



REPORT BY THE BOARD OF DIRECTORS ON THE RESOLUTION PROPOSAL UNDER ITEM EIGHT ON THE AGENDA RELATING TO THE REDUCTION IN SHARE CAPITAL

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1. **Purpose of the Report**

The Board of Directors of Naturgy Energy Group, S.A. have prepared this report to justify the resolution proposal for reducing share capital through redemption of Own Shares that is subject, under item eight (8) on the Agenda, to the approval of the Annual General Meeting of the Company, convened for 17 March 2020, at 12 noon, by way of first call and 18 March 2020, at the same time, by way of second call.

This report is issued in compliance with that set forth in Articles 286 and 318 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), under the terms of which, the Board of Directors must draw up a report justifying the proposal for reducing capital to submit to the Annual General Meeting, insomuch as the approval of the same and its execution involves the necessary modification of Article 4 of the Articles of Association of the Company with respect to share capital.

2. **Justification of the proposal**

Within the framework of the Remuneration Policy to the Shareholder, the Board of Directors, in line with that provided for in the 2018-2022 Strategic Plan, considers it desirable reduce the share capital through the redemption of Own Shares of the Company whose main effect will be to increase the earnings per share of the Company.

The foregoing capital reduction shall be carried out through: i) Own Shares held by the Company on close of the Market on 24 July 2019, and ii) through the acquisition of additional shares, each with a nominal value of one euro, that may be acquired for redemption by the Company pursuant to the Own Shares Buy-Back Programme (hereinafter the “Buy-Back Programme”), approved by the Company under the EU Regulation N° 596/2014 on Market Abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.

3. **Main terms and conditions of the share capital reduction**

Share capital is intended to be reduced by the amount resulting from the sum of:



1. 465,000 euros, through redemption of the 465,000 Own Shares, each with a nominal value of one euro, on close of the Market on 24 July 2019, having been acquired under the authorisation conferred by the Annual General Meeting held on 5 March 2019 under item five (5) on the Agenda and within the limits of that set forth in Articles 144 to 148 and 509 of the consolidated text of the Spanish Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) and intended for the purposes of repurchasing shares (share buy-back) and redemption, provided for in the Strategic Plan, as detailed in the *Relevant Fact on 24 July 2019 (Registry Number 280.517)*; and
2. the aggregate nominal value, up to a maximum of €21,000,000, corresponding to the additional 21,000,000 shares, each with a nominal value of one euro. Said shares have been and shall be ordinarily purchased for redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter, the “Buy-Back Programme”), approved by the Company under EU Regulation N° 596/2014 on Market Abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.

As a result, the maximum amount of the reduction in share capital (the “Share Capital Reduction”) is 21,465,000 euros, through the redemption of up to a maximum of 21,465,000 Own Shares with a nominal value of one euro each, proportional, approximately 2.18% of the share capital of the Company at the time of the adoption of the resolution.

The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section.

Likewise, in the case of the proposal being approved, Article 4 of the Articles of Association shall be modified so that the same reflects the new capital amount and the new number of shares in circulation, after the Own Shares subject of the proposal are deducted.

Even though the shares to redeem are owned by the Company at the time of the Share Capital Reduction this does not imply that the same are to be refunded rather they are redeemed out of available reserves through a Capital Redemption Reserve Account for an amount equal to the nominal value of the so redeemed shares, out of which, in application of that set forth in Article 335 c) of the Spanish Corporate



Enterprises Act, will only be available under the same requirements as those for the Share Capital Reduction.

As a direct result, in accordance with that set forth in said provision, the Creditors of the Company are not entitled to the right of objection as referred to in Article 334 of the Spanish Corporate Enterprises Act.

Likewise, it is proposed that the Annual General Meeting ratifies the approval of the Board of Directors relating to the Share Buy-Back Programme continuing until 30 June 2020 and the establishing of its terms and conditions, including the maximum amount of the same and its term as well as ratify the activities, declarations and management carried out to date, with respect to said Buy-Back Programme and authorise the Board of Directors to execute the Capital Reduction resolution (with express powers to replace under Article 249 bis.i of the Spanish Corporate Enterprises Act), in a term no longer than one (1) month from the end of the Buy-Back Programme, being able to determine those provisions that have not been expressly established in the foregoing resolution or that are not a consequence of the same, and adopt the resolutions, publish announcements, take any necessary actions and formalise any public or private documents deemed necessary or desirable for the successful execution of the Capital Reduction.

4. Resolution proposal being submitted to the Annual General Meeting

The resolution proposal being submitted for the approval of the Annual General Meeting is the following:

Eight.- Reduce the amount of share capital of NATURGY ENERGY GROUP, S.A. (hereinafter, “the **Company**”) up to a maximum of €21,465,000, corresponding to (i) 465,000 Own Shares held by Company on close of the Market on 24 July 2019; and (ii) 21,000,000 additional shares, each with a nominal value of one euro being acquired or to be acquired for redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter the “**Buy-Back Programme**”), approved by the Company under the EU Regulation N° 596/2014 on Market Abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.

As a result, the maximum amount of the reduction in share capital (the “**Share Capital Reduction**”) is €21,465,000, through the redemption of up to a maximum of 21,465,000 Own Shares with a nominal value of one euro each, proportional, approximately 2.18% of the share capital of the Company at the time of the adoption of the resolution.



Accordingly, on 31 January 2020 the Company held in Own Shares 5.841.764 shares, acquired under the terms of the aforementioned Programme, for redemption.

Administration of the Company depending on the number of shares that are finally acquired according to the definitive amount of the Capital Reduction shall be set by the Board of the Share Buy-Back programme under those terms set forth in the following section:

Procedure for acquiring shares to be redeemed

The Company may acquire, on exercising the Buy-Back Programme, for redemption, no greater than an additional 21,000,000 own shares with a nominal value of one euro per share, that shall be at the same time proportional, no greater than approximately 2.13% of the share capital of the Company on the date of resolution, an amount that is within the legal limit and contemplated in the authorisation for acquiring own shares conferred by the General Shareholder Meeting held on 5 March 2019 under item five (5) on the Agenda.

The purchase of shares that are acquired on exercising the Buy-Back Programme shall be carried out under Article 144 a) of the Spanish Corporate Enterprises Act and under the provisions of Articles 338 and 342 of the foregoing Act, insofar as it is applicable, of Article 12.2 of Royal Decree 1066/2007, of 27 July, of Article 5 of the EU Regulation Nº 596/2014 of the European Parliament and the Board, on 16 April 2014, on Market Abuse, and the EU Delegated Regulation 2016/1052 of the European Commission, on 8 March 2016, without the need, therefore, for preparing a Public Tender Offer for shares in the Company acquired in developing the Buy-Back Programme.

In accordance with Article 340.3 of the Spanish Corporate Enterprises Act, if the Company does acquire the maximum number of 21,000,000 own shares with a nominal value of one euro per share, no later than 30 June 2020, inclusive, it shall be construed that the share capital is reduced by the sum of the nominal value of (i) the 465,000 own shares held by Company on close of the Market on 24 July 2019, and (ii) the shares acquired within the framework of the Buy-Back Programme up to said date, inclusive.

Procedure for reductions and reserves

The Share Capital Reduction is to be exercised the month after finalising the Buy-Back Programme, in accordance with that set forth in Article 342 of the Spanish Corporate Enterprises Act. Even though the shares to redeem are owned by the Company at the time of the Share Capital Reduction this does not imply that the same are to be refunded rather they are redeemed out of available reserves through a Capital Redemption Reserve Account for an amount equal to the nominal value of the so redeemed shares, out of which, in application of that set forth in Article 335 c) of the Spanish Corporate Enterprises Act, will only be available under the same requirements as those for the Share Capital Reduction.

As a direct result, in accordance with that set forth in said provision, the Creditors of the Company are not entitled to the right of objection as referred to in Article 334 of the Spanish Corporate Enterprises Act.



Ratification of actions and resolutions of the Board of Directors

Ratify the resolution of the Board of Directors in regard to continuing with the Buy-Back Programme up to 30 June 2020 and the establishing of its terms and conditions that include the maximum amount of the same and term, as well as ratify the activities, declarations and management carried out to date, with respect to said Buy-Back Programme.

Delegation of Powers

Delegate to the Board of Directors the powers necessary so that, in a term no later than one month from the completion of the Buy-Back Programme, they can proceed with implementing this agreement, being able to determine those provisions that have not been expressly established in the foregoing resolution or that are not a consequence of the same.

In particular, by way of illustration, the Board of Directors shall have the following powers:

- a) Proceed, in a term of one month from the completion of the Buy-Back Programme, to implement the Share Capital Reduction subject to the conditions herein agreed.*
- b) Fix the definitive number of shares that are to be redeemed and, therefore, the amount by which the share capital of the Company is to be decreased in accordance with the rules established in this resolution.*
- c) Reword Article 4 of the Articles of Association that fixes the share capital so that it reflects the capital amount and the number of resultant shares in circulation after exercising the Share Capital Reduction.*
- d) Carry out all necessary actions necessary to fulfil the requirements set forth in the Spanish Corporate Enterprises Act, the consolidated text of the Spanish Securities Market Act, approved by Royal Legislative Decree 4/2015 of 23 October, Royal Decree 878/2015 of 2 October, on registry, compensation and settlement of accounted for marketable securities through book entries and other applicable rules, including the publication of the corresponding announcements mandatory in nature.*
- e) Perform as many actions and procedures as may be required or deemed necessary and submit the documents that may be necessary to the competent bodies so that, once shares of the Company have been redeemed and the Share Capital Reduction Deed has been issued and registered in the Companies Register, the trading of the redeemed actions is then excluded from the Stock Exchanges in Bilbao, Madrid, Barcelona and Valencia, through the Spanish Stock Exchange Interconnection System (Continuous Market) and the corresponding accounting entries of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) are cancelled.*



f) *To act as deemed necessary or convenient to implement and formalise the Share Capital Reduction before any entity or public or private legal entity, Spanish or foreign in origin, including those of declaration, complementary or rectification of any defects or omissions that could impede or hinder the successful execution of the foregoing resolutions.*

The Board of Directors are expressly authorised, pursuant to that set forth in Article 249 bis I) of the Spanish Corporate Enterprises Act, to enable them to sub-delegate (with powers to replace, when appropriate) on the Board or Directors, each and every one of the powers delegated under this resolution, that it deems necessary.

Madrid, Spain, on 4 February 2020.

The Board of Directors of NATURGY ENERGY GROUP, S.A.