Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

Naturgy Energy Group S.A. and Subsidiaries
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2018

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102-106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Naturgy Energy Group, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2018, and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for Opinion

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

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

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

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

Key audit matters

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

Commitments for the purchase of natural gas

Description

As indicated in Notes 3.4.7.3 and 35 to the accompanying consolidated financial statements, the Group has taken long-term contractual commitments for the purchase of natural gas. In accordance with usual practices in the gas industry, said contracts can be signed for a maximum period of 20 to 25 years, and establish a minimum amount of gas to be purchased (take or pay clauses whereby the buyer assumes the obligation to pay the amount of natural gas contracted regardless of whether they receive it or not) and price review mechanisms linked to international prices of natural gas and prices of natural gas in the countries of destination.

These agreements are executed and kept to meet the needs for receiving or delivering the natural gas expected by the Group in accordance with periodical purchase and sale estimates. Consequently, the Group classifies these contracts as for 'own use', and they are thus excluded from the scope of IFRS 9 'Financial instruments'. The natural gas purchase commitments under these contracts amount to 83,630 million euros at December 31, 2018 (Note 35).

The assessment of the long-term natural gas procurement contracts requires Group Management to exercise critical judgment regarding the short-, mid- and long-term demand and supply estimates and compliance with the clauses included in the contracts, in order to determine their classification as own-use contracts. Consequently, we consider this area a key audit matter.

Our response

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

- Understanding the accounting procedures and criteria applied by the Group regarding future procurement contracts.
- Reading and analyzing a significant sample of the natural gas procurement contracts signed by the Group.
- Analyzing, by involving our financial instruments experts, whether the analyzed gas purchase and sale agreements meet the own-use definition by verifying the requirements established for such classification in the applicable framework for financial reporting.
- Evaluating the amounts acquired during the year and checking that the minimum contractual amounts are met.
- Analyzing provisions and contingencies linked to price review arbitration proceedings, through meetings to understand and validate the ongoing arbitration proceedings, reading the corresponding contracts and obtaining the litigation confirmation letter from the Group's legal services.
- Reviewing the information related to the gas purchase agreements disclosed in the consolidated financial statements for the year.

Revenue recognition: Sale of unbilled energy

Description

As detailed in Note 10, at 2018 year end, the Group has recorded in the 'Trade and other receivables' heading of the consolidated balance sheet 1,748 million euros corresponding to sales of energy that has been supplied but not yet billed because the usual meter reading period does not coincide with the closing of the financial statements for the year. The measurement of these unbilled sales is based on complex estimates that require Group Management to apply certain criteria, judgments and assumptions.

The main estimates on which Group Management apply criteria, judgments and assumptions to determine these unbilled sales are the daily consumption derived from seasonally adjusted historical customer profiles and other measurable factors affecting consumption. The information regarding the Group's revenue recognition criterion is detailed in Note 3.4.22.g) to the accompanying consolidated financial statements. Due to the foregoing, we consider this area a key audit matter.

Our response

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

- Understanding the criteria and procedures applied by the Group for estimating unbilled sales, also verifying the effectiveness of the relevant controls associated with the revenue recognition process for unbilled energy supplied.
- Analyzing the Group's energy balances in physical units, by checking the correlation between the consumption in the year and sales in the same period (which include estimated unbilled energy). Additionally, verifying the reasonableness of the assumptions applied (consumption and prices) in the estimate of unbilled sales made by the Group.
- Performing substantive analytical procedures on the historical evolution of billing pending issue and the reasonableness of the sales volumes and margins of the year.

Assessment of the recovery of the book value of certain Group assets

Description

As detailed in Notes 6 and 7 to the accompanying consolidated financial statements, the Group shows intangible assets and property, plant and equipment amounting to 7,845 million euros and 20,707 million euros, respectively.

Additionally, as indicated in Note 8 to the accompanying consolidated financial statements, the Group has an investment in Unión Fenosa Gas, S.A. accounted for using the equity method, the net carrying amount of which at year end is 340 million euros.

These assets are allocated to the cash generating units (CGUs) as indicated in Note 3.4.5 to the accompanying consolidated financial statements.

Additionally, as detailed in Note 9 to the accompanying consolidated financial statements, the Group holds 85.4% of the share capital of Electrificadora del Caribe, S.A. ESP (Electricaribe), which carries out the electricity distribution business in Colombia, whose net carrying amount at year end is the best estimate of its fair value and amounts to 253 million euros.

The recoverability of the book value of the indicated assets has been determined based on the present value of the future cash flows generated by the CGUs or, where appropriate, the best estimate of their recoverable amount. The cash flows are calculated based on the business plans approved by Management. The key assumptions about these cash flows are included in Note 3.4.5 to the accompanying consolidated financial statements. Additionally, Management have made a sensitivity analysis of the key assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses and considering the approval of the new 2018-2022 Strategic Plan by the Board of Directors, impairment losses and write-downs on assets have been recorded in the 2018 consolidated income statement for an amount of 4,905 million euros (of which 54 million euros were recorded prior to the approval of the new Strategic Plan) and 163 million euros were recorded in the 'Other accumulated comprehensive income' heading, as indicated in Notes 5 and 9 to the accompanying consolidated financial statements.

We have considered this area a key audit matter due to the significance of the amounts involved and the existence of significant estimates of the key assumptions used in the calculations made by Management for assessing the recoverability of the assets' value.

Our response

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

- Understanding the processes established by Group Management in the determination of the impairment of the assets, including the assessment of the design and implementation of relevant controls.
- Analyzing the reasonableness of the allocation of the assets to the several cash generating units (CGUs).
- Reviewing the model used by Group Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Group Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Group Management.
- Reviewing the estimates made by Management and the financial information projected in the strategic plan for each CGU by analyzing the historical financial and budget information, the current market conditions, and the expectations on their potential evolution.
- Reviewing the information disclosed in the notes to the consolidated financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: Consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the Parent Company's directors and is not an integral part of the consolidated financial statements.

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

a. A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibility of the Parent Company's Directors and the audit committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the audit committee of the Parent Company

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Parent Company on January 31, 2019.

Term of engagement

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

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

Alfredo Eguiagaray

January 31, 2019

Audit Report on Financial Statements
issued by an Independent Auditor

Naturgy Energy Group, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2018

EY
Building a better working world

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102-106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Audit report on the financial statements

Opinion

We have audited the financial statements of Naturgy Energy Group, S.A. (the Company), which comprise the balance sheet at December 31, 2018, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for Opinion

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

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

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

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

Key audit matters

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

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

Description

As detailed in Note 7 to the accompanying financial statements, the Company shows long-term investments in group companies and associates amounting to 15,237 million euros.

The determination of the recoverable amounts of the long-term investments in group companies and associates is based on estimates that require Management to use cash flow projections based on current results. These cash flows are calculated based on the new 2018-2022 Strategic Plan approved by the Board of Directors, whose key assumptions are detailed in Note 4 to the accompanying financial statements. Additionally, Management have made a sensitivity analysis of the most significant assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, Company Management have recorded an impairment loss amounting to 4,565 million euros (Note 7).

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

Our response

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

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

Transfer of 20% ownership interest in Holding Negocios del Gas, S.A.

Description

As detailed in Note 7 to the accompanying financial statements, on August 3, 2017 the Company signed an agreement with the consortium made up of Allianz Capital Partners and Canada Pension Plan Investment Board to sell a 20% ownership interest in the natural gas distribution business in Spain for an amount of 1,500 million euros following an increase in debt through a long-term intra-group financing facility by the Company amounting to 6,000 million euros. The transaction was subject to the necessary regulatory and anti-trust approvals.

For the transaction to be completed, in February 2018, Holding de Negocios de Gas, S.A., wholly-owned by the Company, became the parent of the natural gas distribution and transport and the liquefied petroleum gas (LPG) distribution activities in Spain, by acquiring from the Company its entire ownership interest in Nedgia, S.A. (formerly Holding Negocios Regulados Gas Natural, S.A., which is the holding company of the shares of the Spanish gas distribution companies) for an amount of 11,518 million euros. Said amount was determined as fair value based on the same price per share established in the aforementioned sale agreement with the Consortium, which was ratified by the fairness opinions provided by the investment banks J.P. Morgan and Morgan Stanley, which acted as financial advisors of the transaction and concluded that the value was fair from a financial perspective. Additionally, in accordance with section 1 of Recognition and Measurement Standard 21 of the Spanish General Accounting Plan, the transaction carried out was recorded at fair value and generated profit of 9,537 million euros for the Company.

On March 19, 2018, once the necessary regulatory and anti-trust approvals were obtained, the Company transferred a 20% ownership interest in Holding Negocios de Gas, S.A. to the aforementioned Consortium for an amount of 1,500 million euros in cash. The transaction had no significant impact on profit or loss since the ownership interest was recorded at fair value.

Given the significance of the amounts involved in this transaction, we have consider this area a key audit matter.

Our response

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

- Reviewing the sale agreement reached with the Consortium for the transfer of a 20% ownership interest in the natural gas distribution business in Spain.
- Reviewing the valuation reports by the financial advisors on the fair value of this transaction established in the sale agreement.
- Reviewing the intra-group agreements associated with this transaction.
- Verifying the accounting treatment followed by the Company for recording the transaction.
- Reviewing the information disclosed in the notes to the financial statements for the year regarding this transaction.

Other information: Management Report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

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

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

b. A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the entity obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the management report, and that the remaining information contained therein is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Additional report for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Company on January 31, 2019.

Term of engagement

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

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

Alfredo Eguiagaray

January 31, 2019

Naturgy Energy Group, S.A. and Subsidiaries

Independent Limited Assurance Report of the Non-Financial Statement for the year ended December 31, 2018

EY
Building a better working world

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102-106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

INDEPENDENT LIMITED ASSURANCE REPORT OF THE NON-FINANCIAL STATEMENT

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

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018, of NATURGY ENERGY GROUP, S.A. and subsidiaries (hereinafter, the Group), which is part of the Director's Report of the Group.

The content of the NFS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section 7.10 of the accompanying NFS.

Responsibility of the Board of Directors and Management

The Board of Directors of the Group is responsible for the approval and content of the NFS included in the Director's Report of Naturgy Energy Group, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section 7.10 of the NFS.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

They are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence, diligence, confidentiality and professionalism.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, that refers exclusively to 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The procedures carried out in a limited assurance engagement vary in nature and timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- Analyzing the scope, relevance and integrity of the content included in the NFS based on the materiality analysis made by the Group and described in Annex IV of the Director's Report, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS and its correct compilation from the data provided.
- Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the 2018 NFS of Naturgy Energy Group, S.A. has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section 7.10 of the NFS.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Antonio Capella Elizalde

January 31, 2019

Auditor's report on information relating to the "Internal Control Over Financial Reporting (ICFR)" of Naturgy Energy Group, S.A. for 2018

Building a better
working world

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102-106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

AUDITOR'S REPORT ON INFORMATION RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Directors of Naturgy Energy Group S.A.

At the request of the Board of Directors of Naturgy Energy Group, S.A. (hereinafter, the Entity) and in accordance with our proposal dated December 17, 2018, we have applied certain procedures to the accompanying "ICFR-related information" of the Entity for 2018, which summarizes the Entity's internal control procedures regarding annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information.

It should be noted that irrespective of the quality of the design and effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our assessment of the Entity's s internal control system was to establish the scope, nature, and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our internal control assessment performed for the audit of the aforementioned financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over regulated annual financial reporting.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission (CNMV) on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2018 described in the accompanying ICFR-related information. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over regulated annual financial reporting, other matters might have been detected which would have been reported to you.

Additionally, since this special engagement neither constitutes an audit of the financial statements nor is it subject to prevailing audit regulations in Spain, we do not express an audit opinion in the terms provided for therein.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

The procedures performed were as follows:

1. Reading and understanding the information prepared by the Entity regarding ICFR - disclosures included in the management report - and assessing whether this information meets all the minimum reporting requirements needed to fill out section F on the ICFR described in the Annual Corporate Governance Report template established in CNMV Circular 5/2013 of June 12, 2013, subsequently amended by CNMV Circular 7/2015 of June 22, 2015 and CNMV Circular 2/2018 of June 12 (hereinafter the CNMV Circulars).

2. Making inquiries of personnel responsible for preparing the information detailed in point 1 above: (i) to obtain an understanding of the process that goes into preparing the information; (ii) to obtain information that allows us to assess whether the terminology used complies with the framework definitions; and (iii) to obtain information on whether the control procedures described are in place and functioning.

3. Reviewing the explanatory documents supporting the information detailed in point 1 above, which will mainly include documents directly made available to those responsible for describing the ICFR. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the Audit Committee.

4. Comparing the information detailed in point 1 above with our knowledge of the Entity's ICFR obtained through the procedures applied during our audit of the financial statements.

5. Reading the minutes of the meetings of the Board of Directors, the Audit Committee, and other Entity committees in order to evaluate the consistency between matters related to the ICFR and the information detailed in point 1 above.

6. Obtaining a representation letter in connection with the work performed, duly signed by those responsible for preparing and approving the information detailed in point 1 above.

As a result of the procedures applied to the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements stipulated in article 540 of the consolidated text of the Corporate Enterprises Act and CNMV Circulars on ICFR description in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

Alfredo Eguiagaray

January 31, 2019