

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD

2018

C.I.F. A-08015497

Registered Name:

Naturgy Energy Group, S.A.

Registered Office:

Avenida de San Luis nº 77 – 28033 MADRID

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
22/06/2012	1,000,689,341	1,000,689,341	1,000,689,341

Please indicate if there are different types of shares with different rights associated:

YES NO X

Class	Number of shares	Face value	Number of voting rights	Different rights

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors*:

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
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%

Detail of the indirect holding:

* According to information on significant shareholdings reported to the CNMV by the reporting parties.

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
Global Infrastructure Partners III	GIP III Canary 1, S	20.000%		20.000%
Criteria Caixa S.A.U.		20.422%		20.422%
Criteria Caixa S.A.U.	Energía 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%

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
Repsol, S.A.	18-05-2018	Sale of all of its holding to Rioja Bidco Shareholdings, S.à.r.l
Criteria Caixa S.A.U.	3-10-2018	It transfers 5% of the share capital to Energía Boreal 2018, S.A.

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr Francisco Reynés Massanet		0.008			0.008		
Rioja Bidco Shareholdings	20.072				20.072		
Theatre Directorship Services	0				0		
Mr William Alan Woodburn	0				0		
Mr Pedro Sainz de Baranda Riva	0				0		
Mr Ramón Adell Ramón	0.001				0.001		
Mr Enrique Alcántara-García Irazoqui	0.003				0.003		
Mr Claudio Santiago Ponsa	0				0		
Mr Marcelino Armenter Vidal	0.001				0.001		
Mr Francisco Belil Creixell	0.001				0.001		
Ms Helena Herrero Starkie	0				0		
Mr Rajaram Rao	0				0		

% total voting rights held by the Board of Directors	20,086%
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Detail of the indirect holding

Name or company name of director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights that can be transferred through financial instruments
Mr Francisco Reynés Massanet	Frinvyco, SL	0.008			

Observations:

- A.4** Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A. 7

- A.5** Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Criteria Caixa S.A.U.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
Repsol, S.A.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to

		in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III Canary 1, S.à r.l.	Commercial	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties, that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn, members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
Mr Marcelino Armenter Vidal	Criteria Caixa S.A.U.	Criteria Caixa S.A.U.	Proprietary/Managing Director Criteria Caixa
		Caixa Capital Risc, S.G.E.I.C. S.A.	Deputy Chairman–CEO
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman
		Saba Infraestructuras, S.A.	Director
		Caixa Invierte Industria, S.C.R., S.A.	Chairman

		Caixa Capital Biomed, S.C.R. S.A.	Physical person representing the Sole Administrator of Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Fondos, S.C.R. S.A.	Physical person representing the Sole Administrator of Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Micro, S.C.R. S.A.	Physical person representing the Sole Administrator of Caixa Capital Risc, S.G.E.I.C, S.A.
		Caixa Capital Tic, S.C.R. S.A.	Physical person representing the Sole Administrator of Caixa Capital Risc, S.G.E.I.C, S.A.
		Criteria Venture Capital, S.I.C.C. S.A.	Physical person representing the Sole Administrator of Caixa Capital Risc, S.G.E.I.C, S.A.
Mr Enrique Alcántara García-Irazoqui	Criteria Caixa S.A.U.		Proprietary
Mr William Alan Woodburn	Global Infrastructure Management LLP		Proprietary
Mr Rajaram Rao	Global Infrastructure Management LLP		Proprietary/Shareholder
Mr Javier De Jaime Guijarro	CVC Capital Partners SICAV-FIS S.A.		Proprietary
Mr José Antonio Torre de Silva López de Letona	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES NO

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one
Criteria Caixa, S.A.U GIP III Canary 1, S.à r.l.	45.65%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016. specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
Alba Europe S.à r.l. and Rioja Investment S.à r.l	20.072%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 affects 1. The proposal for designation of directors in representation of Rioja Bidco Shareholdings, 2. The adoption of decisions on the Board and at the Meeting, and 3. The system for transfer of shares.	
Criteria Caixa, S.A.U and G3T, S.L. Criteria Caixa, S.A.U and BCN Godia, S.L.U.	5.123%	The agreement reported in Relevant Fact No. 270130 of 3 October 2018 deals with regulating the exercise of the voting rights of the indirect holding of G3T and BCN Godia S.L.U (through Energía Boreal 2018, S.A.) in Naturgy, indicating that it will	

		do what Criteria specifies.	
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Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO X

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions has taken place during the year, please make express mention of this:

When Repsol sold its entire stake in the Company, it ceased to be part of the paracorporate agreement that it maintained with Criteria Caixa, S.A.U. and GIP III Canary 1, S.à.r.l.

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify:

YES NO X

Name or company name

Observations

A.9 Complete the following tables on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
5,397,737	8,639,595	14,037,332

OBSERVATIONS

Explain the significant changes over the year:

Details of significant changes

As reported in the relevant facts dated 3 August, 1 October and 6 December, Naturgy has acquired 8,639,595 shares that will be kept in a separate corporate vehicle to generate a yield that will finance the long-term incentive of certain executives if the established conditions are met -see section B.7 of the Annual Remuneration Report.

On the other hand, at 31 December 2018, a further 5,397,737 shares were held for the purpose of repurchasing shares for possible redemption, providing for the acquisition of shares for up to Euros 400 million in the period ending on 30 June 2019.

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

The General Meeting of Shareholders held on 14 May 2015, in item 14 of the Agenda, authorised the Board of Directors to agree the acquisition of the Company shares in exchange for valuable consideration and to do so within a deadline of five years, under the following conditions:

FOURTEENTH .- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through group companies of Naturgy Energy Group S.A., in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Fourteen.1.- To cancel, in the unused part, the authorisation granted to the Board of Directors by the General Meeting held on 20 April 2010 to acquire company shares by onerous title.

Fourteenth. 2. To authorise the Board of Directors to acquire in a term of no longer than five years fully paid-up company shares to a maximum of 10% of share capital by onerous title, on one or more occasions, or the maximum applicable figure in accordance with the legislation in force at the time of acquisition, provided that the aforesaid percentage between the shares acquired by the company directly or indirectly and those already held by the company and its subsidiaries should never exceed 10% of share capital or any other legally prescribed percentage of capital. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%.

If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation to the Executive Committee or to the person or persons it deems pertinent. This authorisation is understood to apply to the acquisition of the company's shares by owned companies.

Likewise, the General Meeting of Shareholders held on 20 April 2017, in item 14 of the Agenda, authorised the Board of Directors to agree on the increase in share capital, and to do so within a deadline of five years, under the following conditions:

FOURTEENTH.- Authorisation for the Board of Directors, with substitution powers on the Executive Committee, in accordance with the provisions laid down in Article 297.1 b) of the Corporate Enterprises Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the share capital of the company, with the possibility of incomplete subscription, on the date of the authorisation, issuing shares with or without the right to vote, with or without a premium, up to half the share capital, in one or more times and on the occasions and to the amount it considers appropriate, up to the limit of 20% of the share capital at the time of this authorisation, rewriting the articles of the Articles of Association and cancelling the authorisation agreed by the Ordinary General Meeting held on 20 April 2012.

Fourteenth. -

- 1) Taking into consideration the current share capital figure, to authorise the Board of Directors, with the power to delegate this to the Executive Committee, to increase the share capital by FIVE HUNDRED MILLION THREE HUNDRED AND FORTY FOUR THOUSAND AND SIX HUNDRED AND SEVENTY EUROS (Euros 500,344,670), within five (5) years from this date (20/4/2017), through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for fresh authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act, rendering null and void the authorisation agreed by the Ordinary General Meeting of 20 April 2012.
- 2) The Board of Directors is expressly empowered, with the power to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.
- 3) As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

“TRANSITORY ARTICLE - DELEGATION TO THE BOARD OF DIRECTORS.

The company's Board of Directors, with the powers of replacing this delegation with the Executive Committee, has been authorised to increase the share capital by FIVE HUNDRED MILLION THREE HUNDRED AND FORTY FOUR

THOUSAND AND SIX HUNDRED AND SEVENTY EUROS (Euros 500,344,670), within five (5) years from this date (20/04/2017), through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for new authorisation from the General Meeting, up to the limit of 20% of the share capital at the time of this authorisation, as well as to amend the Articles of Association required for the share capital increase carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act".

A.11 Estimated floating capital:

	%
Estimated floating capital	30.426

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES NO

Description of the restrictions
<p>As a company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of Naturgy Energy Group S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 3/2013, of 4 June, governing the National Commission on Markets and Competition.</p> <p>Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.</p>

A.13 Indicate whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO **X**

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B GENERAL MEETING

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Shareholders' Meeting differs from the system of minimum quorums established in the Corporate Enterprises Act.

YES NO **X**

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act (LSC):

YES NO **X**

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting.

In order for the ordinary or extraordinary General Meeting to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five percent (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting and requires the concurrence of the following requisites:

- 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
- 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
- 3) The agreement must be adopted by the General Meeting in accordance with the provisions set out in these Articles of Association.
- 4) Under all circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

Date of General Meeting	Attendance data				Total
	% physical presence	% represented	% remote voting		
			Electronic vote	Other	
04/05/2016	68.67%	8.77%	0	0	77.44%
Of the floating capital 2016	0.13%	8.77%	0	0	8.9%
20/04/2017	68.66%	13.34%	0%	0%	82%
Of the floating capital 2017	0.1%	13.3%	0%	0%	13.4%
27/06/2018	68.69%	15.13%	0%	0%	83.82%
Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%

B.5 Indicate whether at the General Meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes No

Agenda items that have not been approved	% of votes against (*)

(*) If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and “n/a” will be placed in the “% of votes against” column.

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting.

YES NO

Number of shares required to attend the General Meeting	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar corporate operations must be submitted to approval of the general meeting of shareholders.

YES NO

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the route is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting section, the route is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated the Articles of Association and the number set by the General Meeting:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr Ramón Adell Ramón		Independent	Coordinating director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09/01/1958

Mr Enrique Alcántara-García Irazoqui		Proprietary	Director	27/06/1991	20/04/2017	Agreement General Meeting of Shareholders	21-10-1944
Mr Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	02-06-1957
Mr Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of Shareholders	24-05-1946
Ms Helena Herrero Starkie		Independent	Director	04/05/2016	04/05/2016	Agreement General Meeting of Shareholders	13-06-1959
Mr Rajaram Rao		Proprietary	Director	21/09/2016	20/04/2017	Agreement General Meeting of Shareholders	03-04-1971
Rioja Bidco Shareholdings, S.L.U.	Mr Javier de Jaime Guijarro	Proprietary	Director	17/05/2018	27/06/2018	Agreement General Meeting of Shareholders	----
Mr Claudi Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
Mr Pedro Sainz de Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 06/07/2018)	Agreement General Meeting of Shareholders	23-03-1963
Mr William Alan Woodburn		Proprietary	Director	30/09/2016	20/04/2017	Agreement General Meeting of Shareholders	14-01-1951
Theatre Directorship Services Beta, S.à.r.l.	Mr José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	----

Total number of directors	12
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Indicate the removals from office due to resignation, dismissal or for any other reason, that have occurred on the Board of Directors during the reporting period:

Name or company name of director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the
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					mandate
Isidro Fainé Casas	Proprietary	18/05/2015	06/02/2018	EXC	Yes
Rafael Villaseca Marco	Executive	14/05/2015	06/02/2018	EXC	Yes
Josu Jon Imaz Sanmiguel	Proprietary	20/04/2017	22/02/2018	EXC	Yes
Luis Suarez de Lezo Mantilla	Proprietary	20/04/2017	17/05/2018	EXC, AUC	Yes
Miguel Martínez Sanmartín	Proprietary	14/05/2015	006/03/2018	EXC, ARC	Yes
Iñigo Alonso de Noriega Satrustegui	Proprietary	06/03/2018	17/05/2018	ARC	Yes
Guillermo Llopis García	Proprietary	06/03/2018	18/05/2018	AUC	Yes
Cristina Garmendia Mendizábal	Independent	14/05/2015	27/06/2018	ARC, AUC	No
Benita Ferrero-Waldner	Independent	14/05/2015	27/06/2018	EXC	No
Xavier Añoveros Trias de Bes	Independent	14/05/2015	27/06/2018	AUC	No
Alejandro García- Bragado Dalmau	Proprietary	21/09/2016	21/05/2018	EXC, ARC	Yes
Mario Armero	Proprietary	20/04/2017	27/06/2018	--	Yes
Theatre Directorship Services Delta, S.À.R.L. (Represented by Mr Juan Arbide Estensoro)	Proprietary	17/05/2018	27/06/2018	--	No

Reason for the resignation and other observations
<p>The exit of Repsol's share capital and the simplification and reduction of the size of the Board and its Committees has led to a reduction in the number of proprietary directors, which is why several of them tendered their resignation. The Proprietary Director Mr García-Bragado resigned, alleging differences of opinion in the selection of new directors, which were not shared by the other members of the board.</p> <p>With regard to the independent directors, the reason for their removal from office was the expiration of their mandates.</p>

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of director	Position in the company's management structure	Profile

Mr Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.
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Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mr Enrique Alcántara-García Irazoqui	Criteria Caixa S.A.U.	Legal profile: Former Public prosecutor. He is Secretary of the Board of Directors and of the Trusts of multiple Societies and Foundations.
Mr Marcelino Armenter Vidal	Criteria Caixa S.A.U.	Economics and business profile: Degree in Business Administration and Management and a Master's degree in Business Administration and Management from ESADE.
Mr Rajaram Rao	Global Infrastructure Partners III	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in

		Finance from the London Business School.
Mr William Alan Woodburn	Global Infrastructure Partners III	International technical engineer profile: MS and BS degrees in Engineering from Northwestern University and the US Merchant Marine Academy.
Rioja Bidco Shareholdings, S.L.U. (Mr Javier de Jaime Guijarro)	CVC Capital Partners SICAV-FIS S.A.	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University
Theatre Directorship Services Beta, S.à.r.l. (Mr José Antonio Torre de Silva López de Letona)	CVC Capital Partners SICAV-FIS S.A.	Economics and Business profile. Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and an MBA from the University of Navarre (IESE).

Total number of proprietary directors	6
% of the entire Board	50.00%

OBSERVATIONS

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Graduate in Law. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr H.C. (Consedoc)
Mr Claudi Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts, Institute of Technology (MIT).
Ms Helena Herrero Starkie	IT and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
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% total of the board	41.66%
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OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, Director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director may perform his duties as an independent director.

Name or company name of director	Description of the relationship	Reasoned statement
Ms Cristina Garmendia Mendizábal	Director of Science & Innovation Link, Office (SILO), an entity that has rendered services to a company of the Naturgy Group.	The business relationship maintained with Science & Innovation Link Office is not significant given its intangible amount

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile
Ms Cristina Garmendia Mendizábal	She was considered external from 17-05-18 to 27-06-18.	Indirect link with the significant shareholder CVC Capital Partners SICAV-FIS S.A., being a Director of Corporación Financiera Alba, a company that has concluded a paracorporate agreement with CVC	Business management and innovation

Total number of other external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year.

Name or company name of director	Date of change	Former category	Current category
Ms Cristina Garmendia Mendizábal	17-05-2018	Independent	Other external director until 27/06/18

OBSERVATIONS

C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	1	3	3	2	8.33%	17.65%	17.65%	11.76%
Other external	0	0	0	0	0	0	0	0
Total:	1	3	2	2	8.33%	17.65%	17.65%	11.76%

OBSERVATIONS
In the preceding table, the number of female directors at the end of each year has been recorded

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

Yes

No

Partial policies X

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained

Naturgy's director selection policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said policy is applied with full respect to the right of proportional representation legally recognized to shareholders

The Appointments and Remuneration Committee ensures that the screening procedures do not include any implicit bias that could involve any discrimination whatsoever.

Throughout 2018 there has been a significant renewal process of the Board of Directors, which has affected both proprietary directors and independent directors.

With respect to proprietary directors, the process of renewal of directors has been linked to two circumstances:

1. Changes in the shareholding structure of the Company, which have caused the exit of the proprietary directors representing Repsol and the entry of the directors representing CVC.
2. The reduction in the number of board members, which has led to a reduction in the number of proprietary directors representing each shareholder, from three to two.

Within the framework of this process of renewal of proprietary directors, the Company has first all been respectful of the right to proportional representation that lawfully corresponds to shareholders. The detail of the assessment made by the Appointments and Remuneration Committee of the different candidates proposed by the shareholders is included in the corresponding report of the Committee that was published with the call to Meeting. With regard to independent directors, the expiration of the term of a significant number of them, as well as the decision to reduce the number of directors, led to the appointment of four independent directors to the General Meeting of Shareholders, until there were a total of five directors in accordance with the new configuration of the board.

At the time of formulating the proposal for appointing independent directors, the Appointments and Remuneration Committee was well aware of the conclusions of the self-assessment process of the board's

performance in 2017, which was carried out with the assistance of an outsourced consultant. This self-assessment process helped the board, assisted by said consultant, to identify those profiles that were deemed necessary to strengthen with regard to the appointment of independent directors. In particular, the need to take into account in the appointment and renewal processes of independent directors the following profiles: industrial, regulatory in the matter of energy and technology, as well as, in general, more international profiles. It was considered desirable for the new candidates to have knowledge of the energy sector acquired outside of Naturgy and also have specialized profiles in the capital market.

The proposal for the appointment of directors that the board submitted to the General Meeting of Shareholders was consistent with that analysis. The detail of the relevant professional elements of the proposed directors was given in the corresponding report of the Appointments and Remuneration Committee that was published together with the other documentation of the Meeting.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which show that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:

Explanation of the measures
<p>The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value place on, under the same conditions and among potential candidates, women who meet the professional profile being sought.</p>

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons
<p>The Company's Appointments and Remuneration Committee fully respects the legally recognised right to proportional representation of its significant shareholders.</p>

C.1.7 Explain the Appointments Committee’s conclusions on the checks carried out to ensure that the director selection policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

The Appointments and Remuneration Committee has verified that the Policy for the Selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company’s shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

The percentage of female profiles among independent directors represents 20% of the total, although it is lower than in previous years, it is expected to increase again when it is appropriate to make new proposals.

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES

NO

Name or company name of shareholder	Explanation

C.1.9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Directors, if any, who hold office as directors or representatives of directors in other companies belonging to the listed company’s group:

Name or company name of director	Company name of group entity	Position	Do they have executive duties?
s			
e			
r			

ventions

C.1.11 Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the company:

Name or company name of director	Corporate name of the listed company	Position
Mr Ramón Adell Ramón	Oryzon Genomics, S.A.	Independent Director/Audit Committee's Chairman
Mr Marcelino Armenter Vidal	Grupo Financiero Inbursa	Representative of the director Criteria Caixa S.A.U.
Mr William Alan Woodburn	Hess Midstream Partners	Director
Mr Pedro Sainz de Baranda Riva	Zardoya Otis S.A.	Physical representative of the Director
Mr Pedro Sainz de Baranda Riva	Gestamp Automoción, S.A.	Director
Mr José Antonio Torre de Silva López de Letona	Cortefiel, S.A.	Representative of the Director Theatre Directorship Service Beta, S.À.R.L.

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company boards on which its directors may sit, identifying how this is regulated where appropriate:

YES

NO

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the board of directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	22,724
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	360
Cumulative amount of rights of former directors in pension scheme	3,680

(thousands of euros)	
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OBSERVATIONS

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Antonio Gallart Gabás	Director of Business Infrastructures Latin America South Zone
Mr José García Sanleandro	Director of Business Infrastructures Latin America North Zone
Mr Antonio Basolas Tena	Manager Corporate Strategy & Development
Mr José María Egea Krauel	Pipe Project Manager
Mr Manuel Fernández Álvarez	Business Director Gas & Electricity
Mr Manuel García Cobaleda	General and Board Secretary
Mr Jordi García Tabernero	Communication & Institutional Relations Managing Director
Mr Daniel López Jordà	Director of the Digitalization Project
Mr Antoni Peris Mingot	Corporate Resources Manager
Ms Rosa María Sanz García	España & Empl – Medgaz Infrastructure Business Managing Director
Mr Sergio Aranda Moreno	Colombia Project Manager
Mr Miguel Angel Aller Blanco	Lean Project Manager
Mr Steven Fernández Fernández	Capitals Market Director
Mr Jon Ganuza Fernandez de Arroyabe	Controlling
Mr Carlos Ayuso Salinas	Director of Internal Audit

Total remuneration of senior management (in thousands of euros)	17,940
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OBSERVATIONS
Mr Daniel López Jordà and Mr Sergi Aranda Moreno stopped working for the company in December 2018. Mr Steven Fernández Fernández joined the company in June 2018

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES X NO

Description of modifications
<p>At the meeting of 21 May 2018, the Board Regulations were substantially modified in order to simplify their content. After the Shareholders' Meeting was held, on 27 June 2018 the Regulations were amended once again as regards the number of members of the Appointments and Remuneration Committee to comply with recommendation 47 of the CNMV Good Governance Code.</p>

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

<p>The procedures for the appointment, re-election, evaluation and removal of directors are regulated in article 7 of the Articles of Association and in articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Corporate Enterprises Act.</p> <p>1.- Appointment:</p> <p>The General Meeting is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.</p> <p>If vacancies were to arise during the term for which the directors were appointed, the board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.</p> <p>The status of shareholder is not required to be appointed director.</p> <p>Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as independent directors.</p> <p>It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.</p> <p>Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a previous report/proposal from the Appointments and Remuneration Committee.</p> <p>In particular, the proposals for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of independent directors, or a report for the remaining directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the minutes.</p>
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2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four years, and may be re-elected (those elected up to that date have a term of three years). The directors appointed by co-option will exercise their position under the terms established in prevailing legislation.

The Appointments and Remuneration Committee is also entrusted with evaluating the quality of the work and the dedication of the directors proposed during the preceding mandate. It will make suggestions regarding independent directors and report on the remaining directors, on a compulsory basis, on the proposals for the re-election of directors which the Board of Directors chooses to submit to the General Meeting.

The independent directors shall not remain in their post for a period of more than 12 years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When executive directors step down from their executive positions.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, and in accordance with the analysis carried out within the framework of the self-assessment process with an outsourced consultant, profiles have been identified whose reinforcement was considered relevant in order to strengthen the diversity of the Board. This has meant that current members of the Board of Directors respond to professional profiles and different career paths that complement each other: it is made up of directors who respond to financial, industrial, business management, and legal profiles related to the world of innovation and new technologies, or finally with experience in the capital market and accounting. During 2018, the Board made a special effort to increase the international profile of its members. The Board of Directors considers this

circumstance particularly relevant because it helps to promote a more complete and integrating vision when analysing the different issues submitted to the board.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
<p>The evaluation of the Board of Directors for 2017 included the participation of an independent expert as consultant. Notwithstanding the fact that the outsourced consultant reported the highly satisfactory functioning of the Board and its Committees, the Board verified the possibility of progressing in certain areas of improvement to simplify its operation, which led to an Action Plan on the subject of corporate governance that was agreed on 6 March 2018, with measures aimed at this simplification and which have been implemented throughout 2018.</p> <p>The framework of this process must include the modification proposed by the Board to the General Meeting of Shareholders with regard to the Company's new Articles of Association, a reduction of the number of directors, the removal of the Executive Committee, the attribution to the Appointments and Remuneration Committee of new powers in matters of corporate governance.</p> <p>In addition, as explained in the previous sections, the 2017 annual evaluation report of the Board allowed us to identify the professional profiles whose incorporation was important to achieve in order to advance in the diversity of its composition. In particular, the need to take into account the following profiles in the appointment and renewal processes of independent directors: industrial, regulatory in the matter of energy and technology, as well as, in general, more international profiles, and also specialized profiles in the capital market.. This analysis was taken into account in relation to the proposals for the appointment of independent directors submitted to the General Meeting of Shareholders in 2018.</p>

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
<p>The Board was advised by an external consultant for the self-assessment of its operation during 2017, which allowed it to have a base with which to address the process of simplification and the broad renewal of the Board in June 2018. For this reason, the Board has not resorted to such external consultation in 2018, on the understanding that it is appropriate to let a certain period of time pass in order to adequately analyse the effectiveness of</p>

the agreed measures, since they have been implemented throughout 2018

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NOT APPLICABLE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a. When executive directors step down from their executive positions.
- b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d. When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES X NO

Where appropriate, describe the differences.

Description of the differences
<p>Article 7.4 of the Regulations of the Board of Directors states the following:</p> <p>“4. The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority.</p> <p>In particular, the favourable vote of more than two thirds of the directors,</p>

whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable:

- a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting or is carried out in execution of the budget or strategic or business plan of the Company.
- b) The approval of the budget and the strategic or business plan of the Company.
- c) The modification of the dividend distribution policy and the approval of a new one.
- d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000.
- e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts.
- f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000.
- i) The modification of the matters of paragraphs a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO **X**

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for directors:

YES NO **X**

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association or the Board regulations set a limited term, or other requirements stricter than those legally determined, of office for independent directors different to the one established in the regulations:

YES NO X

Additional requirements and/or maximum number of years of in office	
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C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association “Directors who cannot attend may delegate their representation to another director, with or without instructions to vote, and must notify the Chairman or the Secretary.”

In addition, Article 7.3 of the Regulations of the Board states: “Each director shall be entitled to confer his/her representation to another director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent directors' representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman’s Office or the Board Secretary before the beginning of the session”.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the board has met without the chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	12
Number of board meetings without the chairman attending	0

Observations
Additionally, there have been two meetings held in writing and without a meeting, up to a total of 14 meetings.

Indicate the number of meetings held by the Coordinating Director with the rest of the directors, without the attendance or representation of any executive director.

Number of meetings	0
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Observations
Since the Coordinating Director is also the Chairman of the Appointments and Remuneration Committee and had held this position on the Audit Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the independent directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	2
Number of meetings of the Audit Committee	7
Number of meetings of the Appointments and Remuneration Committee	10
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the ____ Committee	

Observations

C.1.26 Indicate the number of board meetings held during the year with all members in attendance:

Number of meetings attended in person by at least 80% of the directors	12
% of attendance over the total number of votes during the year	93%
Number of meetings with attendance in person, or representations made with specific instructions of all the directors	3
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	More than 90%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the board are certified previously.

YES NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the board:

Name	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting with a qualified audit report.

By virtue of those established in article 529.4 of the Corporate Enterprises Act and in the Articles of Association, the Audit Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the committee has played in that process, as well as supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that no accounting qualifications have been made.

C.1.29 Is the secretary of the board also a director?

YES NO

Complete if the secretary is not also a director:

Name or corporate name of the secretary	Representative
Mr Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the company to preserve the independence of the external auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks

and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality, that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective. In order to increase transparency, this area has been enhanced by differentiating it from the Financial Department.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO

Outgoing auditor	Incoming auditor
PWC	E&Y

Observations

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

YES NO

	Company	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	181	540	721
Amount of tasks other than auditing/ Amount billed by the audit company (%)	20.00%	12.60%	13.90%

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

YES NO

Explanation of the reasons

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing the annual accounts of the company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated
Number of years without interruption	1	1

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	3.57%	3.57%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES NO

Details of the procedure
<p>Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: “2- Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least 5 days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting, the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening, in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The board meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held”.</p> <p>The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the</p>

Board session.

To this end, the Board’s documentation is made available to the directors through a computer platform, which allows them permanent access to it. The directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc.) through the platform.

Furthermore, during the meeting, those directors whose issues are being dealt with at the meeting are available to be called -and they frequently are called -so that the directors in attendance can ask them directly for any clarifications, details or opinions in relation to the items discussed in the session and can directly appreciate their suitability for the position.

Finally, the directors may request additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the directors to report and, if necessary, resign in cases that damage the company’s credit and reputation:

YES X NO

Explain the rules
<p>In accordance with article 11.3 of the Board Regulations, the director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.3, establishes that the director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company’s interest and with the required urgency.</p> <p>Also, directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:</p> <ul style="list-style-type: none"> a) When executive directors step down from their executive positions. b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations. c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company. d) When the reason why they were appointed as independent,

executive or proprietary directors is no longer applicable.

C.1.37 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 213 of the Corporate Enterprises Act:

YES NO X

Director's name	Criminal case	Observations

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

YES NO X

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements entered into by the company and which remain in force, are modified or conclude in the event of a change of control of the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the other hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of some of the following events: the significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies; the inability to meet the financial obligations of the contract; material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 9.7 billion (standard practice in the Euromarket), would be susceptible to

early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases.

C.1.39 Identify, individually, when referring to directors and in aggregate form in all other cases, and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	23
Beneficiary type	Description of the agreement
Former Chief Executive Officer	<p>The contract of the CEO, who served the Company until February 2018, established compensation for three years of the total remuneration on the date of the contractual amendment for certain cases of termination of the contractual relationship: through a decision by the company, except for very serious and culpable breach of his professional obligations that causes serious harm to the interests of Naturgy, through a decision of the CEO or through termination of the contract. As a post-contractual non-competition agreement compensation was also established amounting to a full year of total remuneration.</p> <p>On 6 February 2018, the Board of Directors agreed to terminate the contract, pay the compensation envisaged for the amount of three years of the total compensation for the amount of Euros 10,685,763 and compensation for a non-competition agreement for one year's total remuneration, that is, Euros 3,561,921, as well as settling the outstanding amounts of the different remuneration items accrued in 2018 -fixed, annual variable and ongoing PREMP programmes.</p>

<p>Current Executive Chairman</p>	<p>The Chairman's contract establishes compensation for the cessation or non-renewal of the position of director for the overall amount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan.</p> <p>The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. As a post-contractual non-competition agreement compensation was also established amounting to a full year of total remuneration.</p> <p>The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.</p>
<p>Executives</p>	<p>The contracts signed with 16 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Arts. 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.</p> <p>In addition, 2 executives have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full</p>

	<p>year of remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Arts. 40, 41 and 50 of the Workers' Statute.</p> <p>Moreover, there are compensation agreements with four other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.</p>
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Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Meeting informed of the clauses?	X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration Committee and the Board are informed of their terms and beneficiaries

C.2. Committees of the Board of Directors

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE OR DELEGATED COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Not applicable

Indicate whether the composition of the Delegated or Executive Committee reflects the participation in the board by the various directors depending on their category:

YES NO

If the answer is negative, explain the composition of your Delegated or Executive Committee
NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr Francisco Belil Creixell	Chairman	Independent
Mr Ramón Adell Ramón	Board Member	Independent
Mr Enrique Alcántara-García Irazoqui	Board Member	Proprietary
Mr Pedro Sainz de Baranda Riva	Board Member	Independent
Ms Helena Herrero Starkie	Board Member	Independent
Mr Rajaram Rao	Board Member	Proprietary
Theatre Directorship Services Beta, S.à.r.l., represented by Mr Jose Antonio Torre de Silva Lopez de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

In response to different resolutions of the Board of Directors of 27 November 2015, 29 January 2016 and 6 March 2018, it exercises the following functions:

- Prepare the report on auditor independence.
- Prepare the report on the performance of the Audit Committee.
- Prepare the report on related-party transactions.
- Strive to ensure that the Board of Directors can present the company’s accounts to the General Meeting without limitations or qualifications in the auditor’s report. In the exceptional case that qualifications exist, both the Chairman of the Committee and the Auditors should give a clear account to shareholders of their scope and content of said limitations.
- With respect to control and reporting systems:
 - (a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
 - (b) Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of

Directors.

- (c) Setting up and supervising a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
- With regard to the external auditor.
 - (a) In the event of resignation of any external auditor, the Committee should investigate the issues giving rise to the resignation.
 - (b) Ensuring that the remuneration of the external auditor does not compromise its quality or independence.
 - (c) Supervising that the company notifies any change of external auditor to the National Securities Market Commission as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - (d) Ensuring that the external auditor has a yearly meeting with the board in full to inform them of the work undertaken and developments in the company's risk and accounting positions.
 - (e) Ensuring that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
- Call any of the Company's employees or managers, and also have them appear without the presence of any other executive.
- Analyse and report to the Board of Directors on the economic conditions and the accounting impact and, especially, where applicable, on the exchange ratio, in relation to the operations of structural and corporate modifications that, due to their nature or amount, are of special relevance. Transactions whose net value exceeds the value of 25% of the assets that appear on the last approved balance sheet of the Company will be deemed relevant.
- In addition:
 - (a) Supervision of compliance with the internal codes of conduct.
 - (b) Overseeing the communication and relations strategy with shareholders and investors, including small and medium- sized shareholders.
 - (c) The regular evaluation of the adequacy of the company's corporate governance system

(d) Monitoring and assessing the processes of liaising with different stakeholders.

(e) The evaluation of the company's non-financial risks

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

The Audit Committee shall comprise a minimum of three and a maximum of seven directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of independent director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2018.

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- Quality and efficiency of its operation.
- External audit of the individual and consolidated annual accounts.
- Supervision of the process of preparation of financial reporting.
- Tax situation
- Independence of the auditor.
- Related-party transactions
- Verification of the crime prevention system.
- Supervision of risk control systems and specific risk analysis
- Supervision of internal control and internal audit systems

Identify the directors who are members of the Audit Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said director was appointed Chairman.

Name of directors with experience	Mr Ramón Adell Ramón
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr Ramón Adell Ramón	Chairman	Independent
Mr Francisco Belil Creixell	Board Member	Independent
Mr Pedro Sainz de Baranda Riva	Board Member	Independent
Mr Claudi Santiago Ponsa	Board Member	Independent
Mr Marcelino Armenter Vidal	Board Member	Proprietary
Mr William Alan Woodburn	Board Member	Proprietary
Rioja Bidco Shareholdings SLU Mr Javier De Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments and Remuneration Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

- Prepare the report on performance of the Appointments and Remuneration Committee.
- Verify the selection policy for directors and report on this in the Annual Corporate Governance Report.
- Through delegation that must be granted by the Chairman of the Board, to organise and coordinate the regular assessment of the Board and that of the chief executive of the Company.
- Prepare the report on the operation of the Board of Directors.
- Propose to the Board of Directors the standard conditions for senior executives contracts.
- Monitor compliance with the remuneration policy set by

the company.

- Regularly review the remuneration policy for directors and senior executives.
- Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- Verify information on remuneration of directors and senior executives contained in the various corporate documents.

- Through a resolution of the Board of Directors on 29 January 2016, it was entrusted with the exercise of all the corporate social responsibility powers that hitherto had been exercised by the Audit Committee.
- Through a resolution of the Board of Directors on 6 March 2018, it was agreed to entrust the Appointments and Remuneration Committee with the following tasks previously entrusted to the Audit Committee:
 - i) Monitor the most relevant incidents in terms of health, safety and the environment.
 - ii) Raise proposals and report on initiatives in corporate governance.

b) Procedures, and organisational and operational rules

in accordance with Article 25 of the Regulations of the board

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of seven directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of independent director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2018.

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

- i) Corporate governance: it has proposed the adoption and implementation of an Action Plan on corporate governance, which included important simplification measures (reduction in the number of directors, changes in the main regulatory texts, etc.)

- ii) Proposal for new directors: in light of the profiles whose reinforcement was detected as a result of the self-assessment process carried out with the help of an external consultant, it analysed and issued an opinion about the candidates to fill the positions of proprietary directors and formulated the corresponding proposals with regard to independent directors.
- iii) Remuneration: the new remuneration scheme of the Executive Chairman and senior management has been analysed in detail, especially with regard to the new long-term incentive. The remuneration policy of the Company has also been analysed for approval by the Board.

The committee has also worked on the following aspects:

- Quality and efficiency of its operation.
- Supervision of the corporate social responsibility model
- Health and safety

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors
% of independent directors
% of other external directors

Observations

Explain the committee’s duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

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REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

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_____ COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

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C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	1	10%	1	10%	0	0
Audit Committee	1	14.28%	2	28.57%	2	28.57%	0	0
Appointments and Remuneration Committee	0	0%	1	20%	1	20%	1	33%
Appointments Committee	-	-	-	-	-	-	-	-
Remuneration Committee	-	-	-	-	-	-	-	-
_____ Committee	-	-	-	-	-	-	-	-

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of Naturgy and its Committees.

Both documents are published on the Company's website (www.naturgy.com) → Shareholders and investors → Corporate governance → Corporate governance standards.

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and efficacy of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions
<p>In accordance with art. 3.II h) of the Board Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit Committee, of the operations that the Company or its group companies carry out with directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.</p> <p>In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit Committee every year.</p> <p>As regards operations with Caixabank, this entity was controlled and formed a group with Criteria until 2017 when the conditions established by the ECB for deconsolidation were met.</p>

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Reception of services	12
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Provision of services	36
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured	3,095

			goods or not	
Criteria Caixa S.A.U.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	346,808
Repsol, S.A.	Naturgy Energy Group, S.A.	Commercial	Reception of services	3,944
Repsol, S.A.	Naturgy Energy Group, S.A.	Commercial	Procurement of manufactured goods or not	160,003
Repsol, S.A.	Naturgy Energy Group, S.A.	Commercial	Provision of services	20,545
Repsol, S.A.	Naturgy Energy Group, S.A.	Commercial	Sales of manufactured goods or not	367,115
Repsol, S.A.	Naturgy Energy Group, S.A.	Commercial	Purchase of tangible fixed assets	295
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	281,202
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Commercial	Dividends and other distributed earnings	280,193

Observations

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or company name of the administrators or executives	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)

Observations

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company name of the entity of the group	Brief description of the operation	Amount (thousands of euros)

Observations

D.5 Indicate the amount from related party transactions.

0 (in thousands of euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

- The director must refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.

- Also, the director shall adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the company.

- In his/her capacity as loyal representative of the Company, the director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in Naturgy Energy Group S.A. and investee companies.

- The director must notify the Company of significant changes to their professional circumstances and changes which affect the nature or capacity by which he/she was categorised.

- The director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent proprietary directors from using their position to obtain asset benefits without adequate

compensation, to the advantage of the shareholder that put them forward for the position.

The Director must abstain from conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the Company or which, in any other manner, place them in permanent conflict with the Company's interests. Particularly, the director, may not hold, himself or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Naturgy Energy Group S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Naturgy Energy Group S.A., when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Naturgy Energy Group S.A.

2.- Directors and executives:

On the other hand, pursuant to Art. 5 of the Internal Code of Conduct in Matters Relating to the Securities Markets (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities ((i) The transferable securities issued by the Company and/or by the companies of the Naturgy Group that are traded on a secondary market or other regulated markets, in multilateral trading systems or on other organised secondary markets, or in respect of which an application for admission to trading in one of such markets or systems has been filed; (ii) Financial instruments and contracts of any kind that grant the right to acquire the securities indicated in (i); (iii) Financial instruments and contracts whose underlying assets are the securities indicated in (i), and (iv) For the sole purpose of the rules of conduct in relation to the privileged information contained in Title III of the Regulations, the securities and financial instruments issued by other companies or entities other than the Company, for which Inside Information is available.)

Internal Audit, upon written request to the Board Secretary by the stakeholder, may authorise Persons with Management Responsibilities to perform personal transactions on Affected securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. Internal Audit will inform the Audit Committee at least once a year about the authorisations that have been requested.

For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest.

3.- Significant shareholders:

It will be the responsibility of the Board of Directors, pursuant to a report from the Audit Committee, to approve transactions carried out by the company or the companies in its Group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction

with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the boards of other companies belonging to the same group or with persons associated with them.

D.7 Is more than one group company listed in Spain?

YES NO X

Identify the subsidiary companies that are listed in Spain:

Listed subsidiary companies

Indicate whether or not their respective activity areas and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group:

YES NO

Define the possible business relationships between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group

Indicate the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the Group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

<p>Risk Committee</p> <p>It regularly evaluates and determines the overall risk profile of Naturgy, based on the information requested from the different responsible Units and proposes the global risk limits for consideration and approval by the Chairman, thus determining the global profile of objective risk.</p> <p>Financial area</p> <p>Through its Risk and Insurance Unit, it is responsible for providing support to the Risk Committee in the determination and monitoring of the global risk profile and the determination of the objective risk profile, by introducing policies and metrics in coordination with the business units affected. In particular, it is responsible for coordinating with the relevant units and issuing the recurring risk reports to be forwarded to the Board of Directors, including the Corporate Risk Map.</p> <p>Internal auditing</p> <p>It is responsible for ensuring effective supervision of the internal control system that ensures efficiency and effectiveness in operations, transparency and reliability of financial and management reporting, the safeguarding of group assets and compliance with applicable internal and external regulations, as well as making independent and objective contributions to add value and improve the operations of the organisation and contribute to the interests of shareholders. By the same token, through appropriate audits, it is responsible for examining the level of compliance with this Risk Control and Management Policy and the implementing procedures.</p> <p>Audit Committee</p> <p>It is an advisory body that provides specialized advice on everything related to external auditing, risk management systems and internal control.</p> <p>The Business, Service and Project Units</p> <p>They are responsible for risk management in their areas of responsibility, observing, reporting, managing and mitigating the different risks that have been identified.</p>

E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its business targets.

	Description	Management
Market risk		
	Volatility in international	Physical and financial hedges.

Gas price	markets which determine gas prices.	Portfolio management.
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of hydraulic production	Optimisation of commercialisation- generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.
Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit.	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Collection process.
Operational risk		
Operational: image and reputation	Deterioration in perception of Naturgy by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational:	Accidents, damages or non-	Ongoing improvement plans.

insurable.	availabilities in assets of Naturgy.	Optimisation of total cost of risk and hedging.
Operational: environment	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Corporate positioning with regard to climate change. Active participation on influence forums.
Operational: cybersecurity	Attacks on computer systems.	Implementation of security measures Analysis of events and application of remedies Training.

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Units's responsibility to assess the risks identified, based on:

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks that have materialised during the financial year have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange, interest, credit or counterparty rates.

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balancing the weight of its businesses in its mix of activities, and it will

place greater focus on increasing the contribution of regulated activities and a more electric profile.

Subsequent to the approval of the new Strategic Plan 2018-2022, asset impairment or write-offs of Euros 4,851 million have been recorded, caused by the reassessment of future cash flow estimates based on the aforementioned plan, as well as other factors that have occurred during the period.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing General Standard, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: The board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit Committee.

The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in article 3 section II, establish that the determination of

the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- **Audit Committee:** Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, article 529.14 of the Corporate Enterprises Act sets out in section 4.b) that the Audit Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the accounts auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit Committee is supported by the Internal Auditing Unit.
- **Financial Department:** This department is responsible for the design, implementation and operation of the ICFR. For the performance of this duty, it is supported by the Accounting Unit.
- **Internal Auditing Unit:** In general, it is responsible for assisting the Audit Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and to the Crime Prevention Model.
- **Compliance Unit.**
- **Business units, services and projects units** involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities introduced are performed.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

To ensure proper management of the group's economic-financial reporting, the Financial Department has developed, as part of the ICFR, a technical instruction comprising an interrelationships map

(information flows) for the financial reporting process. This map documents communications between the Financial Department, the different parties in charge of the processes and those in charge that are either the source or destination of the financial reporting. The map is called “Interrelationships Map of Financial Reporting of Naturgy”.

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map showing the financial reporting processes:

- (i) the information required to prepare the financial reporting;
- (ii) the parties in charge that are either the source or destination of the financial reporting and
- (iii) the distribution of tasks among the different organizational units
- (iv) the scope of this distribution to all group companies
- (v) the frequency of information transfer.
- (vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the interrelationships map of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting area, and those managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of senior management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter "Code of Ethics"), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of Naturgy Energy Group, S.A and for all investee companies in which Naturgy holds management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of Naturgy Energy Group, S.A.

Since it was approved, it has been amended four times, on the last occasion in 27 June 2014, with the object of updating it and including new commitments acquired by Naturgy in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anti-Corruption Policy of Naturgy and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1)

“Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)”

- Processing of information and knowledge (Section 4.11):

“All employees that enter any kind of information into the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all of the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's accounts”.

Naturgy has also established an Anti-Corruption Policy, which was approved by the Management Committee in a meeting held on 3 March 2014, amended in the meeting held on 24 November 2015, and which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of Chapter 4.7. “Corruption and Bribery” of the Code of Ethics of the group, which has the 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 remedy of any corrupt practice within the organisation.

In July 2005, Naturgy set up the Code of Ethics Committee with the principal mission of promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive inquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy. On 30 October 2018, the functions of this Committee were assumed by the Ethics and Compliance Committee.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to senior management and to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective actions to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanctionary regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy have been developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anti-Corruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make inquiries and notifications, and to periodically formalise the commitment of all of the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the queries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of suppliers, contractors and external collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential.**

Professional ethics at Naturgy focuses on professional responsibility and integrity, with integrity understood as ethical and honest action performed in good faith; and professional responsibility as proactive

and efficient action targeted at excellence, quality and willingness to serve.

As provided for under Article 26.2 of the Regulations of the Board and its Committees, “the Audit Committee shall have the powers that are provided for by the Law and the powers that are generally or specifically conferred by the Board of Directors”. The powers of the Audit Committee include the power to “establish and supervise a mechanism that enables employees to communicate, confidentially and, if possible and if considered appropriate, anonymously, any potentially significant irregularities, in particular of a financial and accounting nature within the company”.

In harmony with the foregoing, the Board of Directors, at its meeting held on 31 March 2006, established that the notifications received through the notification procedure for breaches of the Code of Ethics of Naturgy, related to fraudulent practices, audits or deficiencies in the accounting and internal control thereof, shall be directly notified to the Audit Committee.

As a mechanism for obtaining a higher degree of internal control regarding compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Committee of Naturgy (currently, Ethics and Compliance Committee) was established, whereby one of the main functions thereof is to provide and supervise a communication channel for all employees in order to receive queries and notifications of breaches of the Code, and to facilitate the resolution of disputes related to the application of the Code of Ethics and of the Anti-Corruption Policy and to draft reports for the governing bodies of Naturgy in relation to the dissemination and compliance of the Code of Ethics and of the Anti-Corruption Policy, and the activities of the committee itself.

The aforementioned communication channel constitutes an open channel (e-mail, fax, postal mail and internal mail) for all employees of Naturgy in order to notify aspects related to the code. This channel enables all group employees, suppliers and collaborating companies to obtain or provide information on any issue concerning the Code of Ethics and the Anti-Corruption Policy. Conduct contrary to the code can also be reported in good faith and confidentially. All of this is outside of the hierarchy governing habitual operations performed by employees.

All of the communications are absolutely confidential, and adhere to the limitations established under the Data Protection Act. Accordingly, the chairman of the committee (Compliance Director) is the only member thereof, in first instance, that is authorised to access all of the information regarding all of the queries and notifications received from the group through the query and notification procedure. Furthermore, the notifications related to fraudulent practices, audits or deficiencies in accounting or internal control processes are directly notified to the Audit Committee.

In the 2018 Naturgy Corporate Responsibility Report, further information is provided regarding the Code of Ethics, the Anti-Corruption Policy, the activities of the Code of Ethics Committee (Ethics and Compliance Committee since November 2018) and the use of the communication channel.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 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.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, since 2017 employees and their managers have been involved in defining the training required; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels for disseminating specific content.

The relevant programmes performed in 2018 included the fourth edition of the Savia programme, with a focus on cybersecurity and innovation. In 2014 the Savia programme was established, which is a training program the purpose of which is to strengthen the current role of managers, that must be the change agents in relation to the global implementation of the new processes associated with the strategic challenges. In 2015 the second phase of the programme was commenced, Savia 2.0, which was focused upon the experience of customers and on change management. This programme continued in 2016, placing the focus, on this occasion, on cooperation and empowerment, completing the delivery of the course in October 2017.

Another of the relevant programmes carried out is the development of the online Cybersecurity course for all employees, with a focus on technical knowledge and on the duties and obligations in this area.

The specific knowledge for the economic-financial area covers several objectives, including, making uniform the economic-financial processes developed in any area of the organisation; updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2018 more than 150 professionals from the economic-financial area devoted nearly 1,400 hours to training in specific content, highlighting, among other matters, risk management, taxation, financial management, accounting and budgeting.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities.

The matrix for defining the scope of the financial reporting has the object of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions; changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for defining scope of financial reporting of Naturgy".

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks matrix of financial reporting of Naturgy"

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.

- Investigation and management of fraud situations.

Preventive anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation of the SAP GRC Process Control tool was carried out in Colombia and in the Shared Economic and Financial Services Centre of Latin America; in 2015 the implementation was extended to other countries of the group, such as Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both within national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support.

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to the countries which have recently been included within the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland that have a relevant presence in terms of the international commercialisation of LNG. These additions strengthen and reinforce internal control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the processes structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.
- It integrates the internal control over financial reporting in business and corporate processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.
- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the ICFR supervision process by Internal Auditing.
- It allows both external and internal information required for reporting on the ICFR to be obtained and support.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests have been performed in the following years according to the established schedules, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the actions plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process for identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called “Consolidated closing cycle of Naturgy”. Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

The Audit Committee is responsible for supervising the efficacy of the ICFR. In order to carry out this function, the Audit Committee uses the Internal Audit Unit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations and projection.

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Naturgy is regularly reviewed by the head of the Financial Department, identifying possible deviations.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated annual accounts of Naturgy Energy Group, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the “Internal Control System over Financial Reporting (ICFR) General Standard” of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls in critical points.

While they do not allow a sufficient degree of control to be achieved over the group’s processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
 - General control activities.
 - Processes control activities.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example: annual, weekly, monthly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business and corporate units involved in the process of drawing up financial information. The Accounting Unit is responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1).

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, to identify the weaknesses and action plans.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.

- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main data processing centres in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff is able to access those facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus to internally reinforce control against threats.

Moreover, the Company is currently working on the creation and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery of interrupted critical functions.

Lastly, at application, operating system and database level, the user-password combination is used as preventive control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of a users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.

- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have a management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy of data is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Reporting Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to guarantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the data controller, performs as many actions as necessary to comply with the legislation on data protection, which include the following, for merely illustrative purposes:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreement with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than the one set

out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.

- It keeps a record of data-processing activity.
- It carries out the impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Officer.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) in issues of international transfers of personal data.
- It performs audits to guarantee compliance with data protection regulations.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “General External Procurement Standard”, a “General Supplier Quality Standard” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “General External Procurement Standard”, Naturgy sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the group, guaranteeing a uniform, efficient and quality model for managing the procurement process in Naturgy.

This standard also establish, generally speaking, the responsibilities of the different units in the contracting process, which include the procurement department as the area responsible for promoting the creation of long-term relationships of trust and confidence with suppliers by establishing objective and impartial mechanisms of assessment and selection and ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers, as from 2016, must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. The aforementioned standards create the obligation for the initial evaluation of all potential suppliers prior to the participation thereof within a procurement process, by which the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects, and also carries out the periodic evaluation thereof. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

For said purposes, Naturgy has developed, in the “General Supplier Quality Standard” and in the relevant procedures thereof, the basic principles that govern the evaluation and certification process of the suppliers of the group, which include the establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supplier, which would prevent such supplier from performing this activity for Naturgy.

Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk

activities, with special attention on the health and safety aspects. The necessary corrective measures or action plans are established, as the case may be.

The main areas which affect the critical processes of the financial information which Naturgy has subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain customer service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Also, the Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to suppliers/products/persons as a result of deficiencies in the performance of services or products.

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

The, Internal Auditing Unit of Naturgy audits the processes and correct application of procurement and supplier quality standards and counterparty due diligence, and if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

- F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.**

One of the responsibilities, inter alia, of the Financial Department, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group up to date. In this regard, it is responsible for updating the “Naturgy Accounting Plan”, which includes the group's accounting criteria and accounts plan, and an analysis of the accounting changes which might have an impact on the financial reporting of Naturgy.

The “Naturgy Accounting Plan” is updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFRS regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company or the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (CSCs) and the accounting in the Corporate Accounting of Businesses the use of SAP as a support system in the majority of the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows:

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to senior management and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of the process of drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the financial reporting and its breakdowns of Naturgy, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the financial reporting is done centrally in Consolidation, which ensures the integration, uniformity, coherence and streamlining of Naturgy's financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit Committee has the powers that are provided for at Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Shareholders' Meeting regarding the questions that are raised thereby in relation to the aspects for which the committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the conditions of their contracting and regularly collecting information on the audit plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the accounts auditor to receive information on any issues which could jeopardise their independence, to be examined by the committee, and any other matters relating to the progress of the audit, as well as any communications

required pursuant to legislation governing accounts auditing and auditing standards. In any event, the committee must receive, annually, from the external auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the external auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.

- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors

In order to be able to comply with its responsibilities, the Audit Committee has the information and documentation provided by the Internal Audit and the Financial Department.

The internal audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit Area, reports to the Audit Committee of Naturgy Energy Group S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the efficacy and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, in particular the operational, corruption, fraud and legal risks. Likewise, it is responsible for the report of the internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the operational risks and controls associated to these processes, (including those established in the ICFR and in the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve efficacy and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Naturgy, in particular the operational, corruption, fraud and legal risks.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the risk areas included in the Corporate Risk

Map, the Internal Control System over Financial Reporting (ICFR) scope matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit Committee and from top-tier management.

In accordance with the Strategic Audit Plan, the ICFR of Naturgy is fully supervised by the Internal Auditing the period of five years.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Validating the proper design of the ICFR, based on the basic principles of the model approved by the Audit Committee.
- Supervising the efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Revising and assessing of conclusions on compliance and effectiveness of the ICFR resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- Assessing and communicating the results obtained in the process of supervising the Internal Control System on Financial Reporting (ICFR) and the controls of the ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2018 were as follows:

- Gas networks: construction of networks, household operations, regular inspection, emergency care and contracting access to the network.
- Electricity grids: development of high voltage grid, irregularities and fraud management, high voltage grid maintenance, claims management and logistics.
- Generation: operation and management of generation assets, warehouse management, development and commissioning of new projects.
- Commercialisation (gas, electricity and services): collection and contracting of energy facilities, construction and commissioning of energy facilities, collection and contracting of industrial customers

- LNG: Vayu processes review.
- Exploration and production: exploration and production.
- Energy management: management and optimisation of gas logistics, demand estimation and gas purchase.
- Customer service: collection, debt management, customer service.
- Physical resources management: supplier monitoring and certification.
- Management of internal control: follow-up of corrective actions, ICFR, general data protection regulation.
- Management of information systems: information security, cloud systems management.
- Human resources management: administration and human resources services, DPO.
- Communication management and external relationships: foundations, corporate responsibility, sponsorships.
- Management of financial and physical resources: treasury stock, economic-administrative management of operations.
- Legal advice and support: powers of attorney.
- Technology and engineering management engineering.
- Review of the group's regulatory system.
- Code of Ethics.
- Crime Prevention Model.

36% of the reviewed processes correspond to Spain and the remaining 64% to the international sphere.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6 of the Regulation of the Board:

The Board shall meet six times a year and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company or requests at least one third of Directors.

The members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the efficacy of the internal control system.

In accordance with the Articles of Association and Regulations of the Board of Directors and of its Committees, the Audit Committee shall comprise a minimum of three and a maximum of seven directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be assigned with taking into

account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors. The majority of the committee members will be an independent director. At 31 December 2018, the committee was made up of seven Directors, three proprietary and four independent; and one of the latter, in turn, was the Chairman.

The Board of Directors shall elect the Chairman from among the members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

The sphere of activity of the Audit Committee extends to:

- Naturgy Energy Group S.A.
- Companies that are majority-owned by Naturgy Energy Group S.A.
- Other entities and companies for which Naturgy Energy Group S.A. has in some form the effective control or responsibility for management or operation.

The Internal Audit Unit regularly reports to the Audit Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the group.

They also present:

- The Annual Internal Audit Plan for the committee's approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment of the efficacy of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and to the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit Committee.

The external auditor informs the Audit Committee of the weaknesses in internal control detected during the audit. The external auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the external auditor, in addition to meeting periodically with the Audit Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System over Financial Reporting of Naturgy, it has been decided to carry
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out an annual internal certification process whereby, through SAP GRC Process Control, the Business and Corporate Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Financial Control Accounting Unit of weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2018 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business and corporate units	132	167	299
Processes identified	54	154	208
Controls certified	837	1,299	2,136

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 35, 4 of which were in Spain. During 2018, 56% of the action plans identified in 2017 were resolved, and new plans arose during 2018. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the external auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the external auditor to issue a report referring to the information on the Internal Control System over Financial Reporting (ICFR).

G DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

Compliant Explain

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;
- b) The mechanisms in place to solve possible conflicts of interest that may occur.

Compliant Partially compliant Explain Not applicable

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous annual general meeting.
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant Partially compliant Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant Explain

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant Partially compliant Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reports of the operation of the Audit Committee and the Appointments and Remuneration Committee.

- c) **Audit Committee report on related party transactions.**
- d) **Report on corporate social responsibility policy.**

Compliant **X** Partially compliant Explain

7. **The company should broadcast its general meetings on the corporate website.**

Compliant **X** Explain

8. **The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the General Shareholders' Meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.**

Compliant **X** Partially compliant Explain

9. **The company should disclose its conditions and procedures for admitting share ownership, the right to attend General Shareholders' Meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant **X** Partially compliant Explain

10. **When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the General Shareholders' Meeting, the company should:**

- a) **Immediately circulate the supplementary items and new proposals.**
- b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.**
- c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.**
- d) **After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant Partially compliant Explain Not applicable **X**

11. **In the event that the company plans to pay for attendance at the General Shareholders' Meeting, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

12. **The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other

stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant Partially compliant Explain

13. The Board of Directors should be of an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant Explain

14. The Board of Directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Shareholders' Meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total Board places occupied by female directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant Partially compliant Explain

The policy for the selection of directors ensures that the selection procedures do not suffer from implicit biases that may imply any discrimination, within the framework of full respect for the right of proportional representation of the shareholders recognised in Law. The policy for the selection of directors is aimed at ensuring adequate diversity in the composition of the Board of Directors, which has led to Board members responding to professional profiles and different and complementary career paths among themselves, based on the conviction that said diversity results in better performance of the Board. Within this framework, the Board pays attention to issues of gender diversity. Although the goal of having females represent one third of the board by 2020 has not been made explicit, the Board is firmly committed to the principle of diversity in its composition in all its manifestations, and has made proposals for the incorporation of new directors following the recommendations of profiles resulting from the self-assessment exercise assisted by the independent external consultant.

Although the Company shares the willingness to increase the presence of females on the Board up to at least 30%, it has been considered that the non-critical follow-up of the recommendation -and without taking into account the other legal considerations- could result in an undue restriction in the exercise of the functions of the Appointments and Remuneration Committee. This is because it could be counterproductive, in order to obtain the designation of the best possible candidate, to not even consider male profiles for the appointment as independent directors (irrespective of whether or not they are finally chosen).

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant **X** Partially compliant Explain

16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant **X** Explain

17. Independent directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, Independent directors should occupy, at least, a third of Board places.

Compliant Explain **X**

As of 31 December 2018, more than one third of the directors hold the status of independent, although the Company cannot be qualified as low capitalisation and nor does it have shareholders who jointly and control more than 30% of the capital. Here, it must be taken into account that the Company has three shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%, and that their representation on the Board of Directors is in line with the principle of proportional representation. On the other hand, it should be noted that the establishment of enhanced majorities for certain matters has allowed blocking capacity for all independent directors as a whole.

Respect for prevailing legislation and the special shareholder configuration of the Company mean that, for legal reasons, this recommendation cannot be complied with if shareholders with more than 8.33% of the share capital wish to exercise their right to proportional representation, which is the case. Current legislation establishes the principle of proportional representation, for which reason the Company is obliged to guarantee respect for the legitimate exercise of that right by its shareholders.

At present, the number of independent directors is 5 out of a total of 12 directors, in other words, they represent 41.6% of the directors. As a whole, the significant shareholders of the Company hold 65.62% of the capital and have proposed 50% of the directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five, apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds is required, which amounts to a possibility of blocking the set of independent directors.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date:

- a) **Background and professional experience.**
- b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) **Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) **Dates of their first appointment as a Board member and subsequent re-elections.**
- e) **Shares held in the company, and any options on the same.**

Compliant Partially compliant Explain

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant Explain

22. Companies are to stipulate rules obliging directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the

particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant Partially compliant Explain

- 23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.**

When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant Partially compliant Explain Not applicable

- 24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

Compliant Partially compliant Explain Not applicable

- 25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

The Board of Directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant Partially compliant Explain

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the company has not established any rules on the number of Boards on which the said directors can sit without prejudice to the fact that the proper functioning of the Board of Directors has been confirmed, both in terms of the number of meetings, which have exceeded those recommended, and in qualitative terms.

- 26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Compliant Partially compliant Explain

In accordance with article 17 of the Board Regulations, the Chairman of the Board of Directors is responsible for promoting and directing the Company's activities. In the exercise of these powers, the Company understands that it corresponds essentially to the Chairman of the Board, or whoever acts as such, to establish the items on the agenda of its meetings. Likewise, one third of the directors may propose other items on the agenda that were initially not provided for.

The reason why this number of directors is established for the inclusion of items on the agenda has to do with the need to reconcile the breadth of management functions held by the Board of Directors within the realm of the Company with the need to streamline and facilitate its operation, with a view to ensuring diligent management of the Company. Thus, the Executive Committee has been removed in such a way that the Board has assumed a very significant number of functions, which fully affects the workload of the Board. That is why it is considered appropriate that, given this abundant workload, the Board focuses on the analysis of those issues in addition to the exhaustive ordinary list around which there is a minimum degree of consensus, which would be that of four directors. This number is relevant, since it allows independent directors to make proposals through this channel or through the coordinating director, whilst limiting the power of individual proposal of the set of proprietary directors representing a significant shareholder, so that the proprietary directors corresponding to a significant shareholder cannot impose an item on the agenda on their own.

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Compliant Partially compliant **X** Explain

Regarding the issue of voting instructions, the Company considers that 100% compliance with this recommendation is not necessarily optimal since there may be justification for the represented party not to grant specific instructions to the representative, as it deems it more appropriate to vote during the debate on the Board of Directors.

- 28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Compliant **X** Partially compliant Explain Not applicable

- 29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Compliant **X** Partially compliant Explain

- 30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant **X** Explain Not applicable

- 31. The agendas of Board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly reported/recorded in the minutes, of the majority of directors present.

Compliant **X** Partially compliant Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant Partially compliant Explain

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant Partially compliant Explain

34. When a lead independent director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant Partially compliant Explain Not applicable

The coordinating director has all the recommended functions attributed, except for the relationship with investors.

35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant Explain

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the Board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- e) The performance of the Chairman of the Board of Directors and the company's chief executive.
- f) The performance and contribution of each director, with particular attention to the Chairmen of Board Committees.

The evaluation of Board Committees should start from the reports they send to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

37. When an executive committee exists, its membership mix by director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.

Compliant Partially compliant Explain Not applicable

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.

Compliant Partially compliant Explain Not applicable

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's non-executive chairman or the Chairman of the Audit Committee.

Compliant Partially compliant Explain

The Internal Audit Department supervises, among others, the proper functioning and internal control on behalf of the Executive Chairman, through the Financial Department. Supervision of the performance of the Internal Audit Department corresponds to the Audit Committee, so that it reports its activities to said Committee, which also authorises its annual budget and proposes the remuneration targets of the Internal Audit Director. Likewise, the Audit Committee, together with the Appointments and Remuneration Committee, is responsible for assessing the annual performance of the Audit Director, for the purpose of remuneration.

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant Partially compliant Explain Not applicable

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance

with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.

- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management is acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) In the event of resignation of any external auditor, the Committee should investigate the issues giving rise to the resignation.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the Board in full to inform them of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant Partially compliant Explain

- 43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant Partially compliant Explain

- 44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Compliant Partially compliant Explain Not applicable

- 45. The risk control and management policies should identify at least:**

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The level of risk considered acceptable by the company.

- c) **The measures laid down to reduce the impact of the risks that are identified should they occur.**
- d) **Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.**

Compliant Partially compliant Explain

The Company has a risk control and management system supervised by the Audit Committee, which results in a risk map that pools together the main risk factors and defines both the overall risk profile and those responsible for determining the risk limits. At its meeting on 6 February 2018, the Board of Directors consolidated the essential aspects of the risk control and management system.

46. That under the direct supervision of the Audit Committee or, as the case may be, of a specialized committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

- a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the company are identified, managed and quantified adequately.**
- b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant Partially compliant Explain

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant Partially compliant Explain

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant Explain Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, one of Appointments and the other of Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimize costs insofar as this avoids the accrual of additional remuneration to the directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counterproductive, given that for the Company the presence of a significant number of independent directors on the Board Committees is relevant. Given the restrictions on the number of independent directors

imposed under prevailing legislation in application of the principle of proportional representation, the number of independent directors on the Board of Directors is currently five. In order for there to be a significant number of independent directors on the two separate Committees, in addition to the Audit Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said directors.

- 49. The Appointments Committee should consult with the Chairman of the Boards of Directors and Chief Executive Officer, especially on matters relating to executive directors.**

When there are vacancies on the Board, any director may approach the Appointments Committee to propose candidates that it might consider suitable.

Compliant Partially compliant Explain

- 50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:**

- a) **Propose to the Board the standard conditions for senior executives contracts.**
- b) **Monitor compliance with the remuneration policy set by the company.**
- c) **Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.**
- d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) **Verify the information on remuneration of directors and senior executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant Partially compliant Explain

- 51. The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the executive directors and senior executives.**

Compliant Partially compliant Explain

- 52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

- a) **Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) **Committees should be chaired by an Independent director.**
- c) **The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**
- d) **They may engage external advice, when they feel it necessary for the discharge of their functions.**

- e) Meeting proceedings should be recorded/notified in the minutes and a copy made available to all Board members.

Compliant Partially compliant Explain Not applicable **X**

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
- f) Monitor and assess the processes of liaising with different stakeholders.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant **X** Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.

- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant **X** Partially compliant Explain

- 55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Compliant **X** Partially compliant Explain

- 56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant **X** Explain

- 57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **X** Partially compliant Explain

- 58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant Partially compliant **X** Explain Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board

considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

- 59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Compliant Partially compliant Explain Not applicable

- 60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Compliant Partially compliant Explain Not applicable

The variable remuneration of the Executive Chairman does not explicitly take into account the qualifications that may appear in the external auditor's report and which reduce the profits, nor is it a situation that has previously arisen at the Company. However, the Appointments and Remuneration Committee only sets the degree to which targets are met for the variable remuneration once the company's accounts have been audited, so it is in a position to take into account the aforementioned qualifications, if any, when determining the degree to which targets have been achieved.

Accordingly, the degree of compliance with the targets established by the Board of Directors, mainly associated with the audited annual accounts, is reviewed and validated by the Internal Audit Department prior to approval of its favourable report by the Appointments and Remuneration Committee of the Company and is made at the time the annual accounts are formulated

- 61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant Partially compliant Explain Not applicable

- 62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interests of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that said director has met the predetermined performance criteria.

Compliant Partially compliant Explain Not applicable

H OTHER INFORMATION OF INTEREST

- 1. If there is any relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**
- 2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

- 3. The company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

At its meeting on 17 September 2010, the Board of Directors agreed that Naturgy would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Naturgy has effectively complied with the content of this code and, more specifically, at the meeting held on 29 January 2019, the Board was notified, through the Audit Committee about the tax policies adhered to by the group in 2018.

Furthermore, at its session on 9 January 2018, and with the favourable report from the Audit Committee, the Board of Directors approved the Fiscal Strategy and the Fiscal Risks Control and Management Policy, which regulates the basic principles that must guide the fiscal function of Naturgy, as well as the key action lines to mitigate and guide proper control of fiscal risks.

This annual corporate governance report has been adopted by the Board of Directors of the Company in its session held on 29 January 2019.

Indicate whether or not there have been directors who voted against or abstained from voting on the adoption of this report.

YES

NO

Name or company name of the director not voting in favour of the adoption of this report	Reasons (against, abstention, not present)	Explain the reasons