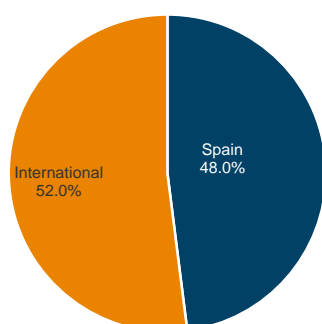
### Notes to financial information

- Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached annex includes a glossary of terms with the definition of the APMs.
- The consolidated income statement and operating figures for 2017 have been re-stated due to the discontinuation of the mining business in South Africa in application of IFRS 5.

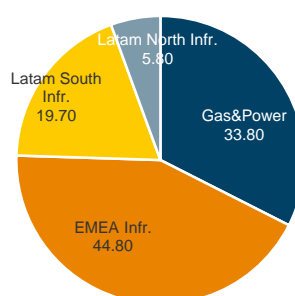
### Main financial aggregates

	2018	2017	%
Revenue	24,339	23,207	4.9
Ebitda	4,019	3,903	3.0
Income attributable to equity holders of the parent	(2,822)	1,360	-
Capex	2,321	1,782	30.2
Net financial debt (at 31/12)	13,667	15,154	(9.8)
Free Cash Flow after minorities	3,054	746	-

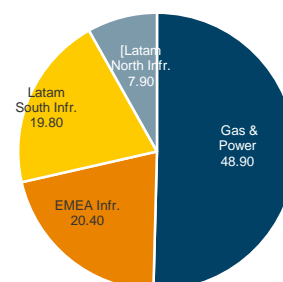
Ebitda by geography 2018 (%)



Ebitda by business 2018 (%)



Capital expenditure by business in 2018 (%)



### Main financial ratios

	2018	2017
Leverage	48.4%	45.3%
Ebitda / Net debt Cost	7.5x	6.4x
Net financial debt / Ebitda	3.4x	3.9x
Net financial debt / Ebitda (IFRS 16)	3.8x	4.2x

### Main stock market ratios and shareholder remuneration

	2018	2017
Total n° of shares ('000)	1.000.689	1.000.689
Average no. of shares ('000) <sup>1</sup>	998.966	1.000.478
Share price at 31/12 (Euros)	22,26	19,25
Market capitalisation at 31/12 (Euros million)	22.275	19.263
Earnings per share (Euros) <sup>1</sup>	(2,83)	1,36
Dividend paid	1.400	1.001

<sup>1</sup> Calculated considering the weighted average number of shares during the year

## 1.2. Operational performance

<b>Distribution</b>	<b>2018</b>	<b>2017</b>
Gas distribution (GWh)	449,259	460,014
Electricity distribution (GWh)	54,920	53,670
Gas distribution connections ('000)	10,605	10,491
Electricity connection points ('000)	7,569	7,447
Gas distribution network (km)	119,998	116,181
Length of electricity transmission and distribution network (km)	215,532	214,399
<b>Gas</b>	<b>2018</b>	<b>2017</b>
Gas supply (GWh)	237,379	237,945
LNG International (GWh)	140,669	122,086
<b>Total gas supply (GWh)</b>	<b>378,048</b>	<b>360,031</b>
<b>Electricity</b>	<b>2018</b>	<b>2017</b>
Installed capacity in Spain (MW)	12,479	12,716
Installed capacity in rest of world (MW)	3,093	2,732
<b>Total installed capacity (MW)</b>	<b>15,572</b>	<b>15,448</b>
Net production in Spain (GWh)	28,307	27,953
Net production in rest of world (GWh)	18,351	18,436
<b>Total net production (GWh)</b>	<b>46,658</b>	<b>46,389</b>

## 1.3. Environmental and social performance

<b>Environment</b>	<b>2018</b>	<b>2017</b>
Emission factor (t CO <sub>2</sub> /GWh)	342	388
GHG emissions (M tCO <sub>2</sub> e) <sup>1</sup>	18.3	20.5
Emissions-free installed capacity (%)	27.5	26.4
Emissions-free net production (%)	24.9	19.6
<b>Interest in people</b>	<b>2018</b>	<b>2017</b>
No. of employees <sup>2</sup>	12,700	14,718
Training hours per employee	49.9	38.4
Men/women (%)	69/31	71/29
<b>Health and safety</b>	<b>2018</b>	<b>2017</b>
No. of accidents leading to days lost	28	45
Frequency	1.0	1.3
<b>Commitment to society and integrity</b>	<b>2018</b>	<b>2017</b>
Economic value distributed (Euros million)	23,413	22,402
No. of notifications received by the Ethics Committee	199	141

<sup>1</sup> GHG: greenhouse gases, measured as tCO<sub>2</sub> equivalent (scope 1).

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



## **2. Market context, risks and opportunities**

### **2.1. Market context**

#### Reduction of CO<sub>2</sub> emissions and expansion of renewable energy, with natural gas as a key contributor.

The Paris Agreement (2015 XXI United Nations Climate Change Conference, or 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 transformation in energy. This energy transformation may be an opportunity, since it will require increased investment, but it will also reshape the appeal of businesses and investments alike.

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

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

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

#### Growing electricity demand and energy efficiency

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

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

#### Big data and data analytics

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

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

### **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 a sound, stable company, with all the benefits that entails.

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

#### **Risk management bodies**

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



### Audit Committee

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

### Risk Committee

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

### Risk Control Units

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

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

### Businesses

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

### Business, Corporate and Project units

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

## **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.

## 2.2.2. Main risks

Risk type	Description	Management approach	Metric	Trend	
<b>Market risks</b>					
Commodity prices	Gas	Volatility in the international markets that set gas prices.	Physical and financial hedges. Portfolio management	Stochastic	↑ Decoupling of long-term contracts from hub prices.
	Electricity	Volatility in the Spanish and Portuguese electricity markets	Physical and financial hedges. Optimisation of the power generating fleet.	Stochastic	↑ Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	↔ Aggregate demand pressure in Spain in a context of energy efficiency.
	Electricity	Reduction of the available thermal gap. Uncertainty about volume of hydroelectric output.	Optimisation of the balance between supply and generation.	Stochastic	↑ Aggregate demand pressure in Spain in a context of energy efficiency.
Regulatory	Exposure to regulatory review of the criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑ Different business units at different stages of maturity.	
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	↔ Uncertainty about growth prospects in Latin America.	
Interest rate and credit spread.	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	↔ Uncertainty about the interest rate scenario.	
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or due to a material amendment of same.	Queries to independent expert bodies. Engagement of top-level advisory firms.	Scenarios	↔ Different business units at different stages of maturity.	

Risk type	Description	Management approach	Metric	Trend
		Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.		
<b>Credit risk</b>				
Credit	Uncertainty about performance of bad debt ratios as a result of the economic cycle.	Analysis of customer solvency to define specific contractual conditions. Debt collection process.	Stochastic	↔ Pursues efficiency in debt collection.
<b>Operational risk</b>				
Operational: insurable risks	Accidents, damage and non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	↑ Growing tension in the insurance market in the face of natural catastrophes.
Operational: image and reputation	Impaired perception of Naturgy by stakeholders.	Identification and tracking of potential reputational events. Transparency.	Scenarios.	↔ Stabilisation of MERCO index score.
Operational: environment	Harm to the natural and/or social environment. Trend in environmental regulations.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios.	↓ Implementation of an Integrated Management System that is audited and certified each year by AENOR.
Operational: climate change	Changes in environmental factors as a result of climate change. Regulation aimed at combating it.	Corporate positioning vis-à-vis climate change.	Stochastic/ Scenarios	↑ Uncertainty about policy developments to encourage energy efficiency.

**Metrics used:**

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

Financial risks (interest rate, exchange rate, commodity prices, credit risk, liquidity risk) are discussed in Note 18 to the Consolidated Financial Statements.

**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 Group's various businesses in a flexible, diversified way by optimising for different energy scenarios. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.
- **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 2018, 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 2018)
- Regulations of the General Meeting of Shareholders (updated in 2018)
- Human Rights Policy
- Code of Ethics (updated in 2015)

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

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

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

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

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

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

(3) Controlled by funds advised by CVC.

Following the changes in ownership structure, on 27 June 2018 the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. Additionally, the Executive Committee was eliminated and the number of members of the Audit Committee and of the Appointments and Remuneration Committee was set at 7 in both cases.

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

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

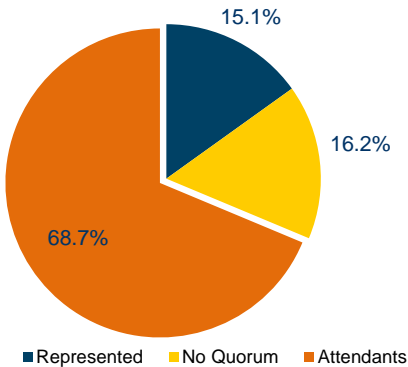
And the following new directors were appointed:

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

**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 2018 Shareholders' Meeting (%): 83.8%



### 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.

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

In 2018, the Board of Directors undertook an in-depth debate on strategy which crystallised in the approval of the Business Plan 2018-2020.

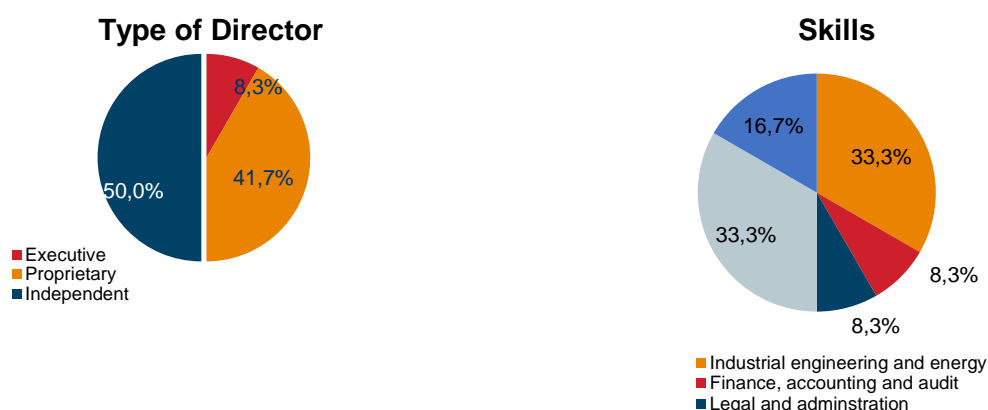
The other main issues that were considered are as follows:

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

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

Board of Directors		Audit Committee	Appointments and Remuneration Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet			Executive	6/02/2018
Lead director	Mr. Ramón Adell Ramón	Director	Chairman	Independent	18/06/2010
Director	Mr. Enrique Alcántara-García Irazoqui	Director		Independent	18/06/2010
Director	Mr. Marcelino Armenter Vidal		Director	Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Director	Independent	14/05/2015
Director	Ms. Helena Herrero Starkie	Director		Independent	04/05/2016
Director	Mr. Rajaram Rao	Director		Proprietary	21/09/2016
Director	Rioja Bidco Shareholdings, S.L.U., Mr. Javier de Jaime Guijarro		Director	Proprietary	18/05/2018
Director	Mr. Pedro Sainz de Baranda	Director	Director	Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Director	Independent	27/06/2018
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director		Proprietary	18/05/2018
Director	Mr. William Alan Woodburn		Director	Proprietary	30/09/2016
Secretary (not a director)	Mr. Manuel García Coboleda	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

## Board of Directors profile (%)



## 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
2018	14	2	7	11
2017	15	3	10	5

### 3.4. Management structure

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

A new and simplified organisational structure was defined comprising four business units (Gas and Power, Infrastructure EMEA, Infrastructure South Latin America (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.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2018, it comprised the following executives:

#### **Business Units**

Mr. Manuel Fernández Álvarez: Gas and Power  
 Ms. Rosa María Sanz García: Infrastructure EMEA  
 Mr. Antonio Gallart Gabás: Infrastructure South LatAm  
 Mr. José García Sanleandro: Infrastructure North LatAm

#### **Corporate Units**

Mr. Carlos J. Álvarez Fernández: CFO  
 Mr. Antonio Basolas Tena: Strategy & Development



Mr. Manuel García Cobaleda: Company Secretary and Secretary of the Board of Directors  
Mr. Jordi García Tabernero: Communication and Institutional Relations  
Mr. Antoni Peris Mingot: Resources  
Mr. Jon Ganuza Fernández de Arroyabe: Control  
Mr. Steven Fernández Fernández: Capital Markets

### **Projects**

Mr. José M<sup>a</sup> Egea Krauel: PIPE project  
Mr. Miguel Aller: LEAN project

### **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 2018.

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

The remuneration system was amended in 2018:

- On 6 February 2018, the Board of Directors adopted a material change in the Company's management and administration structure by approving the appointment of a new Executive Chairman and the resignation of the former Chairman and CEO, with the result that the contractual relationship with the previous CEO was terminated on 6 February.
- As part of the process of simplifying corporate governance, the Shareholders' Meeting on 27 June 2018 decided to reduce the size of the Board to 12 members and to abolish the Executive Committee, which resulted in a redistribution and overall reduction of the directors' remuneration for performing non-executive functions.
- In accordance with the provisions of article 9 of the Bylaws and in the framework of the approval of the Business Plan by the Board of Directors on 27 June 2018, the Board resolved, at a meeting on 31 July, to replace the pre-existing multi-year variable remuneration system with a long-term incentive which, since it requires the approval of the Shareholders' Meeting, is subject to the condition precedent that it be authorised by the 2019 Shareholders' Meeting.

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

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

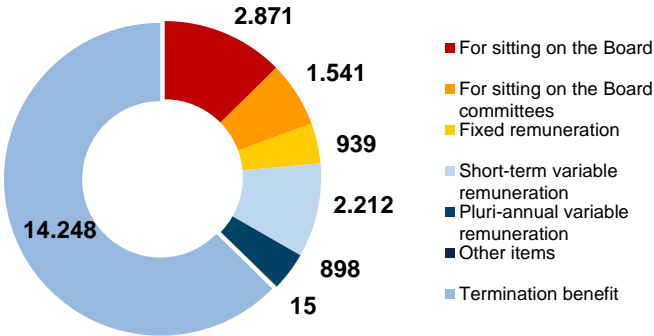
	From 27 June 2018	Up to 27 June 2018
Chairman of the Board of Directors	1,100,000	550,000
Director	175,000	126,500
Lead director	30,000	30,000
Committee chairman	90,000	-
Committee member	60,000	-
Chairman of the Executive Committee	Not applicable	550,000
Member of the Executive Committee	-	126,500
Member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

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

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

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

**Total remuneration earned by the Board of Directors in 2018, by type (Euros '000):**



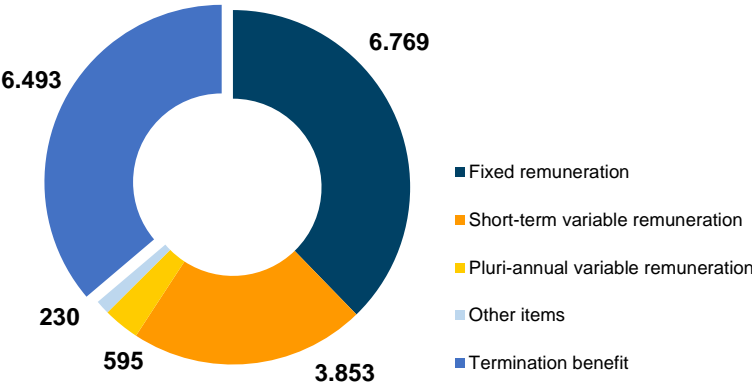
**Total remuneration:** 22,724 thousand euros

Senior Management

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

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

**Total remuneration earned by the Management Committee and head of Internal Audit<sup>1</sup> in 2018, by type (Euros '000)**



**Total remuneration:** 17,940 thousand euros

<sup>1</sup> 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. Business performance and results

### 4.1 Executive summary

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

- On 6 February 2018, Francisco Reynés Massanet was appointed as Executive Chairman of the company.
- On 22 February 2018, Repsol reached an agreement to sell its entire 20.1% stake in the capital of Naturgy to Rioja Bidco, a company controlled by funds advised by CVC and in which Corporacion Financiera Alba holds a 25.7% stake. The transaction was completed on 18 May 2018.
- On 28 June, Naturgy presented its new Strategic Plan 2018-2022 which laid the foundations of its value creation strategy, positioning the company for the energy transition.

During the year, Naturgy has made steady progress on the development of its value creation strategy founded on 4 key pillars:

**1. Simplicity & accountability:** Throughout the year, Naturgy undertook relevant changes in its corporate governance based on a leaner structure and simpler corporate regulations, leading to a more agile decision-making process. The board of directors was reduced from 17 to 12 members, with 6 proprietary directors (Criteria Caixa, GIP and Rioja 2 each), 5 independent directors and the Executive Chairman.

Additionally, the company changed its organisational structure with a new reporting perimeter consisting of 4 main business units including: (i) Gas and Power, (ii) Infrastructure EMEA, (iii) Infrastructure South LatAm and (iv) Infrastructure North LatAm. This has allowed Naturgy to simplify its management structure and reinforce the accountability of the different businesses. As part of this process, the company reduced the number of subsidiaries and replaced most of its subsidiary Board Directors by joint administrators, while scaling down support functions at the corporate level and reallocating some of these, based on strict functional needs, into each of the business units.

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

**2. Optimization:** During 2018, Naturgy achieved substantial progress in its optimization efforts.

The Company increased the visibility and de-risked its businesses as shown by the agreement to renew and extend its gas procurement contract with Sonatrach up to 2030 under improved terms, or the favourable ICSID award in the arbitral procedure initiated by Union Fenosa Gas in Egypt, which should allow to reach a comprehensive agreement that will re-establish the value of the company's investment in the region.

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

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

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

Consistent with Naturgy's targeted growth in renewables during the Strategic Plan 2018-2022, the company continued to develop the wind and solar projects awarded last year in the Spanish auctions, investing

approximately Euros 382 million during the year 2018. During 2019, the Company expects to start operating over 900 MW of additional renewable capacity. The company is well positioned to benefit from future renewable opportunities in Spain.

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

Moreover, the Company acquired two solar photovoltaic projects in Minas Gerais (Brazil). The development of these projects which total 83 MW of capacity, required approximately Euros 95 million investment and came into operation in December 2018.

Finally during 2018, Naturgy completed the disposal of its businesses in Italy and Colombia, as well as the 20% minority stake in Nedgia, receiving proceeds of Euros 2,600 million in aggregate. The Company continues to progress on the various disposal processes of non-core businesses, following the business positioning criteria established in its Strategic Plan 18-22.

**4. Shareholder remuneration:** The Company has started delivering on its shareholder remuneration targets.

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

As part of its new shareholder remuneration policy, Naturgy completed a payment of Euros 0.28/share corresponding to the 2018 first interim dividend on 31 July'18 and a payment of Euros 0.45/share corresponding to the 2018 second interim dividend on 31 October, setting the pace for the minimum committed dividend of Euros 1.30/share against 2018 earnings.

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

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

## **2018 Results**

- Business performance during 2018 has been marked by the strong performance of Gas & Power, which was partly offset by non-recurrent items and the negative impact of exchange rates evolution.
- Ebitda in 2018 reached Euros 4,019 million after non-ordinary effects. Stripping these out, ordinary Ebitda rose 11.8% to Euros 4,413 million mainly supported by the improvement in the Gas & Power business unit as well as stability in the Infrastructure businesses which together more than offset the negative Euros 218 million FX impact.
- Net income in 2018 amounted to Euros 2,822 million negative mainly as a result of the Euros 4,905 million asset write-down conducted in the first half of the year. Excluding this impact and other non-ordinary items, ordinary Net income rose 57.0% to Euros 1,245 million driven by higher activity, lower depreciation, and lower financial expenses resulting from the group's debt optimization.
- During 2018 Naturgy has invested Euros 2,321 million, up 30.2% vs. 2017. More than 70% of capex has been deployed in growing the company's asset base through the development of new renewable capacity across the different geographies, the addition of two new LNG tankers acquired under finance leases, and other revenue-generating projects.

- Free cash flow after minorities rose from Euros 746 million to Euros 3,054 million, reflecting the company's increased focus on cash flow generation and the completion of the various disposals processes during the period.
- As of 31 December 2018, Net Debt amounted to Euros 13,667 million, down 9.8% vs. 31 December 2017. The decline in Net Debt/LTM Ebitda to 3.4x from 3.9x in 2017 together with the improvement in Ebitda/Cost of net financial debt to 7.5x from 6.4x at the end of last year, underline the reinforcement of the company's financial solidity in 2018.
- All in all, these 2018 results illustrate Naturgy's progress towards the successful implementation of its 2018-2022 Strategic Plan.

## 4.2 Key comparability factors and non-ordinary items

### Perimeter changes

The following transactions were completed in 2018:

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

Additionally, during the year the disposal of Kangra Coal was completed and Moldova and Kenya businesses were classified as "discontinued operations". The Company continues to progress on the various disposal processes of non-core businesses, following the business positioning criteria established in its Strategic Plan 18-22.

### Non-ordinary items

The non-ordinary items are summarized below:

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

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

- At the Ebitda level, non-ordinary impacts amount to Euros 394 million negative, the most important of which correspond to capture costs (Euros 180 million) due to the implementation of the efficiency plan.  
Other non-ordinary impacts include gas supply and transportation costs (Euros -50 million), non-ordinary fire prevention costs, trial and penalties in Chile (Euros -44 million) and others provisions (Euros -120 million), primarily relating to an existing litigation in process pending resolution as well as other provisions and one-off regularizations.
- At the Net income level, non-ordinary items amount to Euros 4,067 million negative, primarily driven by the asset write-down announced during the Strategic Plan presentation.

## Foreign exchange impact

Exchange rate fluctuations in the period are summarized as follows:

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

<sup>1</sup> Exchange rate as at 31 December 2018 as a consequence of considering Argentina as an hyperinflationary economy

## Hyperinflation in Argentina

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

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

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

- An increase in shareholders' equity as a result of applying the change of inflation to the historical cost of non-monetary assets from their acquisition or incorporation date in the consolidated balance sheet and the corresponding deferred tax liability.
- An adjustment to the different items of income and expenses to apply the change of inflation from the date they were incorporated into the income statement, as well as to reflect the losses derived from the net monetary position.
- The translation into euros of the figures thus adjusted in the consolidated financial statements applying the closing exchange rate of the Argentine peso against the euro.

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

### 4.3 Analysis of the consolidated results

#### Net Sales

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

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

#### Ebitda

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

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



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

### **Net income**

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

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

EBIT in 2018 amounted to Euros 2,167 million negative as a result of the previously discussed impairment booked in the second quarter of the year.

### **Financial result**

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

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

### **Equity-accounted affiliates**

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

### **Income tax**

The effective tax rate as of 31 December 2018, without taking into account all the non-ordinary impacts of the impairments and the decrease of the deferred taxes due to the Chilean mergers, was 21.5%, flat vs. 2017.

### **Income from discontinued operations**

In 2018, income from discontinued operations amounted to Euros 10 million negative, as detailed below:

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

The income of Italy includes Euros 188 million after-tax capital gain on its disposal.

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

## **Non-controlling interest**

The non-controlling interest breakdown is as follows:

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

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

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

## **Net income**

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

## **4.4 Analysis of the balance sheet**

### **Investments**

The breakdown of the investments by type is as follows:

	<b>2018</b>	<b>2017</b>	<b>%</b>
Intangible and PPE investments	2,321	1,782	30.2
Financial investments	35	44	(20.,5)
<b>Gross Investments</b>	<b>2,356</b>	<b>1,826</b>	<b>29.0</b>
Divestments and others	(2,640)	(229)	-
<b>Total Investments</b>	<b>(284)</b>	<b>1,597</b>	<b>(117.8)</b>

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

The breakdown for business activities of the power, plant and equipment investments and intangible investments is as follows:

	2018	2017	% 2018-2017
<b>Gas &amp; Power</b>	<b>1,135</b>	<b>394</b>	<b>1.9</b>
Gas, power and services sales	61	48	27.1
International LNG	380	-	-
Europe power generation	462	178	-
International power generation	232	168	38,1
<b>Infrastructure EMEA</b>	<b>473</b>	<b>475</b>	<b>(0.4)</b>
Spain gas networks	240	212	13.2
Spain electricity networks	228	252	(9.5)
Magreb Infrastructure	5	11	(50.0)
<b>Infrastructure LatAm South</b>	<b>459</b>	<b>496</b>	<b>(7.5)</b>
Chile electricity	207	229	(9.6)
Chile Gas	131	80	63.0
Brazil Chile	60	120	(50.0)
Argentina Gas	41	37	10.8
Argentina Electricity	7	11	(36.4)
Peru Gas	13	19	(31.6)
<b>Infrastructure LatAm North</b>	<b>183</b>	<b>225</b>	<b>(18.7)</b>
Mexico Gas	80	115	(30.4)
Panama Electricity	103	110	(6.4)
<b>Rest</b>	<b>71</b>	<b>192</b>	<b>(63.0)</b>
<b>Total</b>	<b>2,321</b>	<b>1,782</b>	<b>30.2</b>

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

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

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

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

### **Divestments**

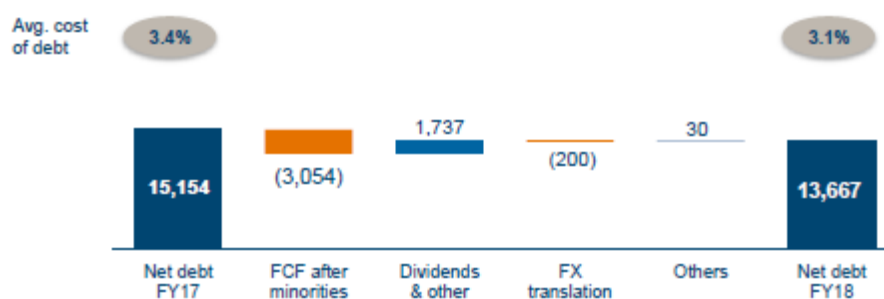
Divestments include the sale of the businesses in Italy for Euros 746 million, the proceeds from the sale of a 20% non-controlling stake in Nedgia (Euros 1,500 million) and the proceeds from the sale of the remaining 41.9% stake in the gas distribution business in Colombia (Euros 334 million) as well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

## Debt and financial management

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

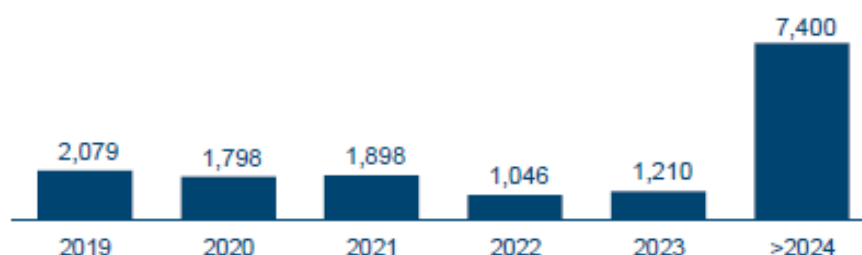
## Net debt evolution

The evolution of the net debt from 31 December 2017 to 31 December 2018 has been as follow:



## Net debt maturities

The net debt maturities are as follows:



The evolution of the principal ratios applied referent to the Net financial debt is as follows:

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

The detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency is as follows:

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

### Credit rating

Naturgy's long-term and short-term credit rating is as follows:

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

### Liquidity and capital

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

Liquidity source	Availability 2018	Availability 2017
Undrawn credit facilities	5,234	7,283
Undrawn loans	-	42
Cash and cash equivalents	1,716	3,225
<b>Total</b>	<b>6,950</b>	<b>10,550</b>

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

The breakdown of working capital at 31 December is as follows:

	2018	2017
Current operating assets <sup>1</sup>	5,799	5,536
Current operating liabilities <sup>2</sup>	(4,468)	(4,069)
	<b>1,331</b>	<b>1,467</b>

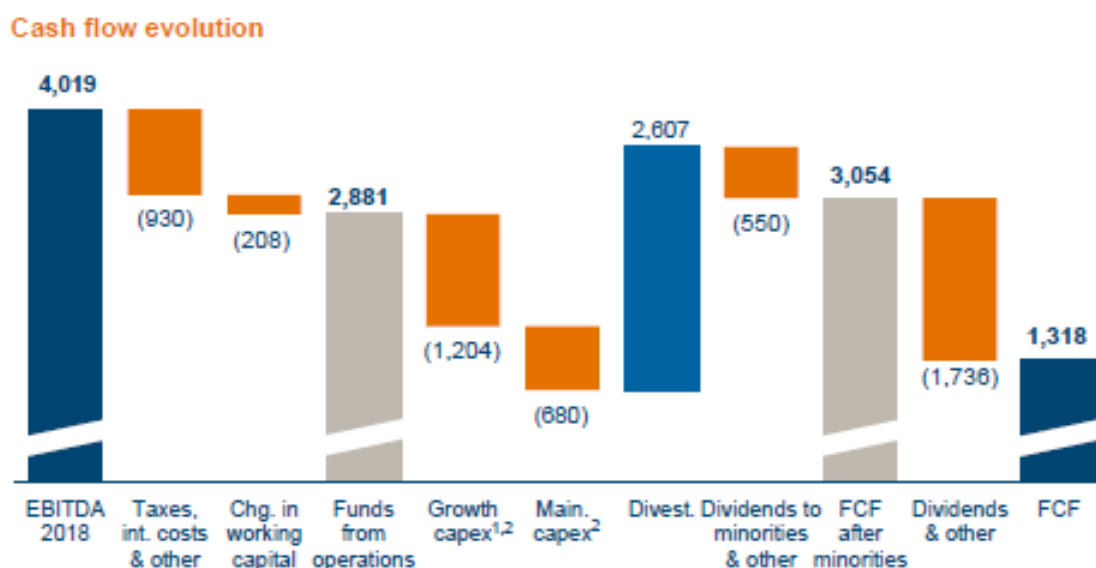
<sup>1</sup> Includes inventories, trade receivables and other receivables.

<sup>2</sup> Includes trade payables, other payables and other current liabilities, not including dividends payable.

Naturgy takes an average of 22 days to pay suppliers.

## Cash flow

The evolution of the free cash flow of the 2018 is as follows:



1. Without considering 380 million euros corresponding to two LNG vessels acquired under financial leasing.

2. Net of assignments

## Analysis of contractual obligations and off-balance sheet transactions

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

### 4.5 Analysis of results by segment

#### 4.5.1 Gas & Electricity

##### Supply of gas, electricity and services

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

## Results

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

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

## Main aggregates

The main aggregates in the supply of gas, electricity and service activity are as follows:

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

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

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

### Supply

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

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

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

### Market situation

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

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

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

	2018	2017	%
Brent (USD/bbl)	71.0	54.3	30,8
Henry Hub (USD/MMBtu)	3.0	3.1	(3,2)
NBP (USD/MMBtu)	8.1	5.8	39,7
TTF (€/MWh)	22.0	17.0	29,4
Arithmetic mean daily market price (€ /MWh)	58.0	53.6	8,2
Coal API 2 CIF (USD/t)	91.9	84.5	8,8
CO <sub>2</sub> EUA (€/ton)	15.9	5.8	174,1

### **LNG International**

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

### **Results**

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

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

### **Main aggregates**

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

Naturgy's shipping fleet has expanded during the period with the addition of two LNG tankers which have supported the increase in volumes.

Sales increased 15.2% vs. 2017 supported by the entry of Sabine Pass and the first shipments of Yamal LNG.

Global LNG demand has remained strong on the back of continued appetite from Asia, which in turn has supported significant gas price increases relative to 2017.



## Europe Power Generation

Includes power generation in Spain, also conventional and renewable.

### Results

	2018	2017	%
Net sales	2.050	1.935	5,9
Procurement	(1.091)	(977)	11,7
<b>Gross margin</b>	<b>959</b>	<b>958</b>	<b>0,1</b>
Other revenues	16	20	(20,0)
Net personnel expenses	(140)	(147)	(4,8)
Taxes	(247)	(262)	(5,7)
Other expenses	(177)	(190)	(6,8)
<b>Ebitda</b>	<b>411</b>	<b>379</b>	<b>8,4</b>
Depreciation, amortisation and operating provisions	(4.279)	(442)	-
<b>Operating income</b>	<b>(3.868)</b>	<b>(63)</b>	-

Ebitda in 2018 increases an 8.4% as compared with 2017, mainly driven by lower thermal and higher hydro generation together with greater wholesale prices. These impacts were partially offset by higher CO<sub>2</sub> prices, which reduced thermal margins, and the suspension of capacity payments for CCGTs since the month of July.

### Main aggregates

The key figures of Naturgy's generation business in Spain are as follows:

	2018	2017	%
Installed capacity (MW):	12,479	12,715	(1.7)
Generation:	11,325	11,569	(2.1)
Hydroelectric	1,954	1,954	-
Nuclear	604	604	-
Coal	1,766	2,009	(12.1)
CCGTs	7,001	7,001	-
Renewable and cogeneration output:	1,179	1,147	2.8
Wind	1,012	979	3.3
Small hydroelectric	109	110	(0.5)
Cogeneration and other	58	58	(36.8)
Electric energy produced (GWh):	28,307	27,953	1.3
Generation:	25,736	25,668	0.3
Hydroelectric	3,359	1,126	-
Nuclear	4,431	4,578	(3.2)
Coal	3,694	5,953	(37.9)
CCGTs	14,252	14,011	1.7
Renewable and cogeneration output:	2,571	2,285	12.5
Wind	1,958	1,800	8.8
Small hydroelectric	549	407	34.9
Cogeneration and other	64	77	(17.1)
Market share of generation	17.4	17.1	0.3 pp

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

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

### **Generation International (GPG)**

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

### **Results**

	<b>2018</b>	<b>2017</b>	<b>%</b>
Net sales	917	892	2,8
Procurement	(527)	(511)	3,1
<b>Gross margin</b>	<b>390</b>	<b>381</b>	<b>2,4</b>
Other revenues	10	12	(16,7)
Net personnel expenses	(39)	(37)	5,4
Taxes	(3)	(4)	(25,0)
Other expenses	(69)	(76)	(9,2)
<b>Ebitda</b>	<b>289</b>	<b>276</b>	<b>4,7</b>
Depreciation, amortisation and operating provisions	(152)	(121)	25,6
<b>Operating income</b>	<b>137</b>	<b>155</b>	<b>(11,6)</b>

Ebitda for 2018 amounts to 289 Euro million, with a 4.7% increase. Growth was supported by the start of the Sobral I and Sertao I solar farms in Brazil from September 2017, together with better margins of excess energy sales in Mexico, and higher wind resource. The above were partially offset by a negative evolution of exchange rates vs. previous year (Euros 17 million).

<b>Ebitda by country</b>					
	<b>2018</b>	<b>2017</b>	<b>Change (%)</b>	<b>FX</b>	<b>Adjusted change (%)</b>
Mexico	243	258	(5.8)	(14)	(0.4)
Rest	46	18	(155.6)	(3)	172.2
<b>Total</b>	<b>289</b>	<b>276</b>	<b>2.2</b>	<b>(17)</b>	<b>10.9</b>

## Main aggregates

	2018	2017	%
Installed capacity (MW):	<b>3,093</b>	<b>2,732</b>	<b>13.2</b>
Mexico (CC)	2,289	2,109	8.5
Mexico (wind)	234	234	-
Brazil (solar)	153	68	-
Costa Rica (hydroelectric)	101	101	-
Panama (hydroelectric)	22	22	-
Dominican Republic (oil-fired)	198	198	-
Australia (wind)	96	-	-
Electric energy produced (GWh):	<b>18,351</b>	<b>18,436</b>	<b>(0.5)</b>
Mexico (CC)	15,923	16,340	(2.6)
Mexico (wind)	701	656	6.9
Brazil (solar)	155	48	-
Costa Rica (hydroelectric)	330	369	(10.6)
Panama (hydroelectric)	94	98	(3.7)
Dominican Republic (oil-fired)	1,092	925	18.1
Australia (wind)	56	-	-
Availability factor (%)			
Mexico (CC)	92.1	96.6	(4.8)
Costa Rica (hydroelectric)	93.5	97.5	(4.0)
Panama (hydroelectric)	87.0	90.5	(3.5)
Dominican Republic (oil-fired)	90.2	92.1	(1.9)

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

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

### 4.5.2 Infrastructure EMEA

#### Gas distribution Spain

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

#### Results

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

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

### Main aggregates

Main aggregates in gas distribution Spain business are as follows:

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

Gas sales and connection points grew by 0.9% and 0.6% respectively, mostly driven by demand growth in the residential market.

### Electricity distribution Spain

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

### Results

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

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

### Main aggregates

	2018	2017	%
Sales – TPA (GWh)	32.698	32.039	2.1
Connection points (thousand) (at 31/12)	3.740	3.721	0.5
ICEIT (minutes)	46	47	(0.3)

## **Infrastructure Magreb**

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

### **Results**

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

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

### **Main aggregates**

The main aggregates in international gas transportation are as follows:

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

### **4.5.3. Infrastructure Latin America South**

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

#### **Gas distribution in Argentina**

### **Results**

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

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

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

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

Finally, under Decree 1053/2018 of November 2018 the National Government assumed the payment, on an exceptional basis, of the daily differences accumulated monthly between the value of gas bought by the network natural gas distribution service provides and the value of natural gas included in the tariff tables in effect between 1 April 2018 and 31 March 2019, generated solely by fluctuations in the exchange rate and relating to volumes of natural gas delivered during that period, thereby clearing up the doubts caused by the Government Energy Secretariat Resolution 41/2018.

## Main aggregates

The main aggregates in this area are as follows:

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

Gas sales in the period grew 5.8% across all customer segments.

## Gas distribution Brazil

### Results

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

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

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

## Main aggregates

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

## Electricity distribution and transmission Chile

Includes the activities of electricity transmission and distribution activities.

### Results

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

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

## Main aggregates

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

At the operating level, the business experienced growth both in electricity sales (2.6%) and connection points (2.5%).

## Gas distribution and supply Chile

Includes the activities of gas distribution and supply.

### Results

	2018	2017	%
Net sales	738	1.022	(27.8)
Procurement	(441)	(722)	(38.9)
<b>Gross margin</b>	<b>297</b>	<b>300</b>	<b>(1.0)</b>
Other revenues	5	11	(54.5)
Net personnel expenses	(29)	(28)	3.6
Taxes	(2)	(2)	-
Other expenses	(60)	(58)	3.4
<b>Ebitda</b>	<b>211</b>	<b>223</b>	<b>(5.4)</b>
Depreciation, amortisation and operating provisions	(57)	(49)	16.3
<b>Operating income</b>	<b>154</b>	<b>174</b>	<b>(11.5)</b>

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

### Main aggregates

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

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

## 4.5.4 Infrastructure Latin America North

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

### Gas distribution Mexico

#### Results

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



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

### Main aggregates

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

### Electricity distribution Panama

#### Results

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

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

### Main aggregates

	2018	2017	%
Electricity sales (GWh):	5,178	5,107	1.4
Electricity sales	4,888	4,956	(1.4)
TPA	289	152	90.9
Connection points (thousand) (at 31/12)	669	641	4.2

## 5. Forecast Group performance

### 5.1 Foundations of strategy

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

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

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

#### **Treating the energy transition as an opportunity**

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO<sub>2</sub> 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 cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
- Asset management: search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

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

#### **Transforming via digitalisation**

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

- Customer relations: 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).

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

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

### **Placing the customer at the centre of the model**

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

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

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

## **5.2 Value creation**

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

### **Simplicity and Accountability**

#### **1. Corporate governance and organisation structure**

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

The organisation structure has been simplified into four business units (Gas and Power, Infrastructure EMEA, Infrastructure South LatAm and Infrastructure North LatAm), with leaner corporate functions in order to ensure that the businesses operate autonomously and with full responsibility for their results, enabling the parent company to focus on value-added processes and on ensuring centralised oversight.

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

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

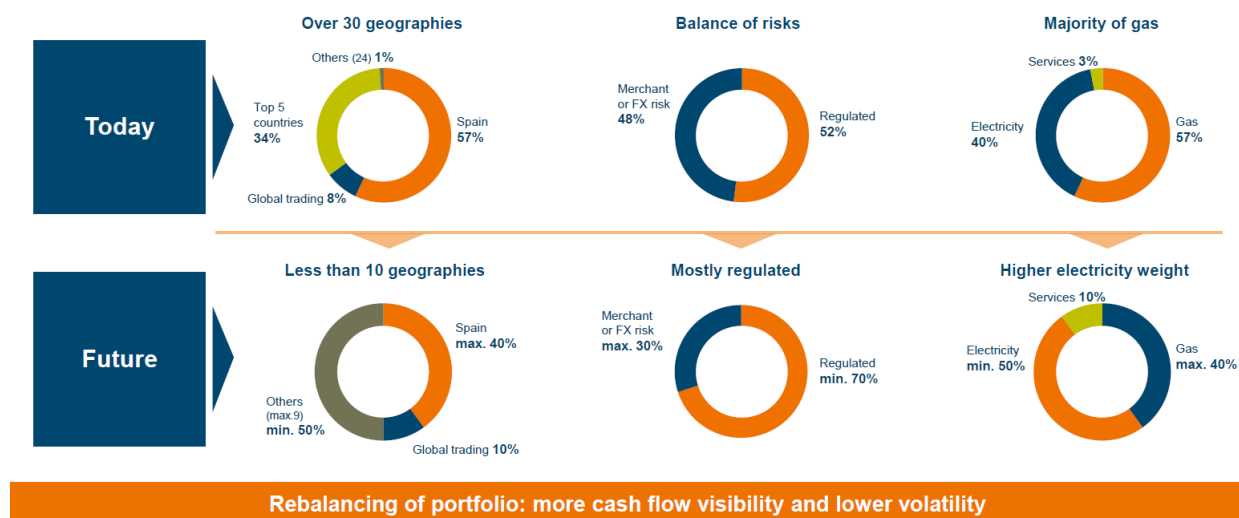
## 2. Strategic positioning

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

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

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

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



Additionally, on the basis of developments in the markets where it operates and in line with the assumptions and foundations of the new Business Plan, Naturgy reviewed the value of its assets, which resulted in a one-time impairment in the amount of Euros 4,851 million before taxes, booked in 2018. This impairment had no impact on shareholder remuneration and it will be accretive from 2019 because of the lower depreciation charge.

### Optimisation

Financial strategy will focus on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development.

Under the Business Plan 2018-2022, the company will continue to optimise the businesses with additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022.

These efficiencies will be focused on an analysis of the company's non-core activities and on the assignment of the operational functions within each of the business units, all supported by the ongoing digitalisation processes.

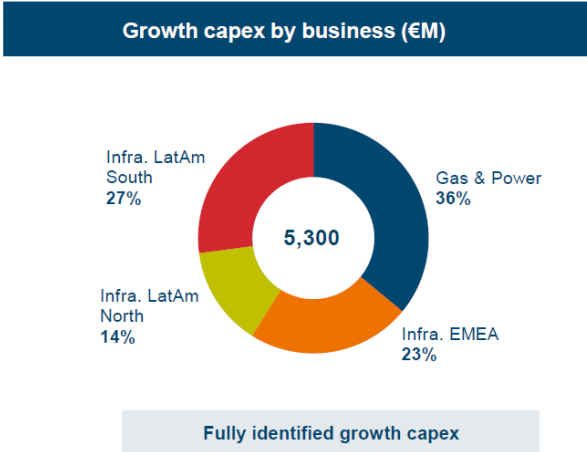
Naturgy plans to cut group-level capex by Euros 200 million per year with respect to the average in 2015-2017, while increasing the percentage of investment allocated to organic growth in comparison with previous years. In average terms, the goal is for 63% of capital expenditure to be allocated to growth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

**Disciplined investment**

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

- 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:



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

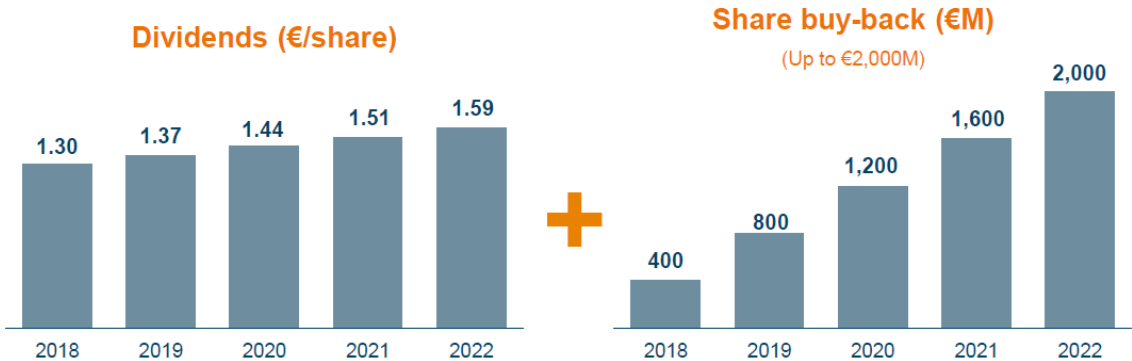
**Shareholder remuneration**

The company will increase 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.



**5.3 Individual business prospects**

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

**Key financial targets for 2022**



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

## Infrastructure EMEA

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

### Opportunities

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

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



**Infrastructure LatAm North**

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

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

**5.4 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 buybacks or inorganic growth opportunities.

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

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

## 6. Sustainable innovation

### Risks and management approach

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

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

### Analysis of 2018 results

#### Innovation vision

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

- Social Innovation, working to mitigate situations of energy vulnerability since 2014 through preventative measures, agreements with local and regional governments, and awareness-raising activities, including participation in forums and round tables on poverty. As part of the Vulnerability Plan, a number of measures were stepped up in 2018: the Solidarity Fund for Energy Rehabilitation and the Social Employment Program.
- Innovation in Marketing. This area includes all the company's efforts to get to know its customers' actual specific needs, and to ensure that they have access to cutting-edge products that make their everyday lives easier. A major ongoing initiative is the CeX (Customer Experience) project, under which the company is applying a new methodology that is primarily customer-centric. The principal project in 2018 was the Clear Communication Project, the goal being to convey relevant information to customers in a clear and simple form.
- Innovation in Organisation. This area refers to actions aimed at meeting emerging needs with respect to new business models, resulting in a new work organisation and steps to minimise risks and increase quality and safety within the organisation's practices.
- Product Innovation. The FutureSisens Project provides smart flow monitoring in renewable gas plants. In particular, the project aims to develop flow sensors that are energy-autonomous or use very little energy and are capable of measuring flows in natural gas distribution networks (medium and low pressure).
- Process Innovation A notable project in this area was the optimisation of the hydroelectric generating fleet by applying machine learning in combination with traditional optimisation approaches, as well as cloud computing solutions, in models for operating the hydroelectric generation fleet in the electricity market.  
The goal is to achieve more advanced analytical models in an AWS environment that allow for growth in revenues by detecting and seizing new market opportunities within a process of continuous improvement.

In 2018, a total of Euros 63 million were spent on innovation (Euros 99 million in 2017), as indicated below:

#### Investment in innovation (million euro)

<b>(million euro)</b>	<b>2018</b>	<b>2017</b>
Investment in innovation	63	99

#### Innovation Plan

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

##### Sustainable mobility

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

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

##### Smart Client

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

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

##### Distributed generation and autoproduction

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

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

## Renewables and storage

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

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

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

## Renewable Gas and Liquefied Natural Gas

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

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

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

## Advanced asset management

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

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

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

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

## 7. Non-financial statement

This Non-financial statement information was drawn up in line with the requirements of Act 11/2018, of 28 December, 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 human rights 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 at the beginning of 2018 (See Annex III, About this Report).

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.

### 7.1 Business model and value creation

#### 7.1.1 Business model

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

Naturgy's mission is:

To meet the needs of...	With vision...	Based on our values
Our shareholders	Offering increasing sustainable profitability	<ul style="list-style-type: none"> <li>&gt; Commitment to results</li> <li>&gt; Customer-oriented</li> <li>&gt; Sustainability</li> <li>&gt; Interest in people</li> <li>&gt; Social responsibility</li> <li>&gt; Integrity</li> </ul>
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	

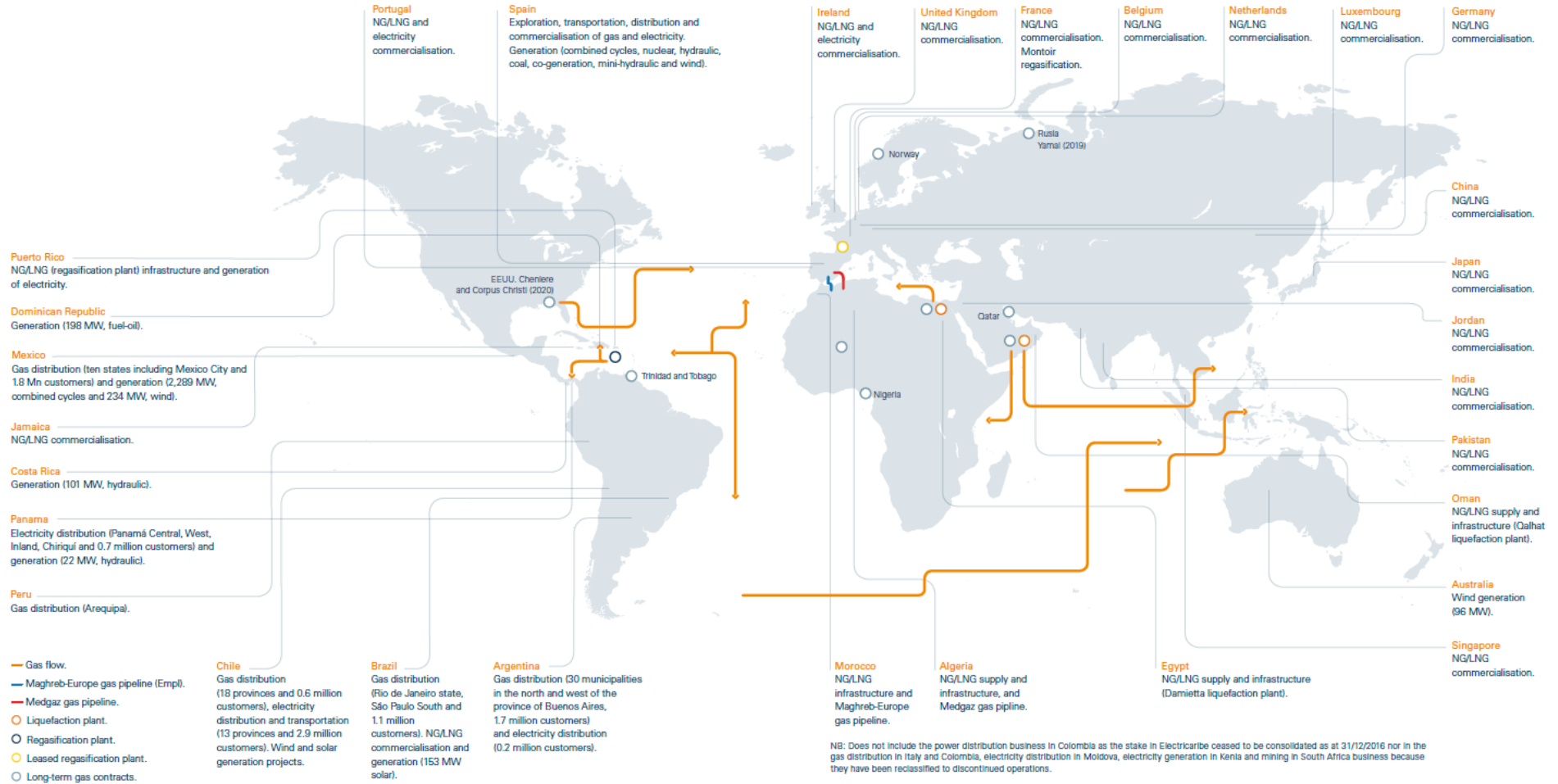
Naturgy's business model is implemented through a number of companies in Spain, elsewhere in Europe, and in Latin America and Africa, and is underpinned by the following main businesses:

Gas & Power	34% of Ebitda: Spain, Europe and Latin America
Infrastructures EMEA	45% of Ebitda: Spain and Africa
Infrastructures Latam South	20% of Ebitda: Latin America
Infrastructures Latam North	6% of Ebitda: Latin America

Note: -5% other activities

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

# Worldwide presence



## Business lines

### Leadership in the gas business

	<b>Networks</b>	<b>Gas</b>		
	<b>Gas distribution</b>	<b>Infrastructures</b>	<b>Procurement</b>	<b>Supply</b>
	10.6 million distribution connections 119,998 km of network	Eight LNG carriers Two transportation pipelines, Maghreb-Europe (EMPL) and Medgaz	~ 30 bcm supply portfolio	378 TWh of gas supplied
Our positioning	<p><b>Spain</b> Leader in Spain with a 69% market share, distributing natural gas to more than 1,000 municipalities in nine autonomous regions and 5.4 million customers.</p> <p><b>Latin American</b> Latin America's top distributor, catering for more than 5.2 million customers. Presence in Argentina, Brazil, Chile, Mexico and Peru and in six of the ten largest Latin American cities.</p>	<ul style="list-style-type: none"> <li>- Eight LNG carriers (1.3 Mm<sup>3</sup>)</li> <li>- Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 14.9% interest in the Medgaz pipeline.</li> <li>- Interest in one regasification plant (Ecoeléctrica) and two liquefaction plants (Damietta and Qalhat).</li> <li>- Proprietary storage capacity of 0.5 bcm and leased capacity of 1 bcm.</li> </ul>	<p>Business model based on the diversification and flexibility that have made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Unique access to markets: almost 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins.</p> <p>39% market share in Spain.</p> <p>Competitive supply to combined cycle plants (CCGT).</p>
Our strength	Naturgy has an outstanding position in the markets where it operates, affording it an platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	<p>Naturgy has an integrated gas infrastructure aimed to afford the business considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.</p> <p>Its storage capacity is seeking to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.</p>	Its diversified procurements portfolio enables it to tap value-added markets.	<p>Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally.</p> <p>Its positioning in international markets is seeking to obtain higher margins through trading.</p> <p>Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.</p>

## Standard-bearer in the electricity business

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



### **7.1.2 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 December 2015, based on international best practices and the recommendations enshrined in the Code of Good Governance of Listed Companies.

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

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

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

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

Our capitals	<b>Financial</b>	<b>Human</b>	<b>Manufactured</b>	<b>Environmental</b>	<b>Social</b>
	<ul style="list-style-type: none"> <li>➤ Sustainable cash generation. Free cash flow= 3,054 M€.</li> <li>➤ Strict financial discipline. Leverage = 48.4%</li> </ul>	<ul style="list-style-type: none"> <li>➤ Professional development and talent management.</li> <li>➤ Diversity and equal opportunities.</li> <li>➤ Extending principles to supplier chain.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Investment and maintenance in gas and electricity distribution networks.</li> <li>➤ Sustainable innovation.</li> <li>➤ Operation development of electricity production capacity.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Environmentally-friendly products and services.</li> <li>➤ Energy efficiency.</li> <li>➤ Undertaking to reduce emissions.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Relations and dialogue with stakeholders.</li> <li>➤ Guarantee of supply</li> </ul>

External environment

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

For further information on the external environment, please see the "Environment, risks and opportunities" chapter, page 7.

For further information on the strategic planning cycle, please see the "Forecast group performance" chapter, page 41.



**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.

Internal environment

Our results	<ul style="list-style-type: none"> <li>➤ Dividends policy. Pay-out: 1,400 M€</li> <li>➤ Meeting financial targets. Ordinary Ebitda: 4,413 M€</li> <li>➤ Ordinary net profit: 1,245 M€</li> </ul>	<ul style="list-style-type: none"> <li>➤ Corporate University and training plans</li> <li>➤ % Staff trained: 91.0</li> <li>➤ Retaining talent.</li> <li>➤ Voluntary rotation : 2.5</li> <li>➤ Health and safety.</li> <li>➤ Accident frequency index : 1.00</li> </ul>	<ul style="list-style-type: none"> <li>➤ Gas distribution: 449,259 GWh</li> <li>➤ Electricity distribution: 54,920 GWh</li> <li>➤ Gas supply: 378,048 GWh</li> <li>➤ Net production: 46,658 GWh</li> </ul>	<ul style="list-style-type: none"> <li>➤ Direct GHG emissions : 18.3 MtCO<sub>2</sub> eq.</li> <li>➤ CO<sub>2</sub> emissions / generation: 342 tCO<sub>2</sub>/GWh</li> </ul>	<ul style="list-style-type: none"> <li>➤ Economic value distributed : 23,413 M€</li> <li>➤ Social investment: 11 M€</li> </ul>
	Shareholders	Employees	Customers	Customers Society	Society

Our stakeholders

Following approval of the new Corporate Responsibility Policy and based on the recommendations of the CNMV's Code of Good Governance in connection with corporate responsibility, the Board of Directors approved the 2016-2020 Sustainability Plan in February 2017 which translates the commitments undertaken into specific actions and allows its compliance to be monitored by the Board of Directors and the Remuneration Committee. The action lines relating to each commitment have been fully aligned with the Strategic Plan and with the individual plans for each of the Group's business areas and departments.

## 7.2 Commitment to results

### What resources are relevant to this commitment?

Financial  
Human  
Social

### How do we measure our performance?

Ebitda  
Net profit  
Investments  
Indebtedness  
Pay-out

### What this means for Naturgy?

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

### What is our commitment?

- To protect our existing businesses while laying the foundations for future growth.
- To continue with the financial track of Naturgy.

### Analysis of the 2018 results

The analysis of the consolidated and Naturgy's business results of the 2018 exercise are included in the section Business performance and results of this report.

### Sustainability indices, green bonds and sustainable funding

#### Presence in socially responsible investing indices and ratings

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

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

#### Green bonds and sustainable funding

In 2017, Naturgy developed a reference framework for the issuance of green bonds to fund renewable energies. Under this framework, on 15 November 2017, Naturgy issued a green bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. The bonds were issued at 99.77% of par. Additionally, in 2017 the company's auditors certified compliance with the

commitments acquired in the framework, and Naturgy's Green Bonds Committee met in December 2018 to assess the suitability and progress with the projects and the degree to which project development conformed to the objectives set in the issue.

In addition, in order to cover its funding needs and in line with its progress in sustainability, in 2017 Naturgy arranged a sustainable loan with ING Wholesale Banking for a total amount of Euros 330 million for 4 years, with the possibility of a one-year extension, whose cost is partially indexed to the company's environmental, social and governance (ESG) performance, as assessed by independent rating agency Sustainalytics, which issues a report and a rating in this connection.

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

### **7.3 Service excellence**

#### **What does it mean for Naturgy? Risks and management approach**

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

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

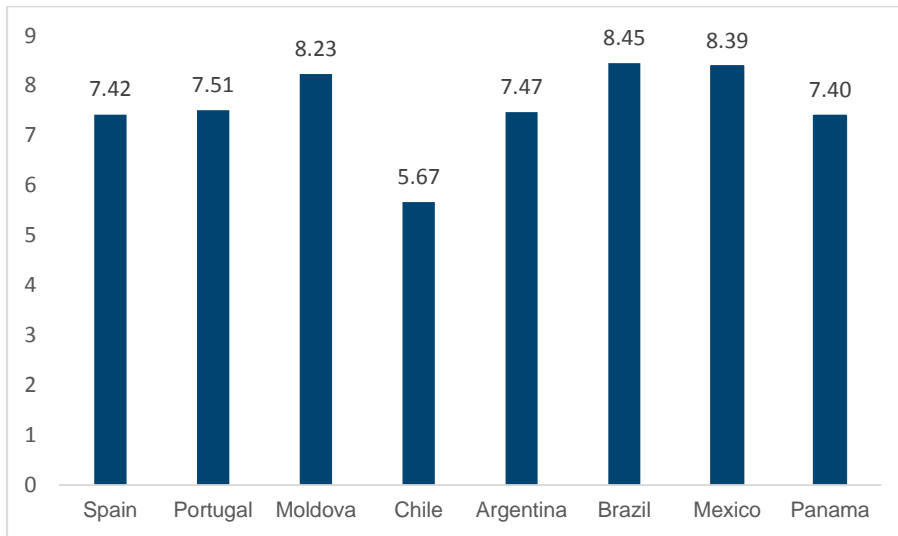
The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

#### **What is our commitment?**

- 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 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



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

## What are our main milestones in 2018?

- Raising awareness of the centrality of the customer to our business.
- Advanced CeX training, to enhance the customer's experience with the company.
- Greater dissemination of knowledge about the sector, company and products and services.
- Consolidation of personal experimentation of the customer reality.
- Visible commitment: management commitment to put the customer first.
- Recognition / Pride at belonging: proud to work at Naturgy.
- Evolution of travel and measurement to find out how the customer rates us when covering an energy need with the company.
- COMeX consolidation: to position the marketers in the heart of the distributors.
- Roll-out of the Partners programme: extending the pride of collaboration to collaborating companies.

## What are our goals for 2019?

- New paperless digital model in the provision of the Servigas and Servielectric maintenance services
- Billing digitalisation
- Greater digital self-management in the customers' area of the website
- Evolution of the model of efficient customer measurement, at least sufficient
- Contribution of the Customer Experience to the Business
- Annual Customer Experience Action Plan
- Clear Communication Project customised by client
- Optimal management of complaints
- Introduction of the Global Customer Experience Policy
- Evolution of data analytics to improve customer service

## **Analysis of the 2018 results**

### The customer as the focal point

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

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

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

### Quality and reliability of the service

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

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

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

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

The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, *inter alia*, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of grid.

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

## Products and services adapted to customers' requirements and priorities

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

<b>Products and services adapted to customers' needs</b>			
<b>Types of costumers</b>	<b>Homes</b>	<b>Businesses</b>	<b>Major customers</b>
<b>Products and services</b>	Natural gas and electricity		Natural gas, electricity and LNG
	Energy services		
	Equipment		Services with value-added
	Energy saving and efficiency		Efficiency and sustainability
			Energy solutions
			Customised management and advisory services

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

In 2018 we have renewed the commercial catalogue with new tariffs and new services to offer the customer a broader range of choices and to find more appropriate solutions for their needs, whilst simultaneously seeking to simplify the portfolio to provide customers with a simpler and more comprehensive experience. In the domestic area, we have also redesigned promotions by applying benefits according to customers' characteristics and habits.

### Customer service

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

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

### Customer service model

Our model comprises three focal points:

- Operational and training model: the aim is to anticipate customers' needs through predictive and data analysis models.
- Technological model: committed to a technological revolution that encourages greater self-management by customers.
- Procurement and financial model: building a partnership model with suppliers and an alignment of the win-to-win objectives

Provision of customer service at Naturgy:

- Digital channel
- Telephone channel
- Guarantee office
- Face-to-face channel - Centres
- Face-to-face channel - Personal manager

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

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

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

In the area of gas and electricity distribution, any claim or complaint received from customers via the different channels available -whether through their gas or electricity marketer in issues for which the distributor is responsible (meter reading, supply quality, new registrations, etc.), directly with the electricity or gas distributor of the Naturgy Group through the customer service channels of the distributors, via the website contacts, by postal mail or through any competent organisation- is received and processed centrally in our integrated claims management system at the Shared Services Department.

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

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

#### Customer's satisfaction and experience

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

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

The model is based on three levers:

- Measurement: Naturgy collect the opinion of its customers through surveys that are classified into two supplementary blocks: general surveys and interaction with the company surveys.
- Analysis: the results are added to the daily management reports, which allows us to include the customer's voice in decision taking.
- Close the loop: process that enables immediate corrective action through the management of alerts that activate whenever the minimum satisfaction and recommendation thresholds required to maintain the level of quality that the company imposes with its customer relations are not reached.

#### Customer Experience programme (CeX)

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

With Customer Experience the company introduces a new methodology through which the customer is at the center 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.



To this end we introduced a working model based on five pillars:

- Unique company identity (brand and culture).
- Organizational drive (sponsorship and commitment).
- Employees as ambassadors programme.
- Improvement of customer journey and contact points (the journey being the time necessary to cover the customer's needs, from start to finish).
- Continuous real-time measurement of the customer's voice.

As a response to our commitment towards the customer, we have formalised the Customer Experience as a cross-cutting group process and we have developed the Customer eXperience Global Policy for the group. The Policy sets out the Naturgy action framework to ensure that the Customer Experience is integrated into the company's operations and decision taking.

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

#### Privacy and security of the customer's data

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

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

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

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

## **7.4 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.

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

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

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

### **What is our commitment?**

- Contributing to sustainable development through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.
- Contributing to the mitigation and adaptation of climate change through low-carbon and renewable sources of energy, encouraging savings and energy efficiency and the application of new technologies.
- Integrating environmental criteria in business processes, in new projects, activities, products and services, and in selecting and assessing suppliers.
- Minimising adverse effects on ecosystems and fostering the conservation of biodiversity.
- Encouraging the efficient and responsible use of energy and natural resources, introducing activities aimed at improving the management of these within the framework of the circular economy.
- Guaranteeing the prevention of pollution through ongoing improvement, the use of best available techniques and the analysis, control and minimisation of environmental risks.

## How do we measure our performance?

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

It does not include the information of Moldova, Kenya and South Africa. The figures for Moldova are: GHG emissions: 0.002 MtCO<sub>2</sub>e, Consumption of raw materials: 0.5 kt (0.0001 kt natural gas, 0.5 kt petroleum derivatives), Direct energy consumption: 254 GWh.

## Provisions and guarantees for environmental risks

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

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

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

## What are our main milestones in 2018?

- 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.

<sup>1</sup> Includes hydroelectric, wind, nuclear and solar generation

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

<sup>3</sup> It includes consumption of renewable, non-renewable and electricity resources and separates the electricity and the heat sold

<sup>4</sup> The 2018 figure includes the investment in renewable energies.

- Progress in the certification of new environmental management systems pursuant to the ISO 14001.

### **What are our goals for 2019?**

- Growth of renewable energies, in line with the goal of the 2018-2022 strategic plan (tripling installed capacity) to contribute to the mitigation of climate change and 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 2018 results**

#### Environmental management

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

Environmental management is structured around three strategic pillars:

- Climate and air: contributing to the mitigation of climate change, the energy transition and the improvement of air quality.
- Circular economy: promoting eco-efficiency in the use of resources to reduce negative environmental impacts.
- Natural capital and biodiversity: encouraging the preservation of natural and cultural heritage within the areas of operation.

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

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

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

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

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

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

### Integrated Management System

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

The processes certified through this system are:

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

### 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 is self-protection plans and their associated procedures, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations that can cause environmental damage.

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

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

For management of the climate change risk, Naturgy has a specific tool, developed in Ms Excel and @Risk, which allows us to estimate the Group's exposure to risks at an aggregate level and broken down

by business and geography. This tool analyses the impact of climate change on different businesses and technologies, over time periods (short, medium and long term) and geographies. This allows us to estimate the impact of different climate change scenarios (IPCC) through different indicators:

- Physical: impact forecasts on energy (produced, traded, purchased, etc.) water level with regard to the height of the corporation's facilities, availability of hydric resources, etc.
- Environmental: emissions of CO<sub>2</sub>.
- Business: market shares and penetration levels.
- Economic: impact forecasts on level of revenue, Ebitda, cash flow and present value of the business, as well as estimates of the value at risk for different confidence levels.

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

## **1. Climate and air quality**

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less CO<sub>2</sub>-intensive energy products and services to help mitigate climate change and the energy transition.

The main strategic lines of action in terms of climate are:

- Favouring the mitigation of climate change and the improvement of air quality, displacing carbon-intensive fuels and encouraging the promotion of energy savings and efficiency both in our own facilities and at our customers.
- Contributing to the decarbonisation of the system, increasing the use of gas and renewable electricity and encouraging their integration through the development of smart grids.
- Supporting international climate change negotiations and mechanisms that foster technological neutrality and industrial competitiveness, promoting the development of the most appropriate technologies at each stage of the energy transition.

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

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

- Displacement of carbon intensive fuels.
- Fostering renewable electricity.
- Promoting renewable gas.
- Encouraging the gas-renewable binomial in generation.
- Reducing fugitive emissions.
- Increasing energy efficiency in our facilities.
- Promoting energy efficiency at our customers.
- Exploring and developing technologies to reduce emissions.

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

- Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the group's carbon footprint.
- Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indexes on climate change, such as the CDP.

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

## 2. Circular economy

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

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

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

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

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

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

## 3. Natural capital

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

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

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

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

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

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

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

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



## 7.5 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. Furthermore, research reveals that the increase of pay inequality is associated with lower profits, productivity and business competitiveness.

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

### What is our commitment?

- Applying 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.).
- Encouraging 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.
- Promoting 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.
- Ensuring 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.
- Promoting 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.
- Fostering constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

## How do we measure our performance?<sup>1</sup>

### Distribution of employees by age group, country, gender, and employee category

2018												
	Nº employees	18-35 (%)	36-50 (%)	>50 (%)	Management team		Middle managers		Technicians		Operators	
					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
Holland	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 Rep.	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
<b>TOTAL</b>	<b>12,700</b>	<b>20.1</b>	<b>54.3</b>	<b>25.6</b>	<b>7.4</b>	<b>2.9</b>	<b>14.8</b>	<b>4.5</b>	<b>21.0</b>	<b>12.8</b>	<b>25.8</b>	<b>10.8</b>

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

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

percentage of workforce by type of contract			Average annual workforce temporary contract by professional category		Average annual workforce temporary contract by age			
		2018	2018		2018			
			Men	Women				
					Men	Women		
Permanent contract	Men	67.7	Executives	2	-	18-35	136	92
	Women	30.1	Technicians	102	70	36-50	68	38
Temporary contracts	Men	1.2	Administrative staff	-	-	>50	9	2
	Women	1.0	Operatives	109	62	<b>Total</b>	<b>213</b>	<b>132</b>
<b>Total</b>		<b>100.0</b>	<b>Total</b>	<b>213</b>	<b>132</b>			

### Rotation and voluntary rotation index

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

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

Dismissals by professional category and gender	2018		Dismissals by age group and gender	2018	
	Men	Women		Men	Women
Executives	9	2	18-35	60	23
Technicians	111	32	36-50	72	44
Administrative staff	-	-	>50	58	22
Operatives	70	55	<b>Total</b>	<b>190</b>	<b>89</b>
<b>Total</b>	<b>190</b>	<b>89</b>			

## Salary gap<sup>1</sup>

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

	2018			
	Executives	Technicians	Administrative staff	Operative
Argentina	21.4%	12.8%	11.6%	17.8%
Brazil	22.7%	14.7%	-	24.1%
Chile	38.1%	6.1%	18.0%	17.8%
Colombia	10.2%	28.0%	(2.4%)	-
Spain	13.1%	4.5%	6.2%	13.3%
France	23.7%	18.1%	8.2%	-
Ireland	38.9%	19.6%	-	-
Morocco	4.5%	6.7%	7.1%	-
Mexico	4.5%	(2.1%)	(26.6%)	(30.1%)
Moldova	2.3%	2.5%	(17.9%)	(2.1%)
Panama	(20.4%)	(16.1%)	15.9%	-
Dominicana Rep.	-	(10.0%)	22.7%	-

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

## Average remuneration by age group, gender, and employee category<sup>1</sup>

	2018							
	Executives		Technicians		Administrative Staff		Operative	
	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	-
Dominicana Rep.	-	73,110	23,216	25,545	12,210	9,439	11,946	-

It includes only the fixed remuneration.

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

It includes only the fixed remuneration.

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

### Average remuneration of directors and executives

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

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

### Disabled persons integration rate

	2018	2017
Employees with disabilities (%) in Spain	2.40	2.50

## Percentage of employees covered by collective bargaining agreements

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

## Training<sup>1</sup>

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

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

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

## What are our main milestones in 2018?

### New organisational model of the group

- Scaling up the use of people analytics in the preparation of diagnostics and in taking decisions that concern persons.
- Implementation of new ways of working and new methods of collaboration that accompany the evolution of the businesses.

## **What are our goals for 2019?**

- Application of the new People Model
- New ways of working project: TEAM
- Launch of the Transformational Leadership Academy
- Naturgy in-house Communication Plan focused on: corporate priorities, the executive role in communication, and fostering participation.

## **Analysis of the 2018 results**

### People management model

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

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

- Commitment and loyalty, which works on attracting, retaining and the segmentation of talent.
- Total compensation, which links the professional category, remuneration and the working environment.
- Training, as an element of evolution and development of the company's professionals.

### Measures to foster employment

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

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

## Diversity and equality

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

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

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

The protocol against sexual harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire workforce in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

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

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

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

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

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

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

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

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

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

### Training and development

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

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

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

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2017 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a



five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

2018 has seen consolidation of the introduction of Evolution as an on-line training platform of the Corporate University and the evolution of the company's new training model based on three levers: employee experience, personalisation of the training available and centralised global operations.

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

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

### Flexibility

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

### Global FRC certification

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

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

### Time Bank

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

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

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

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

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

### Compensation and remuneration

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

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

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

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

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

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

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

### Internal communication with employees

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

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

### Labour relations

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

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

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

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

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

## **7.6 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.

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

### **What is our commitment?**

- 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.
- 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

	2018		
	Total	Men	Women
Accidents requiring sick leave (N° of employees)	28	25	3
Days lost	1,524	1,497	27
Mortalities	-	-	-
Frequency rate	1.00	1.30	0.35
Severity rate	0.055	0.078	0.003
Incidence rate	1.99	2.58	0.69

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

### Occupational illness

There have been no occupational illnesses registered in 2018

### Absenteeism

	Lost Hours <sup>1</sup>
Spain	382,147
Chile	250,980
Argentina	33,912
Brazil	15,749
Colombia	3,160
Costa Rica	813
France	3,836
Kenya	1,072
Morocco	2,899
Mexico	9,840
Moldova	33,415
Panama	8,790
Peru	152
Dominican Republic	3,184
South Africa	54,720
Uganda	313
<b>Total</b>	<b>804,981</b>

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

## What are our main milestones in 2018?

- Launch of the predictive health and safety analysis tool DaVis (Data Visualization).
- Introduction of the "Meeting Point" two-way information exchange channel with suppliers and collaborating companies.
- Launch of the security of consumers and communities management programme "Spear". The implementation of the new management model of health and safety training in the global scope of the company.
- Plan to assist employees while they are on sick leave.
- Consolidation of the healthy business model in countries already certified.

## What are our goals for 2019?

- Horus: multi-factor analytical preventive analysis.
- Integra: exchange of best practices and learning through collaboration with collaborating companies.
- Kepler: ongoing innovation applied to prevention.
- Optimise the approach to cases of colon cancer.
- Optimise the approach to osteomuscular injuries.

## Analysis of the 2018 results

### Health and Safety Strategy

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

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

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

- Consolidating health and safety as a strategic lever to align and to capture efficiencies.
- Maintaining Naturgy as a worldwide benchmark in health and safety issues.
- Drastically reducing the accident rate at collaborating companies.
- Implementing the commitment in all countries where the company will have a presence.

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

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

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

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

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

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

### Health and safety leadership

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

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

### Risk prevention

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

<b>01</b>	Nothing is more important than health and safety >	...not production, not sales, not profits.
<b>02</b>	All accidents can be avoided >	... there are no inevitable accidents.
<b>03</b>	Safety is Management's responsibility >	... and it must be managed as such.
<b>04</b>	Safety is an individual responsibility >	... and a condition of employment, and of procurement for collaborating companies.
<b>05</b>	All work must be planned and carried out with a focus on safety >	... ours, that of our employees, collaborating companies, visitors, customers and the community.

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

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

### Risk assessment and management mechanisms

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

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

- Risk assessments every three years.
- Yearly checks of the health and safety conditions.

- Monitoring of preventive measures to be introduced as a result of the risk assessment and regular checks every quarter.

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

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

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

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

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

#### Training and awareness

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

#### Certifications

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

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

#### Safety audits and process diagnostics

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

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

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

## Safety among customers and society

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

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

## Health

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

### Master Health Plan

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

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



## 7.7 Supply chain

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

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

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

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

### What is our commitment?

- 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?

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

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

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

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

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

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

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

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

#### **What are our main milestones in 2018?**

- Conducting audits at suppliers of any country of the group with the highest purchase volume in activities with a high ESG risk.
- ESG audits conducted with tier-2 suppliers.
- Review of the ESG risks matrix.

#### **What are our goals for 2019?**

#### **Analysis of the 2018 results**

##### The supply chain of Naturgy

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

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

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

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

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

The values transmitted:

- **Transparency:** guaranteeing fairness, independence and free competition.
- **Integrity:** we commit to acting with honesty, fairness, dignity and morality.
- **Sustainability:** the strategic horizon for our activities goes beyond immediate economic interests, contributing to economic, environmental and social development.

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

### Management of the supply chain

#### Purchasing model

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

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

#### Transparency in purchasing

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

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

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

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

#### Human rights at suppliers

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

#### Supplier Code of Ethics

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

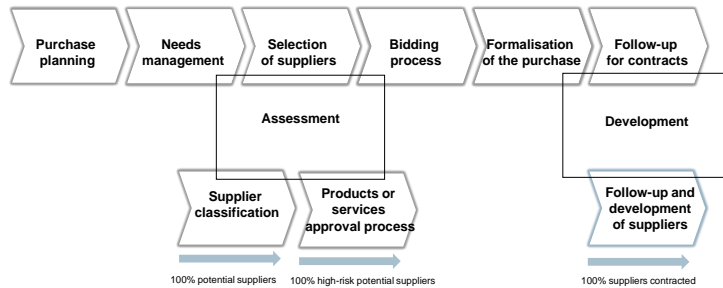
#### Reporting Channel

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

#### Supply chain management process

In order to promote responsible management in the supply chain, Naturgy has a comprehensive purchase process, with application of unified and universal contractual conditions for the company's entire sphere of

operation and which is publicly available on the Naturgy website “The group’s general procurement conditions” and where supplier management is of vital importance



### Risk management of the supply chain

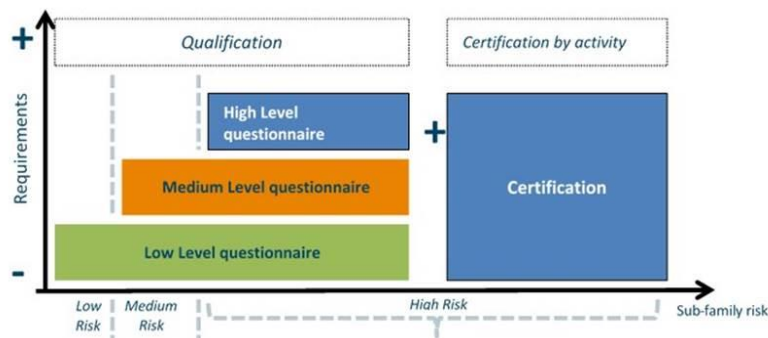
The risk factors of the supply chain are elements, conditioning factors or situations inherent to the same and which are considered significant in achieving our goals.

#### Risk factors assessed:

- Health and safety: this measures the potential risk of an incorrect action, service and/or product fault with regard to the life or physical integrity of persons.
- Quality: the impact that breach by the supplier with regard to the expected or agreed quality levels would have at Naturgy.
- Environmental, social and corporate governance (ESG): this measures the existing risk of purchasing products or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect. Naturgy performs “responsible purchasing” through a management process that encourages the acquisition of products and services that are environmentally friendly, and which are manufactured under socially fair conditions.
- Operational risk: the potential impact on operations incurred by Naturgy as a consequence of a lack of continuity in the supply of a good or service by suppliers that have been awarded contracts.
- Legal risk: possibility of infringements and breaches by providers of laws, rules and practices that apply to them.

#### Assessment of suppliers

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



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

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers.

Naturgy also identifies the “suppliers with high risk in sustainability”, considering those that reveal a high-risk level in the Health and Safety and ESG factors.

#### Supplier classification

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

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

#### Official approval and management of supplier quality

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

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

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

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

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

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

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

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

#### Monitoring, follow-up and development of suppliers

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

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

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

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

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

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

**7.8 Commitment to society**

**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 to 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

	<b>Million euros</b>
Sponsorship and social action investment	11

## What are our main milestones in 2018?

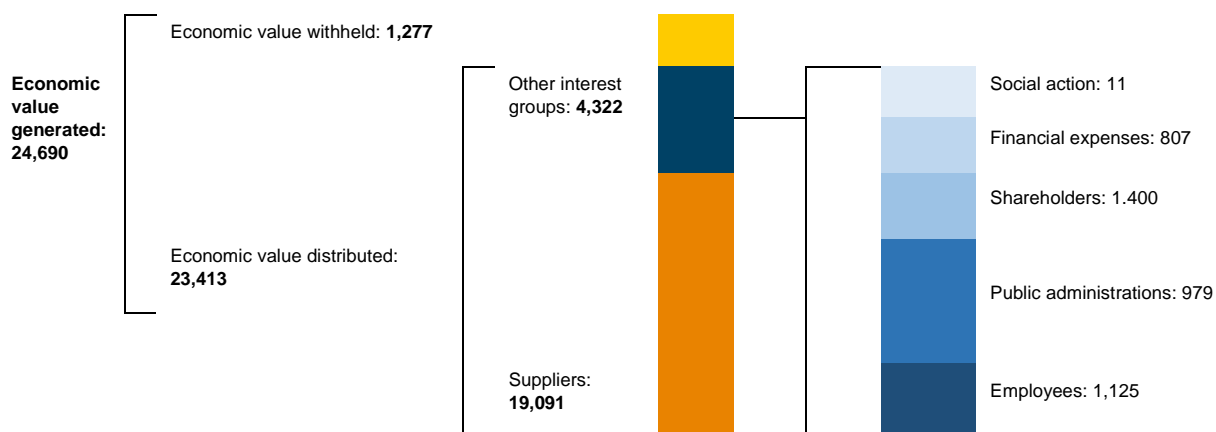
- Launch of the Energy Vulnerability Social Fund.
- Review and update of the General Regulations on Sponsorship and Donations.
- Launch of actions to support dissemination of the Vulnerability Plan and the promotion of energy efficiency.

## What are our goals for 2019?

- To continue promoting the Energy Vulnerability Plan
- Approval of the General Procedure of Sponsorship and Donations and its introduction in all countries and societies.
- Smart energy and mobility to improve air quality

## Analysis of the 2018 results

### Economic Value Distributed. Detail by group of interest (euros million)



### Sponsorship and social action investment

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

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

### Creation of wealth and well-being where the company operates

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

#### 1. Energy vulnerability

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

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

### Energy Vulnerability Plan in Spain

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

The objectives of the plan are:

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

During this year there have been three new initiatives

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

## 2. Relationship with communities

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

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

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

- Identifying communities affected by the company's activity and finding out their needs and aspirations.
- Analysing the potential environmental and social impacts that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.
- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

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:

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

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

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

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

### 3. Social action

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

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

#### 4. Sponsorship, patronage and donations

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

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

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

corporate purpose is to help mitigate or minimise these problems in some of the countries where it performs its activity.

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

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

### Corporate volunteers and employee participation

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

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

During 2018, the company has promoted environmental, social and energy volunteer actions, in which employees contributed their time and their personal and professional skills.

### Naturgy Foundation

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

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

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

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

## 7.9 Integrity and transparency

### What does it mean for Naturgy? Risks and management approach.

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

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

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

### What is our commitment?

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

	2018	2017
Queries	76	37
Notifications	123	104
<b>Total</b>	<b>199</b>	<b>141</b>
<b>No. of messages received per 200 employees</b>	<b>3.18</b>	<b>1.67</b>

### What are our main milestones in 2018?

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

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

### **What are our goals for 2019?**

- Approval and dissemination of the Conflict of Interest Policy.
- Update of the Corporate Responsibility Policy.
- Audit the implementation of the Human Rights Policy.
- Approval of update of the Human Rights Policy text to concepts and terminology of the United Nations Guiding Principles on Business & Human Rights.

### **Analysis of the 2018 results**

#### Code of Ethics Management Model

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Code of Ethics chapter to which notifications refers**

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

#### Crime Prevention Model

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

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

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

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

During 2018, we have continued with the online training course mandatory for all employees on the Crime Prevention Model, the Code of Ethics and the Anti-Corruption Policy in order to emphasise the importance

of compliance, ensure implementation of preventive and control activities and to inform all employees of the current status in these matters.

#### Anti-fraud and anti-corruption policies and plans

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

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

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

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

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

- Establishment of an anti-fraud and anti-corruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- Development of measures and response plans in the event of situations that constitute fraud and corruption. These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

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

Some of these regular initiatives include the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## Fiscal policies

### **Tax policy**

#### Tax strategy and tax risks control and management policy

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

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

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

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

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

All of Naturgy's tax policies are aligned with:

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

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

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

#### Tax havens

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

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

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

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

## Tax contribution

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

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

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

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

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

<sup>(3)</sup> Includes basically employee withholdings and employee social security contributions.

## Income by country

2018	Million Euros
<b>Spain</b>	<b>(3,297)</b>
Argentina	41
Brazil	37
Chile	106
Mexico	104
Panama	13
Rest of LatAm	(63)
<b>Total LatAm</b>	<b>238</b>
<b>Europe</b>	<b>237</b>
<b>TOTAL</b>	<b>(2,822)</b>

## Received Grants

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

## Human Rights Policy

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

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

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

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### **Human Rights Policy Principles**

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

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

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

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

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

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

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

**7.10 Table of contents required by Law 11/2018, of December 28, 2018 amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015, as regards non-financial information and diversity.**

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## Annex I. Additional information

### 1. Treasury shares

On 14 May 2015, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, a maximum of 10% of share capital or the maximum figure applicable under legislation prevailing at the time of acquisition. The relevant Company shares must be fully paid in and the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, may not exceed 10% of share capital or any other limit established by law.

Movements during 2018 and 2017 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	<b>Number of shares</b>	<b>Amount (million euro)</b>	<b>% Capital</b>
<b>At 1 January 2017</b>	<b>750,545</b>	<b>13</b>	<b>0.1</b>
Acquisitions	7,623,586	147	0.8
Delivered to employees	(336,625)	(7)	-
Disposals	(8,037,506)	(153)	(0.8)
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>
Acquisitions	10,782,040	227	1.1
Acquisitions LTI coverage	8,639,595	200	0.9
Delivered to employees	(354,422)	(7)	-
Disposals	(5,029,881)	(99)	(0.5)
<b>At 31 December 2018</b>	<b>14,037,332</b>	<b>321</b>	<b>1.4</b>

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 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 2018, 354,422 of the Company's own shares were acquired for Euros 7 million to be handed over to the employees taking part in the Plan (336,625 own shares amounting to Euros 7 million in 2017).

In 2018 the proceeds on transactions involving Naturgy treasury shares amounted to a loss of Euros 0.4 million, recognised under "Other reserves" (Euros 0.5 million profit in 2017).

During 2018 Naturgy acquired 8,639,595 treasury shares at an average price of 23.15 euro/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 (Note 3.4.11 of the Consolidated Financial Statements).

Note 14 of the Notes to the Consolidated Financial Statements contains all the information on treasury shares.

## 2. Disclosure of deferrals of 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 periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers in Spain, is as follows:

	2018	2017
Total payments (Euro million)	13,457	12,256
Total payments outstanding (Euro million)	450	403
Average supplier payment period (days) <sup>(1)</sup>	22	25
Transactions paid ratio (days) <sup>(2)</sup>	22	24
Transactions pending payment ratio (days) <sup>(3)</sup>	23	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.

## 3. Subsequent events

Events subsequent to the end of the period are described in Note 38 of the Notes to the Consolidated Financial Statements.

## Annex II. Alternative performance metrics

Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or Notes to the Financial Statements of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2018	Reconciliation of values at 31.12.2017	Relevance
Ebitda	Operating gross profit = Net sales <sup>(2)</sup> – Procurement <sup>(2)</sup> + Other operating income <sup>(4)</sup> – Personnel costs <sup>(4)</sup> – Operating expenses <sup>(4)</sup> + Own work capitalised <sup>(4)</sup>	Euros 4,019 million	Euros 3,903 million	Measure of earnings before interest, taxes, depreciation and amortisation and provisions
Ordinary Ebitda	Ebitda - Non-ordinary items <sup>(1)</sup>	4,413 = Euros 4,019 million + 394	3,948 = Euros 3,903 million + 45	Ebitda corrected of impacts like restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
OPEX	Personnel expenses <sup>(2)</sup> + Own work capitalised <sup>(4)</sup> + Operating expenses (without Taxes) <sup>(4)</sup> - Concession construction or improvements services (IFRIC 12) that are also registered as an income <sup>(4)</sup>	Euros 2,436 million = 1,010 + 115 + 1,816 – 437 – 68	Euros 2,534 million = 1,009 + 122 + 1,969 – 450 – 116	Amount registered in the income statement regarding to operating expenses, without considering the ones matched with income of the same amount and Taxes.
Ordinary Net income	Attributable net income of the period <sup>(2)</sup> – Non-ordinary items <sup>(7)</sup>	Euros 1,245 million = -2,822 + 4,067	Euros 793 million = 1,360 - 567	Attributable Net Income corrected of impacts like assets write-down, discontinued operations, restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
Investments (CAPEX)	Investments in intangible assets <sup>(4)</sup> + Investments in property, plant & equipment <sup>(4)</sup>	Euros 2,321 million = 281 + 2,040	Euros 1,782 million = 389 + 1,393	Realised investments in property, plant & equipment and intangible assets.
Net Investments	CAPEX <sup>(5)</sup> + Financial investments <sup>(6)</sup> – Proceeds from divestitures of PPE and intangible assets <sup>(6)</sup> - Other proceeds/(payments) of investments activities <sup>(6)</sup>	Euros -284 million = 2,321 + 35 – 57 – 2,583	Euros 1,597 million = 1,782 + 44 – 229	Total investments net of the cash received from divestments and other investing receipts.
Gross financial debt	“ Non-current financial liabilities” <sup>(1)</sup> + “Current financial liabilities” <sup>(1)</sup>	Euros 15,431 million = 13,352 + 2,079	Euros 18,459 million = 15,916 + 2,543	Current and non-current financial debt.
Net financial debt	Gross financial debt <sup>(5)</sup> – “Cash and cash equivalents” <sup>(1)</sup> – “Derivative financial assets” <sup>(4)</sup> (Note 18)	Euros 13,667 million = 15,431 - 1,716 – 48	Euros 15,154 million = 18,459 - 3,225 – 80	Current and non-current financial debt less cash and cash equivalents and derivative financial assets.
Leverage (%)	Net financial debt <sup>(5)</sup> / (Net financial debt <sup>(5)</sup> + “Net equity” <sup>(1)</sup> )	48.4% = 13,667 / (13,667 + 14,595)	45.3% = 15,154 / (15,154 + 18,305)	The ratio of external funds over total funds The ratio of external funds over total funds.
Cost of net financial debt	“Cost of financial debt” <sup>(4)</sup> (Note 29) – “Interest revenue” <sup>(4)</sup> (Note 29)	Euros 538 million = 557 - 19	Euros 611 million = 630 - 19	Amount of expense relative to the cost of financial debt less interest revenue.
Ebitda/Cost of net financial debt	Ebitda <sup>(5)</sup> / Cost of net financial debt <sup>(5)</sup>	7.5x = 4,019 / 538	6.4x = 3,903 / 611	Ratio between Ebitda and net financial debt.
Net financial debt/ Ebitda	Net financial debt <sup>(5)</sup> / Ebitda <sup>(5)</sup>	3.4x = 13,667 / 4,019	3.9x = 15,154 / 3,903	Ratio between net financial debt and ebitda.



Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2018	Reconciliation of values at 31.12.2017	Relevance
Net financial debt/ Ebitda (IFRS 16)	Net financial debt(IFRS 16) / Ebitda <sup>(5)</sup>	3.8x = 15,310 / 4,019	4.2x = 16,387 / 3,903	Ratio between net financial debt under IFRS 16 and ebitda
Market capitalisation	No. of shares ('000) outstanding at end of period <sup>(6)</sup> * Market price at end of period <sup>(6)</sup>	Euros 22,275 million = 1,000,689 * 22,26 euros	Euros 19,263 million = 1,000,689 * 19,25 euros	Measure of the company's total value based on its share price
Free Cash Flow after minorities	Free Cash Flow <sup>(5)</sup> + Dividends and other <sup>(4)</sup> + Acquisitions of treasury shares <sup>(4)</sup> + Inorganic investments payments <sup>(4)</sup>	Euros 3,054 million = 1,318 + 1,400 + 309 + 27	Euros 746 million = - 241 + 1,001 - 14 + 0	Cash flow generated by the Company available to pay to the shareholders (dividends or treasury shares), the payment of inorganic investments and debt payments.
Free Cash Flow	Cash flow generated from operating activities <sup>(3)</sup> + Cash flows from investing activities <sup>(3)</sup> + Cash flow generated from financing activities <sup>(3)</sup> – Receipts and payments on financial liability instruments <sup>(3)</sup>	Euros 1,318 million = 2,881 – 617 – 3,759 + 2,813	Euros -241 million = 2,768 – 1,606 + 232 - 1,635	Cash flow generated by the Company available to pay the debt.

- (1) Consolidated balance sheet line item.  
(2) Consolidated income statement line item.  
(3) Consolidated statement of cash flows line item.  
(4) Figure detailed in the Notes to the consolidated financial statements.  
(5) Figure detailed in the APMs.  
(6) Figure detailed in the Director's Report.

7. The non-ordinary items are summarized below:

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

### Annex III. Glossary of non-financial indicators

Indicator	Definition
Investment in innovation	Amount in euros earmarked for innovation activities
Overall satisfaction with service quality	Customers level of satisfaction with global service quality in a range of 1 to 10 (in Chile 1 to 7), broken down by country or geographical region.
Direct GHG emissions	Greenhouse gas (GHG) emissions from sources owned or controlled by the company.
Emission generation factor (t CO <sub>2</sub> /GWh)	Rate of emissions as a result of electricity generation, obtained as the ratio between the amounts of pollutant emitted (tonnes of carbon dioxide) and the power produced (GWh).
Emissions-free installed capacity (%)	Installed capacity in hydroelectric, mini-hydro, wind, nuclear and solar technologies as a percentage of total installed capacity.
Emissions-free net production (%)	Net production using hydroelectric, mini-hydro, wind, nuclear and solar technologies as a percentage of total net production.
Activity with ISO 14001 environmental certification (%)	Ebitda percentage corresponding to certified companies (*) through the environmental management model included in ISO 14001, with respect to the total of ebitda generated by activities that produce environmental impact. (* ) As certified companies, companies that can be assimilated to certified companies have been included according to the following definition: - Those dominant companies whose dependent companies, of which they hold more than 50% ownership, are almost all certified - Those companies that concentrate corporate services only of certified companies. - Those companies whose dominant company concentrates corporate services and is certified.
Water consumption	Volume of water consumption for the activities of the company.
Consumption of raw materials	Thousands of tons of raw materials use on the main proceeds of the company.
Direct energy consumption	Represents the difference between the consumption of non-renewable fuels, electricity purchased for consumption and renewable electricity generated, minus electricity and steam sold.
Indirect energy consumption	It represents the consumption for the final use of the natural gas distributed / commercialized.
Resources targeted at the prevention of environmental risks	Amounted devoted to environmental investments and environmental expenses.
Distribution of employees by age group, country, gender, and employee category	Distribution of employees by age group, country, gender, and employee category at year-end.
Annual average of indefinite and temporary contracts by age, gender and professional category	Percentage of employees contracted indefinite and temporary contracts at year-end and annual average of employees by age, gender and professional category
Rotation Index	Resignation/average workforce
Voluntary Index	Voluntary Resignations/average workforce
Number of dismissals by age group, gender, and professional category	Number of people dismissed, with character originating or not, classified by age, sex and professional classification.
Salary gap	Difference between the salary of men and women, calculated by the difference between the salary of men and women, divided by the salary of men. The result above zero represents the percentage of salary that women received lower than men. The result less than zero represents the percentage of salary that women perceived above men.

Average remuneration by age group, gender, and employee category	Amount of the average remuneration of the staff classified by country, age, gender and professional classification.
Average remuneration of directors and executives	Amount of the remuneration of directors (without considering indemnities) and directors weighted by the number of directors and executives.
Percentage of employees covered by collective bargaining agreements	Percentage of employees by country whose contract is attached to a collective agreement.
Trained workforce (%)	Percentage of workforce that has received training
Total training hours	Total training hours received by employees in the workforce
Disabled persons integration rate	Percentage of disabled employees on the payroll
No. of accidents leading to days lost	Number of workplace accidents leading to days of work lost.
Days lost	Number of days lost due to workplace accidents. Counted in calendar days from the first day after receiving medical leave.
Fatalities	Number of employees killed as a result of workplace accidents.
Frequency	Number of accidents at the workplace leading to days lost per million hours worked.
Severity accident index	Number of days lost as a result of workplace accidents per 1,000 hours worked.
Incidence	Number of workplace accidents per 1,000 employees
Occupational illness	Illness caused as a result of work activity.
Absenteeism	Hours of absenteeism for occupational illness and non-occupational illness.
Total number of suppliers	Number of suppliers from whom a product or service has been contracted in the year.
Total volume of purchases allocated	Total monetary amount used to cover the company's purchases.
Supplier ESG assessment <sup>1</sup>	Suppliers responding to the assessment survey which examines environmental, social and governance (labour practices) criteria
Number of critical suppliers	Suppliers classified as high-risk based on any of the risk factors assessed (health and safety, quality, ESG, operating and legal)
Disqualified suppliers	Suppliers that have failed to pass the supplier approval process.
Investment in social action	Financial contribution to social action and social investing programmes, sponsorship and patronage
No. of notifications received related to the Code of Ethics (queries and complaints)	Number of notifications received by the Ethics Committee from employees and suppliers in relation to the Code of Ethics and Anti-Corruption Policy.
Tax contribution	Amount of taxes actually paid by country and divided between those that suppose an effective cost for the group and those that are retained or are passed on to the final taxpayer.

<sup>1</sup> Environmental, Social and Governance

## Annex IV. About this report

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

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

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

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

This analysis allows us to identify the issues that:

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

The purpose of the materiality analysis is to:

- Identify which issues are material and must be reported.
- Serve as the basis to respond to sustainability indices and rating agencies.
- Discover the internal and external relevance of the issues identified.
- Show the correlation of the issues identified.
- Explain the meaning that each of the issues identified has for Naturgy.
- Find out the impact that each of the material issues has on the business and on which stakeholders.
- Identify the key risks and opportunities for Naturgy with regard to each material issue.
- Associate the material issues with the Global Reporting Initiative (GRI) Standards.
- Bring together the management status of Naturgy with regard to each material issue.
- Serve as the basis of a dashboard that enables us to monitor and improve management of the material issues for Naturgy.
- Link material issues with the Sustainable Development Goals (SDG) and reveal their degree of progress in those countries where Naturgy operates.
- Discover the main events that have taken place in the last 12 months related to Naturgy and linked to each of the issues identified.

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

Materiality of the main aspects identified has been assessed and prioritised the most relevant contents for inclusion in the Directors' Report, as detailed below:

<b>Identification of significant aspects</b>	Based on internal and external analyses, a list was drawn up of aspects that may substantially affect Naturgy's capacity to create value in the short, medium and long term. The following were taken into account: <ul style="list-style-type: none"><li>– Stakeholders' expectations: the main aspects defined by GRI Standards and sector-specific GRI supplements "Electric Utilities" and "Oil&amp;Gas", on the basis of the</li></ul>
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	<p>materiality study conducted by Naturgy. It was taken the basis of the <i>33 GRI Standards</i>.</p> <ul style="list-style-type: none"> <li>– Investors' expectations: feedback from investors and <i>ESG</i><sup>1</sup> analysts received during the various roadshows held in 2018.</li> <li>– Taking into account the external and internal opinions: it has been made more than 39 interviews with different areas of the company and 10 interviews with external interest groups.</li> <li>– Other external prescriber's sources.</li> </ul>
<b>Assessment of the materiality of the aspects identified</b>	<p>Classification of the various aspects identified in line with their significance for Naturgy according to their potential impact (positive or negative) on its capacity to generate value.</p> <p>According to the degree of significance, those aspects to be considered as part of the contents of the Directors' Report are obtained.</p>
<b>Prioritising contents</b>	<p>Once determined, the contents of the report are prioritised based on their materiality so as to focus the report on the most significant aspects.</p>

<sup>1</sup> *Environmental, Social and Governance*.

Naturgy has identified eleven most relevant ESG issues for the company, in order of priority. Also, it has identified the rest of the interest items:

	<b>Material issues identified</b>	<b>Nature of the matter</b>
<b>Matters of maximum significance</b>	1 Emissions and climate change.	Environmental
	2 Occupational health and safety.	Social
	3 Access to energy.	Social
	4 Development of the communities and social action.	Social
	5 Innovation and sustainable technology.	Economic and social
	6 Customer care and satisfaction.	Social
	7 Biodiversity.	Environmental
	8 Talent retention and attraction.	Social
	9 Energy efficiency and consumption.	Environmental
	10 Assessment of the supply chain.	Social and environmental
	11 Diversity and equal opportunities.	Social

For each of the material issues identified, the company has collected, identified and analysed the following information in its materiality study:

- Definition and description of the issue.
- Sub-issues into which the issue is divided.
- Principle of the corporate responsibility policy associated with the issue.
- Relevance of the issue for the company and its business.
- How the issue impacts on the business (cost, revenue or risk).
- On which stage of the value chain does the issue impact.
- Which stakeholders are impacted by the issue.
- Risks and opportunities related to the issue.
- Management of the issue by Naturgy:
- Sustainable Development Goals (SDG) directly associated to the issue.
- Relevant events related to Naturgy and associated to the issue.

## Scope

The financial and non-financial information on Naturgy presented in this report is consolidated and refers to all the activities undertaken in 2018 as a global gas and electricity operator, although there are certain specific aspects:

As a result of the divestments of the South African mining business described in Note 9 “Non-current assets and disposal groups of assets held for sale and discontinued operations” of the Consolidated Annual Accounts, the consolidated income statement for 2017 and the operational magnitudes have been restated for purposes of comparison in compliance with IFRS 5.

With the object of clarify the scope used in the non-financial indicators and to provide the greatest possible transparency, in every part of the non-financial information state would be specified with a footnote every indicator that it was not able to collect the data of any of this countries.

The indicators that represent the evolution over the year include information from companies held for sale provided that the opposite is not specified, while the indicators that represent information at the year-end do not include information about these companies.

In the sphere of human resources, the information reported corresponds to the countries in which Naturgy is present and has companies incorporated with their own staff and in which the company manages its human resources policies centrally, except on the number of employees and the average men/women that takes into account all the employees of the group according to consolidation perimeter.

With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management or have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Financial Statements, titled “Naturgy Companies”, contains a complete list of companies belonging to the Naturgy group at 31 December 2018.

Moreover, any changes in the consolidation scope are described in Annex II of the Consolidated Financial Statements.

### **Verification**

The non-financial information in the Directors' Report was subject to an independent external revision process. The independent assurance report, where objectives and scope of the process as well as the procedures applied and conclusions are included, is attached as an annex hereto.

**Annex V. Independent verification report**

**Annex VI. Annual Corporate governance report**



**INFORME ANUAL DE GOBIERNO CORPORATIVO  
DE LAS SOCIEDADES ANÓNIMAS COTIZADAS**

**DATOS IDENTIFICATIVOS DEL EMISOR**

FECHA FIN DE EJERCICIO DE REFERENCIA

2018

C.I.F. A-08015497

Denominación Social:

NATURGY ENERGY GROUP, S.A.

Domicilio Social:

Avenida de San Luis nº 77 – 28033 MADRID

**A ESTRUCTURA DE LA PROPIEDAD****A.1 Complete el siguiente cuadro sobre el capital social de la sociedad:**

Fecha de última modificación	Capital social (€)	Número de acciones	Número de derechos de voto
22/06/12	1.000.689.341	1.000.689.341	1.000.689.341

**Indique si existen distintas clases de acciones con diferentes derechos asociados:**SI NO **X**

Clase	Número de acciones	Nominal unitario	Número unitario de derechos de voto	Derechos diferentes

**A.2 Detalle los titulares directos e indirectos de participaciones significativas, a la fecha de cierre del ejercicio, excluidos los consejeros\*:**

Nombre o denominación social del accionista	% derechos de voto atribuidos a las acciones		% derechos de voto a través de instrumentos financieros		% total de derechos de voto
	Directo	Indirecto	Directo	Indirecto	
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20,000%			20,000%
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	3,850%				3,850%
CRITERIA CAIXA S.A. U	20,422%	5,23%			25,652%
CVC Capital Partners SICAV-FIS S.A.		20,072%			20,072%

**Detalle de la participación indirecta:**

\* Según información sobre participaciones significativas comunicada a CNMV por los sujetos obligados.

Nombre o denominación social del titular indirecto	Nombre o denominación social del titular directo	% derechos de voto atribuidos a las acciones	% derechos de voto a través de instrumentos financieros	% total de derechos de voto
GLOBAL INFRASTRUCTURE PARTNERS III	GIP III CANARY 1, S	20,000%		20,000%
CRITERIA CAIXA S.A.U		20,422%		20,422%
CRITERIA CAIXA S.A.U	ENERGIA BOREAL S.A.	5,0%		5,0%
CRITERIA CAIXA S.A.U	G3T S.L	0,10%		0,10%
CRITERIA CAIXA S.A.U	BCN GODIA S.L.U	0,13%		0,13%
CVC Capital Partners SICAV-FIS S.A.	RIOJA BIDCO SHAREHOLDINGS, S.L.U	20,072%		20,072%

**Indique los movimientos en la estructura accionarial más significativos acaecidos durante el ejercicio:**

Nombre o denominación social del accionista	Fecha de la operación	Descripción de la operación
REPSOL, S.A.	18-05-2018	Venta del total de su participación a Rioja Bidco Shareholdings, S.à.r.l
CRITERIA CAIXA S.A.U	3-10-2018	Transfiere a Energía Boreal 2018, S.A un 5% del capital social

**A.3 Complete los siguientes cuadros sobre los miembros del consejo de administración de la sociedad, que posean derechos de voto sobre acciones de la sociedad:**

Nombre o denominación social del consejero	% derechos de voto atribuidos a las acciones		% derechos de voto a través de instrumentos financieros		% total de derechos de voto	% derechos de voto <u>que pueden ser transmitidos a través de instrumentos financieros</u>	
	Directo	Indirecto	Directo	Indirecto		Directo	Indirecto
DON FRANCISCO REYNES MASSANET		0,008			0,008		
RIOJA BIDCO SHAREHOLDINGS	20,072				20,072		
THEATRE DIRECTORSHIP SERVICES	0				0		
DON WILLIAM ALAN WOODBURN	0				0		
DON PEDRO SAINZ DE BARANDA RIVA	0				0		
DON RAMÓN ADELL RAMÓN	0,001				0,001		
DON ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	0,003				0,003		
DON CLAUDIO SANTIAGO PONSÁ	0				0		
DON MARCELINO ARMENTER VIDAL	0,001				0,001		
DON FRANCISCO BELIL CREIXELL	0,001				0,001		
DOÑA HELENA HERRERO STARKIE	0				0		
DON RAJARAM RAO	0				0		

<b>% total de derechos de voto en poder del consejo de administración</b>	<b>20,086%</b>
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**Detalle de la participación indirecta**

Nombre o denominación social del consejero	Nombre o denominación social del titular directo	% derechos de voto atribuidos a las acciones	% derechos de voto a través de instrumentos financieros	% total de derechos de voto	% derechos de voto <u>que pueden ser transmitidos</u> a través de instrumentos financieros
D. Francisco Reynés Massanet	FRINVYCO, SL	0,008			

**Observaciones:**

**A.4** Indique, en su caso, las relaciones de índole familiar, comercial, contractual o societaria que existan entre los titulares de participaciones significativas, en la medida en que sean conocidas por la sociedad, salvo que sean escasamente relevantes o deriven del giro o tráfico comercial ordinario, excepto las que se informen en el apartado A.6:

Nombre o denominación social relacionados	Tipo de relación	Breve descripción

**Observaciones:**

Ver apartado A. 7

**A.5** Indique, en su caso, las relaciones de índole comercial, contractual o societaria que existan entre los titulares de participaciones significativas, y la sociedad y/o su grupo, salvo que sean escasamente relevantes o deriven del giro o tráfico comercial ordinario:

Nombre o denominación social relacionados	Tipo de relación	Breve descripción
CRITERIA CAIXA S.A.U	COMERCIAL	Las relaciones existentes

		derivan del tráfico comercial ordinario y están referidas en el apartado D.2 y en las cuentas anuales.
REPSOL, S.A.	COMERCIAL	Las relaciones existentes derivan del tráfico comercial ordinario y están referidas en el apartado D.2 y en las cuentas anuales.
CVC Capital Partners SICAV-FIS S.A.	COMERCIAL	Las relaciones existentes derivan del tráfico comercial y están referidas en el apartado D.2 y en las cuentas anuales.
GIP III CANARY 1, S.À R.L.	COMERCIAL	Las relaciones existentes derivan del tráfico comercial y están referidas en el apartado D.2 y en las cuentas anuales.

**A.6** Describa las relaciones, salvo que sean escasamente relevantes para las dos partes, que existan entre los accionistas significativos o representados en el consejo y los consejeros, o sus representantes, en el caso de administradores persona jurídica.

Explique, en su caso, cómo están representados los accionistas significativos. En concreto, se indicarán aquellos consejeros que hubieran sido nombrados en representación de accionistas significativos, aquellos cuyo nombramiento hubiera sido promovido por accionistas significativos, o que estuvieran vinculados a accionistas significativos y/o entidades de su grupo, con especificación de la naturaleza de tales relaciones de vinculación. En particular, se mencionará, en su caso, la existencia, identidad y cargo de miembros del consejo, o representantes de consejeros, de la sociedad cotizada, que sean, a su vez, miembros del órgano de administración, o sus representantes, en sociedades que ostenten participaciones significativas de la sociedad cotizada o en entidades del grupo de dichos accionistas significativos.

Nombre o denominación social del consejero o representante vinculado	Nombre o denominación social del accionista significativo vinculado	Denominación social de la sociedad del grupo del accionista significativo	Descripción relación/cargo
D. MARCELINO ARMENTER VIDAL	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Dominical/ Director General Criteria Caixa

		Caixa Capital Risc, S.G.E.I.C. S.A.	Vicepresidente – Consejero Delegado
		Inmo Critería Caixa, S.A.U.	Consejero
		Mediterránea Beach & Golf S.A.U.	Presidente
		Saba Infraestructuras, S.A.	Consejero
		Caixa Innvierte Industria, S.C.R., S.A.	Presidente
		Caixa Capital Biomed, S.C.R. S.A.	Rep. Persona física del Adm. Único Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Fondos, S.C.R. S.A.	Rep. Persona física del Adm. Único Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Micro, S.C.R. S.A.	Rep. Persona física del Adm. Único Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Tic, S.C.R. S.A.	Rep. Persona física del Adm. Único Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Venture Capital, S.I.C.C. S.A.	Rep. Persona física del Adm. Único Caixa Capital Risc, S.G.E.I.C, S.A.
D. ENRIQUE ALCANTARA GARCIA-IRAZOQUI	CRITERIA CAIXA S.A.U		Dominical
D. WILLIAM ALAN WOODBURN	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Dominical
D. RAJARAM RAO	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Dominical/Socio
D. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Dominical
D. JOSÉ ANTONIO TORRE DE	CVC Capital Partners SICAV-FIS S.A.		Dominical/Empleado

SILVA LÓPEZ DE LETONA			
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**A.7 Indique si han sido comunicados a la sociedad pactos parasociales que la afecten según lo establecido en los artículos 530 y 531 de la Ley de Sociedades de Capital. En su caso, descríbalos brevemente y relacione los accionistas vinculados por el pacto:**

SI X NO

Intervinientes del pacto parasocial	% de capital social afectado	Breve descripción del pacto	Fecha de vencimiento del pacto, si la tiene
CRITERIA CAIXA, S.A.U  GIP III CANARY 1, S.À R.L.	45,65%	El pacto Comunicado en HR nº 242612 del 12/09/2016 indica que los intervinientes asumieron determinados compromisos relativos al gobierno corporativo de la Sociedad y que tienen por objeto el respeto al derecho a la representación proporcional tanto en Consejo como en Comisiones.	
ALBA EUROPE S.À R.L. y RIOJA INVESTMENT S.À R.L.	20,072%	El pacto Comunicado en HR nº265818 de fecha 18 de mayo de 2018 afecta 1.- A la propuesta de designación de consejeros en representación de Rioja Bidco Shareholdings, 2.- La adopción de decisiones en Consejo y Junta y 3.- Al régimen de transmisión de acciones.	
CRITERIA CAIXA, S.A.U y G3T, S.L.	5,123%	El pacto comunicado en HR	



CRITERIA CAIXA, S.A.U y BCN Godia, S.L.U.		nº 270130 de 3 de octubre de 2018 se ocupa de regular el ejercicio de los derechos de voto de la participación indirecta de G3T y BCN Godia S.L.U (a través de Energía Boreal 2018, S.A.) en Naturgy indicando que se hará en el sentido que Criterias señale.	
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**Indique si la sociedad conoce la existencia de acciones concertadas entre sus accionistas. En su caso, descríbalas brevemente:**

SI NO X

Intervinientes acción concertada	% de capital social afectado	Breve descripción del concierto	Fecha de vencimiento del concierto, si la tiene

**En el caso de que durante el ejercicio se haya producido alguna modificación o ruptura de dichos pactos o acuerdos o acciones concertadas, indíquelo expresamente:**

Al vender Repsol por completo su participación en la Sociedad, dejó de ser parte del pacto parasocial que mantenía con CRITERIA CAIXA, S.A.U y GIP III CANARY 1, S.À R.L.

**A.8 Indique si existe alguna persona física o jurídica que ejerza o pueda ejercer el control sobre la sociedad de acuerdo con el artículo 5 de la Ley del Mercado de Valores. En su caso, identifíquela:**

SI NO X

<b>Nombre o denominación social</b>
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<b>Observaciones</b>
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**A.9 Complete los siguientes cuadros sobre la autocartera de la sociedad:**

A fecha de cierre del ejercicio:

Número de acciones directas	Número de acciones indirectas (*)	% total sobre capital social
5.397.737	8.639.595	14.037.332

OBSERVACIONES

**Explique las variaciones significativas habidas durante el ejercicio:**

Explique las variaciones significativas
<p>Tal como informado en Hechos relevantes de fecha 3 de agosto, 1 de octubre y 6 de diciembre, Naturgy ha adquirido 8.639.595 acciones que se mantendrán en un vehículo societario separado para generar un rendimiento que permita financiar el incentivo a largo plazo de determinados directivos si se cumplieran las condiciones establecidas –véase apartado B.7 del Informe anual de remuneraciones-.</p> <p>Por otro lado, mantenía a 31 de diciembre de 2018 otras 5.397.737 acciones que se destinan a la finalidad de recompra de acciones para su posible amortización, previéndose que se adquieran acciones en volumen de hasta 400 millones de euros en el periodo que finaliza el 30 de junio de 2019</p>

**A.10. Detalle las condiciones y plazo del mandato vigente de la junta de accionistas al consejo de administración para emitir, recomprar o transmitir acciones propias.**

La Junta General de Accionistas de 14 de mayo de 2015, en su punto decimocuarto del Orden del Día autorizó al Consejo de Administración para acordar en un plazo no superior a 5 años la adquisición a título oneroso las acciones de la Sociedad, en las siguientes condiciones:

**DECIMOCUARTO.-** Autorización al Consejo de Administración para la adquisición derivativa de acciones propias, directamente o a través de sociedades del Grupo de NATURGY ENERGY GROUP S.A., en los términos que acuerde la Junta General y con los límites legalmente establecidos, dejando sin efecto la autorización acordada por la Junta General Ordinaria de 20 de abril de 2010.

**Decimocuarto 1.-** Dejar sin efecto, en la parte no utilizada, la autorización otorgada al Consejo de Administración por la Junta General celebrada el 20 de abril de 2010, para adquirir a título oneroso acciones de la Sociedad.

**Decimocuarto 2.-** Autorizar al Consejo de Administración para que en un plazo no superior a los cinco años pueda adquirir a título oneroso, en una o varias veces, hasta un máximo del 10% del capital social o la cifra máxima que resulte de aplicación conforme a la normativa vigente en el momento de adquisición, acciones de la Sociedad que estén totalmente desembolsadas, sin que nunca el

valor nominal de las acciones adquiridas directa o indirectamente, sumándose al de las que ya posean la Sociedad y sus filiales supere el 10% del capital suscrito, o cualquier otro que legalmente se establezca. El precio mínimo y máximo de adquisición será el de cotización en el Mercado Continuo de las Bolsas de Valores españolas con una oscilación en más o en menos de un 5%.

En el caso de que las acciones no cotizasen, el precio máximo y mínimo de adquisición se señalará entre una vez y media y dos veces el valor contable de las acciones, de acuerdo con el último Balance consolidado auditado. El Consejo de Administración queda facultado para delegar la presente autorización en la Comisión Ejecutiva o en la persona o personas que crea conveniente. La presente autorización se entiende que es extensiva a la adquisición de acciones de la Sociedad por parte de sociedades dominadas.

Asimismo, en la Junta General de Accionistas de 20 de abril de 2017, en su punto decimocuarto del Orden del Día autorizó al Consejo de Administración para acordar en un plazo no superior a 5 años el aumento del capital social, en las siguientes condiciones:

**DÉCIMO CUARTO.-** Autorización al Consejo de Administración, con facultad de sustitución en la Comisión Ejecutiva, conforme a lo dispuesto en el artículo 297.1 b) de la Ley de Sociedades de Capital, para que, dentro del plazo máximo de cinco (5) años, si lo estima conveniente, pueda aumentar el capital social hasta la cantidad máxima correspondiente a la mitad del capital social en el momento de la autorización, con previsión de suscripción incompleta, emitiendo acciones ordinarias, privilegiadas o rescatables, con voto o sin voto, con prima o sin prima, en una o varias veces y en la oportunidad y cuantía que considere adecuadas, incluyendo la facultad de suprimir, en su caso, el derecho de suscripción preferente hasta el límite del 20% del capital social en el momento de la presente autorización, dando nueva redacción a los artículos que corresponda de los Estatutos Sociales y dejando sin efecto la autorización acordada por la Junta General Ordinaria de 20 de abril de 2012.

DécimoCuarto.-

- 1) Teniendo en cuenta la cifra actual del capital social, autorizar al Consejo de Administración, con facultad de sustitución en la Comisión Ejecutiva, para aumentar el capital social en QUINIENTOS MILLONES TRESCIENTOS CUARENTA Y CUATRO MIL SEISCIENTOS SETENTA EUROS (500.344.670.-€.) dentro del plazo de cinco (5) años, a partir de esta fecha (20.04.2017), mediante desembolso dinerario, en una o varias veces en la oportunidad y cuantía que el mismo decida, emitiendo acciones ordinarias, privilegiadas o rescatables, con voto o sin voto, con prima o sin prima, sin necesidad de nueva autorización de la Junta General, así como para modificar los artículos de los Estatutos Sociales que sean precisos por el aumento o aumentos de capital que se realicen en virtud de la indicada autorización, con previsión de suscripción incompleta, todo ello de conformidad con lo establecido en el artículo 297.1 b) de la Ley de Sociedades de capital, dejando sin efecto la autorización acordada por la Junta General de 20 de abril de 2012.



ENERGY GROUP S.A. puede estar sujeta a lo dispuesto en la Disposición Adicional Novena de la Ley 3/2013, de 4 de junio, de creación de la Comisión Nacional de los Mercados y la Competencia.

Por su carácter de operador principal en los mercados de gas y electricidad, la tenencia de sus acciones está sujeta a las restricciones establecidas en el artículo 34 del Decreto-Ley 6/2000 de Medidas Urgentes de intensificación de la competencia en los mercados de bienes y servicios.

**A.13 Indique si la junta general ha acordado adoptar medidas de neutralización frente a una oferta pública de adquisición en virtud de lo dispuesto en la Ley 6/2007.**

SI NO

En su caso, explique las medidas aprobadas y los términos en que se producirá la ineficiencia de las restricciones:

**A.14 Indique si la sociedad ha emitido valores que no se negocian en un mercado regulado comunitario.**

SI NO

En su caso, indique las distintas clases de acciones y, para cada clase de acciones, los derechos y obligaciones que confiera.

## **B** JUNTA GENERAL

**B.1 Indique y, en su caso detalle, si existen diferencias con el régimen de mínimos previsto en la Ley de Sociedades de Capital (LSC) respecto al quórum de constitución de la junta general.**

SI NO

	% de quórum distinto al establecido en art. 193 LSC para supuestos generales	% de quórum distinto al establecido en art. 194 LSC para los supuestos especiales del art. 194 LSC
Quórum exigido en 1ª convocatoria		
Quórum exigido en 2ª convocatoria		

Descripción de las diferencias

**B.2 Indique y, en su caso, detalle si existen diferencias con el régimen previsto en la Ley de Sociedades de Capital (LSC) para la adopción de acuerdos sociales:**

SI

NO

**Describa en qué se diferencia del régimen previsto en la LSC.**

	Mayoría reforzada distinta a la establecida artículo 201.2 LSC para los supuestos del 194.1 LSC	Otros supuestos de mayoría reforzada
% establecido por la entidad para la adopción de acuerdos		
<b>Describa las diferencias</b>		

**B.3 Indique las normas aplicables a la modificación de los estatutos de la sociedad. En particular, se comunicarán las mayorías previstas para la modificación de los estatutos, así como, en su caso, las normas previstas para la tutela de los derechos de los socios en la modificación de los estatutos.**

La modificación de los Estatutos Sociales se regula en el artículo 6.2 de los Estatutos Sociales y en el artículo 12 del Reglamento de la Junta General, que se complementan con las disposiciones correspondientes de la LSC.

Los accionistas constituidos en Junta General, debidamente convocada, decidirán con carácter general por mayoría simple en los asuntos propios de la competencia de la Junta. En tal caso se entenderá adoptado un acuerdo cuando obtenga más votos a favor que en contra del capital presente o representado.

Todos los socios, incluso los disidentes y los que no hayan participado en la reunión, quedan sometidos a los acuerdos de la Junta General.

Para que la Junta General ordinaria o extraordinaria, pueda acordar válidamente la emisión de obligaciones, el aumento o la reducción del capital, la supresión o la limitación del derecho de suscripción preferente de nuevas acciones u obligaciones convertibles, así como la transformación, la fusión, la escisión o la cesión global de activo y pasivo, el traslado del domicilio al extranjero, y, en general, cualquier modificación de los Estatutos Sociales, será necesaria, en primera convocatoria, la concurrencia de accionistas presentes o representados que posean, al menos, el cincuenta por ciento (50%) del capital suscrito con derecho a voto. En segunda convocatoria será suficiente la concurrencia del veinticinco por ciento (25%) de dicho capital.

La modificación de los Estatutos deberá ser acordada por la Junta General y exige la concurrencia de los requisitos siguientes:

1) Que el Consejo de Administración o, en su caso, los accionistas autores de la propuesta formulen un informe escrito, con la justificación de la misma.

2) Que se expresen en la convocatoria, con la debida claridad, los extremos cuya modificación se propone, así como el derecho que corresponde a todos los accionistas de examinar, en el domicilio social, el texto integro de la modificación propuesta y el informe sobre la misma y el de pedir la entrega o el envío gratuito de dichos documentos.

3) Que el acuerdo sea adoptado por la Junta General, de conformidad con lo dispuesto en estos Estatutos.

4) En todo caso, el acuerdo se hará constar en escritura pública, que se inscribirá en el Registro Mercantil y se publicará en el Boletín Oficial del mismo.

**B.4 Indique los datos de asistencia en las juntas generales celebradas en el ejercicio al que se refiere el presente informe y los del ejercicio anterior:**

Fecha junta general	Datos de asistencia				Total
	% de presencia física	% en representación	% voto a distancia		
			Voto electrónico	Otros	
04/05/2016	68,67%	8,77%	0	0	77,44%
De los que capital flotante 2016	0,13	8,77	0	0	8,9%
20/04/17	68,66%	13,34%	0%	0%	82%
De los que capital flotante 2017	0,1%	13,3%	0%	0%	13,4%
27/06/18	68,69%	15,13%	0%	0%	83,82%
De los que capital flotante en 2018	0,2%	15,1%	0%	0%	15,3%

**B.5 Indique si en las Juntas Generales celebradas en el ejercicio ha habido algún punto del orden del día que, por cualquier motivo, no haya sido aprobado por los accionistas.**

Sí  No

Puntos del orden del día que no se han aprobado	% voto en contra (*)

**(\*) Si la no aprobación del punto es por causa distinta del voto en contra, se explicará en la parte de texto y en la columna de "% voto en contra" se pondrá "n/a".**

**B.6 Indique si existe alguna restricción estatutaria que establezca un número mínimo de acciones necesarias para asistir a la junta general.**

SI

NO X

Número de acciones necesarias para asistir a la junta general	
Número de acciones necesarias para votar a distancia	

## OBSERVACIONES

- B.7** Indique si se ha establecido que determinadas decisiones, distintas a las establecidas por Ley, que entrañan una adquisición, enajenación, la aportación a otra sociedad de activos esenciales u otras operaciones corporativas similares, deben ser sometidas a la aprobación de la junta general de accionistas.

SI

NO X

Explicación de las decisiones que se deben someter a la junta distintas a la establecidas por ley

- B.8** Indique la dirección y modo de acceso a la página web de la sociedad a la información sobre gobierno corporativo y otra información sobre las juntas generales que deba ponerse a disposición de los accionistas a través de la página web de la Sociedad.

Respecto al apartado de Gobierno Corporativo el itinerario es el siguiente:  
[https://www.naturgy.com/accionistas\\_e\\_inversores/gobierno\\_corporativo/normas\\_de\\_gobierno](https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno)

Con el siguiente itinerario [www.naturgy.com](http://www.naturgy.com) → Accionistas e Inversores → Gobierno Corporativo.

Respecto al apartado de Junta General el itinerario es el siguiente:  
[https://www.naturgy.com/accionistas\\_e\\_inversores/gobierno\\_corporativo/junta\\_general\\_de\\_accionistas](https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas), con el siguiente itinerario [www.naturgy.com](http://www.naturgy.com) → Accionistas e Inversores → Junta General.

## **C** ESTRUCTURA DE LA ADMINISTRACIÓN DE LA SOCIEDAD

### **C.1** Consejo de administración

#### **C.1.1** Número máximo y mínimo de consejeros previstos en los estatutos sociales y el número fijado por la Junta General:

Número máximo de consejeros	15
Número mínimo de consejeros	11
Número de Consejeros fijados por la Junta	12

#### Observaciones



**C.1.2 Complete el siguiente cuadro con los miembros del consejo:**

Nombre o denominación social del consejero	Representante	Categoría del consejero	Cargo en el consejo	Fecha primer nombramiento	Fecha último nombramiento	Procedimiento de elección	Fecha de nacimiento
D. Francisco Reynes Massanet		Ejecutivo	Presidente	6/02/2018	27/06/2018	Acuerdo Junta General de Accionistas	08-04-1963
D. Ramón Adell Ramón		Independiente	Consejero Coordinador	18/06/2010	27/06/2018	Acuerdo Junta General de Accionistas	09-01-1958
D. Enrique Alcántara-García Irazoqui		Dominical	Consejero	27/06/1991	20/04/2017	Acuerdo Junta General de Accionistas	21-10-1944
D. Marcelino Armenter Vidal		Dominical	Consejero	21/09/2016	20/04/2017	Acuerdo Junta General de Accionistas	02-06-1957
D. Francisco Belil Creixell		Independiente	Consejero	14/05/2015	27/06/2018	Acuerdo Junta General de Accionistas	24-05-1946
Dña. Helena Herrero Starkie		Independiente	Consejera	04/05/2016	04/05/2016	Acuerdo Junta General de Accionistas	13-06-1959
D. Rajaram Rao		Dominical	Consejero	21/09/2016	20/04/2017	Acuerdo Junta General de Accionistas	03-04-1971
Rioja Bidco Shareholdings, S.L.U.	D. Javier de Jaime Guijarro	Dominical	Consejero	17.05.18	27/06/2018	Acuerdo Junta General de Accionistas	----
D. Claudi Santiago Ponsa		Independiente	Consejero	27/06/ 2018	27/06/2018	Acuerdo Junta General de Accionistas	20-09-1956
D. Pedro Sainz De Baranda		Independiente	Consejero	27/06/ 2018	27/06/2018 (aceptado 6-07-2018)	Acuerdo Junta General de Accionistas	23-03-1963
D. William Alan Woodburn		Dominical	Consejero	30/09/2016	20/04/2017	Acuerdo Junta General de Accionistas	14-01-1951
THEATRE DIRECTORSHIP SERVICES BETA, S.À.R.L.	D. José Antonio Torre de Silva	Dominical	Consejero	18/05/2018	27/06/2018	Acuerdo Junta General de Accionistas	----

	López de Letona						
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Número Total de consejeros	12
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**Indique las bajas que ya sean por dimisión, destitución o por cualquier otra causa, se hayan producido en el consejo de administración durante el periodo sujeto a información:**

Nombre o denominación social del consejero	Categoría del consejero en el momento de cese	Fecha del último nombramiento	Fecha de baja	Comisiones especializadas en las que era miembro	Indique si la baja se ha producido antes del fin del mandato
Isidro Fainé Casas	Dominical	18/05/2015	6/02/2018	CEJ	Si
Rafael Villaseca Marco	Ejecutivo	14/05/2015	6/02/2018	CEJ	Si
Josu Jon Imaz Sanmiguel	Dominical	20/4/2017	22/02/2018	CEJ	Si
Luis Suarez De Lezo Mantilla	Dominical	20/4/2017	17/05/2018	CEJ, CAU	Si
Miguel Martinez Sanmartín	Dominical	14/05/2015	6/3/2018	CEJ, CNR	Si
Iñigo Alonso De Noriega Satrustegui	Dominical	6/3/2018	17/05/2018	CNR	Si
Guillermo Llopis García	Dominical	6/3/2018	18/05/2018	CAU	Si
Cristina Garmendia Mendizabal	Independiente	14/05/2015	27/06/2018	CNR, CAU	No
Benita Ferrero-Waldner	Independiente	14/05/2015	27/06/2018	CEJ	No
Xavier Añoberos Trias De Bes	Independiente	14/05/2015	27/06/2018	CAU	No
Alejandro Garcia- Bragado Dalmau	Dominical	21/09/2016	21/05/2018	CEJ, CNR	Si
Mario Armero	Dominical	20/04/2017	27/06/2018	--	Si
Theatre Directorship Services Delta, S.À.R.L. (Representada Por D. Juan Arbide Estensoro)	Dominical	17/05/2018	27/06/2018	--	No

Causa de la baja y otras observaciones
<p>La salida del capital social de REPSOL y la simplificación y reducción del tamaño del Consejo y sus Comisiones ha dado lugar a una reducción del número de Consejeros dominicales, por lo que varios de ellos presentaron su dimisión. El Consejero dominical Sr. García-Bragado dimitió alegando diferencias de criterio en la selección de nuevos Consejeros, las cuales no fueron compartidas por los demás miembros del Consejo.</p> <p>En lo que respecta a los Consejeros independientes, la causa de su baja fue el vencimiento de sus mandatos.</p>

**C.1.3 Complete los siguientes cuadros sobre los miembros del consejo y su distinta categoría:**

**CONSEJEROS EJECUTIVOS**

<b>Nombre o denominación del consejero</b>	<b>Cargo en el organigrama de la sociedad</b>	<b>Perfil</b>
D. Francisco Reyes Massanet	Presidente Ejecutivo	Perfil ingeniero y empresarial internacional: Ingeniero Industrial, especialidad mecánica, por la Universidad Politécnica de Barcelona, y MBA por el IESE, ha cursado también programas de Alta Dirección en Estados Unidos y Alemania

<b>Número total de consejeros ejecutivos</b>	1
<b>% sobre el total del consejo</b>	8,33%

<b>OBSERVACIONES</b>

**CONSEJEROS EXTERNOS DOMINICALES**

<b>Nombre o denominación del consejero</b>	<b>Nombre o denominación del accionista significativo a quien representa o que ha propuesto su nombramiento</b>	<b>Perfil</b>
D. Enrique Alcántara-García Irazoqui	CRITERIA CAIXA S.A.U	Perfil jurídico: Abogado del Estado en excedencia. Es Secretario del Consejo

		de Administración y del Patronatos de múltiples Sociedades y Fundaciones.
D. Marcelino Armenter Vidal	CRITERIA CAIXA S.A.U	Perfil económico y empresarial: Licenciado en Administración y Dirección de Empresas y Master en Administración y Dirección de Empresas por ESADE.
D. Rajaram Rao	Global Infrastructure Partners III	Perfil IT, económico y empresarial internacional: Ingeniero Electrónico y de Telecomunicaciones cualificado. También tiene un MBA de la Universidad de Delhi y un Master en Finanzas de la London Business School.
D. William Alan Woodburn	Global Infrastructure Partners III	Perfil de ingeniero técnico internacional: M.S. y B.S. grados en Ingeniería de la Universidad de Northwestern y la Academia de Marina Mercante de EE.UU.
Rioja Bidco Shareholdings, S.L.U. (D. Javier de Jaime Guijarro)	CVC Capital Partners Sicav-FIS S.A.	Perfil económico y empresarial Licenciado en derecho por la Universidad de Comillas (ICADE) y MB por la Universidad de Houston
THEATRE DIRECTORSHIP SERVICES BETA, S.À.R.L. (D. José Antonio Torre de Silva López de Letona)	CVC Capital Partners SICAV-FIS S.A.	Perfil económico y Empresarial. Licenciado en Ingeniería Industrial por la Escuela Técnica Superior la Universidad Pontificia de Comillas (ICAI) y MBA por la Universidad de Navarra (IESE).
<b>Número total de consejeros dominicales</b>		6
<b>% sobre el total del consejo</b>		50,00%

<b>OBSERVACIONES</b>

**CONSEJEROS EXTERNOS INDEPENDIENTES**

<b>Nombre o denominación del consejero</b>	<b>Perfil</b>
D. Ramón Adell Ramón	Perfil experto en el área financiera y contable: Doctor en Ciencias Económicas y Empresariales. Licenciado en Derecho. Catedrático de Economía Financiera y Contabilidad de la Universidad de Barcelona. Es académico de la Real Academia de Ciencias Económicas y Financieras de España y Miembro de Honor del Consejo Superior Europeo de Doctores y Doctores Honoris Causa.
D. Claudi Santiago Ponsa	Perfil IT y empresarial internacional; sector energético: Licenciado en Ingeniería informática por la Universidad Autónoma de Barcelona (UAB) e International executive program (INSEAD) por la Executive International Business de la Universidad de Georgetown.
D. Francisco Belil Creixell	Perfil ingeniero y empresarial internacional: Ingeniero Superior. Ha sido Consejero Delegado de la región Suroeste de Europa en Siemens y Presidente de la Cámara de Comercio alemana para España y de la Federación de la Industria Química Española.
D. Pedro Sainz De Baranda Riva	Perfil ingeniero y empresarial internacional; mercado de capitales: Ingeniero de Minas por la Universidad de Oviedo, Phd en Ingeniería, Rutgers University of New Jersey y MBA por la Sloan School of Management de Massachusetts, Institute of Technology (MIT).
Dña. Helena Herrero Starkie	Perfil IT e ID+i y empresarial internacional: Licenciada en Ciencias Químicas. Es Presidenta y Consejera Delegada de Hewlett Packard (HP) para España y Portugal.

<b>Número total de consejeros independientes</b>	5
<b>% total del consejo</b>	41,66%

<b>OBSERVACIONES</b>

**Indique si algún consejero calificado como independiente percibe de la sociedad, o de su mismo grupo, cualquier cantidad o beneficio por un concepto distinto de la remuneración de consejero, o mantiene o ha mantenido, durante el último ejercicio, una relación de negocios con la sociedad o con cualquier sociedad de su grupo, ya sea en nombre propio o como accionista significativo, consejero o alto directivo de una entidad que mantenga o hubiera mantenido dicha relación.**

**En su caso, se incluirá una declaración motivada del consejo sobre las razones por las que considera que dicho consejero puede desempeñar sus funciones en calidad de consejero independiente.**

<b>Nombre o denominación social del consejero</b>	<b>Descripción de la relación</b>	<b>Declaración motivada</b>
Dña. Cristina Garmendia Mendizabal	Consejera de SCIENCE & INNOVATION LINK, OFFICE (SILO), entidad que ha prestado servicios a una empresa del Grupo NTGY.	La relación de negocios mantenida con SCIENCE & INNOVATION LINK OFFICE no es significativa dado su importe inmaterial

#### OTROS CONSEJEROS EXTERNOS

**Se identificará a los otros consejeros externos y se detallarán los motivos por lo que no se puedan considerar dominicales o independientes y sus vínculos, ya sea con la sociedad, sus directivos o sus accionistas:**

<b>Nombre o denominación social del consejero</b>	<b>Motivos</b>	<b>Sociedad, directivo o accionista con el que mantiene el vínculo</b>	<b>Perfil</b>
Dña. Cristina Garmendia Mendizabal	Se consideró externa desde 17-05-18 hasta 27-06-18.	Vínculo indirecto con el accionista significativo CVC Capital Partners SICAV-FIS S.A, al ser Consejera de Corporación Financiera Alba, sociedad que ha concluido un pacto parasocial con CVC	Gestión empresarial e innovación

Número total de otros consejeros externos	
% total del consejo	

OBSERVACIONES

Indique las variaciones que, en su caso, se hayan producido durante el periodo en la categoría de cada consejero:

Nombre o denominación social del consejero	Fecha del cambio	Categoría anterior	Categoría actual
Dña. Cristina Garmendia Mendizábal	17-05-2018	Independiente	Otro externo hasta 27/06/18

OBSERVACIONES

**C.1.4 Complete el siguiente cuadro con la información relativa al número de consejeras al cierre de los últimos 4 ejercicios, así como la categoría de tales consejeras:**

	Número de consejeras				% sobre el total de consejeros de cada categoría			
	Ejercicio t	Ejercicio t-1	Ejercicio t-2	Ejercicio t-3	Ejercicio t	Ejercicio t-1	Ejercicio t-2	Ejercicio t-3
<b>Ejecutivas</b>	0	0	0	0	0	0	0	0
<b>Dominicales</b>	0	0	0	0	0	0	0	0
<b>Independientes</b>	1	3	3	2	8,33%	17,65%	17,65 %	11,76%
<b>Otras Externas</b>	0	0	0	0	0	0	0	0
<b>Total:</b>	1	3	2	2	8,33%	17,65%	17,65%	11,76%

OBSERVACIONES
En el cuadro precedente se ha consignado el número de consejeras vigente a fecha de cierre de cada ejercicio

**C.1.5 Indique si la sociedad cuenta con políticas de diversidad en relación con el consejo de administración de la empresa por lo que respecta a cuestiones como, por ejemplo, la edad, el género, la discapacidad, o la formación y experiencia profesionales. Las entidades pequeñas y medianas, de acuerdo con la definición contenida en la Ley de Auditoría de Cuentas, tendrán que informar como mínimo, de la política que tengan establecida en relación con la diversidad de género.**

Si

No

Políticas parciales X

**En caso afirmativo, describa estas políticas de diversidad, sus objetivos, las medidas y la forma en que se ha aplicado y sus resultados en el ejercicio, también se deberán indicar las medidas concretas adoptadas por el consejo de administración y la comisión de nombramientos y retribuciones para conseguir una presencia equilibrada y diversa de consejeros.**

**En caso de que la sociedad no aplique una política de diversidad, explique las razones por las cuales no lo hace**

**Descripción de las políticas, objetivos, medidas y forma en que se han aplicado, así como los resultados obtenidos**

La política de selección de consejeros de Naturgy incluye directrices encaminadas a seleccionar candidatos cuyo nombramiento favorezca la diversidad profesional, de conocimientos y de género en el seno del Consejo de Administración. En todo caso, debe destacarse que dicha política se aplica con pleno respeto al derecho de representación proporcional legalmente reconocido a los accionistas

La Comisión de Nombramientos y Retribuciones vela por que los procedimientos de selección no adolezcan de sesgos implícitos que puedan implicar discriminación alguna.

A lo largo de 2018 se ha producido un proceso de renovación importante del Consejo de Administración, que ha afectado tanto a Consejeros dominicales como a Consejeros independientes.

En lo que respecta a los Consejeros dominicales, el proceso de renovación de Consejeros ha estado vinculado a dos circunstancias:

1.- Las variaciones en la estructura accionarial de la Sociedad, que han ocasionado la salida de los Consejeros dominicales representantes de Repsol y la entrada de los Consejeros representantes de CVC.

2.- La reducción de número de miembros del Consejo, que ha derivado en la reducción del número de Consejeros dominicales que representan a cada accionista, pasando de 3 a 2.

En el marco de este proceso de renovación de Consejeros dominicales, la Sociedad ha sido en primer lugar respetuosa con el derecho a la representación proporcional que corresponde a los accionistas por ley. El detalle de la valoración que la Comisión de Nombramientos y Retribuciones realizó de los distintos candidatos propuestos por los accionistas se incluye en el correspondiente informe de la Comisión que se publicó con la convocatoria de la Junta. En lo que respecta a los Consejeros independientes, el vencimiento del mandato de un número significativo de ellos, así como la decisión de reducción del número de Consejeros, hicieron que se propusiera a la Junta General de Accionistas la designación de 4 Consejeros independientes, hasta completar el número de 5 que resulta de la nueva configuración del Consejo.



En el momento de formular la propuesta de designación de Consejeros independientes, la Comisión de Nombramientos y Retribuciones tuvo muy presentes las conclusiones del proceso de autoevaluación del funcionamiento del Consejo en 2017, que se realizó con la intervención de un asesor externo. Este proceso de autoevaluación sirvió para que el Consejo, asistido por dicho asesor, identificara aquellos perfiles que se estimaba necesario reforzar en lo que respecta a la designación de Consejeros independientes. En particular, se concluyó en la necesidad de tener en cuenta en los procesos de nombramientos y renovaciones de Consejeros independientes los siguientes perfiles: industrial, regulatorio en materia de energía y tecnológico, así como, en general, perfiles más internacionales. Se consideró que era deseable que los nuevos candidatos contaran con conocimientos del sector energético adquiridos de manera ajena a Naturgy y disponer también de perfiles especializados en el mercado de capitales.

La propuesta de nombramiento de Consejeros que el Consejo elevó a la Junta General de Accionistas fue consistente con dicho análisis. El detalle de los elementos profesionales relevantes de los Consejeros propuestos se indicó en el correspondiente informe de la Comisión de Nombramientos y Retribuciones que se publicó junto con la demás documentación de la Junta.

**C.1.6 Explique las medidas que, en su caso, hubiese convenido la comisión de nombramientos para que los procedimientos de selección no adolezcan de sesgos implícitos que obstaculicen la selección de consejeras, y la compañía busque deliberadamente e incluya entre los potenciales candidatos, mujeres que reúnan el perfil profesional buscado:**

<b>Explicación de las medidas</b>
<p>La Comisión de Nombramientos y Retribuciones tiene encomendada la misión de revisar las aptitudes necesarias en los candidatos que deban cubrir cada vacante, el cumplimiento de los requisitos exigidos para cada categoría de Consejeros y el proceso de incorporación de los nuevos miembros, elevando al Consejo los oportunos informes o las propuestas cuando proceda. En la cobertura de nuevas vacantes se vela para que la selección no adolezca de sesgos implícitos que obstaculicen la propuesta de Consejeras, valorándose especialmente, en las mismas condiciones entre los potenciales candidatos, mujeres que reúnan el perfil buscado.</p>

**Cuando a pesar de las medidas que, en su caso, se hayan adoptado, sea escaso o nulo el número de consejeras, explique los motivos que lo justifiquen:**

<b>Explicación de los motivos</b>



Nombre o denominación social del consejero o comisión	Breve descripción
D. Francisco Reynes Massanet	Tiene delegadas amplias facultades de representación y administración acordes con las características y necesidades del cargo de Presidente Ejecutivo.

**C.1.10 Identifique, en su caso, a los miembros del consejo que asuman cargos de administradores, representantes de administradores o directivos en otras sociedades que formen parte del grupo de la sociedad cotizada:**

Nombre o denominación social del consejero	Denominación social de la entidad del grupo	Cargo	¿Tiene funciones ejecutivas?
e			
r			

v  
aciones

**C.1.11 Detalle, en su caso, los consejeros o representantes de consejeros personas jurídicas de su sociedad, que sean miembros del consejo de administración o representantes de consejeros, personas jurídicas de otras entidades cotizadas en mercados oficiales de valores distintas de su grupo, que hayan sido comunicadas a la sociedad:**

Nombre o denominación social del consejero	Denominación social de la entidad cotizada	Cargo
D. Ramón Adell Ramón	Oryzon Genomics, S.A.	Consejero Independiente /Presidente Comisión Auditoría
D. Marcelino Armenter Vidal	Grupo Financiero Inbursa	Representante del Consejero Critería Caixa S.A.U
D. William Alan Woodburn	Hess Midstream Partners	Consejero
D. Pedro Sainz de Baranda Riva	Zardoya Otis S.A.	Persona Física Representante de Consejero
D. Pedro Sainz de Baranda Riva	Gestamp Automocion, S.A.	Consejero
D. Jose Antonio Torre de Silva Lopez de Letona	Cortefiel, S.A.	Representante del Consejero Theatre Directorship Service Beta, S.À.R.L.

**C.1.12 Indique y, en su caso explique, si la sociedad ha establecido reglas sobre el número máximo de consejos de sociedades de los que puedan formar parte sus consejeros identificando en su caso dónde se regula:**

SI NO X

<b>Explicación de las reglas e identificación del documento dónde se regula</b>

**C.1.13 Indique los importes de los conceptos relativos a la remuneración global del consejo de administración siguientes:**

Remuneración devengada en el ejercicio a favor del consejo de administración (miles de euros)	22.724
Importe de los derechos acumulados por los consejeros actuales en materia de pensiones (miles de euros)	360
Importe de los derechos acumulados por los consejeros antiguos en materia de pensiones (miles de euros)	3.680

<b>OBSERVACIONES</b>

**C.1.14 Identifique a los miembros de la alta dirección que no sean a su vez consejeros ejecutivos, e indique la remuneración total devengada a su favor durante el ejercicio:**

Nombre o denominación social	Cargo/s
D. Carlos Javier Álvarez Fernández	Director Financiero
D. Antonio Gallart Gabas	Director Negocio Infraestructuras Latinoamérica Zona Sur
D. José García Sanleandro	Director de Negocio Infraestructuras Latinoamérica Zona Norte
D. Antonio Basolas Tena	Director Estrategia y Desarrollo Corporativo
D. José María Egea Krauel	Director Proyecto Pipe
D. Manuel Fernández Álvarez	Director Negocio Gas & Electricidad
D. Manuel García Cobaleda	Secretaría General y del Consejo
D. Jordi García Tabernero	Director Comunicación y Relaciones Institucionales
D. Daniel López Jordà	Director Proyecto Digitalización
D. Antoni Peris Mingot	Director Recursos Corporativos
D <sup>a</sup> . Rosa M <sup>a</sup> Sanz García	Directora Negocio Infraestructuras España & Empl – Medgaz
D. Sergio Aranda Moreno	Director Proyecto Colombia
D. Miguel Angel Aller Blanco	Director Proyecto Lean
D. Steven Fernández Fernández	Director Mercado Capitales
D. Jon Ganuza Fernandez De Arroyabe	Controlling
D. Carlos Ayuso Salinas	Director de Auditoría Interna

<b>Remuneración total alta dirección (en miles de euros)</b>	<b>17.940</b>
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OBSERVACIONES
Los Sres. Daniel López Jordà y Sergi Aranda Moreno dejaron de pertenecer a la compañía en diciembre de 2018. El Sr. Steven Fernández Fernández se incorporó a la compañía en junio de 2018

**C.1.15 Indique si se ha producido durante el ejercicio alguna modificación en el reglamento del consejo:**

SI  NO

Descripción modificaciones
En la sesión de 21 de mayo de 2018 se modificó sustancialmente el Reglamento del Consejo al objeto de simplificar su contenido. Tras la celebración de la Junta de Accionistas, el 27 de junio de 2018 se modificó nuevamente el Reglamento en lo que se refiere al número de miembros de la Comisión de Nombramientos y Retribuciones para cumplir con la recomendación 47 del Código de Buen Gobierno de CNMV.

**C.1.16 Indique los procedimientos de selección, nombramiento, reelección, y remoción de los consejeros. Detalle los órganos competentes, los trámites a seguir y los criterios a emplear en cada uno de los procedimientos.**

<p>Los procedimientos de nombramiento, reelección, evaluación y remoción de los Consejeros están regulados en el artículo 7 de los Estatutos Sociales y en los artículos 9 y 10 del Reglamento de organización y funcionamiento del Consejo de Administración y sus comisiones, complementados con las disposiciones del art. 529 decies LSC.</p> <p>1.- Nombramiento:</p> <p>Es competencia de la Junta General el nombramiento de los Consejeros y la determinación de su número, dentro de los límites fijados por el artículo 7 de los Estatutos Sociales.</p> <p>Si durante el plazo para el que fueron nombrados los Consejeros se produjeran vacantes, el Consejo podrá designar por el sistema de cooptación las personas que hayan de ocuparlas hasta que se reúna la primera Junta General de accionistas.</p> <p>No se requiere la cualidad de accionista para ser nombrado Consejero.</p> <p>No podrán ser propuestos, designados o calificados como Consejeros Independientes quienes se encuentren en alguna de las situaciones que conforme a la legislación vigente impiden dicha caracterización.</p> <p>El nombramiento habrá de recaer en personas que, además de cumplir los requisitos legales y estatutarios que el cargo exige, gocen de reconocido prestigio y posean los conocimientos y experiencia profesionales adecuados al ejercicio de sus funciones.</p>
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El nombramiento y reelección de Consejeros está sujeto a un procedimiento formal y transparente, con informe/propuesta previos de la Comisión de Nombramientos y Retribuciones.

En concreto, las propuestas de nombramiento de Consejeros que someta el Consejo de Administración a la consideración de la Junta General y las decisiones de nombramiento que adopte dicho órgano en virtud de las facultades de cooptación que tiene legalmente atribuidas deberán estar precedidas de una propuesta de la Comisión de Nombramientos y Retribuciones en el caso de Consejeros Independientes o de un informe para el resto de Consejeros. Cuando el Consejo se aparte de las recomendaciones de dicha Comisión habrá de motivar y dejar constancia en acta de las razones de su proceder.

## 2.- Relección:

Los Consejeros elegidos a partir de 27 de junio de 2018 ejercerán su cargo durante el plazo máximo de cuatro años, pudiendo ser reelegidos (los elegidos hasta esa fecha tienen un mandato de 3 años). Los Consejeros designados por cooptación ejercerán su cargo en los términos establecidos por la legislación vigente.

La Comisión de Nombramientos y Retribuciones, encargada de evaluar la calidad del trabajo y la dedicación al cargo de los Consejeros propuestos durante el mandato precedente, deberá proponer en el caso de Consejeros Independientes e informar respecto del resto de Consejeros con carácter preceptivo sobre la propuesta de reelección de Consejeros que el Consejo de Administración decida presentar a la Junta General.

Los Consejeros Independientes no permanecerán en su cargo como tales por un periodo superior a doce años.

## 3.- Cese o remoción:

Los Consejeros cesarán en su cargo por el transcurso del período para el que fueron nombrados, salvo reelección y cuando lo decida la Junta General en uso de las atribuciones que ostenta. Asimismo, cesarán en los demás supuestos en que así proceda de acuerdo con la Ley, los Estatutos y el Reglamento del Consejo de Administración.

Los Consejeros deberán poner su cargo a disposición del Consejo de Administración y formalizar, si éste lo considera conveniente, la correspondiente dimisión en los casos siguientes:

- a) Cuando los Consejeros Ejecutivos cesen en las funciones ejecutivas.
- b) Cuando se vean incurso en alguno de los supuestos de incompatibilidad o prohibición previstos en las leyes, Estatutos Sociales o en este Reglamento.
- c) Cuando infrinjan gravemente sus obligaciones como Consejeros, poniendo en riesgo los intereses de la Sociedad.
- d) Cuando desaparezca la causa por la que fueron nombrados como Consejeros Independientes, Ejecutivos o Dominicales.

En todo caso, el Consejo de Administración presta especial atención a las cuestiones de diversidad y no sólo diversidad de género, en el marco del pleno respeto al derecho de los accionistas reconocido por la Ley de representación proporcional. Tal y como se ha explicado en apartados anteriores, y de conformidad con el análisis realizado en el marco del proceso de autoevaluación con asesor externo, se han identificados perfiles cuyo refuerzo se estimaba relevante de cara a fortalecer la diversidad del Consejo. Ello se ha traducido en que los miembros actuales del Consejo de Administración responden a perfiles profesionales y trayectorias distintas, complementarias unas de otras: está formado por Consejeros que responden a perfiles financieros, industriales, de gestión de empresas, jurídicos, relacionados con el mundo de la innovación y las nuevas tecnologías, o finalmente con experiencia en el mercado de capitales y la contabilidad. El Consejo se ha esforzado durante 2018 especialmente en aumentar el perfil internacional de sus miembros. El Consejo de Administración considera esta circunstancia especialmente relevante porque contribuye a fomentar una visión más completa e integradora a la hora de analizar las distintas cuestiones que se le someten.

**C.1.17 Explique en qué medida la evaluación anual del consejo ha dado lugar a cambios importantes en su organización interna y sobre los procedimientos aplicables a sus actividades:**

Descripción modificaciones
<p>La evaluación del Consejo de Administración relativa a 2017 contó con la participación de un experto independiente como asesor. Sin perjuicio de que el asesor externo concluyó en el funcionamiento altamente satisfactorio del Consejo y sus Comisiones, el Consejo constató la posibilidad de avanzar en determinadas áreas de mejora en la línea de simplificación de su funcionamiento, que dieron lugar a un Plan de acción en materia de gobierno corporativo que se acordó el 6 de marzo de 2018, con medidas encaminadas a dicha simplificación, las cuales se han ido implementando a lo largo del año 2018.</p> <p>En el marco de dicho proceso, debe encuadrarse la modificación propuesta por el Consejo a la Junta General de Accionistas de nuevos Estatutos de la Compañía, de reducción del número de Consejeros, de eliminación de la Comisión ejecutiva, de atribución a la Comisión de Nombramientos y Retribuciones de nuevas competencias en materia de gobierno corporativo.</p> <p>Adicionalmente, tal y como se ha explicado en los apartados anteriores, el informe de evaluación anual de 2017 del Consejo permitió identificar los perfiles profesionales cuya incorporación era importante lograr para avanzar en la diversidad en su composición. En particular, se concluyó en la necesidad de tener en cuenta en los procesos de nombramientos y renovaciones de Consejeros independientes los siguientes perfiles: industrial, regulatorio en materia de energía y tecnológico, así como, en general, perfiles más internacionales, además de perfiles especializados en el mercado de capitales. Este análisis fue el tenido en cuenta en lo relativo a</p>

las propuestas de designación de Consejeros independientes sometidas a la Junta General de Accionistas en 2018.

**Describa el proceso de evaluación y las áreas evaluadas que ha realizado el consejo de administración auxiliado por un consultor externo, respecto del funcionamiento y la composición de sus comisiones, y cualquier otra área o aspecto que haya sido objeto de evaluación .**

Descripción proceso evaluación y áreas evaluadas
El Consejo contó con el asesoramiento de un asesor externo para la autoevaluación de su funcionamiento durante 2017, lo que le permitió tener una base con la que afrontar el proceso de simplificación y la amplia renovación del Consejo en junio de 2018. Por ello el Consejo no ha recurrido a dicho asesoramiento externo en 2018, en el entendimiento de que es conveniente dejar pasar un cierto lapso de tiempo para poder analizar adecuadamente la eficacia de las medidas acordadas pues se han ido implementando a lo largo de todo el ejercicio 2018.

**C.1.18 Desglose, en aquellos ejercicios en los que la evaluación haya sido auxiliada por un consultor externo, las relaciones de negocio que el consultor o cualquier sociedad de su grupo mantengan con la sociedad o cualquier sociedad de su grupo.**

NO APLICA

**C.1.19 Indique los supuestos en los que están obligados a dimitir los consejeros.**

Los Consejeros cesarán en su cargo por el transcurso del período para el que fueron nombrados, salvo reelección y cuando lo decida la Junta General en uso de las atribuciones que ostenta. Asimismo, cesarán en los demás supuestos en que así proceda de acuerdo con la Ley, los Estatutos y el Reglamento del Consejo de Administración.
Los Consejeros deberán poner su cargo a disposición del Consejo de Administración y formalizar, si éste lo considera conveniente, la correspondiente dimisión en los casos siguientes:
<ul style="list-style-type: none"><li>a. Cuando los Consejeros Ejecutivos cesen en las funciones ejecutivas.</li><li>b. Cuando se vean incursos en alguno de los supuestos de incompatibilidad o prohibición previstos en las leyes, Estatutos Sociales o en este Reglamento.</li><li>c. Cuando infrinjan gravemente sus obligaciones como Consejeros, poniendo en riesgo los intereses de la Sociedad.</li><li>d. Cuando desaparezca la causa por la que fueron nombrados como Consejeros Independientes, Ejecutivos o Dominicales.</li></ul>



**C.1.20 ¿Se exigen mayorías reforzadas, distintas de las legales, en algún tipo de decisión?**

SI **X** NO

**En su caso, describa las diferencias.**

Descripción de las diferencias
<p>El artículo 7.4 del Reglamento del Consejo de Administración indica lo siguiente:</p> <p>“4.- Los acuerdos deberán adoptarse con el voto de la mayoría absoluta de los Consejeros que concurren, presentes o representados, salvo que la Ley, los Estatutos o el presente Reglamento establezcan una mayoría reforzada. Con carácter especial, se requerirá el voto favorable de más dos tercios de los consejeros concurrentes, presentes o representados, para la válida adopción de acuerdos sobre las siguientes materias reservadas al pleno del Consejo y, por consiguiente, indelegables:</p> <ul style="list-style-type: none"><li>a) La adquisición o enajenación de activos pertenecientes a la Sociedad (con independencia de los medios jurídicos que se utilicen a tal efecto y, en particular, aunque se realicen mediante operaciones de fusión, escisión u otros de sociedades dependientes) por importe superior a 500.000.000 euros, salvo que su aprobación corresponda a la Junta General o se realicen en ejecución del presupuesto o plan estratégico o de negocio de la Sociedad.</li><li>b) La aprobación del presupuesto y el plan estratégico o de negocio de la Sociedad.</li><li>c) La modificación de la política de distribución de dividendos y la aprobación de una nueva.</li><li>d) La suscripción, modificación, renovación, no renovación o terminación por la Sociedad de contratos de financiación o refinanciación por un importe superior a 500.000.000 euros.</li><li>e) La suscripción, modificación, renovación, no renovación o terminación por la Sociedad de cualquier contrato material, distinto de los previstos en el apartado d) anterior, cuyo importe exceda de 500.000.000 euros en el caso de contratos de aprovisionamiento de gas y de 200.000.000 euros en el caso de otros contratos.</li><li>f) Las modificaciones materiales en los criterios y políticas contables o fiscales de la Sociedad, salvo que se deban a modificaciones de la legislación aplicable o al cumplimiento de las directrices y criterios fijados por las autoridades competentes en la materia.</li><li>g) La reformulación de las cuentas anuales de la Sociedad, salvo que tal reformulación se deba a una modificación legislativa o al cumplimiento de las directrices y criterios fijados por las autoridades competentes en la materia.</li><li>h) La realización de inversiones de capital (capex) no previstas en el</li></ul>

presupuesto anual de la Sociedad por importe superior a 200.000.000 euros.  
i) La modificación de las materias de los apartados a) a i) o la modificación de la mayoría reforzada de voto prevista para cualquiera de ellas.”

**C.1.21 Explique si existen requisitos específicos, distintos de los relativos a los consejeros, para ser nombrado presidente del consejo de administración.**

SI NO **X**

Descripción de los requisitos

**C.1.22 Indique si los estatutos o el reglamento del consejo establecen algún límite a la edad de los consejeros:**

SI NO **X**

	Edad límite
Presidente	
Consejero delegado	
Consejero	

Observaciones

**C.1.23 Indique si los estatutos o el reglamento del consejo establecen un mandato limitado u otros requisitos más estrictos adicionales a los previstos legalmente para los consejeros independientes, distinto al establecido en la normativa:**

SI NO **X**

Requisitos adicionales y/o número máximo de ejercicios de mandato	
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**C.1.24 Indique si los estatutos o el reglamento del consejo de administración establecen normas específicas para la delegación del voto en el consejo de administración, la forma de hacerlo y, en particular, el número máximo de delegaciones que puede tener un consejero, así como si se ha establecido alguna limitación en cuanto a las categorías en que es posible delegar, más allá de las limitaciones impuestas por la legislación. En su caso, detalle dichas normas brevemente.**

Según lo establecido en el artículo 7.5 de los Estatutos Sociales “Los Consejeros que no puedan asistir podrán delegar su representación en otro Consejero, con o sin instrucciones de voto, debiendo comunicarlo al Presidente o al Secretario.”

Por su parte, el artículo 7.3 del Reglamento del Consejo indica “Cada Consejero podrá conferir su representación a otro Consejero, sin que esté limitado el número de representaciones que cada uno puede ostentar para la asistencia al Consejo. La representación de los Consejeros ausentes podrá conferirse por cualquier medio documental escrito, siendo válido cualquier medio electrónico dirigido a la Presidencia o a la Secretaria del Consejo antes del inicio de la sesión.”

**C.1.25 Indique el número de reuniones que ha mantenido el consejo de administración durante el ejercicio. Asimismo, señale, en su caso, las veces que se ha reunido el consejo sin la asistencia de su presidente. En el cómputo se considerarán asistencias las representaciones realizadas con instrucciones específicas.**

Número de reuniones del consejo	12
Número de reuniones del consejo sin la asistencia del presidente	0

<b>Observaciones</b>
Adicionalmente, ha habido dos reuniones celebradas por escrito y sin sesión, hasta totalizar 14 reuniones.

**Indíquese el número de reuniones mantenidas por el Consejero Coordinador con el resto de consejeros, sin asistencia ni representación de ningún consejero ejecutivo.**

Número de reuniones	0
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<b>Observaciones</b>
Al ser el Consejero coordinador también Presidente de la Comisión de Nombramientos y Retribuciones y haberlo sido de la de Auditoría, de la que sigue siendo miembro, ha mantenido habitualmente contactos con los Consejeros no ejecutivos y especialmente con los consejeros independientes, tanto en lo que respecta a cuestiones retributivas como de gobierno corporativo en general, que han hecho innecesaria la convocatoria de reuniones formales.

**Indique el número de reuniones que han mantenido en el ejercicio las distintas comisiones del consejo:**

Número de reuniones de la comisión ejecutiva o delegada	2
Número de reuniones del comité de auditoría	7
Número de reuniones de la comisión de nombramientos y retribuciones	10
Número de reuniones de la comisión de nombramientos	
Número de reuniones de la comisión retribuciones	
Número de reuniones de la comisión _____	

<b>Observaciones</b>

**C.1.26 Indique el número de reuniones que ha mantenido el consejo de administración durante el ejercicio con la asistencia de todos sus miembros:**

Número de reuniones con la asistencia presencial de al menos el 80% de los consejeros	12
% de asistencia presencial sobre el total de votos durante el ejercicio	93%
Número de reuniones con la asistencia presencial, o representaciones realizadas con instrucciones específicas de todos los consejeros	3
% votos emitidos con asistencia presencial y representaciones realizadas con instrucciones específicas, sobre el total de votos durante el ejercicio	Más del 90%

<b>Observaciones</b>

**C.1.27 Indique si están previamente certificadas las cuentas anuales individuales y consolidadas que se presentan al consejo para su aprobación:**

SI  NO

**Identifique, en su caso, a la/s persona/s que ha/han certificado las cuentas anuales individuales y consolidadas de la sociedad, para su formulación por el consejo:**

Nombre	Cargo
Don Carlos Javier Álvarez Fernández	Director Financiero

**C.1.28 Explique, si los hubiera, los mecanismos establecidos por el consejo de administración para evitar que las cuentas individuales y consolidadas por él formuladas se presenten en la junta general con salvedades en el informe de auditoría.**

En virtud de lo establecido en el artículo 529.4 de la Ley de Sociedades de Capital y en los Estatutos Sociales, a la Comisión de Auditoría, le corresponden, entre otras, las funciones de informar a la Junta General de Accionistas sobre las cuestiones que se planteen en relación con aquellas materias que sean competencia de la Comisión y, en particular, sobre el resultado de la auditoría explicando cómo esta ha contribuido a la integridad de la información financiera y la función que la comisión ha desempeñado en ese proceso, así como supervisar el proceso de elaboración y presentación de la información financiera preceptiva y

presentar recomendaciones o propuestas al órgano de administración, dirigidas a salvaguardar su integridad.

A estos efectos, la Comisión de Auditoría ha supervisado el proceso de elaboración de información financiera y se ha involucrado en un diálogo fluido con el auditor externo, desde el máximo respeto a su independencia, donde ha sido informada del Plan de auditoría, de los resultados preliminares y definitivos de sus análisis, y donde se ha velado específicamente por su independencia. En todo caso, es de destacar que no se han formulado salvedades a las cuentas.

**C.1.29 ¿El secretario del consejo tiene la condición de consejero?**

SI NO X

**Si el secretario no tiene la condición de consejero complete el siguiente cuadro:**

Nombre o denominación social del secretario	Representante
Don Manuel García Cobaleda	-

Observaciones

**C.1.30 Indique los mecanismos concretos establecidos por la sociedad para preservar la independencia de los auditores externos, así como, si los hubiera, los mecanismos para preservar la independencia de los analistas financieros, de los bancos de inversión y de las agencias de calificación, incluyendo cómo se han implementado en la práctica las previsiones legales.**

Entre las funciones legales que corresponden a la Comisión de Auditoría están la de establecer las oportunas relaciones con el auditor externo para recibir información sobre aquellas cuestiones que puedan suponer amenaza para su independencia, para su examen por la comisión, y cualesquiera otras relacionadas con el proceso de desarrollo de la auditoría de cuentas, y, cuando proceda, la autorización de los servicios distintos de los prohibidos, en los términos contemplados en los artículos 5, apartado 4, y 6.2.b) del Reglamento (UE) n.º 537/2014, de 16 de abril, y en lo previsto en la sección 3.ª del capítulo IV del título I de la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, sobre el régimen de independencia, así como aquellas otras comunicaciones previstas en la legislación de auditoría de cuentas y en las normas de auditoría. En todo caso, deberán recibir anualmente de los auditores externos la declaración de su independencia en relación con la entidad o entidades vinculadas a esta directa o indirectamente, así como la información detallada e individualizada de los servicios adicionales de cualquier clase prestados y los correspondientes honorarios percibidos de estas entidades por el auditor externo o por las personas o entidades vinculados a este de acuerdo con lo dispuesto en la normativa reguladora de la actividad de auditoría de cuentas.

También es función de la Comisión de Auditoría emitir anualmente, con carácter previo a la emisión del informe de auditoría de cuentas, un

informe en el que se expresará una opinión sobre si la independencia de los auditores de cuentas o sociedades de auditoría resulta comprometida. Este informe deberá contener, en todo caso, la valoración motivada de la prestación de todos y cada uno de los servicios adicionales a que hace referencia la letra anterior, individualmente considerados y en su conjunto, distintos de la auditoría legal y en relación con el régimen de independencia o con la normativa reguladora de la actividad de auditoría de cuentas.

Asimismo, el Consejo de Administración ha encomendado a la Comisión de Auditoría, entre otras, las siguientes funciones: velar que la retribución del auditor externo por su trabajo no comprometa su calidad ni su independencia y asegurar que la sociedad y el auditor externo respetan las normas vigentes sobre prestación de servicios distintos a los de auditoría, los límites a la concentración del negocio del auditor y, en general, las demás normas sobre independencia de los auditores.

Los principios que fundamentan la relación de la Compañía con analistas financieros y bancos de inversión están basados en la transparencia, simultaneidad y no discriminación, además de la existencia de interlocutores específicos y distintos para cada colectivo. Con el fin de incrementar la transparencia se ha potenciado esta área diferenciándola de la Dirección financiera.

Asimismo, la Compañía presta especial atención en no comprometer ni interferir en la independencia de los analistas financieros al respecto de los servicios prestados por los bancos de inversión, de acuerdo con los códigos internos de conducta establecidos por ellos mismos y orientados a la separación de sus servicios de análisis y de asesoramiento.

**C.1.31 Indique si durante el ejercicio la Sociedad ha cambiado de auditor externo. En su caso identifique al auditor entrante y saliente:**

SI      X      NO

Auditor saliente	Auditor entrante
PWC	E&Y

Observaciones

**En el caso de que hubieran existido desacuerdos con el auditor saliente, explique el contenido de los mismos:**

SI                      NO      X

Explicación de los desacuerdos

**C.1.32** Indique si la firma de auditoría realiza otros trabajos para la sociedad y/o su grupo distintos de los de auditoría y en ese caso declare el importe de los honorarios recibidos por dichos trabajos y el porcentaje que supone sobre los honorarios facturados a la sociedad y/o su grupo:

SI  NO

	Sociedad	Grupo	Total
Importe de otros trabajos distintos de los de auditoría (miles de euros)	181	540	721
Importe trabajos distintos de los de auditoría / Importe trabajos de auditoría (en %)	20,00%	12,60%	13,90%

Observaciones

**C.1.33** Indique si el informe de auditoría de las cuentas anuales del ejercicio anterior presenta reservas o salvedades. En su caso, indique las razones dadas por el presidente de la comisión de auditoría para explicar el contenido y alcance de dichas reservas o salvedades.

SI NO

Explicación de las razones

**C.1.34** Indique el número de ejercicios que la firma actual de auditoría lleva de forma ininterrumpida realizando la auditoría de las cuentas anuales de la sociedad. Asimismo, indique el porcentaje que representa el número de ejercicios auditados por la actual firma de auditoría sobre el número total de ejercicios en los que las cuentas anuales han sido auditadas:

	Individuales	Consolidadas
Número de ejercicios ininterrumpidos	1	1

	Individuales	Consolidadas
Nº de ejercicios auditados por la firma actual de auditoría / Nº de ejercicios que la sociedad ha sido auditada (en %)	3,57%	3,57%

Observaciones

**C.1.35 Indique y, en su caso detalle, si existe un procedimiento para que los consejeros puedan contar con la información necesaria para preparar las reuniones de los órganos de administración con tiempo suficiente:**

SI  NO

Detalle el procedimiento
<p>El artículo 6, puntos 2 y 3, del Reglamento del Consejo establece: “2.- La convocatoria de las sesiones se realizará por el Presidente, o por el Secretario o Vicesecretario por orden del Presidente, y se efectuará por cualquiera de los medios estatutariamente previstos. La convocatoria incluirá el lugar de celebración y el orden del día de la misma y, se cursará, con una antelación mínima de 5 días a la celebración de la reunión, haciendo constar el orden del día. En caso de urgencia debidamente justificada a juicio del Presidente y así apreciada por el Consejo al inicio de la reunión, se realizará una convocatoria por teléfono, fax, correo electrónico o cualquier otro medio telemático, con un preaviso suficiente que permita a los Consejeros participar en la reunión. Con carácter previo a cada reunión, los Consejeros dispondrán de la información y documentación consideradas convenientes o relevantes sobre los temas a tratar en el Consejo. Además, a los Consejeros se les entregará el acta de la sesión anterior, haya sido o no aprobada. La facultad de establecer el orden del día de las reuniones será competencia del Presidente, salvo que se trate de la convocatoria obligatoria, en cuyo caso el orden del día de la convocatoria incluirá los asuntos indicados por los Consejeros que la pidan. 3.-Será válida la constitución del Consejo, sin previa convocatoria, si se hallan presentes o representados todos los Consejeros y aceptan por unanimidad la celebración del Consejo”.</p> <p>El procedimiento seguido supone remitir, habitualmente con una semana de antelación, la convocatoria de la reunión, el orden del día y toda aquella información que esté disponible y pueda resultar útil para un más exacto conocimiento de los asuntos a tratar en la sesión del Consejo.</p> <p>A estos efectos, la documentación del Consejo se pone a disposición de los Consejeros a través de una plataforma informática, que les permite acceso permanente a la misma. Los Consejeros tienen acceso a la documentación de todos los órganos del Consejo con independencia de que sean o no miembros de alguna Comisión. Adicionalmente, se pone a disposición de los Consejeros a través de dicha plataforma otra información relevante para el ejercicio de sus funciones (hechos relevantes, novedades regulatorias, acceso a revista de prensa etc)</p> <p>Asimismo, durante la reunión están disponibles para ser llamados -y, con frecuencia, se hace uso de ello- los directivos cuyos asuntos son tratados de forma que los Consejeros puedan pedirles directamente aclaraciones, datos u opiniones en relación con los puntos tratados en la sesión y pueden apreciar directamente su capacitación para el puesto.</p> <p>.</p>



Finalmente, los Consejeros pueden solicitar información adicional que estimen necesario para el ejercicio de sus funciones a través de la Secretaría del Consejo.

**C.1.36 Indique y, en su caso detalle, si la sociedad ha establecido reglas que obliguen a los consejeros a informar y, en su caso, dimitir en aquellos supuestos que puedan perjudicar al crédito y reputación de la sociedad:**

SI  NO

Explique las reglas
<p>Conforme al artículo 11.3 del Reglamento del Consejo, el Consejero está sometido al deber de lealtad en los términos establecidos en la legislación vigente y, en particular, el epígrafe e) de dicho artículo 11.3, establece que el Consejero deberá informar a la Sociedad sobre cualquier tipo de reclamación judicial, administrativa o sobre hechos de cualquier índole en los que se encuentre implicado que, por su importancia, pudieran incidir gravemente en la reputación de la Sociedad. El Consejo examinará la cuestión y adoptará las medidas que sean aconsejables en interés de la Sociedad con la urgencia requerida.</p> <p>Asimismo, los Consejeros deberán poner su cargo a disposición del Consejo de Administración y formalizar, si éste lo considera conveniente, la correspondiente dimisión en los casos siguientes:</p> <ul style="list-style-type: none"> <li>a) Cuando los Consejeros Ejecutivos cesen en las funciones ejecutivas.</li> <li>b) Cuando se vean incursos en alguno de los supuestos de incompatibilidad o prohibición previstos en las leyes, Estatutos Sociales o en este Reglamento.</li> <li>c) Cuando infrinjan gravemente sus obligaciones como Consejeros, poniendo en riesgo los intereses de la Sociedad.</li> <li>d) Cuando desaparezca la causa por la que fueron nombrados como Consejeros Independientes, Ejecutivos o Dominicales.</li> </ul>

**C.1.37 Indique si algún miembro del consejo de administración ha informado a la sociedad que ha resultado procesado o se ha dictado contra él auto de apertura de juicio oral, por alguno de los delitos señalados en el artículo 213 de la Ley de Sociedades de Capital:**

SI NO

Nombre del Consejero	Causa Penal	Observaciones

Indique si el consejo de administración ha analizado el caso. Si la respuesta es afirmativa explique de forma razonada la decisión tomada sobre si procede o no que el consejero continúe en su cargo o, en su caso, exponga las actuaciones realizadas por el consejo de administración hasta la fecha del presente informe o que tenga previsto realizar.

SI NO X

Decisión tomada/actuación realizada	Explicación razonada

**C.1.38 Detalle los acuerdos significativos que haya celebrado la sociedad y que entren en vigor, sean modificados o concluyan en caso de cambio de control de la sociedad a raíz de una oferta pública de adquisición, y sus efectos.**

Una parte importante de las sociedades participadas por NTGY junto con socios ajenos al grupo contienen cláusulas de cambio de control que permiten al otro socio optar por adquirir las participaciones en caso de cambio de control de la sociedad tenedora del Grupo NTGY.

Por otro lado, la mayor parte de la deuda financiera viva incluye una cláusula relativa al cambio de control, ya sea por adquisición de más del 50% de las acciones con voto o por obtener el derecho a nombrar la mayoría de miembros del Consejo de NATURGY ENERGY GROUP, S.A. Dichas cláusulas están sujetas a condiciones adicionales, de modo que su activación depende de la simultaneidad de algunos de los siguientes eventos: la reducción importante de la calificación crediticia o rating provocada por el cambio de control, o la pérdida del grado de inversión por las agencias calificadoras; la incapacidad de cumplir las obligaciones financieras del contrato; un perjuicio material para el acreedor, o un cambio material adverso en la solvencia. Estas cláusulas suponen el reembolso de la deuda dispuesta si bien suelen contar con un plazo mayor al concedido en los supuestos de resolución anticipada.

En concreto, los bonos emitidos, en volumen aproximado de 9.700 Millones de Euros, como es habitual en el euromercado, serían susceptibles de vencimiento anticipado siempre que ese cambio de control provocara una caída de dos o más escalones o “full notches” en al menos dos de las tres calificaciones que tuviera y todas las calificaciones cayesen por debajo de “investment grade” y siempre que la Agencia Calificadora expresase que la reducción de la calificación crediticia viene motivada por el cambio de control.

Asimismo existen préstamos por un importe de aprox. 2.000 millones de Euros, ligados a financiaciones a largo plazo de infraestructuras con fondos del Banco Europeo de Inversiones, que podrían ser objeto de reembolso anticipado en caso de cambio de control. Para la activación de estas cláusulas además del evento del cambio de control se requiere una reducción del rating y cuentan con plazos especiales de reembolso de la deuda más extensos a los de los supuestos de resolución anticipada

**C.1.39 Identifique de forma individualizada, cuando se refiera a consejeros y de forma agregada en resto de casos e indique, de forma detallada, los acuerdos entre la sociedad y sus cargos de administración y dirección o empleados que dispongan indemnizaciones, cláusulas de garantía o blindaje, cuando éstos dimitan o sean despedidos de forma improcedente o si la relación contractual llega a su fin con motivo de una oferta pública de adquisición u otro tipo de operaciones.**

Número de beneficiarios	23
Tipo de beneficiario	Descripción del acuerdo
Anterior Consejero delegado	<p>El contrato del Consejero Delegado, que prestó servicios en la Compañía hasta febrero de 2018, establecía una indemnización por importe de tres anualidades de la retribución total a la fecha de la modificación contractual para determinados supuestos de extinción de la relación contractual: por decisión de la compañía, salvo incumplimiento muy grave y culpable de sus obligaciones profesionales que ocasione un perjuicio grave a los intereses de Naturgy, por decisión del Consejero Delegado o por finalización del contrato. Adicionalmente y en concepto de pacto de no competencia post-contractual durante un año se establecía una indemnización equivalente a una anualidad de retribución total.</p> <p>El 6 de febrero de 2018, el Consejo de Administración acordó extinguir el contrato, abonar la indemnización prevista por importe de tres anualidades de la retribución total por importe de 10.685.763 € y la compensación por pacto de no competencia por una anualidad de retribución total, esto es, 3.561.921 €, así como liquidar los importes pendientes de los distintos conceptos retributivos devengados en 2018 –fijo, variable anual y programas PREMP en curso.</p>
Actual Presidente ejecutivo	<p>El contrato del Presidente establece una indemnización por cese o por no renovación del cargo de Consejero por importe de dos anualidades del conjunto de: (i) retribución dineraria fija total anual, (ii) la retribución variable anual y (iii) en atención al concepto de retribución variable plurianual, un importe a tanto alzado equivalente al 1,25 de la retribución</p>

<p>Directivos</p>	<p>dineraria fija total anual. Este concepto sólo se multiplicará por una anualidad si al momento de devengarse no se hubiera alcanzado el objetivo de rentabilidad mínima del plan de ILP; la segunda anualidad se podrá recuperar si el objetivo mínimo se alcanzara finalmente al finalizar el plan.</p> <p>No procederá la indemnización en caso de incumplimiento grave y culpable de sus obligaciones profesionales que ocasione un perjuicio significativo a los intereses de Naturgy. Adicionalmente y en concepto de pacto de no competencia post-contractual durante un año se establece una indemnización equivalente a una anualidad de retribución fija total.</p> <p>El contrato del Presidente ejecutivo prevé la extinción del contrato y el abono de una indemnización en caso de que perdiera sus funciones ejecutivas y continuara como Presidente no ejecutivo. En tal caso, la indemnización prevista es idéntica a la del apartado anterior, pero reducida a la mitad, esto es, una sola anualidad.</p> <p>Los contratos suscritos con 16 directivos contienen una cláusula que establece una indemnización mínima de una anualidad de retribución fija en unos casos y dos anualidades de retribución en otros en determinados casos de extinción de la relación, que incluyen ciertos casos de cambio de control, despido improcedente o los supuestos contemplados en los arts. 40, 41 o 50 del Estatuto de los Trabajadores. Asimismo, estos contratos contienen una cláusula que establece una compensación equivalente a una anualidad de retribución fija por no competencia post-contractual por un período de dos años.</p> <p>Adicionalmente, 2 directivos tienen acuerdos de indemnización cuyos importes dan derecho a los mismos a percibir una indemnización mínima de una anualidad de retribución fija en unos casos y dos anualidades de retribución en otros en determinados casos de extinción de la relación, que incluyen el despido improcedente o los supuestos</p>
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	<p>contemplados en los arts. 40, 41 o 50 del Estatuto de los Trabajadores.</p> <p>Por otra parte, existen acuerdos de compensación con otros 4 directivos, equivalente a una anualidad de retribución fija por no competencia post-contractual por un período de dos años.</p>
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**Indique si más allá de en los supuestos previstos por la normativa estos contratos han de ser comunicados y/o aprobados por los órganos de la sociedad o de su grupo. En caso positivo, especifique los procedimientos, supuestos previstos y la naturaleza de los órganos responsables de su aprobación o de realizar la comunicación:**

	<b>Consejo de administración</b>	<b>Junta general</b>
<b>Órgano que autoriza las cláusulas</b>	SI	NO

	<b>SI</b>	<b>NO</b>
<b>¿Se informa a la junta general sobre las cláusulas?</b>	X	

<b>Observaciones</b>
En relación con las cláusulas del personal directivo, se informa a la Comisión de Nombramientos y Retribuciones y al Consejo de sus términos y sus beneficiarios

## **C.2. Comisiones del consejo de administración**

**C.2.1 Detalle todas las comisiones del consejo de administración, sus miembros y la proporción de consejeros ejecutivos, dominicales, independientes y otros externos que las integran:**

### **COMISIÓN EJECUTIVA O DELEGADA**

Nombre	Cargo	Categoría

% de consejeros ejecutivos	
% de consejeros dominicales	
% de consejeros independientes	
% de otros externos	

<b>Observaciones</b>
<b>NO APLICA AL NO EXISTIR EN LA ACTUALIDAD COMISION EJECUTIVA</b>

**Explique las funciones que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma y resuma sus actuaciones más importantes durante el ejercicio.**

No aplica
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**Indique si la composición de la comisión delegada o ejecutiva refleja la participación en el consejo de los diferentes consejeros en función de su categoría:**

**SI                      NO**

En caso negativo, explique la composición de su comisión delegada o ejecutiva
<b>NO APLICA.</b>

**COMISIÓN DE AUDITORÍA**

<b>Nombre</b>	<b>Cargo</b>	<b>Categoría</b>
Don Francisco Belil Creixell	Presidente	Independiente
Don Ramón Adell Ramón	Vocal	Independiente
Don Enrique Alcántara-García Irazoqui	Vocal	Dominical
Don Pedro Sainz de Baranda Riva	Vocal	Independiente
Doña Helena Herrero Starkie	Vocal	Independiente
Don Rajaram Rao	Vocal	Dominical
Theatre Directorship Services Beta, S.À.R.L., representada por Don Jose Antonio Torre de Silva Lopez de Letona	Vocal	Dominical

% de consejeros dominicales	42,86%
% de consejeros independientes	57,14%
% de otros externos	-

<b>Observaciones</b>
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Explique las funciones incluyendo en su caso las adicionales a las previstas legalmente, que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma. Para cada una de estas funciones, señale sus actuaciones más importantes durante el ejercicio y cómo ha ejercido en la práctica cada una de las funciones que tiene atribuidas ya sea en la ley o en los estatutos u otros acuerdos sociales.

**a) Funciones de la Comisión de Auditoría:**

La Comisión tiene las competencias que le señala la Ley y las que le sean encomendadas por el Consejo de Administración con carácter general o particular.

En atención a distintos acuerdos del Consejo de Administración de 27 de noviembre de 2015, 29 de enero de 2016 y 6 de marzo de 2018, ejerce las siguientes funciones:

- Elaborar el informe sobre la independencia del Auditor.
- Elaborar el Informe sobre el funcionamiento de la Comisión de Auditoría.
- Elaborar el Informe sobre operaciones vinculadas.
- Velar porque el Consejo de Administración procure presentar las cuentas a la Junta General de accionistas sin limitaciones ni salvedades en el informe de Auditoría y que, en los supuestos excepcionales en que existan salvedades, tanto el Presidente de la Comisión como los Auditores, expliquen con claridad a los accionistas el contenido y alcance de dichas limitaciones.
- En relación con los sistemas de información y control:
  - (a) Supervisar el proceso de elaboración y la integridad de la información financiera relativa a la sociedad y, en su caso, al grupo, revisando el cumplimiento de los requisitos normativos, la adecuada delimitación del perímetro de consolidación y la correcta aplicación de los criterios contables.
  - (b) Velar por la independencia de la unidad que asume la función de auditoría interna; aprobar la orientación y sus planes de trabajo, asegurándose de que su actividad esté enfocada principalmente hacia los riesgos relevantes de la sociedad; recibir información periódica sobre sus actividades; y verificar que la alta dirección tenga en cuenta las conclusiones y recomendaciones de sus informes. Proponer al Presidente del Consejo de Administración la selección, nombramiento, reelección y cese del responsable del servicio de auditoría interna, así como proponer el presupuesto de ese servicio, correspondiendo la decisión última al Presidente del

Consejo de Administración.

- (c) Establecer y supervisar un mecanismo que permita a los empleados comunicar, de forma confidencial y, si resulta posible y se considera apropiado, anónima, las irregularidades de potencial trascendencia, especialmente financieras y contables, que adviertan en el seno de la empresa.
- En relación con el auditor externo.
  - (a) En caso de renuncia del auditor externo, examinar las circunstancias que la hubieran motivado.
  - (b) Velar que la retribución del auditor externo por su trabajo no comprometa su calidad ni su independencia.
  - (c) Supervisar que la sociedad comunique como hecho relevante a la Comisión Nacional del Mercado de Valores el cambio de auditor y lo acompañe de una declaración sobre la eventual existencia de desacuerdos con el auditor saliente y, si hubieran existido, de su contenido.
  - (d) Asegurar que el auditor externo mantenga anualmente una reunión con el pleno del consejo de administración para informarle sobre el trabajo realizado y sobre la evolución de la situación contable y de riesgos de la sociedad.
  - (e) Asegurar que la sociedad y el auditor externo respetan las normas vigentes sobre prestación de servicios distintos a los de auditoría, los límites a la concentración del negocio del auditor y, en general, las demás normas sobre independencia de los auditores.
- Convocar a cualquier empleado o directivo de la Sociedad, e incluso disponer que comparezcan sin presencia de ningún otro directivo.
- Analizar e informar al Consejo de Administración sobre las condiciones económicas y el impacto contable y, en especial, en su caso, sobre la ecuación de canje, en relación a las operaciones de modificaciones estructurales y corporativas que por su naturaleza o cuantía tengan especial relevancia. Se entenderá que tienen dicha relevancia las operaciones cuyo valor neto supere el valor del 25% de los activos que figuren en el último balance aprobado de la Sociedad.
- Adicionalmente:
  - (a) La supervisión del cumplimiento de los códigos internos de conducta.
  - (b) La supervisión de la estrategia de comunicación y relación con accionistas e inversores, incluyendo los pequeños y medianos accionistas.



(c) La evaluación periódica de la adecuación del sistema de gobierno corporativo de la sociedad

(d) La supervisión y evaluación de los procesos de relación con los distintos grupos de interés.

(e) La evaluación de los riesgos no financieros de la empresa

## **b) Procedimientos y reglas de organización y funcionamiento**

### **Conforme al art. 26 Reglamento del Consejo**

La Comisión de Auditoría estará constituida por un mínimo de tres y un máximo de siete Consejeros, designados por el Consejo de Administración de entre los Consejeros no Ejecutivos, y al menos uno de ellos será designado teniendo en cuenta los conocimientos y experiencia en materia de contabilidad, auditoría o en ambas. Sus miembros cesarán cuando los hagan en su condición de Consejeros, cuando así lo acuerde el Consejo de Administración.

La mayoría de los miembros de la Comisión tendrán la categoría de Consejero Independiente, de entre los cuales, el Consejo de Administración elegirá al Presidente de la Comisión, quien no tendrá voto de calidad. La secretaría de la Comisión corresponderá a la Secretaría del Consejo de Administración si bien podrá actuar como secretario de la Comisión el Vicesecretario, si lo hubiere.

La Comisión, convocada por su Presidente, se reunirá, cuando sea necesario para la emisión de los informes o propuestas de su competencia o cuando lo estime conveniente su Presidente o previa solicitud de dos de sus miembros y, al menos, cuatro veces al año. La Comisión podrá invitar a sus reuniones a cualquier directivo o empleado que considere conveniente.

### **c) Actuaciones más importantes durante el ejercicio de 2018:**

En ejercicio de sus competencias durante el ejercicio ha informado y/o adoptado propuestas sobre, entre otras, las materias siguientes:

- Calidad y eficiencia de su funcionamiento.
- Auditoría externa de las cuentas anuales individuales y consolidadas.
- Supervisión del proceso de elaboración de Información económica.
- Situación fiscal.
- Independencia del Auditor.
- Operaciones vinculadas.
- Verificación del sistema de prevención penal.
- Supervisión de los sistemas de control de riesgos y análisis de riesgos específicos
- Supervisión de los sistemas de control interno y de auditoría interna

**Identifique a los consejeros miembros de la comisión de auditoría que haya sido designado teniendo en cuenta sus conocimientos y experiencia en materia de contabilidad, auditoría o en ambas e informe sobre la fecha de nombramiento del Presidente de esta comisión lleva en el cargo.**

Nombre de los consejeros con experiencia	DON RAMÓN ADELL RAMÓN
Fecha de nombramiento del presidente en el cargo	27/06/2018

**OBSERVACIONES**

**COMISIÓN DE NOMBRAMIENTOS Y RETRIBUCIONES**

Nombre	Cargo	Categoría
Don Ramon Adell Ramon	Presidente	Independiente
Don Francisco Belil Creixell	Vocal	Independiente
Don Pedro Sainz De Baranda Riva	Vocal	Independiente
Claudi Santiago Ponsa	Vocal	Independiente
Don Marcelino Armenter Vidal	Vocal	Dominical
Don William Alan Woodburn	Vocal	Dominical
Rioja Bidco Shareholdings Slu D. Javier De Jaime Guijarro	Vocal	Dominical

% de consejeros dominicales	42,86%
% de consejeros independientes	57,14%
% de otros externos	-

<b>Observaciones</b>

**Explique las funciones que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma. Para cada una de estas funciones, señale sus actuaciones más importantes durante el ejercicio y cómo ha ejercido en la práctica cada una de las funciones que tiene atribuidas ya sea en la ley o en los estatutos u otros acuerdos sociales.**

**a) Funciones de la Comisión de Nombramientos y Retribuciones:**

La Comisión tiene las competencias que le señala la Ley y las que le sean encomendadas por el Consejo de Administración con carácter general o particular.

En Consejo de Administración le ha encomendado las funciones siguientes:

- Elaborar el informe sobre el funcionamiento de la Comisión de Nombramientos y Retribuciones.
- Verificar la política de selección de Consejeros e informar de ello en el Informe Anual de Gobierno Corporativo.
- Por delegación que le debe otorgar el Presidente del Consejo, organizar y coordinar la evaluación periódica del Consejo y la del primer ejecutivo de la Sociedad.
- Elaborar el informe sobre el funcionamiento del Consejo de Administración.
- Proponer al Consejo de Administración las condiciones básicas de los contratos de los altos directivos.
- Comprobar la observancia de la política retributiva establecida por la Sociedad.
- Revisar periódicamente la política de remuneraciones aplicada a los consejeros y altos directivos.
- Velar por que los eventuales conflictos de intereses no perjudiquen la independencia del asesoramiento externo prestado a la comisión.
- Verificar la información sobre remuneraciones de los consejeros y altos directivos contenida en los distintos documentos corporativos.
  
- Por acuerdo del Consejo de Administración de 29 de enero de 2016 se le encomendó ejercitar todas las competencias en materia de responsabilidad social corporativa que hasta dicha fecha eran ejercidas por la Comisión de Auditoría.
- Por acuerdo del Consejo de Administración de 6 de marzo de 2018 se acuerda encomendar a la Comisión de Nombramientos y Retribuciones las tareas que hasta ahora correspondían a la Comisión de Auditoría siguientes:
  - i) Seguimiento de las incidencias más relevantes en materia de seguridad, salud y medioambiente.
  - ii) Elevar propuestas e informar las iniciativas en materia de gobierno corporativo.

## **b) Procedimientos y reglas de organización y funcionamiento**

### **conforme al art. 25 Reglamento Consejo**

La Comisión de Nombramientos y Retribuciones estará constituida por un mínimo de tres y un máximo de siete Consejeros, designados por el Consejo de Administración de entre los Consejeros no Ejecutivos, y al menos uno de ellos será designado teniendo en cuenta sus conocimientos y experiencia en materia de contabilidad, auditoría o en ambas. Sus miembros cesarán cuando lo hagan en su condición de Consejeros o cuando así lo acuerde el Consejo de Administración.

La mayoría de los miembros de la Comisión tendrán la categoría de Consejero Independiente de entre los cuales el Consejo de Administración elegirá al Presidente de la misma, quien no tendrá voto de calidad. La secretaría de la Comisión corresponderá a la secretaría del Consejo de Administración si bien podrá actuar como secretario de la Comisión el Vicesecretario, si lo hubiere.

La Comisión, convocada por su Presidente, se reunirá cuando sea necesario

para la emisión de los informes o propuestas de su competencia o lo cuando lo estime conveniente su Presidente o previa solicitud de dos de sus miembros y al menos, cuatro veces al año. La Comisión podrá invitar a sus reuniones a cualquier directivo o empleado que considere conveniente.

**c) Actuaciones más importantes durante el ejercicio de 2018:**

La Comisión de Nombramientos y Retribuciones ha centrado su actuación en tres aspectos fundamentales:

- i) Gobierno corporativo: ha propuesto la adopción e implementación de un Plan Acción en materia de gobierno corporativo, que incluía importantes medidas de simplificación (reducción del número de consejeros, modificaciones en los principales textos normativos, etc)
- ii) Propuesta de nuevos Consejeros: a la vista de los perfiles cuyo reforzamiento se detectó a raíz del proceso de autoevaluación realizado con la ayuda de asesor externo, ha analizado y emitido opinión acerca de los candidatos a cubrir los puestos de Consejeros dominicales y formulado las correspondientes propuestas en lo que se refiere a consejeros independientes.
- iii) Retribuciones: se ha analizado en detalle el nuevo esquema retributivo del Presidente ejecutivo y de la alta dirección, en especial, en lo que respecta al nuevo incentivo a largo plazo. Se ha analizado igualmente la política de remuneraciones de la Compañía, para su aprobación por la Junta.

Adicionalmente, ha trabajado sobre los siguientes aspectos:

- Calidad y eficiencia de su funcionamiento.
- Supervisión modelo de responsabilidad social corporativa
- Seguridad y Salud

**COMISIÓN DE NOMBRAMIENTOS**

Nombre	Cargo	Categoría

% de consejeros dominicales
% de consejeros independientes
% de otros externos

<b>Observaciones</b>

**Explique las funciones que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma y resuma sus actuaciones más importantes durante el ejercicio.**

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**COMISIÓN DE RETRIBUCIONES**

Nombre	Cargo	Categoría

% de consejeros dominicales	
% de consejeros independientes	
% de otros externos	

**Explique las funciones que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma y resuma sus actuaciones más importantes durante el ejercicio.**

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**COMISIÓN DE \_\_\_\_\_**

Nombre	Cargo	Categoría

% de consejeros dominicales	
% de consejeros independientes	
% de otros externos	

**Explique las funciones que tiene atribuidas esta comisión, describa los procedimientos y reglas de organización y funcionamiento de la misma y resuma sus actuaciones más importantes durante el ejercicio.**

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**C.2.2 Complete el siguiente cuadro con la información relativa al número de consejeras que integran las comisiones del consejo de administración durante los últimos cuatro años:**

	Número de consejeras							
	Ejercicio 2018		Ejercicio 2017		Ejercicio 2016		Ejercicio 2015	
	Número	%	Número	%	Número	%	Número	%
<b>Comisión ejecutiva</b>	-	-	1	10%	1	10%	0	0
<b>Comisión de auditoría</b>	1	14,28%	2	28,57%	2	28,57%	0	0
<b>Comisión de nombramientos y retribuciones</b>	0	0%	1	20%	1	20%	1	33%
<b>Comisión de nombramientos</b>	-	-	-		-	-	-	-
<b>Comisión de</b>	-	-	-		-	-	-	-

retribuciones								
Comisión de _____	-	-	-	-	-	-	-	-

**C.2.3 Indique, en su caso, la existencia de regulación de las comisiones del consejo, el lugar en que están disponibles para su consulta, y las modificaciones que se hayan realizado durante el ejercicio. A su vez, se indicará si de forma voluntaria se ha elaborado algún informe anual sobre las actividades de cada comisión.**

Las Comisiones del Consejo se hallan reguladas en los Estatutos Sociales y en el Reglamento organización y funcionamiento del Consejo de Administración de NATURGY y sus Comisiones.

Ambos documentos se encuentran publicados en la página web de la Compañía ([www.naturgy.com](http://www.naturgy.com)) →Accionistas e inversores →Gobierno Corporativo →Normas de gobierno corporativo.

Tanto la Comisión Ejecutiva como la Comisión de Auditoría y la Comisión de Nombramientos y Retribuciones han elaborado un informe sobre la calidad y eficacia de su funcionamiento durante el ejercicio anterior.

## **D OPERACIONES VINCULADAS Y OPERACIONES INTRAGRUPU**

**D.1 Explique, en su caso, el procedimiento para la aprobación de operaciones con partes vinculadas e intragrupo.**

Procedimiento para informar la aprobación de operaciones vinculadas
<p>Conforme al art. 3.II h) del Reglamento del Consejo de Administración entre las competencias indelegables del Consejo pero que podrán adoptarse por la Comisión Ejecutiva o por el/los Consejero/s Delegado/s, por razones de urgencia debidamente justificadas y que deberán ser ratificadas en el primer Consejo de Administración que se celebre tras la adopción de la decisión está la aprobación, previo informe de la Comisión de Auditoría, de las operaciones que la Sociedad o sociedades de su grupo realicen con consejeros, en los términos establecidos en la legislación vigente, o con accionistas titulares, de forma individual o concertadamente con otros, de una participación significativa, incluyendo accionistas representados en el Consejo de Administración de la Sociedad o de otras sociedades que formen parte del mismo grupo o con personas a ellos vinculadas.</p> <p>En algunas circunstancias y de manera limitada, el Consejo ha otorgado autorizaciones genéricas de operaciones vinculadas con alguno de sus accionistas, siempre en cuestiones de índole menor vinculadas al tráfico ordinario de la Sociedad, y con la exigencia de que se realicen en condiciones de mercado y con la obligación de dar cuenta anualmente a la Comisión de Auditoría del uso de dicha autorización</p> <p>En lo que se refiere a las operaciones con CAIXABANK, dicha entidad estaba controlada y formaba grupo con CRITERIA hasta 2017 cuando se han cumplido las condiciones establecidas por el BCE para la desconsolidación.</p>

**D.2 Detalle aquellas operaciones significativas por su cuantía o relevantes por su materia realizadas entre la sociedad o entidades de su grupo, y los accionistas significativos de la sociedad:**

Nombre o denominación social del accionista significativo	Nombre o denominación social de la sociedad o entidad de su grupo	Naturaleza de la relación	Tipo de la operación	Importe (miles de euros)
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Recepción de servicios	12
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Prestación de servicios	36
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Ventas de bienes terminados o no	3.095
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	346.808
Repsol, S.A.	Naturgy Energy Group, S.A.	Comercial	Recepción de servicios	3.944
Repsol, S.A.	Naturgy Energy Group, S.A.	Comercial	Compras de bienes terminados o no	160.003
Repsol, S.A.	Naturgy Energy Group, S.A.	Comercial	Prestación de servicios	20.545
Repsol, S.A.	Naturgy Energy Group, S.A.	Comercial	Ventas de bienes terminados o no	367.115
Repsol, S.A.	Naturgy Energy Group, S.A.	Comercial	Compras de inmovilizado material	295
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	281.202
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	280.193

Observaciones

**D.3 Detalle las operaciones significativas por su cuantía o relevantes por su materia realizadas entre la sociedad o entidades de su grupo, y los administradores o directivos de la sociedad:**

Nombre o denominación social de los administradores o directivos	Nombre o denominación social de la parte vinculada	Vínculo	Naturaleza de la operación	Importe (miles de euros)

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<b>Observaciones</b>

**D.4 Informe de las operaciones significativas realizadas por la sociedad con otras entidades pertenecientes al mismo grupo, siempre y cuando no se eliminen en el proceso de elaboración de estados financieros consolidados y no formen parte del tráfico habitual de la sociedad en cuanto a su objeto y condiciones.**

**En todo caso, se informará de cualquier operación intragrupo realizada con entidades establecidas en países o territorios que tengan la consideración de paraíso fiscal:**

Denominación social de la entidad de su grupo	Breve descripción de la operación	Importe (miles de euros)

<b>Observaciones</b>

**D.5 Indique el importe de las operaciones realizadas con otras partes vinculadas.**

0 (en miles de Euros).

**D.6 Detalle los mecanismos establecidos para detectar, determinar y resolver los posibles conflictos de intereses entre la sociedad y/o su grupo, y sus consejeros, directivos o accionistas significativos.**

<p>1.- Consejeros:</p> <p>Conforme al Reglamento del Consejo:</p> <p>El Consejero está sometido al deber de lealtad en los términos establecidos en la legislación vigente y, en particular:</p> <ul style="list-style-type: none"> <li>- El Consejero deberá abstenerse de participar en la deliberación y votación de acuerdos o decisiones en las que él o una persona vinculada tenga un conflicto de intereses, directo o indirecto. Se excluirán de la anterior obligación de abstención los acuerdos o decisiones que le afecten en su condición de administrador, tales como su designación o revocación para cargos en el órgano de administración u otros de análogo significado.</li> <li>- El Consejero también deberá adoptar las medidas necesarias para evitar incurrir en situaciones en las que sus intereses, sean por cuenta propia o ajena, puedan entrar en conflicto con el interés social y con sus deberes para con la Sociedad.</li> <li>- En su condición de representante leal de la Sociedad deberá informar a esta última de las acciones de la misma, de que sea titular, directamente o a través de</li> </ul>
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sociedades en las que tenga una participación significativa, siguiendo el procedimiento y demás trámites que se establezcan sobre inversión en acciones de NATURGY ENERGY GROUP S.A. y Sociedades participadas.

- El Consejero deberá notificar a la Sociedad los cambios significativos en su situación profesional y los que afecten al carácter o categoría en que se halle clasificado.

- El Consejero informará a la Sociedad sobre cualquier tipo de reclamación judicial, administrativa o sobre hechos de cualquier índole en los que se encuentre implicado que, por su importancia, pudieran incidir gravemente en la reputación de la Sociedad. El Consejo examinará la cuestión y adoptará las medidas que sean aconsejables en interés de la Sociedad con la urgencia requerida.

El Consejo de Administración procurará evitar en todo momento que los Consejeros Dominicales hagan uso de su posición para obtener ventajas patrimoniales sin contrapartida adecuada, en beneficio del accionista que les propuso para el cargo.

El Consejero deberá abstenerse de desarrollar actividades por cuenta propia o cuenta ajena que entrañen una competencia efectiva, sea actual o potencial, con la Sociedad o que, de cualquier otro modo, le sitúen en un conflicto permanente con los intereses de la Sociedad. En particular, el Consejero no podrá desempeñar, por sí o por persona interpuesta, cargos de todo orden en las empresas o sociedades competidoras de NATURGY ENERGY GROUP S.A. o de cualquier empresa de su Grupo, ni tampoco prestar a favor de las mismas servicios de representación o de asesoramiento. Se entenderá que una sociedad es competidora de NATURGY ENERGY GROUP S.A. cuando, directa o indirectamente, o a través de las sociedades de su Grupo, se dedique a cualquiera de las actividades incluidas en el objeto social de ésta.

## 2.- Consejeros y Directivos:

Por otra parte, conforme al art. 5 del Reglamento Interno de Conducta en Materias relativas a los Mercados de Valores (RIC), las Personas con Responsabilidades de Dirección y las Personas Iniciadas, durante determinados períodos de tiempo se abstendrán de realizar operaciones, por su cuenta o por cuenta de un tercero, directa o indirectamente sobre los Valores Afectados ((i) Los valores mobiliarios emitidos por la Sociedad y/o por las sociedades del Grupo NTGY que se negocien en un mercado secundario u otros mercados regulados, en sistemas multilaterales de negociación o en otros mercados secundarios organizados, o respecto de los cuales se haya cursado una solicitud de admisión a negociación en uno de tales mercados o sistemas, (ii) Los instrumentos financieros y contratos de cualquier tipo que otorguen el derecho a la adquisición de los valores indicados en (i), (iii) Los instrumentos financieros y contratos cuyo subyacente sean los valores indicados en (i) y (iv) A los solos efectos de las normas de conducta en relación con la información privilegiada contenida en el Título III del Reglamento, los valores e instrumentos financieros emitidos por otras sociedades o entidades distintas a la Sociedad, respecto de los que se disponga de Información Privilegiada.)

Auditoría Interna, previa solicitud por escrito a la Secretaria del Consejo por parte del interesado, podrá autorizar a las Personas con Responsabilidades de Dirección a realizar operaciones personales sobre valores Afectados en los períodos en los que existe la prohibición general cuando se den y justifiquen determinadas circunstancias previstas en el propio RIC. Auditoría Interna informará al menos una vez al año a la Comisión de Auditoría sobre las

autorizaciones que hubieran sido solicitadas.

Por su parte, conforme al apartado 4.10 del Código Ético, los empleados deberán informar a la empresa en el caso de que ellos o sus familiares cercanos participen o vayan a participar en los órganos de gobierno de otras sociedades que puedan entrar en colisión con los intereses de NTGY. Durante el desempeño de sus responsabilidades profesionales, los empleados deben actuar con lealtad y atendiendo a la defensa de los intereses del grupo. Asimismo, deben evitar situaciones que puedan dar lugar a un conflicto entre los intereses personales y los de la empresa. Por ello, los empleados de NTGY deben abstenerse de representar a la empresa e intervenir o influir en la toma de decisiones en cualquier situación en la que directa o indirectamente tengan un interés personal.

**3.- Accionistas significativos:**

Corresponde al Consejo de Administración, previo informe de la Comisión de Auditoría, la aprobación de las operaciones que la Sociedad o sociedades de su grupo realicen con consejeros, en los términos establecidos en la legislación vigente, o con accionistas titulares, de forma individual o concertadamente con otros, de una participación significativa, incluyendo accionistas representados en el Consejo de Administración de la Sociedad o de otras sociedades que formen parte del mismo grupo o con personas a ellos vinculadas.

**D.7 ¿Cotiza más de una sociedad del Grupo en España?**

SI NO

**Identifique a las sociedades filiales que cotizan en España:**

Sociedades filiales cotizadas

**Indique si han definido públicamente con precisión las respectivas áreas de actividad y eventuales relaciones de negocio entre ellas, así como las de la sociedad dependiente cotizada con las demás empresas del grupo:**

SI NO

Defina las eventuales relaciones de negocio entre la sociedad matriz y la sociedad filial cotizada, y entre ésta y las demás empresas del grupo

**Indique los mecanismos previstos para resolver los eventuales conflictos de intereses entre la filial cotizada y las demás empresas del grupo:**

Mecanismos para resolver los eventuales conflictos de interés

**E.1 Explique el alcance del Sistema de Gestión de Riesgos de la sociedad incluidos los de naturaleza fiscal.**

El Sistema de Gestión de Riesgos funciona de forma integral y continua, e incorpora las visiones de Gobierno Corporativo, Riesgos y Cumplimiento de la Compañía posibilitando una visión completa de los procesos del Grupo, los controles existentes sobre los mismos y el riesgo asociado.

El sistema asegura la independencia de las funciones de control y gestión de riesgos atribuidas a cada uno de los órganos y unidades responsables y se ocupa de determinar límites para las principales categorías de riesgo con el objetivo de definir el perfil global de riesgo objetivo de la Compañía, garantizando la predictibilidad de su desempeño en todos los aspectos relevantes para sus grupos de interés.

La gestión global del riesgo tiene como objetivo principal garantizar que los riesgos más relevantes sean correctamente identificados, evaluados y gestionados, con la finalidad de asegurar que el nivel de exposición al riesgo asumido por Naturgy en el desarrollo de sus actividades sea congruente con el perfil global de riesgo objetivo definido y con la consecución de los objetivos anuales y estratégicos.

**E.2 Identifique los órganos de la sociedad responsables de la elaboración y ejecución del Sistema de Gestión de Riesgos incluido el fiscal.**

**El Comité de Riesgos**

Evalúa y determina recurrentemente el perfil de riesgo global de Naturgy, a partir de la información que se solicite a las diferentes Unidades responsables y propone los límites de riesgo globales para su consideración y aprobación por parte del Presidente, determinándose de este modo el perfil global de riesgo objetivo.

**El Área Financiera**

A través de su unidad de Riesgos y Seguros, es responsable de dar apoyo al Comité de Riesgos en la determinación y seguimiento del perfil global de riesgo y la determinación del perfil de riesgo objetivo, a través de la concreción de políticas y métricas en coordinación con las unidades de negocio afectas. En particular se responsabiliza de coordinar con las unidades relevantes y emitir los informes de riesgos recurrentes a trasladar al Consejo de Administración, entre ellos el Mapa Corporativo de Riesgos.

**Auditoría Interna**

Es responsable de garantizar una supervisión eficaz del sistema de control interno que asegure la eficiencia y eficacia en las operaciones, la transparencia y fiabilidad de la información financiera y de gestión, la salvaguarda de los activos del grupo y el cumplimiento de la normativa interna y externa aplicable, así como realizar aportaciones independientes y objetivas para agregar valor y mejorar las operaciones de la organización y contribuir a los intereses de los accionistas. Asimismo, a través de las auditorías oportunas, se encarga de examinar el nivel de cumplimiento de la presente Política de Control y Gestión de Riesgos y de los procedimientos que la

desarrollen.

### **La Comisión de Auditoría**

Es un órgano consultivo que presta asesoramiento especializado en todo aquello que tenga relación con la auditoría externa, los sistemas de gestión de riesgos y control interno.

### **Las Unidades de Negocio, Servicio y Proyectos**

Son responsables de la gestión del riesgo en sus ámbitos de responsabilidad, observando, reportando, gestionando y mitigando los diferentes riesgos que se hayan identificado.

### **E.3 Señale los principales riesgos, incluidos los fiscales, que pueden afectar a la consecución de los objetivos de negocio.**

	Descripción	Gestión
Riesgo de mercado		
Precio del gas	Volatilidad en los mercados internacionales que determinan el precio del gas.	Coberturas físicas y financieras. Gestión de la cartera
Precio de la electricidad	Volatilidad en los mercados de electricidad en España y Portugal.	Coberturas físicas y financieras. Optimización del parque de generación.
Volumen de gas	Desajuste entre la oferta y la demanda de gas.	Optimización de contratos y activos. Trading.
Volumen de electricidad	Reducción del hueco térmico disponible. Incertidumbre en el volumen de producción hidráulica.	Optimización del balance de comercialización/generación.
Regulación	Exposición a la revisión de los criterios y niveles de rentabilidad reconocida para las actividades reguladas.	Intensificación de la comunicación con organismos reguladores. Ajuste de eficiencias e inversiones a las tasas reconocidas.
Tipo de cambio	Volatilidad en los mercados internacionales de divisa.	Diversificación geográfica. Coberturas mediante financiación en moneda local y derivados. Seguimiento de la posición neta.
Tipo de interés y spread crediticio	Volatilidad en los tipos de financiación.	Coberturas financieras. Diversificación de fuentes de financiación.

Fiscal	Ambigüedad o subjetividad en la interpretación de la normativa fiscal vigente, o bien por la alteración relevante de la misma.	Consultas a organismos expertos independientes. Contratación de firmas asesoras de primer nivel. Adhesión al Código de Buenas Prácticas Tributarias. Dotación de provisiones con criterios de prudencia.
Riesgo de crédito		
Crédito	Incertidumbre sobre la evolución de los ratios de morosidad condicionados por el ciclo económico.	Análisis de solvencia de clientes para definir condiciones contractuales específicas. Proceso de recobro.
Riesgo operacional		
Operacional: imagen y reputación	Deterioro de la percepción de NTGY desde diferentes grupos de interés.	Identificación y seguimiento de potenciales eventos reputacionales. Transparencia en la comunicación.
Operacional: asegurable	Accidentes, daños o indisponibilidades en los activos de NTGY.	Planes de mejora continua. Optimización del coste total del riesgo y de las coberturas.
Operacional: medio ambiente	Daños al entorno natural y/o social. Evolución de la regulación ambiental.	Planes de emergencia en instalaciones con riesgo de accidente ambiental. Pólizas de seguro específicas. Gestión integral ambiental.
Operacional: cambio climático	Evolución de factores medioambientales consecuencia del cambio climático. Regulación orientada a combatirlo.	Posicionamiento corporativo frente al cambio climático. Participación activa en foros de influencia.
Operacional: ciberseguridad	Ataques informáticos	Implementación medidas seguridad Análisis de eventos y aplicación de remedios Formación

**E.4 Identifique si la entidad cuenta con un nivel de tolerancia al riesgo incluido el fiscal.**

La compañía cuenta con niveles de tolerancia al riesgo establecidos a nivel corporativo para las principales tipologías de riesgo.

El proceso de evaluación de riesgos nace en la identificación de los mismos, generalmente por parte de los negocios que soportan la exposición. Dicha

identificación se produce en el momento de originarse la exposición. No obstante, anualmente se realiza una revisión en profundidad por parte de las Unidades de Riesgos para garantizar la correcta identificación de todas las exposiciones, tanto actuales como potenciales.

Es responsabilidad de las Unidades de Riesgos realizar la evaluación de los riesgos identificados, atendiendo a:

- a) Posición en riesgo: Definición y características.
- b) Variables de impacto.
- c) Severidad cualitativa y cuantitativa en caso de materialización del riesgo.
- d) Probabilidad de ocurrencia.
- e) Controles y mecanismos de mitigación empleados y efectividad de los mismos.

Finalmente, propondrá un nivel de tolerancia para las tipologías identificadas, que será aprobado por el Comité de Riesgos.

**E.5 Indique qué riesgos, incluidos los fiscales, se han materializado durante el ejercicio.**

Los riesgos materializados durante el ejercicio han sido inherentes a la propia actividad desarrollada, como por ejemplo: exposición a riesgos regulatorios, volatilidad de combustibles y del pool en España, de tipo de cambio, de tipo de interés, de crédito o contraparte.

Los mecanismos de control de riesgos han permitido mantener el impacto dentro del rango de tolerancia de la compañía, definido mediante los límites de riesgo en vigor.

Ante la incertidumbre en la perspectiva económica del país y mundial, la compañía buscará posicionarse en países que fomenten seguridad jurídica, desarrollos económicos en entornos macroeconómicos estables que permitan garantizar un crecimiento constante que contribuya a la generación de valor y rentabilidad de los negocios y empresa, equilibrando el peso de sus negocios en su mix de actividades y pondrá mayor ambición en aumentar la contribución de las actividades reguladas y un perfil más eléctrico.

Con posterioridad a la aprobación del nuevo Plan Estratégico 2018-2022 se han registrado deterioros o saneamientos de activos por importe de €4.851 millones, originados por la reevaluación de las estimaciones de flujos de efectivo futuros basados en el mencionado Plan, así como por otros factores acaecidos durante el período.

**E.6 Explique los planes de respuesta y supervisión para los principales riesgos de la entidad, incluidos los fiscales.**

Los riesgos susceptibles de afectar al desempeño de NTGY se recogen en el Mapa Corporativo de Riesgos que contiene:

- Definición y características de los principales factores de riesgo.
- Aspectos evolutivos del mapa de Riesgos.
- Variables de impacto.
- Principales metodologías de medición empleados por tipo de riesgo.
- Severidad cualitativa, cuantitativa y probabilística de la materialización del riesgo.
- Controles definidos y efectividad de los mismos.

Las Unidades de Control de Riesgos y otras áreas específicas (Regulación, Medio Ambiente, Generación) realizan mediciones periódicas de la evolución de los riesgos principales, señalando las indicaciones oportunas en caso de observar niveles de exposición o tendencias en su evolución que pudieran exceder la tolerancia establecida.

**F SISTEMAS INTERNOS DE CONTROL Y GESTIÓN DE RIESGOS EN RELACIÓN CON EL PROCESO DE EMISIÓN DE LA INFORMACIÓN FINANCIERA (SCIIF)**

**Describe los mecanismos que componen los sistemas de control y gestión de riesgos en relación con el proceso de emisión de información financiera (SCIIF) de su entidad.**

**F.1 Entorno de control de la entidad**

**Informe, señalando sus principales características de, al menos:**

**F.1.1. Qué órganos y/o funciones son los responsables de: (i) la existencia y mantenimiento de un adecuado y efectivo SCIIF; (ii) su implantación; y (iii) su supervisión.**

NTGY ha definido su Sistema de Control Interno de Información Financiera (en adelante, SCIIF) en la “Norma General del Sistema de Control Interno de la Información Financiera (SCIIF) de NTGY”.

Como parte del SCIIF, NTGY ha definido, en la citada Norma General, el modelo de responsabilidades del mismo. Este modelo se articula en torno a los siguientes cinco ámbitos de responsabilidad:

- Consejo de Administración: Es responsable de la existencia de un SCIIF adecuado y eficaz, cuya supervisión tiene delegada en la Comisión de Auditoría.

El Reglamento de Organización y Funcionamiento del Consejo de Administración de Naturgy Energy Group, S.A. y sus Comisiones, en su artículo 3 apartado II, establece que la determinación de la política de control y gestión de riesgos, incluidos los fiscales, y la supervisión de los sistemas internos de información y control es, entre otras, una materia ordinariamente indelegable del Consejo de Administración.

- Comisión de Auditoría: Esta Comisión tiene, entre otras, la responsabilidad en la supervisión del SCIIF. El Reglamento del Consejo de Administración en su artículo 26 apartado 2, indica que la Comisión tiene las competencias que le señala la Ley y las que le sean encomendadas por el Consejo de Administración con carácter general o particular. Así, la Ley de Sociedades de Capital en su artículo 529.14 dice en su apartado 4.b) que la Comisión de Auditoría tendrá la función de supervisar la eficacia del control interno de la sociedad, la auditoría interna y los sistemas de gestión de riesgos, así como discutir con el auditor de cuentas las debilidades significativas del sistema de control interno detectadas en el desarrollo de la auditoría. Con carácter particular y en relación con los sistemas de información y control, la Comisión de Auditoría tiene encomendada, entre otras, la supervisión del proceso de elaboración y la integridad de la información financiera relativa a la sociedad y, en su caso, al grupo, revisando el cumplimiento de los requisitos normativos, la adecuada delimitación del perímetro de consolidación y la correcta aplicación de los criterios contables. Para el

desarrollo de parte de estas funciones la Comisión de Auditoría cuenta con la unidad de Auditoría Interna.

- Dirección Financiera: Es responsable del diseño, implantación y funcionamiento del SCIIF. Para el desarrollo de esta función cuenta con la unidad de Contabilidad.
- Unidad de Auditoría Interna: En general, es responsable de apoyar a la Comisión de Auditoría en la supervisión y evaluación continua de la eficacia del Sistema de Control Interno en todos los ámbitos de NTGY, aportando un enfoque metódico y riguroso para el seguimiento y mejora de los procesos y para la evaluación de los riesgos y controles operacionales asociados a los mismos, incluidos los correspondientes al SCIIF y al Modelo de Prevención Penal.
- Unidad de Compliance.
- Unidades de negocio, unidades Servicio y Proyectos implicadas en el proceso de elaboración de información financiera. Son responsables de ejecutar los procesos y mantener la operativa diaria asegurando que se realizan las actividades de control implantadas.

**F.1.2. Si existen, especialmente en lo relativo al proceso de elaboración de la información financiera, los siguientes elementos:**

- **Departamentos y/o mecanismos encargados: (i) del diseño y revisión de la estructura organizativa; (ii) de definir claramente las líneas de responsabilidad y autoridad, con una adecuada distribución de tareas y funciones; y (iii) de que existan procedimientos suficientes para su correcta difusión en la entidad.**

El diseño y revisión de la estructura organizativa del primer nivel de dirección, así como la definición de las líneas de responsabilidad son realizados por el Consejo de Administración, por medio del Consejero Delegado y de la Comisión de Nombramientos y Retribuciones.

Para garantizar la adecuada gestión de la información económico-financiera del grupo, la Dirección Financiera ha desarrollado, como parte del SCIIF, una instrucción técnica consistente en un mapa de interrelaciones (flujos de información) del proceso de elaboración de información financiera en el que documenta las comunicaciones entre la Dirección Financiera, los distintos responsables de los procesos y los responsables que son origen o destino de la información financiera y que se denomina “Mapa de interrelaciones de la información financiera de NTGY”.

En este sentido, seis son los ejes que NTGY ha tenido en cuenta para la elaboración del mapa de interrelaciones de los procesos de elaboración de la información financiera:

- (i) la información necesaria para elaborar la información financiera;
- (ii) los responsables que sean origen o destino de la información financiera y
- (iii) la distribución de tareas entre las distintas unidades organizativas
- (iv) el alcance de dicha distribución a todas las empresas del grupo
- (v) la periodicidad de la transmisión de la información.



(vi) los sistemas de información que intervienen en el proceso de elaboración y emisión de la información financiera;

De esta forma, mediante el mapa de interrelaciones de NTGY, quedan definidos claramente los procesos que impactan en la elaboración de la información financiera, tanto los procesos operativos con impacto relevante sobre la información financiera como los procesos ligados al área administrativa y contable, y los responsables implicados en la misma.

- **Código de conducta, órgano de aprobación, grado de difusión e instrucción, principios y valores incluidos (indicando si hay menciones específicas al registro de operaciones y elaboración de información financiera), órgano encargado de analizar incumplimientos y de proponer acciones correctoras y sanciones.**

Dentro de los compromisos de la alta dirección de NTGY se encuentra orientar sus esfuerzos a que las operaciones se desarrollen en un entorno de prácticas profesionales éticas, no sólo con la implantación de mecanismos encaminados a prevenir y detectar fraudes cometidos por empleados, o prácticas inapropiadas que puedan suponer sanciones, multas o dañar la imagen de NTGY, sino también reforzando la importancia de los valores éticos y de integridad entre sus profesionales.

En este sentido, NTGY cuenta con un Código de Conducta (en adelante Código Ético), el cual fue aprobado por el Consejo de Administración en sesión celebrada el 31 de marzo de 2005, que es de obligado cumplimiento para todos los empleados de NATURGY ENERGY GROUP, S.A. y de todas las empresas participadas en las que NTGY tiene el control de la gestión. Las actualizaciones y modificaciones del Código Ético son realizadas por el Consejo de Administración de NATURGY ENERGY GROUP, S.A.

Desde su aprobación, se ha modificado en cuatro ocasiones, la última de las cuales tuvo lugar el 27 de junio de 2014, con objeto de actualizarlo e incorporar los nuevos compromisos adquiridos por NTGY en relación a la entrada en vigor de la reforma del Código Penal (Ley Orgánica 5/2010), la implantación de un Modelo de Prevención Penal en el grupo, la emisión de la Política Anticorrupción de NTGY y para adaptarlo a las mejores prácticas de Responsabilidad Corporativa.

El Código Ético recoge los principios éticos generales para el conjunto del NTGY, que se concretan en los valores a seguir en la práctica en toda la organización y en el que se incluye: (i) Objeto (ii) ámbito de aplicación (implicación a todos los miembros de NTGY ); (iii) principios rectores de la conducta en NTGY (declaración del estilo de gobierno del grupo); (iv) pautas de conducta (declaración de los valores clave de NTGY); (v) aceptación y cumplimiento del Código; (vi) Comisión del Código Ético y (vii) vigencia.

El Código Ético considera como criterios generales rectores de la conducta en NTGY la integridad y la responsabilidad en el desempeño profesional. Específicamente, establece una serie de pautas de conducta en mayor o menor medida relacionadas con la fiabilidad de la información financiera y el cumplimiento de la normativa aplicable, en concreto:

- Respeto a la legalidad, derechos humanos y a los valores éticos. (Apartado 4.1)

“NTGY asume el compromiso de actuar en todo momento de acuerdo con la legislación vigente, con el Sistema Normativo interno establecido con las prácticas éticas internacionalmente aceptadas, con total respeto hacia los derechos humanos y las libertades públicas (...)”

- Tratamiento de la información y del conocimiento (Apartado 4.11):

“Todos los empleados que introduzcan cualquier tipo de información en los sistemas informáticos del grupo, deben velar porque ésta sea rigurosa y fiable.

En particular, todas las transacciones económicas del grupo deberán ser reflejadas con claridad y precisión en los registros correspondientes, a través de las correspondientes Cuentas Contables, así como todas las operaciones realizadas y todos los ingresos y gastos incurridos.

Los empleados de NTGY se abstendrán de cualquier práctica que contravenga el compromiso de reflejar con claridad y precisión todas las transacciones económicas en las Cuentas del grupo”.

NTGY tiene además establecida una Política Anticorrupción, la cual fue aprobada por el Comité de Dirección en sesión celebrada el 3 de marzo de 2014, y modificada en la sesión de 24 de Noviembre de 2015, que es de obligado cumplimiento para todos los empleados de todas las empresas que conforman el grupo NTGY con participación mayoritaria y a aquéllas en las que se tiene responsabilidad en su operación y/o gestión. La Política se entiende como una extensión del capítulo 4.7. “Corrupción y Soborno” del Código Ético del grupo y tiene por objeto establecer los principios que deben guiar la conducta de todos los empleados y administradores de las empresas de NTGY con respecto a la prevención, detección, investigación y remedio de cualquier práctica corrupta en el seno de la organización.

En julio de 2005 se constituyó la Comisión del Código Ético de NTGY con la misión principal de promover su difusión y aplicación en todo el grupo y facilitar un canal de comunicación a todos los empleados para recabar consultas y notificaciones de incumplimientos del Código y la Política Anticorrupción. Las funciones de esta Comisión han sido asumidas, con fecha 30 de octubre de 2018, por el Comité de Ética y Cumplimiento.

El Comité está presidido por la Unidad de Compliance y está formado por representantes de diferentes Unidades implicadas en el seguimiento del cumplimiento del Código Ético y la Política Anticorrupción.

El Comité reporta regularmente a la alta dirección y a la Comisión de Auditoría. Su naturaleza es de informe y recomendación, proponiendo acciones correctoras a las unidades encargadas de dar solución a los problemas que plantea la aplicación práctica del Código Ético y de la Política Anticorrupción y actuando a su vez de enlace entre éstas y los empleados.

El régimen sancionador, en los casos que sea necesario, es establecido por la Unidad de Recursos Humanos.

Para favorecer no sólo el ejercicio de dicha responsabilidad sino también el conocimiento y difusión del Código Ético, éste se encuentra disponible en 9 idiomas:

- Desde el exterior: web corporativa de NTGY.
- Internamente, en la plataforma del grupo Naturalnet.

Adicionalmente se han desarrollado cursos de formación “on line” a través de la Universidad Corporativa de NTGY, que son obligatorios para todos los empleados de NTGY.

NTGY, lleva a cabo de forma periódica campañas de Declaración de Cumplimiento del Código Ético y la Política Anticorrupción, con el fin de dar a conocer las pautas de conducta que se esperan de todos los empleados, difundir los mecanismos existentes para realizar consultas y notificaciones, así como formalizar periódicamente el compromiso por parte de todos los empleados del grupo con la ética y la integridad.

NTGY, para fomentar el conocimiento del Código Ético entre sus proveedores y empresas colaboradoras recoge en las Condiciones Generales Globales de Contratación una cláusula en la que promueve entre los proveedores prácticas acordes con las pautas de conducta incluidas en el Código Ético de NTGY, y se informa a los mismos donde pueden encontrar el Código Ético del grupo, así como información del canal de consultas y notificaciones de aspectos relacionados con el Código Ético. Asimismo, en el año 2016 se aprobó y publicó el Código Ético del Proveedor, que tiene como finalidad establecer las pautas que han de presidir el comportamiento ético de los proveedores, contratistas y colaboradores externos de NTGY. Recoge los compromisos derivados del Pacto Mundial de Naciones Unidas además del Código Ético, la Política de Derechos Humanos, la Política de Responsabilidad Corporativa y la Política Anticorrupción de NTGY.

- **Canal de denuncias, que permita la comunicación a la comisión de auditoría de irregularidades de naturaleza financiera y contable, en adición a eventuales incumplimientos del código de conducta y actividades irregulares en la organización, informando en su caso si éste es de naturaleza confidencial.**

La ética profesional en NTGY se centra en la integridad y la responsabilidad profesional, entendiendo la integridad como la actuación ética, honrada y de buena fe y la responsabilidad profesional, como la actuación proactiva, eficiente y enfocada a la excelencia, calidad y la voluntad de servicio.

Tal y como se establece en el artículo 26.2 del Reglamento del Consejo y sus Comisiones, “la Comisión de Auditoría tiene las competencias que le señala la Ley y las que le sean encomendadas por el Consejo de Administración con carácter general o particular”. Entre éstas, la Comisión de Auditoría tiene como competencias “establecer y supervisar un mecanismo que permita a los empleados comunicar, de forma confidencial y, si resulta posible y se considera apropiado, anónima, las irregularidades de potencial trascendencia, especialmente financieras y contables que adviertan en el seno de la empresa”.

En línea con lo anterior, el Consejo de Administración en su reunión de fecha 31 de marzo de 2006, estableció que aquellas notificaciones

recibidas a través del procedimiento de notificación de incumplimientos del Código Ético de NTGY, relacionadas con fraude, auditoría o fallos en la contabilidad y control interno, sean transmitidas directamente a la Comisión de Auditoría.

Como mecanismo para obtener un mayor grado de control interno sobre el cumplimiento de los principios incluidos en el Código Ético, en julio de 2005 se constituyó la Comisión del Código Ético de NTGY (actualmente, Comité de Ética y Cumplimiento), siendo una de sus principales funciones la de facilitar y supervisar un canal de comunicación a todos los empleados para recabar consultas y notificaciones de incumplimientos del Código, y facilitar así la resolución de conflictos relacionados con la aplicación del Código Ético y de la Política Anticorrupción y la de realizar informes a los Órganos de Gobierno de NTGY acerca de la difusión y cumplimiento del Código Ético y de la Política Anticorrupción, así como de las actividades de la propia Comisión.

El citado canal de comunicación corresponde a un canal abierto (correo electrónico, fax, correo postal y correo interno) a todos los empleados de NTGY para tratar materias relacionadas con el código. Este canal permite a todos los empleados del grupo, proveedores y empresas colaboradoras recabar o proporcionar información sobre cualquier cuestión relacionada con el Código Ético y la Política Anticorrupción. También pueden ponerse en contacto a través del canal para comunicar de buena fe y confidencialmente conductas contrarias al Código. Todo ello ajeno a la jerarquía de la operativa habitual de los empleados.

Todas las comunicaciones realizadas a través del canal son absolutamente confidenciales, respetándose las limitaciones establecidas en la normativa de Protección de Datos de Carácter Personal. En este sentido, el presidente del Comité (Director de Compliance) es el único miembro, en primera instancia, autorizado para conocer el conjunto de la información de todas las consultas y notificaciones recibidas del grupo a través del procedimiento de consulta y notificación. Asimismo, las notificaciones relacionadas con fraude, la auditoría o fallos en los procesos contables o control interno son informadas directamente a la Comisión de Auditoría.

En el informe de Responsabilidad Corporativa 2018 de NTGY se da más información de detalle sobre el Código Ético, la Política Anticorrupción, las actividades de la Comisión del Código Ético (Comité de Ética y Cumplimiento desde noviembre de 2018) y la utilización del canal de comunicación.

- **Programas de formación y actualización periódica para el personal involucrado en la preparación y revisión de la información financiera, así como en la evaluación del SCIIF, que cubran al menos, normas contables, auditoría, control interno y gestión de riesgos.**

La necesidad de contar con una cualificación suficiente y, sobre todo actualizada, de los profesionales involucrados en la preparación y revisión de la información financiera, así como en la evaluación del SCIIF, hace que sea imprescindible desarrollar un plan de formación adecuado, de forma que las personas responsables de cada área puedan contar con los conocimientos necesarios para poder llevar a cabo las

distintas funciones incluidas en el proceso de preparación y revisión de la información financiera.

Para ello, NTGY cuenta con la Universidad Corporativa, que es la responsable de la gestión del conocimiento y el desarrollo de personas en todo el ámbito de la compañía. La misma integra el modelo, los canales, los programas y las acciones formativas y de aprendizaje del grupo, adoptando metodologías y experiencias formativas con criterios de calidad, impacto, eficiencia y optimización de costes.

La Universidad Corporativa dispone de un sistema de gestión de la calidad conforme con la Norma ISO 9001:2015 renovado en 2017 y con la acreditación CLIP (Corporate Learning Improvement Process) que otorga la European Foundation for Management Development (EFMD) desde 2003 y renovada por última vez en el año 2018 para un período de cinco años. Esta certificación reconoce la calidad de los procesos de aprendizaje y desarrollo de personas en las organizaciones de educación empresarial.

Los objetivos de la Universidad Corporativa son, entre otros: garantizar la adecuación puesto/persona, la adquisición de conocimientos vinculados a nuevas necesidades de la organización y el desarrollo de habilidades y competencias relacionadas con el modelo de liderazgo y cultura de Naturgy; a partir de la puesta a disposición de los empleados de una oferta formativa actualizada y de calidad.

Con la implantación de la plataforma Evolution - Success Factors como herramienta de gestión de la formación, para mejorar y adaptar al máximo la formación a las demandas de los empleados y de los negocios, desde 2017, los empleados y sus responsables se involucran en la definición de la formación necesaria; además, todos los empleados cuentan con un acceso directo a toda la formación online del catálogo de la compañía, con un modelo de institutos y áreas de conocimiento y un conjunto de canales de divulgación de contenidos específicos.

Como programas relevantes realizados en 2018, se ha realizado el despliegue de la 4ª edición del Programa Savia con foco en la Ciberseguridad y la Innovación. El Programa Savia nació en 2014 como un programa formativo cuyo objetivo es fortalecer el rol actual de las jefaturas, que deben ser los agentes del cambio en la implantación global de los nuevos procesos asociados a los retos estratégicos. En el año 2015 comenzó la segunda fase del programa, Savia 2.0, centrada en la experiencia del cliente y la gestión del cambio. En el 2016 continuó este programa, poniendo el foco, en esta ocasión, en la cooperación y el empowerment, finalizando su impartición en octubre de 2017.

Otro de los programas relevantes efectuados es el desarrollo del curso online de Ciberseguridad para todos los empleados, con foco en conocimientos técnicos y en los deberes y obligaciones en la materia.

Por otro lado, los conocimientos específicos para el área económico-financiera tienen varios objetivos, entre ellos, homogeneizar los procesos económico-financieros desarrollados en cualquier ámbito de la organización; la actualización de los criterios contables, fiscales, financieros, de gestión de riesgos, de control de gestión, de normativa internacional y de los conocimientos técnicos del área fiscal; así como proporcionar conocimientos suficientes sobre valoración de empresas, derivados financieros y análisis de estados financieros.

En total, en el año 2018 más de 150 profesionales del área económico-financiera dedicaron cerca de 1.400 horas a su capacitación en contenidos específicos, destacándose, entre otras materias, gestión de riesgos, fiscalidad, gestión financiera, contable y presupuestaria.

## **F.2 Evaluación de riesgos de la información financiera**

**Informe, al menos, de:**

### **F.2.1. Cuáles son las principales características del proceso de identificación de riesgos, incluyendo los de error o fraude, en cuanto a:**

- **Si el proceso existe y está documentado.**

El enfoque seguido por NTGY para llevar a cabo el proceso de identificación y análisis de los riesgos de la información financiera está recogido en tres matrices interrelacionadas:

- La matriz de definición de alcance de la información financiera
- La matriz de riesgos asociados a la información financiera
- La matriz de actividades de control de la información financiera

La matriz de definición de alcance de la información financiera tiene por objeto identificar las cuentas y los desgloses que tienen un riesgo significativo asociado, cuyo impacto potencial en la información financiera del grupo es material y requiere, por tanto, especial atención. En este sentido, en el proceso de identificación de las cuentas y desgloses significativos se han considerado una serie de variables cuantitativas (saldo y variación de la cuenta) y cualitativas (complejidad de las transacciones; cambios y complejidad en la normativa; necesidad de utilizar estimaciones o proyecciones; aplicación de juicio e importancia cualitativa de la información). La metodología para la elaboración de la matriz de alcance se ha descrito en una instrucción técnica denominada “Matriz de definición de alcance de la información financiera de NTGY”.

Para cada una de las cuentas/desgloses significativos recogidos en la matriz de definición de alcance se han definido los procesos y subprocesos críticos con impacto en los mismos y se han identificado los riesgos que pudieran generar errores en la información financiera, cubriendo los objetivos de control de existencia y ocurrencia; integridad; valoración; presentación, desglose y comparabilidad; y derechos y obligaciones, en la “Matriz de riesgos asociados al proceso de elaboración y emisión de la información financiera de NTGY”.

Dentro del proceso de identificación de riesgos definido por NTGY en el SCIIF, se ha considerado la problemática relacionada con el fraude como un elemento muy relevante. En este sentido, la política de control del riesgo del fraude de NTGY se centra en tres pilares básicos:

- Prevención del fraude.
- Detección del fraude.
- Investigación y gestión de las situaciones de fraude.

Se han definido controles antifraude preventivos, desde la perspectiva de la información financiera, que se clasifican en dos categorías. Los denominados controles activos, considerados barreras para restringir o impedir el acceso a los activos valiosos a aquellos que puedan intentar cometer un fraude. Por otro

lado, los controles pasivos pretenden detener la realización del fraude a través de medidas disuasorias.

Por último, las actividades de control, tanto generales como de procesos, consistentes en las políticas y procedimientos incorporados en todas las etapas del proceso de preparación de la información financiera y que garantizan su fiabilidad, se recogen en la “Matriz de actividades de control de la información financiera de NTGY”.

El SCIIF de NTGY es un sistema dinámico, por lo que su actualización periódica es un proceso fundamental para cumplir en todo momento con el objetivo del mismo, es decir, para asegurar que la información financiera del grupo es fiable. En particular, la Matriz de definición de alcance se actualiza anualmente.

- **Si el proceso cubre la totalidad de objetivos de la información financiera, (existencia y ocurrencia; integridad; valoración; presentación, desglose y comparabilidad; y derechos y obligaciones), si se actualiza y con qué frecuencia.**

NTGY, consciente de la importancia de disponer de una herramienta que asegure el control adecuado de la gestión del SCIIF, implantó en el año 2013 la aplicación SAP GRC Process Control, para la gestión integral de la documentación, evaluación y supervisión del control interno en los procesos de NTGY. Esta implantación, realizada en el marco del programa de mejora de eficiencia de NTGY, se llevó a cabo, inicialmente, en todas las sociedades españolas con participación mayoritaria y en las que se tiene responsabilidad en su operación y/o gestión. En el año 2014 se realizó la implantación de la herramienta SAP GRC Process Control en Colombia y en el Centro de Servicios Compartidos Económico-Financiero de Latinoamérica; en el año 2015 se continuó con la implantación en otros países del grupo, tales como México y Francia; en 2016 se implantó en Holanda, en 2017 en Panamá y en Brasil. En la implantación de SAP GRC Process Control, tanto a nivel nacional como a nivel internacional, se ha contado con el apoyo de los usuarios responsables de los controles claves del SCIIF y de la unidad de Auditoría Interna. .

Cabe destacar que, durante el ejercicio 2015, se extendió el alcance del modelo corporativo SCIIF a aquellos países de nueva integración en el grupo, como fue el caso de Chile, a raíz de la adquisición en noviembre de 2014 del grupo chileno Compañía General de Electricidad, S.A. (CGE). Adicionalmente, durante 2018 se extendió a las sociedades en Irlanda con presencia relevante en la comercialización internacional de GNL. Estas incorporaciones robustecen y afianzan el Control Interno en NTGY.

A excepción de la matriz de definición de alcance, en SAP GRC Process Control está integrado el modelo SCIIF de NTGY. En esta herramienta están identificados los Controles Generales del Entorno y los Generales del Ordenador, los procesos críticos, sus riesgos asociados, así como las actividades de control que los mitigan, recogidos en las matrices de riesgos y controles anteriormente indicadas. Asimismo, quedan identificadas e integradas en la estructura de procesos las unidades responsables de la ejecución de las actividades de control.

Entre los beneficios que aporta la implantación de SAP GRC Process Control se encuentran los siguientes:

- Centraliza toda la documentación y gestión del SCIIF de NTGY de forma homogénea.
- Integra el control interno de la información financiera en los procesos de negocio y corporativos, permitiendo a cada unidad organizativa responsable realizar, periódicamente, la evaluación de sus controles, aportando las evidencias necesarias y, anualmente, ejecutar el proceso de certificación interna del SCIIF.
- Utiliza workflows y formularios para la gestión de las actividades de control, para la documentación de las evidencias de la ejecución de las mismas y para los planes de acción.
- Permite el acceso documental a las evidencias de los controles sobre los procesos y a la visualización del resultado de la evaluación de forma ágil e inmediata.
- Constituye una herramienta de apoyo para el proceso de supervisión del SCIIF por parte de Auditoría Interna.
- Facilita la obtención y soporte de la información requerida para el reporting sobre el SCIIF tanto externo como interno.

Tras la puesta en explotación de SAP GRC Process Control en abril de 2013, en los sucesivos ejercicios se han venido realizando las peticiones de evaluación de los controles conforme a los calendarios establecidos, solicitando las evidencias de la realización de los controles a las unidades involucradas en el SCIIF, de acuerdo a la periodicidad fijada en cada caso. Esta evaluación permite, si procede, identificar e informar de debilidades y de los planes de acción necesarios.

- **La existencia de un proceso de identificación del perímetro de consolidación, teniendo en cuenta, entre otros aspectos, la posible existencia de estructuras societarias complejas, entidades instrumentales o de propósito especial.**

Como parte de los procesos críticos identificados, se encuentra el proceso de identificación del perímetro de consolidación de NTGY, que se ha descrito en una instrucción técnica denominada “Ciclo de Cierre Consolidado NTGY”. En este documento se detalla el proceso de actualización mensual del perímetro, de acuerdo con las operaciones societarias del periodo, y se describen las unidades responsables involucradas. Este proceso de identificación y actualización del perímetro es clave para la elaboración de la información financiera consolidada de NTGY.

- **Si el proceso tiene en cuenta los efectos de otras tipologías de riesgos (operativos, tecnológicos, financieros, legales, reputacionales, medioambientales, etc.) en la medida que afecten a los estados financieros.**

En la Matriz de riesgos se han identificado los riesgos asociados al logro de los objetivos de la información financiera, teniendo en cuenta en dicha identificación los efectos de otras tipologías de riesgos (por ejemplo: operativos, tecnológicos, financieros, reputacionales, etc.) que forman parte del Mapa de Riesgos Corporativo de NTGY.

- **Qué órgano de gobierno de la entidad supervisa el proceso.**



La supervisión de la eficacia del SCIIF es responsabilidad de la Comisión de Auditoría. Para el desarrollo de esta función la Comisión de Auditoría cuenta con la unidad de Auditoría Interna (ver apartado F.5).

### **F.3 Actividades de control**

**Informe, señalando sus principales características, si dispone al menos de:**

**F.3.1. Procedimientos de revisión y autorización de la información financiera y la descripción del SCIIF, a publicar en los mercados de valores, indicando sus responsables, así como de documentación descriptiva de los flujos de actividades y controles (incluyendo los relativos a riesgo de fraude) de los distintos tipos de transacciones que puedan afectar de modo material a los estados financieros, incluyendo el procedimiento de cierre contable y la revisión específica de los juicios, estimaciones, valoraciones y proyecciones relevantes.**

NTGY realiza revisiones periódicas de la información financiera elaborada, así como de la descripción del SCIIF, conforme a distintos niveles de responsabilidad que garantizan la calidad de la misma.

Como primer nivel de revisión, los responsables del cierre contable de cada sociedad de NTGY revisan la información financiera elaborada para asegurar su fiabilidad.

Asimismo, la información financiera de NTGY es revisada periódicamente por el responsable de la Dirección Financiera identificando posibles desviaciones.

En última instancia, el Director Financiero certifica la razonabilidad de las cuentas anuales individuales de NATURGY ENERGY GROUP, S.A. y consolidadas que se presentan al Consejo de Administración para su aprobación.

Por otro lado, tal y como se recoge en la “Norma General del Sistema de Control Interno de la Información Financiera (SCIIF) de NTGY”, las actividades de control definidas por el grupo en el SCIIF cumplen con el objetivo fundamental de asegurar que la información financiera de NTGY represente la imagen fiel del grupo.

Las actividades de control definidas en el SCIIF incluyen tanto controles generales como controles en los procesos críticos.

Los controles generales son mecanismos que, si bien no permiten obtener un grado de control suficiente en los procesos del grupo, permiten la consecución de una serie de objetivos claves para la obtención de un SCIIF eficaz, es decir, son aquellos que describen las políticas y directrices diseñadas para proteger el SCIIF de NTGY en su conjunto.

Por otro lado, todos los procesos críticos identificados han sido documentados mediante la matriz de actividades de control así como por las correspondientes instrucciones técnicas descriptivas de los procesos. En la herramienta de gestión del SCIIF, SAP GRC Process Control, se encuentran identificados estos procesos críticos, sus riesgos asociados y las actividades de control que los mitigan, así como la documentación descriptiva de dichos procesos. En este sentido, NTGY ha identificado todos los procesos necesarios para la elaboración de la información financiera, en los que se han utilizado juicios, estimaciones, valoraciones y

proyecciones relevantes, considerando todos ellos como críticos. De forma periódica, se informa a la Comisión de Auditoría de las principales hipótesis empleadas para estimar la información financiera que depende de juicios, valoraciones y proyecciones relevantes.

En la documentación incorporada a SAP GRC Process Control de los procesos críticos y actividades de control se ha incluido la información siguiente:

- Descripción del proceso.
- Diagrama de flujo de información del proceso.
- Mapa de sistemas que interactúan en el proceso.
- Descripción de los riesgos de información financiera asociados a los diferentes procesos y objetivos de control
- Definición de actividades de control para la mitigación de los riesgos identificados y sus atributos.
- Descripción de los responsables de los procesos y de las actividades de control.

Asimismo, en la definición de las actividades de control se han identificado las siguientes clasificaciones de actividades de control, atendiendo a cinco criterios siguientes:

- Alcance: En función del alcance de las actividades de control, éstas se pueden dividir en:
  - Actividades de control generales.
  - Actividades de control de procesos.
- Nivel de automatización: En función del nivel de automatización de las actividades de control, éstas se pueden dividir en automáticas y manuales.
- Naturaleza de la actividad: En función de la naturaleza de las actividades de control, éstas se pueden dividir en preventivas o detectivas.
- Frecuencia: En función de la recurrencia que tenga la actividad en el tiempo, por ejemplo: anual, semanal, mensual, diaria, etc.

Por último, en el SCIIF de NTGY se ha definido el modelo de certificación interna anual de los controles identificados en los procesos críticos, que deben realizar las unidades de negocio y corporativas implicadas en el proceso de elaboración de la información financiera. El lanzamiento y seguimiento de este proceso de certificación es responsabilidad de la unidad de Contabilidad . Para llevar a cabo este proceso de certificación interna, las unidades involucradas utilizan las funcionalidades integradas en la herramienta SAP GRC Process Control para la gestión del SCIIF de NTGY (ver apartado F.2.1).

Por su parte, la unidad de Auditoría Interna se encarga de revisar y evaluar las conclusiones sobre el cumplimiento y efectividad resultantes del proceso anual de certificaciones internas de las unidades responsables de los controles, de identificación de las debilidades y de los planes de acción.

**F.3.2. Políticas y procedimientos de control interno sobre los sistemas de información (entre otras, sobre seguridad de acceso, control de cambios, operación de los mismos, continuidad operativa y segregación de funciones) que soporten los procesos relevantes de la entidad en relación a la elaboración y publicación de la información financiera.**

Para los procesos críticos asociados a la elaboración y publicación de la información financiera de NTGY que han sido definidos en el SCIIF del grupo, se han identificado las actividades de control que operan en los sistemas de

información, tanto para los utilizados de forma directa en su preparación de información financiera como para los que resultan relevantes en el proceso o control de las transacciones que se reflejan en ella.

A nivel general, dentro del mapa de sistemas de información de NTGY, se han definido e implantado una serie de políticas para garantizar los siguientes aspectos:

- La seguridad de acceso tanto a los datos como a las aplicaciones.
- El control sobre los cambios en las aplicaciones.
- La correcta operación de las aplicaciones.
- La disponibilidad de los datos y la continuidad de las aplicaciones.
- Una adecuada segregación de funciones.
- El correcto cumplimiento regulatorio (RGPD)

#### a) Seguridad de acceso:

Se han definido una serie de medidas a diferentes niveles para garantizar la confidencialidad y evitar el acceso no autorizado tanto a los datos como a las aplicaciones. La gestión y autenticación de la mayoría de los usuarios internos se realiza de forma centralizada en los Directorios de OIM (Oracle Identity Manager), que aseguran su confidencialidad.

La Compañía cuenta con dos CPD principales en Madrid, que permiten facilitar la disponibilidad de los sistemas de información en caso de contingencia. Únicamente el personal autorizado puede acceder a dichas instalaciones, quedando todos los accesos registrados y, posteriormente, son revisados para analizar cualquier anomalía.

Las comunicaciones con estos sistemas incluyen sistemas como Firewall, IPS (Intrusion Prevention System) y antivirus para reforzar internamente el control ante amenazas.

Asimismo, se está trabajando en la elaboración y actualización de los BRS (Business Recovery Systems) de los principales sistemas de información, para la recuperación y restauración de funciones críticas interrumpidas.

Finalmente, a nivel de aplicativo, sistema operativo y base de datos, se utiliza el par usuario-contraseña como control preventivo. A nivel de dato, se han definido perfiles que limitan el acceso a los mismos. NTGY está desarrollando un proyecto de definición e implantación de una matriz de usuarios/roles/perfiles para la mejora de la segregación de funciones que asegure la coherencia de acceso a los sistemas y datos.

#### b) Control de cambios:

Se ha desarrollado e implantado una metodología de gestión del cambio en base a las mejores prácticas, la cual establece las cautelas y validaciones necesarias para limitar el riesgo en dicho proceso.

Entre los principales aspectos que se recogen se incluyen los siguientes:

- Aprobación por parte del Comité Técnico, Comité de Cambios y Negocio.
- Realización de pruebas en los diferentes entornos, previo paso a producción.
- Entornos específicos para las tareas de desarrollo y pruebas.
- Procedimientos de marcha atrás.
- Segregación de funciones en la mayoría de los entornos entre los equipos de desarrollo y de producción.

- Seguimiento y control en cualquier fase de desarrollo.
- Manuales de usuario y cursos de formación.
- Mantenimiento periódico de la documentación relativa a los cambios.

c) Operación:

Para garantizar que las operaciones se realizan de forma correcta se lleva a cabo una monitorización a cuatro niveles:

- Todas las interfaces entre sistemas son monitorizadas para asegurar su correcta ejecución.
- A nivel perimetral se dispone de diferentes indicadores de disponibilidad para evitar cortes en las comunicaciones.
- Validaciones automáticas sobre los datos introducidos de forma que sean acordes a los esperados en base a su naturaleza, rango, etc.
- De las infraestructuras que soportan las aplicaciones.

Adicionalmente, existe un servicio interno de “Help Desk” al que los usuarios finales pueden dirigirse y disponer de una herramienta de gestión para reportar cualquier tipo de incidencia.

d) Disponibilidad y continuidad:

La mayoría de los sistemas cuentan con alta disponibilidad local, teniendo sus servidores redundados ubicados en el mismo CPD, y en algunos casos, en el CPD de soporte por criticidad. La alta disponibilidad de los sistemas de información permite asegurar su disponibilidad en caso de incidencias.

Adicionalmente, se está realizando de forma periódica una copia de seguridad de los datos, que se mantiene en un lugar seguro temporalmente en base a los requerimientos legales establecidos para cada uno de los sistemas. Los datos se copian y almacenan en ubicaciones diferentes lo que evita la pérdida de información. Para restaurar estos datos, existe un procedimiento específico, si bien no se llevan a cabo pruebas de forma periódica.

e) Segregación de Funciones:

El acceso a los Sistemas de Información está definido en base a roles y perfiles que definen las funcionalidades a las que un usuario debe tener acceso. Se utilizan estos perfiles para limitar el acceso de los usuarios a los Sistemas de Información.

f) Cumplimiento Regulatorio: RGPD

NTGY cumple con las disposiciones del Reglamento (UE) 2016/679 del Parlamento Europeo y del Consejo de 27 de abril de 2016 relativo a la protección de las personas físicas en lo que respecta al tratamiento de datos personales y a la libre circulación de estos datos y con las disposiciones de la Ley Orgánica 3/2018, de 5 de diciembre, de Protección de Datos Personales y garantía de los derechos digitales, así como con las restantes disposiciones en materia de protección de datos, al objeto de garantizar la protección de los datos de carácter personal de sus administradores, empleados, clientes, proveedores, accionistas, inversores y demás personas que con ella se relacionan.

NTGY, cuando le corresponde la condición de responsable del tratamiento de datos, realiza cuantas actuaciones son necesarias en orden a cumplir con la legislación en materia de protección de datos entre las cuales destacan, de forma no exhaustiva ni limitativa, las siguientes:

- Trata los datos personales de manera lícita, leal y transparente.
- Recoge los datos para fines determinados, explícitos y legítimos.
- Minimiza los datos objeto de tratamiento.
- Actualiza los datos, dotando a los interesados de sistemas sencillos para dicha actualización.
- Limita los plazos de conservación de los datos.
- Aplica medidas técnicas y organizativas apropiadas para garantizar la seguridad, integridad y confidencialidad de los datos.
- Recaba el consentimiento del interesado para el tratamiento cuando este es preciso.
- Establece mecanismos sencillos y adecuados para que el interesado, directamente o través de su representación legal o voluntaria, pueda ejercer los derechos que le reconoce la legislación vigente.
- Elige encargados del tratamiento que ofrezcan garantías suficientes para aplicar medidas técnicas y organizativas apropiadas para que el tratamiento de datos sea ejecutado cumpliendo los requisitos de la legislación en la materia. Asimismo, con dichos encargados de tratamiento suscribe contratos en virtud de los cuales el encargado únicamente tratará los datos conforme a las instrucciones del responsable, y no los aplicará o utilizará con fin distinto al que figure en dicho contrato, ni los comunicará, ni siquiera para su conservación, a terceras personas.
- Lleva un registro de actividades de tratamiento de datos.
- Realiza las evaluaciones de impacto que estima oportunas.
- Dispone de un órgano colegiado que ejerce de Delegado de Protección de Datos.
- Realiza las consultas oportunas a la AEPD en materia de transferencias internacionales de datos personales.
- Realiza auditorias con el fin de asegurar el cumplimiento de la normativa en materia de protección de datos.

**F.3.3. Políticas y procedimientos de control interno destinados a supervisar la gestión de las actividades subcontratadas a terceros, así como de aquellos aspectos de evaluación, cálculo o valoración encomendados a expertos independientes, que puedan afectar de modo material a los estados financieros.**

NTGY ha desarrollado una serie de políticas y procedimientos destinados a supervisar la gestión de las actividades subcontratadas a terceros, todas ellas aprobadas por los niveles establecidos en el grupo, entre los que destacan la existencia de una “Norma General de Contratación Externa”, una “Norma General de Calidad de Proveedores” y los procedimientos que las desarrollan, y el “Procedimiento de Due Diligence de Contraparte (riesgos de corrupción y reputacional)”.

En este contexto, NTGY establece en la “Norma General de Contratación Externa” los principios generales de necesaria aplicación a toda adjudicación y contratación de obras, bienes y servicios llevados a cabo por el grupo, garantizando

un modelo homogéneo eficiente y de calidad para la gestión del proceso de Compras en NTGY.

Esta Norma también establece, con carácter general, las responsabilidades de las distintas Unidades en el proceso de contratación, entre las que se incluye al área de Compras como responsable de promover el mantenimiento de relaciones a largo plazo y de confianza con los proveedores estableciendo mecanismos objetivos e imparciales de evaluación, selección y velando porque la cadena de suministro cumpla con los principios que establece el Código Ético del Proveedor, al que deben adherirse los proveedores desde 2016 y cuyo contenido emana del Código Ético de NTGY, de la Política de Derechos Humanos, de la Política de Seguridad y Salud, de la Política Anticorrupción, así como principios de buen gobierno internacionalmente reconocidos. La Normativa referida determina la obligatoriedad de la evaluación inicial de todos los proveedores potenciales antes de su participación en un proceso de compras, donde se evalúan, entre otros, aspectos legales, financieros, calidad, seguridad, medio ambiente y responsabilidad corporativa, así como la evaluación periódica de los mismos. En determinados procesos más críticos se requiere un nivel adicional de control, que se denomina 'homologación', y que se sustenta en evidencias documentales y/o auditorías para asegurar la calidad de los bienes y servicios que se adquieren.

Con este objetivo, NTGY ha desarrollado, en la "Norma General de Calidad de Proveedores" y en el procedimiento que la desarrolla, los principios básicos que rigen el proceso de evaluación y homologación de los proveedores del grupo, entre los que destacan el establecimiento de procedimientos y controles que garanticen el cumplimiento de los requisitos exigidos en las especificaciones por parte de los proveedores potenciales y adjudicatarios y adicionalmente se requiere la homologación de aquellos proveedores de determinados servicios o suministros de materiales identificados como riesgo alto (Riesgo Operativo, R. Legal, R. Seguridad y Salud, R. Calidad, y R. Environmental-Social-Governance). El proceso de homologación puede aflorar anomalías que deriven en un plan de acciones correctivas, o en la no homologación del proveedor, lo que le inhabilitaría para desarrollar esa actividad para NTGY.

Asimismo se lleva a cabo la medición del desempeño, realizada mediante encuestas de satisfacción del servicio sobre la base de proveedores que desarrollan actividades de riesgo alto, poniendo especial foco en los aspectos de Seguridad y Salud estableciendo en los casos necesarios, los planes de acción o medidas correctoras.

Las principales áreas que afectan a procesos críticos de la información financiera que NTGY tiene subcontratadas a terceros son:

- Determinados procesos del área de Sistemas
- Procesos de lectura y medida
- Determinados procesos de Servicio al Cliente
- Operador logístico
- Proceso de nóminas y gestión de personal
- Gestión de obras y mantenimiento del negocio de Distribución
- Determinados servicios a clientes del negocio Minorista

Asimismo, las Unidades de Negocio realizan la supervisión y el control de calidad de sus proveedores para determinar si ofrecen los niveles de calidad requerida en la ejecución de los trabajos. En caso contrario, envían las propuestas de retirada de la homologación/acreditación a suministradores/productos/personas como consecuencia de deficiencias en el desempeño de los servicios o productos.

NTGY utiliza a expertos en trabajos que sirven de soporte a valoraciones, juicios o cálculos contables, únicamente cuando éstos están inscritos en los correspondientes Colegios Profesionales, o acreditación equivalente, manifiestan su independencia y son empresas de prestigio reconocido en el mercado.

Asimismo, NTGY tiene definido el “Procedimiento de Due Diligence de Contraparte” que persigue, en general, la cobertura de los principales riesgos legales y reputacionales que intervienen en las relaciones de negocio con terceros y, en particular, la cobertura de los delitos asociados al riesgo de corrupción.

La Unidad de Auditoría Interna de NTGY audita los procesos y la correcta aplicación de la normativa de Compras y Calidad de Proveedores y Due Diligence de Contraparte y, en el caso de detectar incumplimientos, se realizan las correspondientes acciones correctivas.

#### **F.4 Información y comunicación**

**Informe, señalando sus principales características, si dispone al menos de:**

**F.4.1. Una función específica encargada de definir, mantener actualizadas las políticas contables (área o departamento de políticas contables) y resolver dudas o conflictos derivados de su interpretación, manteniendo una comunicación fluida con los responsables de las operaciones en la organización, así como un manual de políticas contables actualizado y comunicado a las unidades a través de las que opera la entidad.**

La Dirección Financiera tiene, a través de la unidad de Planificación Contable, entre otras funciones, la responsabilidad de mantener actualizadas las políticas contables aplicables al grupo. En este sentido es responsable de la actualización del “Plan Contable de NTGY”, que incluye los Criterios contables y el Plan de cuentas del grupo, así como del análisis de los cambios contables que pudieran tener un impacto en la información financiera de NTGY.

La actualización del “Plan Contable de NTGY” se realiza con periodicidad anual. En las actualizaciones se revisan tanto los criterios contables en base a los cambios en la normativa NIIF-UE aplicable como la estructura contable del grupo, asegurando la trazabilidad entre los planes de cuentas individuales de las filiales del grupo y el Plan de cuentas de NTGY, que sirve como base para elaborar los distintos reportings de la información financiera a suministrar a organismos externos y de la información de Gestión.

Una vez el Plan Contable se encuentra actualizado, es difundido a todo el personal de la organización a través de la intranet de NTGY. Adicionalmente, y tras ser publicado en la intranet el plan contable actualizado, se envía una noticia on-line a los usuarios que acceden a la intranet comunicando así esta actualización a todo el personal.

Por otro lado, la unidad de Planificación Contable se encarga de analizar los cambios normativos en NIIF-UE que pudieran tener impacto significativo en los estados financieros e informar a los responsables de NTGY afectados por dichos cambios normativos. También se encarga de resolver dudas sobre el tratamiento contable de determinadas transacciones que puedan plantear los responsables de la información financiera de NTGY.

**F.4.2. Mecanismos de captura y preparación de la información financiera con formatos homogéneos, de aplicación y utilización por todas las**

**unidades de la entidad o del grupo, que soporten los estados financieros principales y las notas, así como la información que se detalle sobre el SCIIF.**

El modelo integral de gestión económico-financiera de NTGY garantiza la uniformidad de los procesos administrativos y contables por medio de la centralización de los procesos transaccionales administrativos y de operativa contable en Centros de Servicios Compartidos Económico-Financieros (CSCs) y de la contabilidad en la Contabilidad Societaria de los Negocios; así como con la utilización de SAP como sistema de soporte en la mayoría de las sociedades que forman parte del grupo. El resto de sociedades que no utilizan SAP están obligadas a seguir los criterios fijados por el grupo para asegurar la uniformidad de tales procesos.

Dicho modelo se caracteriza, fundamentalmente, por:

- ser único para todos los países y negocios;
- incorporar los requisitos legales, fiscales, mercantiles y regulatorios de cada uno de los países;
- incorporar los requerimientos de control interno;
- ser base para la obtención de la información que se suministra a la Alta Dirección y a organismos oficiales;
- apoyarse en un determinado modelo organizativo y en unos procesos y sistemas informáticos económico-financieros únicos para todos los países y negocios;

Los estados financieros NIIF-UE de cada país se obtienen directamente a través de la asignación cuenta local-cuenta grupo y el registro de los ajustes NIIF-UE en el propio aplicativo SAP.

Como parte del SCIIF del grupo se ha definido el mapa de interrelaciones del proceso de elaboración de la información financiera de NTGY. En dicho mapa se detallan, entre otras cosas, los sistemas de información que intervienen en el proceso de elaboración y emisión de la información financiera tanto desde un punto de vista del cierre contable individual como del cierre contable consolidado.

En este sentido, en el proceso de elaboración de la información financiera y sus desgloses de NTGY se utiliza el aplicativo SAP BPC, que es una herramienta de SAP para la gestión del proceso de consolidación.

La carga de la información en dicho sistema se realiza de forma automática y directa, una vez cerrado el mes.

Estas dos herramientas ayudan en la gestión del proceso de consolidación en tareas como:

- Estandarización de la información.
- Validación de la información.

La elaboración de la información financiera se realiza de forma centralizada en Consolidación, lo que asegura la integración, homogeneidad, coherencia y racionalización de los estados financieros de Naturgy..

Asimismo, NTGY cuenta con planes de cuentas locales para dar cumplimiento a los requisitos contables, fiscales, mercantiles y regulatorios establecidos por las distintas legislaciones de los países en que se encuentra presente. Dichos planes de cuentas locales confluyen en un plan de cuentas de grupo, unificado y homogéneo a efectos de consolidación y reporte de la información financiera.

## **F.5 Supervisión del funcionamiento del sistema**



**Informe, señalando sus principales características, al menos de:**

**F.5.1. Las actividades de supervisión del SCIIF realizadas por la comisión de auditoría así como si la entidad cuenta con una función de auditoría interna que tenga entre sus competencias la de apoyo a la comisión en su labor de supervisión del sistema de control interno, incluyendo el SCIIF. Asimismo se informará del alcance de la evaluación del SCIIF realizada en el ejercicio y del procedimiento por el cual el encargado de ejecutar la evaluación comunica sus resultados, si la entidad cuenta con un plan de acción que detalle las eventuales medidas correctoras, y si se ha considerado su impacto en la información financiera.**

La Comisión de Auditoría tiene las competencias que le señala la Ley y las que le sean encomendadas por el Consejo de Administración con carácter general o particular. Entre estas competencias se encuentran las siguientes:

- Supervisar el proceso de elaboración, presentación y la integridad de la información financiera relativa a la sociedad y, en su caso, al grupo, revisando el cumplimiento de los requisitos normativos, la adecuada delimitación del perímetro de consolidación y la correcta aplicación de los criterios contables.
- Supervisar la eficacia del control interno de la sociedad, la auditoría interna y los sistemas de gestión de riesgos, incluidos los fiscales, así como discutir con el auditor de cuentas las debilidades significativas del sistema de control interno detectadas en el desarrollo de la auditoría.
- Informar a la junta general de accionistas sobre las cuestiones que se planteen en relación con aquellas materias que sean competencia de la comisión.
- Elevar al consejo de administración las propuestas de selección, nombramiento, reelección y sustitución del auditor externo, así como las condiciones de su contratación y recabar regularmente de él información sobre el plan de auditoría y su ejecución, además de preservar su independencia en el ejercicio de sus funciones.
- Establecer las oportunas relaciones con el auditor externo para recibir información sobre aquellas cuestiones que puedan poner en riesgo su independencia, para su examen por la comisión, y cualesquiera otras relacionadas con el proceso de desarrollo de la auditoría de cuentas, así como aquellas otras comunicaciones previstas en la legislación de auditoría de cuentas y en las normas de auditoría. En todo caso, deberán recibir anualmente de los auditores externos la declaración de su independencia en relación con la entidad o entidades vinculadas a esta directa o indirectamente, así como la información de los servicios adicionales de cualquier clase prestados y los correspondientes honorarios percibidos de estas entidades por el auditor externo o por las personas o entidades vinculados a este de acuerdo con lo dispuesto en la legislación sobre auditoría de cuentas.
- Emitir anualmente, con carácter previo a la emisión del informe de auditoría de cuentas, un informe en el que se expresará una opinión sobre la independencia del auditor de cuentas. Este informe deberá contener, en todo caso, la valoración de la prestación de los servicios adicionales a que hace referencia la letra anterior, individualmente considerados y en su conjunto, distintos de la auditoría legal y en

relación con el régimen de independencia o con la normativa reguladora de auditoría.

- Velar por la independencia de la unidad que asume la función de auditoría interna; aprobar la orientación y sus planes de trabajo, asegurándose de que su actividad esté enfocada principalmente hacia los riesgos relevantes de la sociedad; recibir información periódica sobre sus actividades; y verificar que la alta dirección tenga en cuenta las conclusiones y recomendaciones de sus informes. Proponer al Presidente del Consejo de Administración la selección, nombramiento, reelección y cese del responsable del servicio de auditoría interna, así como proponer el presupuesto de ese servicio, correspondiendo la decisión última al Presidente del Consejo de Administración.

La Comisión de Auditoría cuenta, para poder cumplir con sus competencias, con la información y documentación facilitada por las Unidades de Auditoría Interna y de la Dirección Financiera.

La función de Auditoría Interna, se ha establecido en NTGY como una actividad de valoración independiente y objetiva, por este motivo la Unidad de Auditoría Interna, reporta a su vez a la Comisión de Auditoría de NATURGY ENERGY GROUP S.A..

Su misión es la de garantizar la revisión continua y la mejora del sistema de control interno del grupo, así como de asegurar el cumplimiento de la normativa externa e interna y de los Modelos de Control establecidos con el objeto de salvaguardar la eficacia y eficiencia de las operaciones, y de mitigar los principales riesgos en cada uno de los ámbitos del grupo, especialmente los riesgos operacionales, de corrupción, fraude y legales. Asimismo, se responsabiliza del informe de la actividad de auditoría interna a la Comisión de Auditoría.

En el desarrollo de su actividad, Auditoría Interna lleva a cabo la revisión metódica del sistema de control interno de los procesos del grupo en todos sus ámbitos, así como de la evaluación de los controles y los riesgos operacionales asociados a dichos procesos (incluidos los establecidos en el SCIIF y en el Modelo de Prevención Penal), a través de la definición y ejecución del “Plan anual de auditoría interna”, con el fin de mejorar la eficacia y eficiencia de los mismos. Asimismo, apoya a las direcciones en el cumplimiento de sus objetivos.

El objetivo final es salvaguardar la eficacia y eficiencia de las operaciones y mitigar los principales riesgos en cada uno de los ámbitos de NTGY, especialmente los riesgos operacionales, de corrupción, fraude y legales.

El “Plan estratégico de auditoría de procesos” (con un horizonte temporal de cinco años) y los planes de auditoría interna anuales se elaboran considerando, principalmente, el “Plan estratégico corporativo”, las áreas de riesgo incluidas en el Mapa de Riesgos Corporativo, la matriz de alcance del Sistema de Control Interno sobre la Información Financiera (SCIIF), los mapas de riesgos operacionales, los resultados de las auditorías de años anteriores, y las propuestas de la Comisión de Auditoría y el primer nivel de dirección.

De acuerdo con el Plan Estratégico de Auditoría de procesos, está previsto que el Sistema de Control Interno sobre la Información Financiera (SCIIF) de NTGY se supervise por parte de Auditoría Interna de forma completa en un período de cinco años.

La metodología de valoración de los riesgos operacionales está alineada con las mejores prácticas de gobierno corporativo y basada en el marco conceptual del Informe COSO (Committee of Sponsoring Organizations of the Treadway Commission), tomando como punto de partida la tipología de los riesgos definidos en el Mapa de Riesgos Corporativo de la compañía.

Los riesgos operacionales son priorizados valorando su incidencia, importancia relativa y grado de control y, en función de los resultados obtenidos, la compañía diseña un plan de acción con medidas correctivas que permitan mitigar los riesgos residuales identificados, con un impacto potencial superior al riesgo tolerable o aceptado establecido.

Como soporte a su función, Auditoría Interna tiene implantada una herramienta corporativa en entorno SAP, donde se gestionan y documentan los proyectos de auditoría interna de acuerdo a la metodología definida.

En concreto y en referencia al Sistema de Control Interno sobre la Información Financiera (SCIIF), Auditoría Interna se responsabiliza de:

- Validar el correcto diseño del SCIIF, de acuerdo con los principios básicos del modelo aprobado por la Comisión de Auditoría.
- Supervisar la eficacia y adecuación de las políticas y procedimientos de control implantados (de forma completa en un periodo de cinco años).
- Revisar y evaluar las conclusiones sobre el cumplimiento y efectividad del SCIIF resultante de las certificaciones internas de las unidades de negocio y corporativas responsables de los controles (de forma completa en un periodo de cinco años).
- Evaluar y comunicar los resultados obtenidos en el proceso de supervisión general del SCIIF y de los controles sobre los procesos del SCIIF.

En cuanto al Modelo de Prevención Penal, el Área de Auditoría Interna, se responsabiliza de su supervisión anual con el objeto de asegurar de manera razonable la eficacia y eficiencia del Modelo a la hora de prevenir, identificar, o mitigar la ocurrencia de los delitos tipificados en la legislación.

Los principales procesos revisados por Auditoría Interna durante 2018 fueron los siguientes:

- Redes de Gas: Construcción de Redes, Operaciones Domiciliarias, Inspección Periódica, Atención Urgencias y Contratación Acceso a la Red.
- Redes de Electricidad: Desarrollo de Red Alta Tensión, Gestión de Irregularidades y Fraude, Mantenimiento de Red Alta Tensión, Gestión de Reclamaciones y Logística.
- Generación: Operación y Mantenimiento Activos Generación, Gestión de Almacenes, Desarrollo y Puesta en Marcha Nuevos Proyectos.
- Comercialización (Gas, Electricidad y Servicios): Captación y Contratación de Instalaciones Energéticas, Construcción y Puesta en Marcha de Instalaciones Energéticas, Captación y Contratación Clientes Industriales
- GNL: Revisión Procesos Vayu.

- Exploración y Producción: Exploración/Producción.
- Gestión de la Energía: Gestión y optimización de la logística de gas, Estimación de la demanda y compra de gas.
- Servicio al Cliente: Cobro, Gestión de Impagados, Atención al cliente
- Gestión de los Recursos Físicos: Acreditación y seguimiento de proveedores
- Gestión del Control Interno: Seguimiento de acciones correctivas, SCIIF, Reglamento General de Protección de Datos.
- Gestión de los Sistemas de Información: Seguridad de la Información, Gestión de Sistemas en Cloud
- Gestión de los Recursos Humanos: Administración y Servicios de RRHH, DPO.
- Gestión de la Comunicación y RREE: Fundaciones, Responsabilidad Corporativa, Patrocinios.
- Gestión de los Recursos Económicos y Financieros: Autocartera, Gestión Económico-Administrativa de las Operaciones
- Asesoría y Soporte Jurídicos: Poderes
- Gestión de Tecnología e Ingeniería: Ingeniería
- Revisión Sistema Normativo del grupo
- Canal Código Ético
- Modelo de Prevención Penal.

El 36% de los procesos revisados corresponden al ámbito de España y el 64% restante al ámbito internacional.

Los controles de los procesos anteriores relacionados con la Información Financiera, fueron revisados de acuerdo con la metodología de trabajo descrita anteriormente.

**F.5.2. Si cuenta con un procedimiento de discusión mediante el cual, el auditor de cuentas (de acuerdo con lo establecido en las NTA), la función de auditoría interna y otros expertos puedan comunicar a la alta dirección y a la comisión de auditoría o administradores de la entidad las debilidades significativas de control interno identificadas durante los procesos de revisión de las cuentas anuales o aquellos otros que les hayan sido encomendados. Asimismo, informará de si dispone de un plan de acción que trate de corregir o mitigar las debilidades observadas.**

Tal y como se establece en el artículo 6 del Reglamento del Consejo:

El Consejo se reunirá al menos seis veces al año, y, a iniciativa del Presidente, cuantas veces éste lo estime oportuno para el buen funcionamiento de la Compañía o cuando lo solicite al menos 1/3 de los Consejeros.

En este sentido, los miembros del Consejo de Administración, para obtener la información necesaria para el ejercicio de sus funciones, cuentan con la Comisión de Auditoría, entre cuyas funciones está el conocimiento y supervisión del proceso de elaboración de la información financiera regulada, así como la eficacia del sistema de control interno.

De acuerdo con los Estatutos Sociales de la compañía y el Reglamento del Consejo de Administración y sus Comisiones, la Comisión de Auditoría estará constituida por un mínimo de tres y un máximo de siete

Consejeros, designados por el Consejo de Administración de entre los Consejeros no Ejecutivos, y al menos uno de ellos será designado teniendo en cuenta sus conocimientos y experiencia en materia de contabilidad, auditoría o en ambas. Sus miembros cesarán cuando lo hagan en su condición de Consejeros, cuando así lo acuerde el Consejo de Administración. La mayoría de los miembros de la Comisión tendrán la categoría de Consejero Independiente. A 31 de diciembre de 2018 la Comisión está constituida por siete consejeros, tres dominicales y cuatro independientes, siendo uno de estos, a su vez, el presidente.

El Consejo de Administración elegirá al presidente de la Comisión, quien no tendrá voto de calidad. La Secretaría de la Comisión corresponderá a la Secretaría del Consejo de Administración.

La Comisión, convocada por su presidente, se reúne, cuando es necesario para la emisión de los informes que le competen o cuando lo estime conveniente su presidente o lo soliciten dos de sus miembros y, al menos, cuatro veces al año. La Comisión podrá invitar a sus reuniones a cualquier directivo o empleado que considere conveniente.

El ámbito de actuación de la Comisión de Auditoría se extiende a:

- NATURGY ENERGY GROUP S.A.
- Sociedades participadas mayoritariamente por NATURGY ENERGY GROUP S.A.
- Otras entidades y sociedades participadas, en las que corresponda a NATURGY ENERGY GROUP S.A., de cualquier forma, el control efectivo o la responsabilidad en su gestión u operación.

La Unidad de Auditoría Interna reporta a la Comisión de Auditoría, de forma recurrente, las acciones tomadas para asegurar que NTGY cumple con todas aquellas políticas, normas y controles de los procesos establecidos por el primer nivel de Dirección del grupo.

Asimismo, también presentan:

- El Plan de Auditoría Interna Anual para aprobación de la Comisión.
- El grado de ejecución del mismo, así como las principales conclusiones y recomendaciones incluidas en los Informes de Auditoría Interna.
- La evaluación de la eficacia del Sistema de Control y evaluación de riesgos operacionales y de Control Interno del grupo NTGY (incluidos los correspondientes al SCIIF y al Modelo de Prevención Penal), que incluye los Planes de Acción correspondientes para mejorar el nivel de control interno.
- El grado de implementación por parte de las unidades auditadas de las medidas correctoras que aparecen en los Informes de Auditoría, especialmente las propuestas por la Comisión de Auditoría.

El auditor externo comunica a la Comisión de Auditoría las debilidades significativas de control interno detectadas durante el desarrollo de la auditoría. Adicionalmente, los auditores externos informan de las principales conclusiones que han alcanzado en la revisión del control interno, sobre la evaluación de riesgos y sobre los planes de acción.

Finalmente, el auditor externo, además de reunirse periódicamente con la Comisión de Auditoría, también se reúne con el Consejo de Administración en pleno con carácter previo a que éste formule las Cuentas anuales.

## F.6 Otra información relevante.

Tal y como se describe en el apartado F.3.1. anterior, como parte del modelo de evaluación del Sistema de Control Interno de la Información Financiera de NTGY, se ha definido la realización de un proceso de certificación interna anual mediante el cual, y a través de SAP GRC Process Control, las unidades de negocio y corporativas implicadas en el proceso de elaboración de la información financiera garantizan que dentro de sus procesos se aplican los controles identificados y que éstos son válidos y suficientes. Además informan a la unidad de Contabilidad de la Información Financiera de las debilidades y/o carencias que detecten así como de los cambios que se produzcan en sus procesos a fin de valorar si éstos suponen la necesidad de desarrollar nuevos controles o la modificación de los existentes.

Durante el ejercicio 2018, NTGY ha llevado a cabo el proceso de certificación interna anual, resultado del cual se han identificado cambios en un número limitado de procesos, destacando que dichos cambios no han supuesto la modificación de las actividades de control previamente identificadas, por lo que se consideran cubiertos los riesgos asociados a la elaboración y reporte de la información financiera en los procesos críticos afectados. Las principales magnitudes de este proceso han sido las siguientes:

	España	Internacional	Total
Unidades de negocio y corporativas	132	167	299
Procesos identificados	54	154	208
Controles certificados	837	1.299	2.136

Asimismo, se han identificado planes de acción por debilidades en la evidencia de controles, que ascienden a 35, de los cuales 4 son en España. Durante el ejercicio 2018 se ha resuelto un 56% de los planes de acción identificados en 2017, surgiendo nuevos planes durante 2018. En cualquier caso, los subprocesos afectados por dichos planes de acción no afectan de forma significativa a la calidad de la información financiera.

## F.7 Informe del auditor externo

### Informe de:

**F.7.1. Si la información del SCIIF remitida a los mercados ha sido sometida a revisión por el auditor externo, en cuyo caso la entidad debería incluir el informe correspondiente como anexo. En caso contrario, debería informar de sus motivos.**

NTGY ha considerado pertinente solicitar al Auditor Externo la emisión de un informe referido a la información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF).

Indique el grado de seguimiento de la sociedad respecto de las recomendaciones del Código de buen gobierno de las sociedades cotizadas.

En el caso de que alguna recomendación no se siga o se siga parcialmente, se deberá incluir una explicación detallada de sus motivos de manera que los accionistas, los inversores y el mercado en general, cuenten con información suficiente para valorar el proceder de la sociedad. No serán aceptables explicaciones de carácter general.

1. Que los estatutos de las sociedades cotizadas no limiten el número máximo de votos que pueda emitir un mismo accionista, ni contengan otras restricciones que dificulten la toma de control de la sociedad mediante la adquisición de sus acciones en el mercado.

Cumple  Explique

2. Que cuando coticen la sociedad matriz y una sociedad dependiente ambas definan públicamente con precisión:

- a) Las respectivas áreas de actividad y eventuales relaciones de negocio entre ellas, así como las de la sociedad dependiente cotizada con las demás empresas del grupo;
- b) Los mecanismos previstos para resolver los eventuales conflictos de interés que puedan presentarse.

Cumple    Cumple parcialmente    Explique    No aplicable

3. Que durante la celebración de la junta general ordinaria, como complemento de la difusión por escrito del informe anual de gobierno corporativo, el presidente del consejo de administración informe verbalmente a los accionistas, con suficiente detalle, de los aspectos más relevantes del gobierno corporativo de la sociedad y, en particular:

- a) De los cambios acaecidos desde la anterior junta general ordinaria.
- b) De los motivos concretos por los que la compañía no sigue alguna de las recomendaciones del Código de Gobierno Corporativo y, si existieran, de las reglas alternativas que aplique en esa materia.

Cumple     Cumple parcialmente    Explique

4. Que la sociedad defina y promueva una política de comunicación y contactos con accionistas, inversores institucionales y asesores de voto que sea plenamente respetuosa con las normas contra el abuso de mercado y dé un trato semejante a los accionistas que se encuentren en la misma posición.

Y que la sociedad haga pública dicha política a través de su página web, incluyendo información relativa a la forma en que la misma se ha puesto en práctica e identificando a los interlocutores o responsables de llevarla a cabo.

Cumple     Cumple parcialmente    Explique

5. Que el consejo de administración no eleve a la junta general una propuesta de delegación de facultades, para emitir acciones o valores convertibles con exclusión del derecho de suscripción preferente, por un importe superior al 20% del capital en el momento de la delegación.

Y que cuando el consejo de administración apruebe cualquier emisión de acciones o de valores convertibles con exclusión del derecho de suscripción preferente, la sociedad publique inmediatamente en su página web los informes sobre dicha exclusión a los que hace referencia la legislación mercantil.

Cumple  Cumple parcialmente Explique

6. Que las sociedades cotizadas que elaboren los informes que se citan a continuación, ya sea de forma preceptiva o voluntaria, los publiquen en su página web con antelación suficiente a la celebración de la junta general ordinaria, aunque su difusión no sea obligatoria:

- a) Informe sobre la independencia del auditor.
- b) Informes de funcionamiento de las comisiones de auditoría y de nombramientos y retribuciones.
- c) Informe de la comisión de auditoría sobre operaciones vinculadas.
- d) Informe sobre la política de responsabilidad social corporativa.

Cumple  Cumple parcialmente Explique

7. Que la sociedad transmita en directo, a través de su página web, la celebración de las juntas generales de accionistas.

Cumple  Explique

8. Que la comisión de auditoría vele porque el consejo de administración procure presentar las cuentas a la junta general de accionistas sin limitaciones ni salvedades en el informe de auditoría y que, en los supuestos excepcionales en que existan salvedades, tanto el presidente de la comisión de auditoría como los auditores expliquen con claridad a los accionistas el contenido y alcance de dichas limitaciones, o salvedades.

Cumple  Cumple parcialmente Explique

9. Que la sociedad haga públicos en su página web, de manera permanente, los requisitos y procedimientos que aceptará para acreditar la titularidad de acciones, el derecho de asistencia a la junta general de accionistas y el ejercicio o delegación del derecho de voto.

Y que tales requisitos y procedimientos favorezcan la asistencia y el ejercicio de sus derechos a los accionistas y se apliquen de forma no discriminatoria.

Cumple  Cumple parcialmente Explique

10. Que cuando algún accionista legitimado haya ejercitado, con anterioridad a la celebración de la junta general de accionistas, el derecho a completar el orden del día o a presentar nuevas propuestas de acuerdo, la sociedad:

- a) Difunda de inmediato tales puntos complementarios y nuevas propuestas de acuerdo.
- b) Haga público el modelo de tarjeta de asistencia o formulario de delegación de voto o voto a distancia con las modificaciones precisas para que puedan votarse los nuevos puntos del orden del día y propuestas alternativas de acuerdo en los mismos términos que los propuestos por el consejo de administración.



- c) **Someta todos esos puntos o propuestas alternativas a votación y les aplique las mismas reglas de voto que a las formuladas por el consejo de administración, incluidas, en particular, las presunciones o deducciones sobre el sentido del voto.**
- d) **Con posterioridad a la junta general de accionistas, comunique el desglose del voto sobre tales puntos complementarios o propuestas alternativas.**

Cumple      Cumple parcialmente      Explique      No aplicable **X**

- 11. Que, en el caso de que la sociedad tenga previsto pagar primas de asistencia a la junta general de accionistas, establezca, con anterioridad, una política general sobre tales primas y que dicha política sea estable.**

Cumple      Cumple parcialmente      Explique      No aplicable **X**

- 12. Que el consejo de administración desempeñe sus funciones con unidad de propósito e independencia de criterio, dispense el mismo trato a todos los accionistas que se hallen en la misma posición y se guíe por el interés social, entendido como la consecución de un negocio rentable y sostenible a largo plazo, que promueva su continuidad y la maximización del valor económico de la empresa.**

**Y que en la búsqueda del interés social, además del respeto de las leyes y reglamentos y de un comportamiento basado en la buena fe, la ética y el respeto a los usos y a las buenas prácticas comúnmente aceptadas, procure conciliar el propio interés social con, según corresponda, los legítimos intereses de sus empleados, sus proveedores, sus clientes y los de los restantes grupos de interés que puedan verse afectados, así como el impacto de las actividades de la compañía en la comunidad en su conjunto y en el medio ambiente.**

Cumple **X**      Cumple parcialmente      Explique

- 13. Que el consejo de administración posea la dimensión precisa para lograr un funcionamiento eficaz y participativo, lo que hace aconsejable que tenga entre cinco y quince miembros.**

Cumple **X**      Explique

- 14. Que el consejo de administración apruebe una política de selección de consejeros que:**

- a) **Sea concreta y verificable.**
- b) **Asegure que las propuestas de nombramiento o reelección se fundamenten en un análisis previo de las necesidades del consejo de administración.**
- c) **Favorezca la diversidad de conocimientos, experiencias y género.**

**Que el resultado del análisis previo de las necesidades del consejo de administración se recoja en el informe justificativo de la comisión de nombramientos que se publique al convocar la junta general de accionistas a la que se someta la ratificación, el nombramiento o la reelección de cada consejero.**

**Y que la política de selección de consejeros promueva el objetivo de que en el año 2020 el número de consejeras represente, al menos, el 30% del total de miembros del consejo de administración.**

**La comisión de nombramientos verificará anualmente el cumplimiento de la política de selección de consejeros y se informará de ello en el informe anual de gobierno corporativo.**

Cumple    Cumple parcialmente    **X**    Explique

La política de selección de Consejeros vela por que los procedimientos de selección no adolezcan de sesgos implícitos que puedan implicar discriminación alguna, en el marco del pleno respeto al derecho de representación proporcional de los accionistas reconocido por la Ley. La política de selección de Consejeros está encaminada a asegurar una adecuada diversidad en la composición del Consejo de Administración, lo que se ha traducido en que los miembros del Consejo responden a perfiles profesionales y trayectorias diferentes y complementarias entre sí, en el convencimiento de que dicha diversidad redundará en un mejor funcionamiento del mismo. Dentro de este marco el Consejo presta atención a las cuestiones de diversidad de género. Si bien no se ha explicitado el objetivo de que en el año 2020 existan un tercio de Consejeras, el Consejo está firmemente comprometido con el principio de diversidad en su composición en todas sus manifestaciones, y ha realizado propuestas de incorporación de nuevos consejeros siguiendo las recomendaciones de perfiles resultantes del ejercicio de autoevaluación para el que se ha contado la asistencia de un asesor externo independiente.

Aunque la Compañía comparte la bondad de incrementar la presencia de mujeres en el Consejo hasta, al menos, el entorno del 30%, se ha considerado que el seguimiento acrítico de la recomendación y sin tener en cuenta las demás consideraciones legales, podría dar lugar a una restricción indebida en el ejercicio de las funciones de la Comisión de Nombramientos y Retribuciones, ya que podría resultar contraproducente, de cara a obtener la designación del mejor candidato posible, que ni siquiera puedan considerarse perfiles masculinos para su designación como consejeros independientes (con independencia de que luego resulten elegidos o no).

**15. Que los consejeros dominicales e independientes constituyan una amplia mayoría del consejo de administración y que el número de consejeros ejecutivos sea el mínimo necesario, teniendo en cuenta la complejidad del grupo societario y el porcentaje de participación de los consejeros ejecutivos en el capital de la sociedad.**

Cumple **X**    Cumple parcialmente    Explique

**16. Que el porcentaje de consejeros dominicales sobre el total de consejeros no ejecutivos no sea mayor que la proporción existente entre el capital de la sociedad representado por dichos consejeros y el resto del capital.**

**Este criterio podrá atenuarse:**

- a) **En sociedades de elevada capitalización en las que sean escasas las participaciones accionariales que tengan legalmente la consideración de significativas.**
- b) **Cuando se trate de sociedades en las que exista una pluaridad de accionistas representados en el consejo de administración y no tengan vínculos entre sí.**

Cumple **X**    Explique

**17. Que el número de consejeros independientes represente, al menos, la mitad del total de consejeros.**

**Que, sin embargo, cuando la sociedad no sea de elevada capitalización o cuando, aun siéndolo, cuente con un accionista, o varios actuando concertadamente, que controlen más del 30% del capital social, el número de consejeros independientes represente, al menos, un tercio del total de consejeros.**

Cumple

Explique

X

A 31 de diciembre de 2018 más de un tercio de los Consejeros tienen la condición de independientes, si bien, la Sociedad no puede ser calificada de baja capitalización ni cuenta con accionistas que actúen concertadamente y controlen más del 30% del capital. En esta línea, debe tenerse en cuenta que en la Sociedad tienen participaciones iguales o superiores al 20% tres accionistas que no actúan concertadamente, y que la representación de los mismos en el Consejo de Administración se ajusta al respeto al principio de representación proporcional. Por otro lado, debe destacarse que el establecimiento de mayorías reforzadas para determinadas materias ha permitido capacidad de bloqueo para el conjunto de los consejeros independientes.

El respeto a la legislación vigente y la especial configuración accionarial de la Compañía determinan que, por razones legales, no se pueda cumplir con esta recomendación si los accionistas que poseen más del 8,33% del capital social desean ejercer su derecho de representación proporcional, como es el caso. La legislación actual consagra el principio de representación proporcional, por lo que la Sociedad está obligada a garantizar el respeto del legítimo ejercicio de ese derecho por parte de sus accionistas.

En la actualidad el número de Consejeros Independientes es de 5 sobre un total de 12 Consejeros, es decir, representan el 41,6% de los Consejeros. Los accionistas significativos de la Compañía ostentan, en su conjunto, el 65,62% del capital y han propuesto un 50 % de los consejeros (en total 6, sobre 12). Mientras ello se mantenga, por respeto al mandato legal de proporcionalidad, el número de Consejeros Independientes no podrá ser igual a la mitad del total de Consejeros. En todo caso, la cifra de 5, aparte de ser cuantitativamente la procedente conforme a la ley, tiene relevancia cualitativa: una modificación del Reglamento del Consejo ha establecido que, para las materias de mayor relevancia, se requiere una mayoría reforzada de más de dos tercios, lo que equivale a una posibilidad de bloqueo del conjunto de Consejeros Independientes.

**18. Que las sociedades hagan pública a través de su página web, y mantengan actualizada, la siguiente información sobre sus consejeros:**

- a) **Perfil profesional y biográfico.**
- b) **Otros consejos de administración a los que pertenezcan, se trate o no de sociedades cotizadas, así como sobre las demás actividades retribuidas que realice cualquiera que sea su naturaleza.**
- c) **Indicación de la categoría de consejero a la que pertenezcan, señalándose, en el caso de consejeros dominicales, el accionista al que representen o con quien tengan vínculos.**
- d) **Fecha de su primer nombramiento como consejero en la sociedad, así como de las posteriores reelecciones.**
- e) **Acciones de la compañía, y opciones sobre ellas, de las que sean titulares.**

Cumple X

Cumple parcialmente Explique

**19. Que en el informe anual de gobierno corporativo, previa verificación por la comisión de nombramientos, se expliquen las razones por las cuales se hayan nombrado**

consejeros dominicales a instancia de accionistas cuya participación accionarial sea inferior al 3% del capital; y se expongan las razones por las que no se hubieran atendido, en su caso, peticiones formales de presencia en el consejo procedentes de accionistas cuya participación accionarial sea igual o superior a la de otros a cuya instancia se hubieran designado consejeros dominicales.

Cumple      Cumple parcialmente      Explique      No aplicable **X**

20. Que los consejeros dominicales presenten su dimisión cuando el accionista a quien representen transmita íntegramente su participación accionarial. Y que también lo hagan, en el número que corresponda, cuando dicho accionista rebaje su participación accionarial hasta un nivel que exija la reducción del número de sus consejeros dominicales.

Cumple **X**      Cumple parcialmente      Explique      No aplicable

21. Que el consejo de administración no proponga la separación de ningún consejero independiente antes del cumplimiento del período estatutario para el que hubiera sido nombrado, salvo cuando concorra justa causa, apreciada por el consejo de administración previo informe de la comisión de nombramientos. En particular, se entenderá que existe justa causa cuando el consejero pase a ocupar nuevos cargos o contraiga nuevas obligaciones que le impidan dedicar el tiempo necesario al desempeño de las funciones propias del cargo de consejero, incumpla los deberes inherentes a su cargo o incurra en algunas de las circunstancias que le hagan perder su condición de independiente, de acuerdo con lo establecido en la legislación aplicable.

También podrá proponerse la separación de consejeros independientes como consecuencia de ofertas públicas de adquisición, fusiones u otras operaciones corporativas similares que supongan un cambio en la estructura de capital de la sociedad, cuando tales cambios en la estructura del consejo de administración vengán propiciados por el criterio de proporcionalidad señalado en la recomendación 16.

Cumple **X**      Explique

22. Que las sociedades establezcan reglas que obliguen a los consejeros a informar y, en su caso, dimitir en aquellos supuestos que puedan perjudicar al crédito y reputación de la sociedad y, en particular, les obliguen a informar al consejo de administración de las causas penales en las que aparezcan como imputados, así como de sus posteriores vicisitudes procesales.

Y que si un consejero resultara procesado o se dictara contra el auto de apertura de juicio oral por alguno de los delitos señalados en la legislación societaria, el consejo de administración examine el caso tan pronto como sea posible y, a la vista de sus circunstancias concretas, decida si procede o no que el consejero continúe en su cargo. Y que de todo ello el consejo de administración dé cuenta, de forma razonada, en el informe anual de gobierno corporativo.

Cumple **X**      Cumple parcialmente      Explique

23. Que todos los consejeros expresen claramente su oposición cuando consideren que alguna propuesta de decisión sometida al consejo de administración puede ser contraria al interés social. Y que otro tanto hagan, de forma especial, los independientes y demás consejeros a quienes no afecte el potencial conflicto de

intereses, cuando se trate de decisiones que puedan perjudicar a los accionistas no representados en el consejo de administración.

Y que cuando el consejo de administración adopte decisiones significativas o reiteradas sobre las que el consejero hubiera formulado serias reservas, este saque las conclusiones que procedan y, si optara por dimitir, explique las razones en la carta a que se refiere la recomendación siguiente.

Esta recomendación alcanza también al secretario del consejo de administración, aunque no tenga la condición de consejero.

Cumple  Cumple parcialmente  Explique  No aplicable

24. Que cuando, ya sea por dimisión o por otro motivo, un consejero cese en su cargo antes del término de su mandato, explique las razones en una carta que remitirá a todos los miembros del consejo de administración. Y que, sin perjuicio de que dicho cese se comunique como hecho relevante, del motivo del cese se dé cuenta en el informe anual de gobierno corporativo.

Cumple   Cumple parcialmente  Explique  No aplicable

25. Que la comisión de nombramientos se asegure de que los consejeros no ejecutivos tienen suficiente disponibilidad de tiempo para el correcto desarrollo de sus funciones.

Y que el reglamento del consejo establezca el número máximo de consejos de sociedades de los que pueden formar parte sus consejeros.

Cumple  Cumple parcialmente   Explique

Dado el alto nivel de participación y asistencia a las sesiones de los órganos de Gobierno por parte de los miembros del Consejo, la sociedad no ha establecido hasta la fecha reglas sobre el número de Consejos de los que puedan formar parte dichos Consejeros, sin perjuicio de señalar que se ha constatado el adecuado funcionamiento del Consejo de Administración, tanto en términos de número de reuniones, que han superado las recomendadas, como en términos cualitativos.

26. Que el consejo de administración se reúna con la frecuencia precisa para desempeñar con eficacia sus funciones y, al menos, ocho veces al año, siguiendo el programa de fechas y asuntos que establezca al inicio del ejercicio, pudiendo cada consejero individualmente proponer otros puntos del orden del día inicialmente no previstos.

Cumple  Cumple parcialmente   Explique

Conforme al artículo 17 del Reglamento del Consejo, corresponde al Presidente del Consejo de Administración el impulso y la dirección de las actividades de la Compañía. En ejercicio de dichas competencias la Compañía entiende que corresponde esencialmente al Presidente del Consejo, o a quien haga sus veces, el establecimiento de los puntos del orden del día de sus sesiones. Asimismo, 1/3 de los consejeros podrán proponer otros puntos del orden del día inicialmente no previstos.

La razón por la que se establece este número de consejeros para la inclusión de asuntos en el orden del día tiene que ver con la necesidad de compatibilizar la amplitud de las funciones de gestión que en el ámbito de la Sociedad ostenta el pleno del Consejo de Administración, con la necesidad de agilizar y facilitar su funcionamiento, con vistas a garantizar una diligente gestión de la Sociedad. Así, se ha suprimido la Comisión ejecutiva de tal forma que el Consejo ha asumido, un número muy relevante de funciones, lo que afecta de lleno a la carga de trabajo que el Consejo soporta. Es por

ello que se estima conveniente que, dada dicha abundante carga de trabajo, el Consejo se centre en el análisis de aquellas cuestiones adicionales a la lista ordinaria exhaustiva en torno a las cuáles exista un mínimo grado de consenso, que vendría a ser el de 4 consejeros. Este número es relevante, ya que permite a los Consejeros Independientes hacer propuestas por esta vía o a través del Consejero coordinador mientras que viene a limitar la facultad de propuesta individual del conjunto de consejeros dominicales representantes de un accionista significativo, de manera que los Consejeros dominicales correspondientes a un accionista significativo no pueden, por sí solos, imponer un punto del orden del día.

- 27. Que las inasistencias de los consejeros se reduzcan a los casos indispensables y se cuantifiquen en el informe anual de gobierno corporativo. Y que, cuando deban producirse, se otorgue representación con instrucciones.**

Cumple                      Cumple parcialmente **X**                      Explique

En lo que respecta a la cuestión de las instrucciones de voto, la Compañía considera que el cumplimiento al 100% de esta recomendación no necesariamente es lo óptimo pues puede estar justificado que el representado no otorgue instrucciones específicas al representante, por cuanto estime conveniente que éste se pronuncie en atención al debate que se suscite en el seno del Consejo de Administración.

- 28. Que cuando los consejeros o el secretario manifiesten preocupación sobre alguna propuesta o, en el caso de los consejeros, sobre la marcha de la sociedad y tales preocupaciones no queden resueltas en el consejo de administración, a petición de quien las hubiera manifestado, se deje constancia de ellas en el acta.**

Cumple **X**      Cumple parcialmente      Explique      No aplicable

- 29. Que la sociedad establezca los cauces adecuados para que los consejeros puedan obtener el asesoramiento preciso para el cumplimiento de sus funciones incluyendo, si así lo exigieran las circunstancias, asesoramiento externo con cargo a la empresa.**

Cumple **X**      Cumple parcialmente      Explique

- 30. Que, con independencia de los conocimientos que se exijan a los consejeros para el ejercicio de sus funciones, las sociedades ofrezcan también a los consejeros programas de actualización de conocimientos cuando las circunstancias lo aconsejen.**

Cumple **X**      Explique      No aplicable

- 31. Que el orden del día de las sesiones indique con claridad aquellos puntos sobre los que el consejo de administración deberá adoptar una decisión o acuerdo para que los consejeros puedan estudiar o recabar, con carácter previo, la información precisa para su adopción.**

Quando, excepcionalmente, por razones de urgencia, el presidente quiera someter a la aprobación del consejo de administración decisiones o acuerdos que no figuraran en el orden del día, será preciso el consentimiento previo y expreso de la mayoría de los consejeros presentes, del que se dejará debida constancia en el acta.

Cumple **X**      Cumple parcialmente      Explique

- 32. Que los consejeros sean periódicamente informados de los movimientos en el accionariado y de la opinión que los accionistas significativos, los inversores y las agencias de calificación tengan sobre la sociedad y su grupo.**

Cumple **X**      Cumple parcialmente      Explique

33. Que el presidente, como responsable del eficaz funcionamiento del consejo de administración, además de ejercer las funciones que tiene legal y estatutariamente atribuidas, prepare y someta al consejo de administración un programa de fechas y asuntos a tratar; organice y coordine la evaluación periódica del consejo, así como, en su caso, la del primer ejecutivo de la sociedad; sea responsable de la dirección del consejo y de la efectividad de su funcionamiento; se asegure de que se dedica suficiente tiempo de discusión a las cuestiones estratégicas, y acuerde y revise los programas de actualización de conocimientos para cada consejero, cuando las circunstancias lo aconsejen.

Cumple  Cumple parcialmente  Explique

34. Que cuando exista un consejero coordinador, los estatutos o el reglamento del consejo de administración, además de las facultades que le corresponden legalmente, le atribuya las siguientes: presidir el consejo de administración en ausencia del presidente y de los vicepresidentes, en caso de existir; hacerse eco de las preocupaciones de los consejeros no ejecutivos; mantener contactos con inversores y accionistas para conocer sus puntos de vista a efectos de formarse una opinión sobre sus preocupaciones, en particular, en relación con el gobierno corporativo de la sociedad; y coordinar el plan de sucesión del presidente.

Cumple  Cumple parcialmente  Explique  No aplicable

El Consejero coordinador tiene atribuidas todas las funciones recomendadas, salvo la de relación con los inversores.

35. Que el secretario del consejo de administración vele de forma especial para que en sus actuaciones y decisiones el consejo de administración tenga presentes las recomendaciones sobre buen gobierno contenidas en este Código de buen gobierno que fueran aplicables a la sociedad.

Cumple  Explicable

36. Que el consejo de administración en pleno evalúe una vez al año y adopte, en su caso, un plan de acción que corrija las deficiencias detectadas respecto de:

- a) La calidad y eficiencia del funcionamiento del consejo de administración.
- b) El funcionamiento y la composición de sus comisiones.
- c) La diversidad en la composición y competencias del consejo de administración.
- e) El desempeño del presidente del consejo de administración y del primer ejecutivo de la sociedad.
- f) El desempeño y la aportación de cada consejero, prestando especial atención a los responsables de las distintas comisiones del consejo.

Para la realización de la evaluación de las distintas comisiones se partirá del informe que estas eleven al consejo de administración, y para la de este último, del que le eleve la comisión de nombramientos.

Cada tres años, el consejo de administración será auxiliado para la realización de la evaluación por un consultor externo, cuya independencia será verificada por la comisión de nombramientos.

Las relaciones de negocio que el consultor o cualquier sociedad de su grupo mantengan con la sociedad o cualquier sociedad de su grupo deberán ser desglosadas en el informe anual de gobierno corporativo.

El proceso y las áreas evaluadas serán objeto de descripción en el informe anual de gobierno corporativo.

Cumple  Cumple parcialmente Explique No aplicable

37. Que cuando exista comisión ejecutiva, la estructura de participación de las diferentes categorías de consejeros sea similar a la del propio consejo de administración y su secretario sea el de este último.

Cumple Cumple parcialmente Explique No aplicable

38. Que el consejo de administración tenga siempre conocimiento de los asuntos tratados y de las decisiones adoptadas por la comisión ejecutiva y que todos los miembros del consejo de administración reciban copia de las actas de las sesiones de la comisión ejecutiva.

Cumple Cumple parcialmente Explique No aplicable

39. Que los miembros de la comisión de auditoría, y de forma especial su presidente, se designen teniendo en cuenta sus conocimientos y experiencia en materia de contabilidad, auditoría o gestión de riesgos, y que la mayoría de dichos miembros sean consejeros independientes.

Cumple  Cumple parcialmente Explique

40. Que bajo la supervisión de la comisión de auditoría, se disponga de una unidad que asuma la función de auditoría interna que vele por el buen funcionamiento de los sistemas de información y control interno y que funcionalmente dependa del presidente no ejecutivo del consejo o del de la comisión de auditoría.

Cumple Cumple parcialmente  Explique

La Dirección de Auditoría Interna, vela, entre otros, por el buen funcionamiento y control interno en dependencia del Presidente ejecutivo, a través de la Dirección Financiera. La supervisión de la actuación de la Dirección de Auditoría Interna corresponde a la Comisión de Auditoría, de manera que aquella reporta sus actividades a la dicha Comisión, que también autoriza su presupuesto anual y propone los objetivos retributivos del Director de Auditoría Interna. Igualmente, corresponde a la Comisiones de Auditoría, en coordinación con la Comisión de Nombramientos y Retribuciones la evaluación del desempeño anual del Director de Auditoría, a efectos de su remuneración.

41. Que el responsable de la unidad que asuma la función de auditoría interna presente a la comisión de auditoría su plan anual de trabajo, informe directamente de las incidencias que se presenten en su desarrollo y someta al final de cada ejercicio un informe de actividades.

Cumple  Cumple parcialmente Explique No aplicable

42. Que, además de las previstas en la ley, correspondan a la comisión de auditoría las siguientes funciones:

1. En relación con los sistemas de información y control interno:

a) Supervisar el proceso de elaboración y la integridad de la información financiera relativa a la sociedad y, en su caso, al grupo, revisando el cumplimiento de los



requisitos normativos, la adecuada delimitación del perímetro de consolidación y la correcta aplicación de los criterios contables.

- b) Velar por la independencia de la unidad que asume la función de auditoría interna; proponer la selección, nombramiento, reelección y cese del responsable del servicio de auditoría interna; proponer el presupuesto de ese servicio; aprobar la orientación y sus planes de trabajo, asegurándose de que su actividad esté enfocada principalmente hacia los riesgos relevantes de la sociedad; recibir información periódica sobre sus actividades; y verificar que la alta dirección tenga en cuenta las conclusiones y recomendaciones de sus informes.
- c) Establecer y supervisar un mecanismo que permita a los empleados comunicar, de forma confidencial y, si resulta posible y se considera apropiado, anónima, las irregularidades de potencial trascendencia, especialmente financieras y contables, que adviertan en el seno de la empresa.

2. En relación con el auditor externo:

- a) En caso de renuncia del auditor externo, examinar las circunstancias que la hubieran motivado.
- b) Velar que la retribución del auditor externo por su trabajo no comprometa su calidad ni su independencia.
- c) Supervisar que la sociedad comunique como hecho relevante a la CNMV el cambio de auditor y lo acompañe de una declaración sobre la eventual existencia de desacuerdos con el auditor saliente y, si hubieran existido, de su contenido.
- d) Asegurar que el auditor externo mantenga anualmente una reunión con el pleno del consejo de administración para informarle sobre el trabajo realizado y sobre la evolución de la situación contable y de riesgos de la sociedad.
- e) Asegurar que la sociedad y el auditor externo respetan las normas vigentes sobre prestación de servicios distintos a los de auditoría, los límites a la concentración del negocio del auditor y, en general, las demás normas sobre independencia de los auditores.

Cumple  Cumple parcialmente  Explique

43. Que la comisión de auditoría pueda convocar a cualquier empleado o directivo de la sociedad, e incluso disponer que comparezcan sin presencia de ningún otro directivo.

Cumple  Cumple parcialmente  Explique

44. Que la comisión de auditoría sea informada sobre las operaciones de modificaciones estructurales y corporativas que proyecte realizar la sociedad para su análisis e informe previo al consejo de administración sobre sus condiciones económicas y su impacto contable y, en especial, en su caso, sobre la ecuación de canje propuesta.

Cumple  Cumple parcialmente  Explique  No aplicable

45. Que la política de control y gestión de riesgos identifique al menos:

- a) Los distintos tipos de riesgo, financieros y no financieros (entre otros los operativos, tecnológicos, legales, sociales, medio ambientales, políticos y reputacionales) a los que se enfrenta la sociedad, incluyendo entre los financieros o económicos, los pasivos contingentes y otros riesgos fuera de balance.

- b) La fijación del nivel de riesgo que la sociedad considere aceptable.
- c) Las medidas previstas para mitigar el impacto de los riesgos identificados, en caso de que llegaran a materializarse.
- d) Los sistemas de información y control interno que se utilizarán para controlar y gestionar los citados riesgos, incluidos los pasivos contingentes o riesgos fuera de balance.

Cumple X                      Cumple parcialmente      Explique

La Compañía dispone de un sistema de control y gestión de riesgos supervisado por la Comisión de Auditoría, del cual resulta un mapa de riesgos que agrupa los principales factores de riesgo y define tanto el perfil global de riesgo como los responsables de determinar los límites de riesgo. El Consejo de Administración en su sesión de 6 de febrero de 2018 ha refundido los aspectos esenciales del sistema de control y gestión de riesgos.

**46. Que bajo la supervisión directa de la comisión de auditoría o, en su caso, de una comisión especializada del consejo de administración, exista una función interna de control y gestión de riesgos ejercida por una unidad o departamento interno de la sociedad que tenga atribuidas expresamente las siguientes funciones:**

- a) Asegurar el buen funcionamiento de los sistemas de control y gestión de riesgos y, en particular, que se identifican, gestionan, y cuantifican adecuadamente todos los riesgos importantes que afecten a la sociedad.
- b) Participar activamente en la elaboración de la estrategia de riesgos y en las decisiones importantes sobre su gestión.
- c) Velar por que los sistemas de control y gestión de riesgos mitiguen los riesgos adecuadamente en el marco de la política definida por el consejo de administración.

Cumple X                      Cumple parcialmente      Explique

**47. Que los miembros de la comisión de nombramientos y de retribuciones –o de la comisión de nombramientos y la comisión de retribuciones, si estuvieren separadas– se designen procurando que tengan los conocimientos, aptitudes y experiencia adecuados a las funciones que estén llamados a desempeñar y que la mayoría de dichos miembros sean consejeros independientes.**

Cumple                      X      Cumple parcialmente      Explique

**48. Que las sociedades de elevada capitalización cuenten con una comisión de nombramientos y con una comisión de remuneraciones separadas.**

Cumple                      Explique X                      No aplicable

La Compañía estima que, al menos en su caso, no es necesario ni eficaz separar las competencias de la Comisión de Nombramientos y Retribuciones en dos Comisiones, una de Nombramientos y otra de Retribuciones. La existencia de una única Comisión en nada perjudica o limita el ejercicio de las facultades que la ley otorga a la Comisión de Nombramientos y Retribuciones, lo que permite además a la Compañía una optimización de costes en la medida en que con ello se evita el devengo de retribuciones adicionales a los consejeros llamados a formar parte de las dos

comisiones desdobladas. Pero es más, la Compañía considera que dicho desdoblamiento podría resultar contraproducente, ya que para la Compañía es relevante la presencia de un número significativo de consejeros independientes en las Comisiones del Consejo. Dadas las restricciones que al número de consejeros independientes impone la legislación vigente en aplicación del principio de representación proporcional, el número de consejeros independientes en el Consejo de Administración es en la actualidad de 5. Para que hubiera un número relevante de consejeros independientes en las dos Comisiones desdobladas, además de en la Comisión de Auditoría (donde han de ser mayoría por disposición legal) habría que imponer a dichos consejeros una sobrecarga de trabajo derivada de una nueva Comisión.

**49. Que la comisión de nombramientos consulte al presidente del consejo de administración y al primer ejecutivo de la sociedad, especialmente cuando se trate de materias relativas a los consejeros ejecutivos.**

**Y que cualquier consejero pueda solicitar de la comisión de nombramientos que tome en consideración, por si los encuentra idóneos a su juicio, potenciales candidatos para cubrir vacantes de consejero.**

Cumple  Cumple parcialmente  Explique

**50. Que la comisión de retribuciones ejerza sus funciones con independencia y que, además de las funciones que le atribuya la ley, le correspondan las siguientes:**

- a) **Proponer al consejo de administración las condiciones básicas de los contratos de los altos directivos.**
- b) **Comprobar la observancia de la política retributiva establecida por la sociedad.**
- c) **Revisar periódicamente la política de remuneraciones aplicada a los consejeros y altos directivos, incluidos los sistemas retributivos con acciones y su aplicación, así como garantizar que su remuneración individual sea proporcionada a la que se pague a los demás consejeros y altos directivos de la sociedad.**
- d) **Velar por que los eventuales conflictos de intereses no perjudiquen la independencia del asesoramiento externo prestado a la comisión.**
- e) **Verificar la información sobre remuneraciones de los consejeros y altos directivos contenida en los distintos documentos corporativos, incluido el informe anual sobre remuneraciones de los consejeros.**

Cumple  Cumple parcialmente  Explique

**51. Que la comisión de retribuciones consulte al presidente y al primer ejecutivo de la sociedad, especialmente cuando se trate de materias relativas a los consejeros ejecutivos y altos directivos.**

Cumple  Cumple parcialmente  Explique

**52. Que las reglas de composición y funcionamiento de las comisiones de supervisión y control figuren en el reglamento del consejo de administración y que sean consistentes con las aplicables a las comisiones legalmente obligatorias conforme a las recomendaciones anteriores, incluyendo:**

- a) **Que estén compuestas exclusivamente por consejeros no ejecutivos, con mayoría de consejeros independientes.**
- b) **Que sus presidentes sean consejeros independientes.**

- c) Que el consejo de administración designe a los miembros de estas comisiones teniendo presentes los conocimientos, aptitudes y experiencia de los consejeros y los cometidos de cada comisión, delibere sobre sus propuestas e informes; y que rindan cuentas, en el primer pleno del consejo de administración posterior a sus reuniones, de su actividad y que respondan del trabajo realizado.
- d) Que las comisiones puedan recabar asesoramiento externo, cuando lo consideren necesario para el desempeño de sus funciones.
- e) Que de sus reuniones se levante acta, que se pondrá a disposición de todos los consejeros.

Cumple      Cumple parcialmente      Explique      No aplicable **X**

53. Que la supervisión del cumplimiento de las reglas de gobierno corporativo, de los códigos internos de conducta y de la política de responsabilidad social corporativa se atribuya a una o se reparta entre varias comisiones del consejo de administración que podrán ser la comisión de auditoría, la de nombramientos, la comisión de responsabilidad social corporativa, en caso de existir, o una comisión especializada que el consejo de administración, en ejercicio de sus facultades de auto-organización, decida crear al efecto, a las que específicamente se les atribuyan las siguientes funciones mínimas:

- a) La supervisión del cumplimiento de los códigos internos de conducta y de las reglas de gobierno corporativo de la sociedad.
- b) La supervisión de la estrategia de comunicación y relación con accionistas e inversores, incluyendo los pequeños y medianos accionistas.
- c) La evaluación periódica de la adecuación del sistema de gobierno corporativo de la sociedad, con el fin de que cumpla su misión de promover el interés social y tenga en cuenta, según corresponda, los legítimos intereses de los restantes grupos de interés.
- d) La revisión de la política de responsabilidad corporativa de la sociedad, velando por que esté orientada a la creación de valor.
- e) El seguimiento de la estrategia y prácticas de responsabilidad social corporativa y la evaluación de su grado de cumplimiento.
- f) La supervisión y evaluación de los procesos de relación con los distintos grupos de interés.
- g) La evaluación de todo lo relativo a los riesgos no financieros de la empresa – incluyendo los operativos, tecnológicos, legales, sociales, medio ambientales, políticos y reputacionales.
- h) La coordinación del proceso de reporte de la información no financiera y sobre diversidad, conforme a la normativa aplicable y a los estándares internacionales de referencia.

Cumple **X**      Cumple parcialmente      Explique

54. Que la política de responsabilidad social corporativa incluya los principios o compromisos que la empresa asuma voluntariamente en su relación con los distintos grupos de interés e identifique al menos:

- a) Los objetivos de la política de responsabilidad social corporativa y el desarrollo de instrumentos de apoyo.

- b) La estrategia corporativa relacionada con la sostenibilidad, el medio ambiente y las cuestiones sociales.
- c) Las prácticas concretas en cuestiones relacionadas con: accionistas, empleados, clientes, proveedores, cuestiones sociales, medio ambiente, diversidad, responsabilidad fiscal, respeto de los derechos humanos y prevención de conductas ilegales.
- d) Los métodos o sistemas de seguimiento de los resultados de la aplicación de las prácticas concretas señaladas en la letra anterior, los riesgos asociados y su gestión.
- e) Los mecanismos de supervisión del riesgo no financiero, la ética y la conducta empresarial.
- f) Los canales de comunicación, participación y diálogo con los grupos de interés.
- g) Las prácticas de comunicación responsable que eviten la manipulación informativa y protejan la integridad y el honor.

Cumple **X**

Cumple parcialmente

Explique

55. Que la sociedad informe, en un documento separado o en el informe de gestión, sobre los asuntos relacionados con la responsabilidad social corporativa, utilizando para ello alguna de las metodologías aceptadas internacionalmente.

Cumple **X**

Cumple parcialmente

Explique

56. Que la remuneración de los consejeros sea la necesaria para atraer y retener a los consejeros del perfil deseado y para retribuir la dedicación, cualificación y responsabilidad que el cargo exija, pero no tan elevada como para comprometer la independencia de criterio de los consejeros no ejecutivos.

Cumple **X**

Explique

57. Que se circunscriban a los consejeros ejecutivos las remuneraciones variables ligadas al rendimiento de la sociedad y al desempeño personal, así como la remuneración mediante entrega de acciones, opciones o derechos sobre acciones o instrumentos referenciados al valor de la acción y los sistemas de ahorro a largo plazo tales como planes de pensiones, sistemas de jubilación u otros sistemas de previsión social.

Se podrá contemplar la entrega de acciones como remuneración a los consejeros no ejecutivos cuando se condicione a que las mantengan hasta su cese como consejeros. Lo anterior no será de aplicación a las acciones que el consejero necesite enajenar, en su caso, para satisfacer los costes relacionados con su adquisición.

Cumple **X**

Cumple parcialmente

Explique

58. Que en caso de remuneraciones variables, las políticas retributivas incorporen los límites y las cautelas técnicas precisas para asegurar que tales remuneraciones guardan relación con el rendimiento profesional de sus beneficiarios y no derivan solamente de la evolución general de los mercados o del sector de actividad de la compañía o de otras circunstancias similares.

Y, en particular, que los componentes variables de las remuneraciones:

- a) Estén vinculados a criterios de rendimiento que sean predeterminados y medibles y que dichos criterios consideren el riesgo asumido para la obtención de un resultado.

- b) **Promuevan la sostenibilidad de la empresa e incluyan criterios no financieros que sean adecuados para la creación de valor a largo plazo, como el cumplimiento de las reglas y los procedimientos internos de la sociedad y de sus políticas para el control y gestión de riesgos.**
- c) **Se configuren sobre la base de un equilibrio entre el cumplimiento de objetivos a corto, medio y largo plazo, que permitan remunerar el rendimiento por un desempeño continuado durante un período de tiempo suficiente para apreciar su contribución a la creación sostenible de valor, de forma que los elementos de medida de ese rendimiento no giren únicamente en torno a hechos puntuales, ocasionales o extraordinarios.**

Cumple                      Cumple parcialmente    X                      Explique                      No aplicable

En el establecimiento de las remuneraciones variables, el Consejo ha considerado conveniente combinar retribuciones variables con horizontes temporales y métricas distintas: por un lado, la remuneración variable anual cuyas métricas, vinculadas a objetivos operativos, responden a un modelo clásico de incentivo, que encaja con los límites y cautelas previstas en esta recomendación. Por otro lado, se ha establecido una retribución con un horizonte de largo plazo (ordinariamente vence en julio de 2023), que se ha preferido alinear con la rentabilidad que recibiría un accionista, y por ello, no encaja exactamente en los modelos más tradicionales de retribución. El Consejo considera que, en el largo plazo, la mejor y más sencilla métrica del desempeño del Presidente ejecutivo es la referida a dividendos repartidos y variación de la cotización.

- 59. **Que el pago de una parte relevante de los componentes variables de la remuneración se difiera por un período de tiempo mínimo suficiente para comprobar que se han cumplido las condiciones de rendimiento previamente establecidas.**

Cumple    X    Cumple parcialmente                      Explique                      No aplicable

- 60. **Que las remuneraciones relacionadas con los resultados de la sociedad tomen en cuenta las eventuales salvedades que consten en el informe del auditor externo y minoren dichos resultados.**

Cumple                      Cumple parcialmente                      Explique    X                      No aplicable

La remuneración variable del Presidente Ejecutivo no toma en cuenta explícitamente las salvedades que puedan constar en el informe del auditor externo y minoren los resultados, ni es una situación que se haya planteado en la Compañía en el pasado. No obstante, la Comisión de Nombramientos y Retribuciones sólo fija el grado de consecución de los objetivos de la remuneración variable una vez se dispone de las cuentas auditadas de la compañía, de modo que está en disposición de tener en cuenta las citadas salvedades, si las hubiera, a la hora de determinar el grado de consecución de objetivos.

En consecuencia, el grado de cumplimiento de los objetivos establecidos por el Consejo de Administración, asociados principalmente a las cuentas anuales auditadas, es revisado y validado por la Dirección de Auditoría Interna previamente a la aprobación de su informe favorable por parte de la Comisión de Nombramientos y Retribuciones de la Compañía y se realiza al tiempo que se formulan las cuentas anuales

- 61. Que un porcentaje relevante de la remuneración variable de los consejeros ejecutivos esté vinculado a la entrega de acciones o de instrumentos financieros referenciados a su valor.**

Cumple **X**      Cumple parcialmente      Explique      No aplicable

- 62. Que una vez atribuidas las acciones o las opciones o derechos sobre acciones correspondientes a los sistemas retributivos, los consejeros no puedan transferir la propiedad de un número de acciones equivalente a dos veces su remuneración fija anual, ni puedan ejercer las opciones o derechos hasta transcurrido un plazo de, al menos, tres años desde su atribución.**

**Lo anterior no será de aplicación a las acciones que el consejero necesite enajenar, en su caso, para satisfacer los costes relacionados con su adquisición.**

Cumple      Cumple parcialmente      Explique **X**      No aplicable

El incentivo a largo plazo aplicable al Presidente Ejecutivo y a otros directivos relevantes de la Compañía alinea los intereses de los ejecutivos con el de los accionistas a través de un mecanismo que contempla un diferimiento en el pago del incentivo a más de 5 años desde su aprobación, por lo que no es necesario añadir un periodo adicional de limitación a la transmisión de acciones cuando se produzca el vencimiento del plan y la entrega de las mismas.

- 63. Que los acuerdos contractuales incluyan una cláusula que permita a la sociedad reclamar el reembolso de los componentes variables de la remuneración cuando el pago no haya estado ajustado a las condiciones de rendimiento o cuando se hayan abonado atendiendo a datos cuya inexactitud quede acreditada con posterioridad.**

Cumple **X**      Cumple parcialmente      Explique      No aplicable

- 64. Que los pagos por resolución del contrato no superen un importe establecido equivalente a dos años de la retribución total anual y que no se abonen hasta que la sociedad haya podido comprobar que el consejero ha cumplido con los criterios de rendimiento previamente establecidos.**

Cumple **X**      Cumple parcialmente      Explique      No aplicable

## **H** OTRAS INFORMACIONES DE INTERÉS

- 1. Si existe algún aspecto relevante en materia de gobierno corporativo en la sociedad o en las entidades del grupo que no se haya recogido en el resto de apartados del presente informe, pero que sea necesario incluir para recoger una información más completa y razonada sobre la estructura y prácticas de gobierno en la entidad o su grupo, detállelos brevemente.**
- 2. Dentro de este apartado, también podrá incluirse cualquier otra información, aclaración o matiz relacionado con los anteriores apartados del informe en la medida en que sean relevantes y no reiterativos.**

**En concreto, se indicará si la sociedad está sometida a legislación diferente a la española en materia de gobierno corporativo y, en su caso, incluya aquella**

información que esté obligada a suministrar y sea distinta de la exigida en el presente informe.

3. La sociedad también podrá indicar si se ha adherido voluntariamente a otros códigos de principios éticos o de buenas prácticas, internacionales, sectoriales o de otro ámbito. En su caso, se identificará el código en cuestión y la fecha de adhesión. En particular, hará mención a si se ha adherido al Código de Buenas Prácticas Tributarias, de 20 de julio de 2010.

El Consejo de Administración, en su sesión de 17 de septiembre de 2010, acordó la adhesión de NATURGY al Código de Buenas Prácticas Tributarias. De acuerdo con lo previsto en el indicado Código, se manifiesta expresamente que NTGY ha cumplido efectivamente con el contenido del mismo y, en particular, que en la reunión celebrada el día 29 de enero de 2019, el Consejo ha sido informado, a través de la Comisión de Auditoría, sobre la situación y las políticas fiscales seguidas por el Grupo durante el ejercicio 2018.

Asimismo, el Consejo de Administración, en su sesión de 9 de enero de 2018 y con el informe favorable de la Comisión de Auditoría aprobó la Estrategia fiscal y Política de control y gestión de riesgos fiscales que regula los principios básicos que deben guiar la función fiscal de NATURGY, así como las principales líneas de actuación para mitigar y guiar el correcto control de los riesgos fiscales.

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**Este informe anual de gobierno corporativo ha sido aprobado por el consejo de administración de la sociedad, en su sesión de fecha 29 de enero de 2019.**

**Indique si ha habido consejeros que hayan votado en contra o se hayan abstenido en relación con la aprobación del presente Informe.**

SI

NO

Nombre o denominación social del consejero que no ha votado a favor de la aprobación del presente informe	Motivos (en contra, abstención, no asistencia)	Explique los motivos



**Annex VII. Report on independent review of ICFR**