

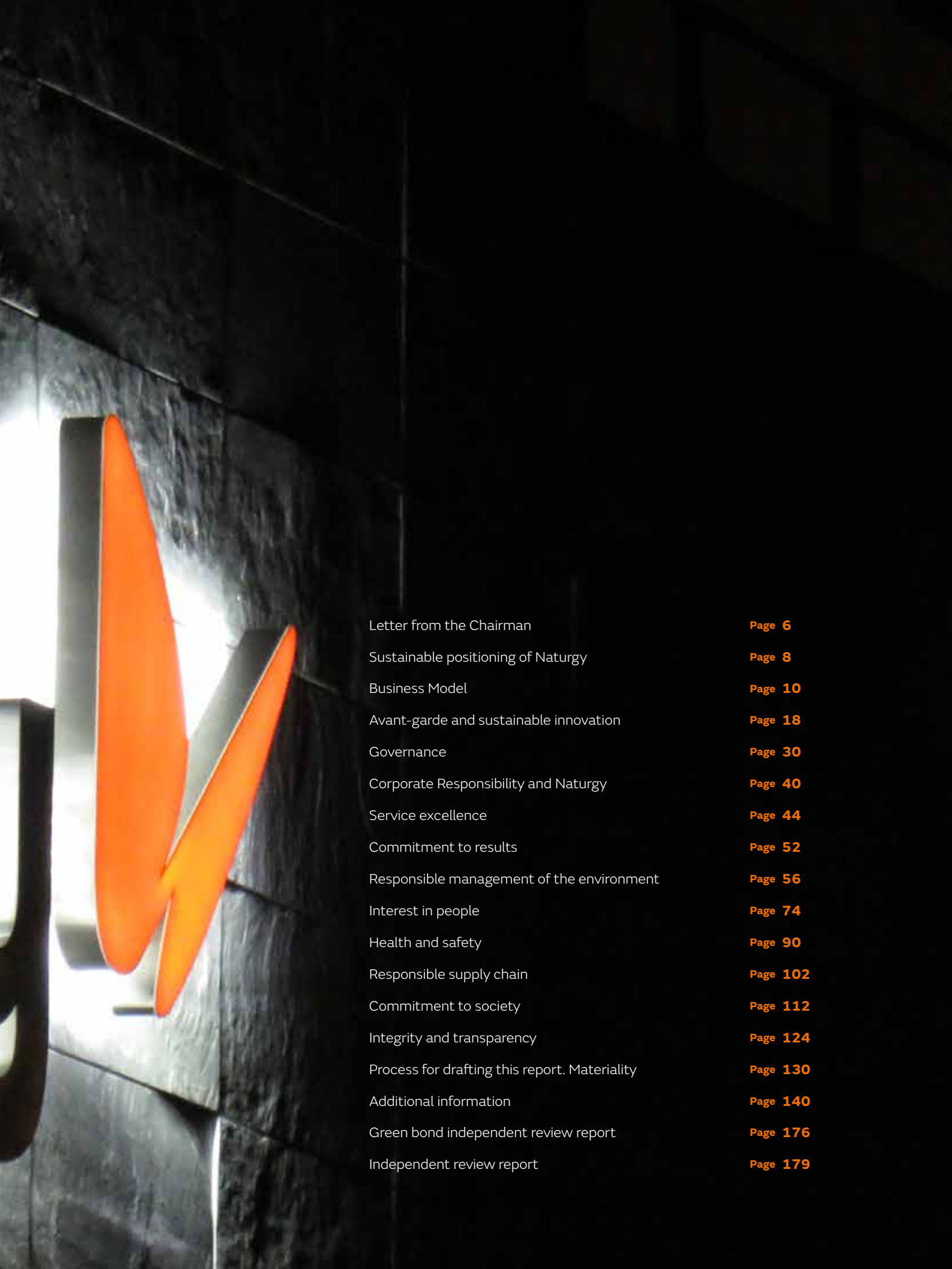
2018 Corporate
Responsibility Report

Energy for the future



2018 Corporate
Responsibility
Report

Naturqu



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Letter from the Chairman

[102-1] and [102-14]

Dear Readers,

I am delighted to present to you the company's seventeenth Corporate Responsibility Report, and the first under the new Naturgy brand. This report focuses on those sustainability issues identified as priorities for both the company and our stakeholders. In addition, it sets out our principles, commitments, strategies and actions in 2018, the year in which the company celebrated 175 years' history.

2018 has been marked by two particularly important events for the company: the renewal of our brand and the introduction of a new Strategic Plan 2018–2022.

The new brand came about as a reflection of a corporate transformation to a more contemporary, digital and global model. Meanwhile, the new Strategic Plan 2018–2022 has set simplicity and accountability as priorities, along with optimisation, financial discipline and shareholder remuneration. Specifically, this Plan has an Ebitda of Euros 5 billion on the 2022 horizon, a net profit of Euros 1.8 billion, and a minimum year-on-year shareholder remuneration increase of 5%.

Within the context of the fight against climate change and technological transformation, our Strategic Plan is focused on renewable energies and natural gas as key vectors to address the environmental challenges we face.

The 2018 trading figures allow Naturgy to be acknowledged by S&P Global Platts as the gas distributor with the best global financial performance. These results have been achieved with an unwavering commitment to sustainability. Thus, Naturgy was recognised last year as a world leader in the Gas Utilities sector of the Dow Jones Sustainability Index; global leader in the Multiutilities sector of FTSE4GOOD, and it has been included in The Climate Change A List index of the Carbon Disclosure Project (CDP), in addition to obtaining relevant valuations by the main sustainability rating agencies.

To continue this positive path of results, Naturgy continues to invest in sustainable innovation. In this regard, the company has defined strategic areas of innovation which, coupled with the corporate Innovation Plan and ongoing improvement in the process of control and risk management, will allow the company to give an expeditious response to the challenges faced and from a privileged position.

The supreme governance body responsible for overseeing management of the company in terms of corporate responsibility and approving the respective policy in this area is the Board of Directors, which has delegated these duties to the Appointments and Remuneration Committee. It is worth pointing out that in 2018, the Board of Directors, following the recommendations of its self-assessment, among other measures, approved new Board Regulations and reduced members from 17 to 12 directors.

Naturgy's common framework of action for socially responsible behaviour is the Corporate Responsibility Policy. Naturgy's active engagement and communication with stakeholders is highly relevant in this regard, as it allows us to find out their expectations and respond to them.

It is well known that Naturgy places the customer at the centre of its operations; this vocation also being a cornerstone of the Strategic Plan 2018–2022. In 2018, we wanted to place the focus of our excellence on providing service to the most vulnerable groups, placing cutting-edge technology at their disposal in terms of accessibility in all customer service channels.

Responsible management of the supply chain has continued to rank highly in our social commitments, and the requirement and help to achieve higher environmental, social and corporate governance standards has been extended to our suppliers.

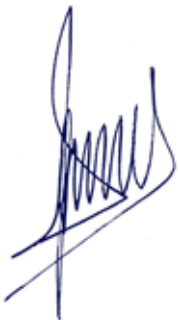
The company's successful performance in the last year has been possible thanks to the diverse team of professionals that make up Naturgy. Regarding business management, the new People Model is of particular note, as it brings together the commitment, loyalty, training and reward of employees. Within the framework of our Corporate University, more than 645,000 hours of training have been taught.

One of our priorities at Naturgy is to ensure that all our actions are carried out preserving the integrity and well-being of our professionals, subcontractors and the rest of civil society. This philosophy has permeated and reinforced the company's culture for years, leading to an appreciable improvement of safety indicators.

It is also paramount for the company to ensure integrity and transparency. To this end, the company employs a range of tools that emanate from its Code of Ethics, such as the Human Rights Policy, the Anti-Corruption Policy, the Reporting Channel, or the Supplier Code of Ethics. The Ethics and Compliance Committee ensures compliance with both external and internal regulations.

Regarding its environmental impact, Naturgy has continued to introduce measures in 2018, which have enabled the business to reduce its externalities in the three company-defined strategic axes: climate and air quality, circular economy and natural capital and biodiversity. Emissions of greenhouse gases were reduced by about 11%. As regards the impact on society, it is worth highlighting the continuation of the Energy Vulnerability Plan in Spain, through which new initiatives have continued to be developed, such as the Energy Rehabilitation Solidarity Fund and the Job Circle project.

Within a context of growth in world energy demand and decarbonisation of the economy, energy generation from renewable sources will be dominant by 2030, together with advances in energy efficiency, and sustainability will continue to be one of our pillars of action.



Francisco Reynés
Chairman of Naturgy



Sustainable positioning of Naturgy

Naturgy is fully aware that to create value and build trust it must take into consideration both corporate responsibility with stakeholders and sustainability at its best, with a long-term vision; these being the essential and intrinsic pillars of the company's values and culture.

The global context lays down a series of challenges, such as climate change, energy transition and population growth, coupled with the scarcity of natural resources; challenges to which Naturgy anticipates and adapts. This enables the company to get ahead of traditional and emerging risks, finding new business opportunities, and responding to the needs of different stakeholders.

The new Naturgy brand, based on the experience and leadership that characterises the company, is focused on digitalisation, flexibility, simplicity, and a global approach.

Naturgy's vision of the future –without overlooking its roots and over 175 years of history– aims to protect the current business model and lay the foundations to continue creating value, committed to natural gas as energy for a sustainable transition and the promotion of renewable energies and energy efficiency.

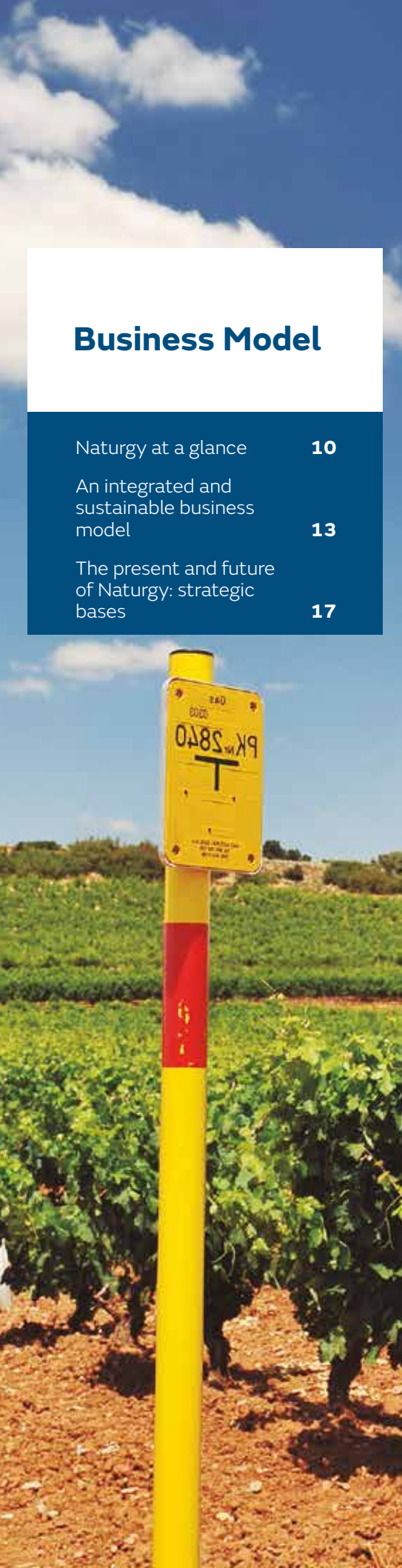
This corporate overview is aware of the importance that the company's actions have on people and the environment where it operates, and it therefore introduces a series of undertakings that ensure the current and future welfare of people and the environments with which it comes into contact.

Three aims, the same target



Thanks to the positive results in each of these undertakings, Naturgy's management has been acknowledged in 2018 by different organisations of international importance. These acknowledgements are founded not only on the Company's excellent trading figures, but also on its achievements in terms of corporate responsibility, sustainability and reputation, allowing the company to distinguish itself as a good place to invest and a great workplace.





Business Model

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An integrated and sustainable business model **13**

The present and future of Naturgy: strategic bases **17**

Naturgy at a glance

[102-4], [102-6] and [102-10]

America

Argentina

Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.7 million customers) and electricity distribution (0.2 million customers).

Brazil

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

Chile

Gas distribution (18 provinces and 0.6 million customers), electricity distribution and transportation (13 provinces and 2.9 million customers). Wind and solar generation projects.

Costa Rica

Generation (101 MW, hydraulic).

Jamaica

NG/LNG commercialisation.

Mexico

Gas distribution (ten states including Mexico City and 1.8 million customers) and generation (2,289 MW, combined cycles and 234 MW, wind).

Panama

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

Peru

Gas distribution (Arequipa).

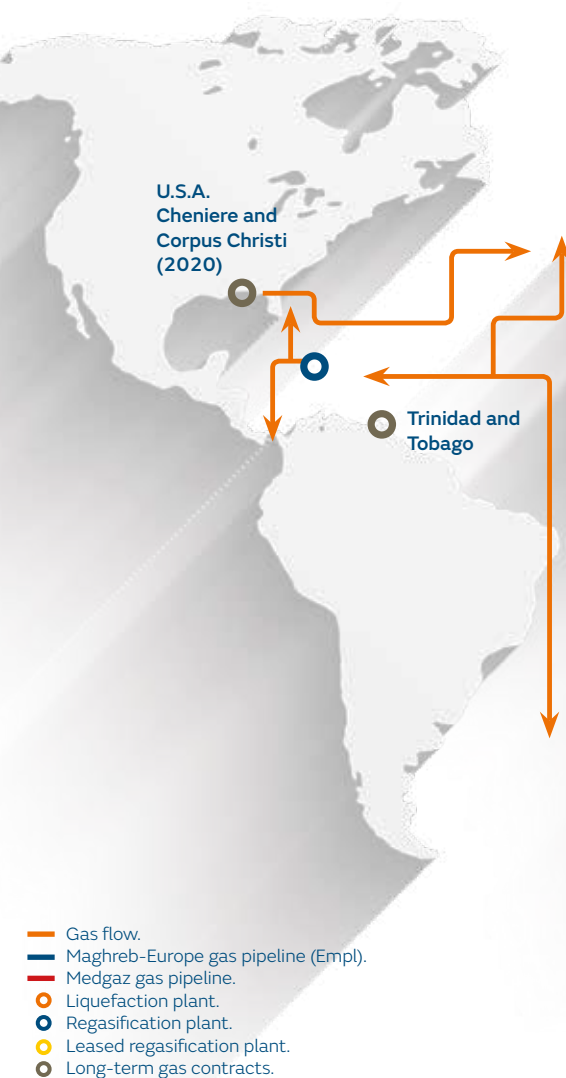
Puerto Rico

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

Dominican Republic

Generation (198 MW, fuel-oil).

Naturgy operates in over 30 countries with more than 18 million customers, and nearly 50% of its employees work outside Spain. Its international presence puts it in an ideal position to capitalise on the growth of new regions which are in the process of economic growth, making it one of the world's most important operators.



NB: Does not include the power distribution business in Colombia as the stake in Electricaribe ceased to be consolidated as at 31 December 2016 nor in the gas distribution in Italy and Colombia, electricity distribution in Moldova, electricity generation in Kenya and mining in South Africa business because they have been reclassified to discontinued operations.

Europe

Portugal

NG/LNG and electricity commercialisation.

Ireland

NG/LNG and electricity commercialisation.

Spain

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

United Kingdom

NG/LNG commercialisation.

France

NG/LNG commercialisation. Montoir regasification.

Belgium

NG/LNG commercialisation.

Netherlands

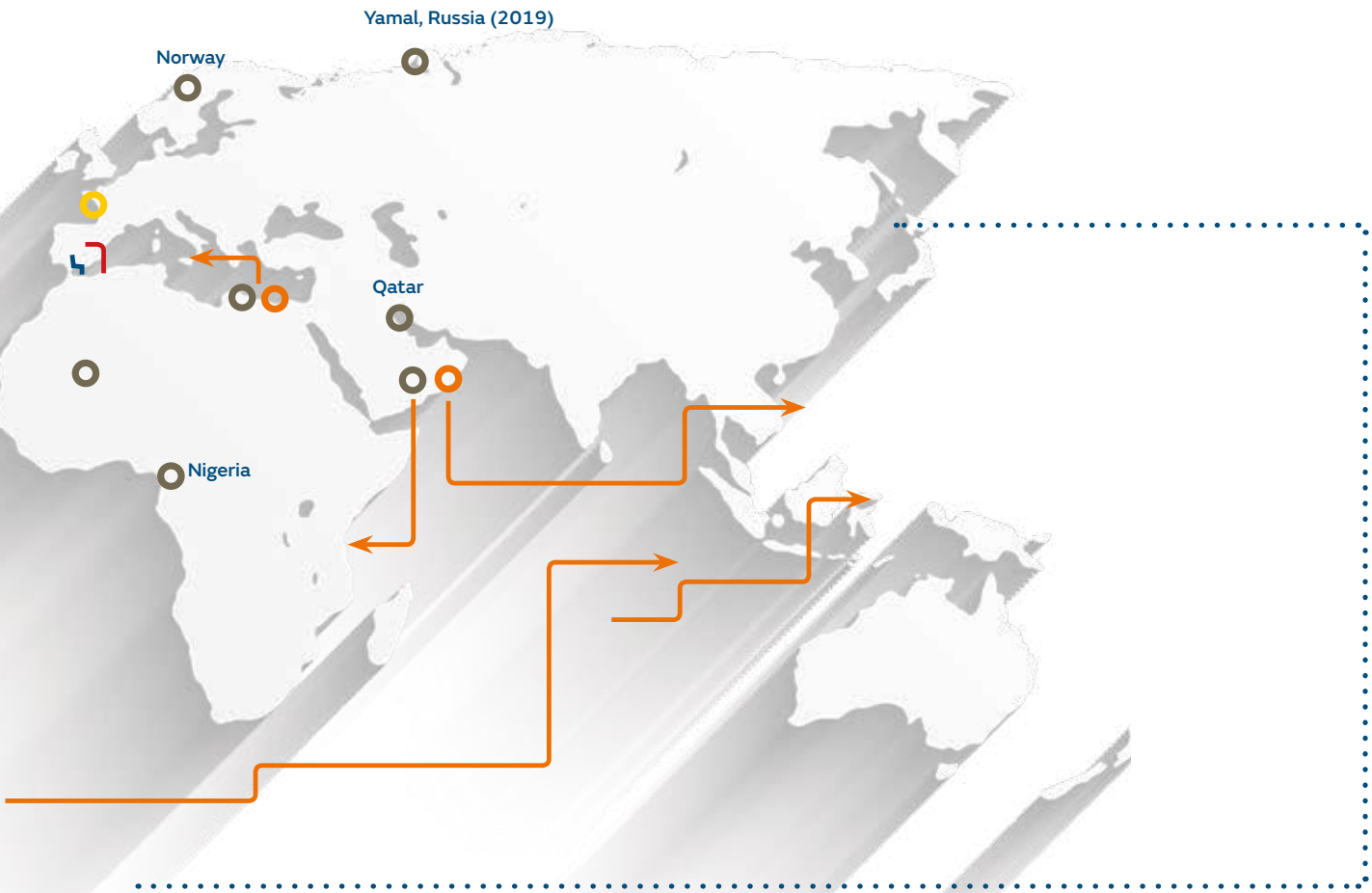
NG/LNG commercialisation.

Luxembourg

NG/LNG commercialisation.

Germany

NG/LNG commercialisation.



Asia, Africa and Oceania

Algeria

NG/LNG supply and infrastructure, and Medgaz gas pipeline.

Australia

Wind generation (96 MW).

China

NG/LNG commercialisation.

Egypt

NG/LNG supply and infrastructure (Damietta liquefaction plant).

Japan

NG/LNG commercialisation.

India

NG/LNG commercialisation.

Jordan

NG/LNG commercialisation.

Morocco

NG/LNG infrastructure and Maghreb-Europe gas pipeline.

Oman

NG/LNG supply and infrastructure (Qalhat liquefaction plant).

Pakistan

NG/LNG commercialisation.

Singapore

NG/LNG commercialisation.

Contribution to Ebitda by activity



Gas & Power

34%
of Ebitda: Spain,
Europe and Latin
America



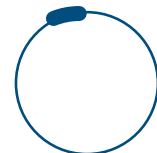
Infrastructures EMEA

45%
of Ebitda:
Spain and Africa



Infrastructures LatAm South

20%
of Ebitda:
Latin America



Infrastructures LatAm North

6%
of Ebitda:
Latin America

Note: -5% other activities.

Main figures of Naturgy [102-7]

Operations	2018	2017	2016
Gas distribution sales (GWh)	449,259	460,014	426,510
Gas transportation/EMPL (GWh)	117,526	100,371	111,720
Gas distribution supply points (in thousands)	10,605	10,491	10,224
Electricity distribution supply points (in thousands)	7,569	7,447	7,324
Gas distribution network (km)	119,998	116,181	113,083
Length of electricity distribution and transportation lines (km)	215,532	214,399	215,894
Electricity generated (GWh)	46,658	46,389	46,361
Personnel	2018	2017	2016
Number of employees ¹	12,700	14,718	15,502
Financial (euros million)	2018	2017	2016
Net turnover	24,339	23,207	21,908
Gross operating profit (Ebitda)	4,019	3,903	4,664
Total investments	2,321	1,782	2,157
Net profit	(2,822)	1,360	1,347
Accrued dividend	1,301	1,001	1,001
Stock information (euros/share)	2018	2017	2016
Share prices as at 31 December	22.26	19.25	17.91
Profit ²	(2.83)	1.36	1.35

1. Does not include number of employees in businesses classified as discontinued operations (786 people in 2018 and 2,053 people in 2017).

2. Calculated considering the weighted average number of shares during the year.

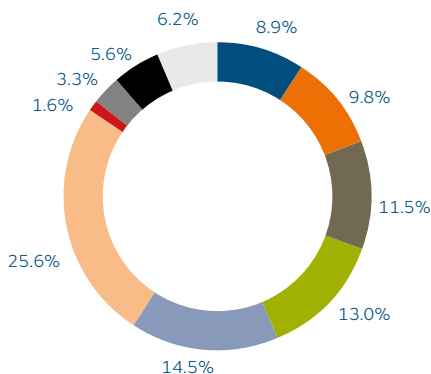
An integrated and sustainable business model

[102-2] and [102-6]

Naturgy is present in the electricity and gas business, from procurement to distribution and commercialisation. This has enabled Naturgy to be the largest integrated gas and electricity company in Spain, and to be recognised as the gas distributor with the best financial performance globally by S&P Global Platts.

Gas procurement and transportation

Naturgy has a flexible, diversified and competitive 30 bcm portfolio of supply. The company has unique and integrated gas infrastructure featuring the management of sections of pipelines and a fleet of six methane tankers. The supply countries of Naturgy are:

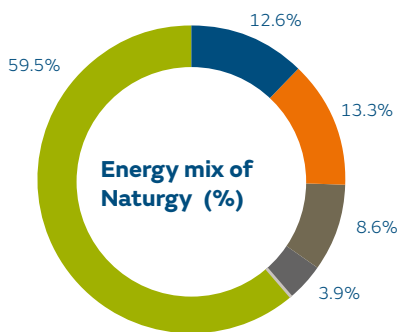


- Others (LNG)
- Nigeria
- Trinidad and Tobago
- United States
- Others (NG)
- Algeria
- Peru
- Oman/Egypt/others.*
- Qatar
- Norway

* Gas deriving from Unión Fenosa Gas.

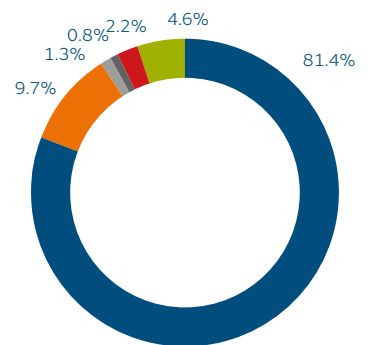
Generation of electricity

The electricity production capacity of Naturgy is 15.6 GW and is based on a balanced, competitive and environmentally-friendly generation mix. Thus, the company performs its activity with different technologies: renewable (hydraulic and wind), combined cycle, cogeneration, coal and nuclear



- Thermal
- Hidraulic
- Wind
- Nuclear
- Small hydro (0.7%) - Solar (1.0) - Cogeneration(0.4)
- Combined-cycle

Electricity produced using renewable sources broken down by country (GWh)



- Spain
- Mexico
- Panama
- Australia
- Brazil
- Costa Rica

Gas and electricity distribution



The company distributes natural gas in the commercial domestic market and the industrial market of major customers, both in Spain and abroad. It is the leader in the Spanish and Latin American markets.

Length of the gas distribution network [EU4]	Total	Variation % 2017-2018
Distribution network (km)	119,998	3.29%



In addition, it performs electricity distribution activities in Spain, Argentina, Chile and Panama. This business line includes the distribution of electricity to small and major users: residential consumers, SMEs and corporations.

Length of the electricity distribution and transport network [EU4]	Total	Variation % 2017-2018
Distribution and transport network (km)	215,532	0.53%

Gas and electricity commercialisation

The commercialisation activity of Naturgy takes in the wholesale and retail gas and electricity segments in liberalised energy markets, both in Spain as well as the rest of the world. In Spain, it is the leading company in the energy commercialisation market: gas, electricity and other products in all segments, ranging from residential to industrial.

Gas
Million customers

11

Electricity
Million customers

7.4

Other lines of business

Energy services: which favour the diversification of activities and revenue streams, anticipating new market trends, meeting the specific needs of customers and offering them an integral service not focused solely on the sale of energy.

Key Corporate Responsibility indicators

Service excellence	2018	2017	2016
Global satisfaction with service quality (on a scale of 0–10)			
Spain ¹	7.42	7.27	7.11
Latin America	7.96	8.30	7.63
Chile CGE ²	5.67	5.60	5.48
Moldova	8.23	8.04	7.94
Portugal	7.51	7.29	7.06
Commitment to results	2018	2017	2016
Net turnover	24,339	23,207	21,908
Gross operating profit, Ebitda (euros million)	4,019	3,903	4,664
Evolution the DJSI percentile	100	100	94
Responsible management of the environment	2018	2017	2016
Direct greenhouse gas emissions (GHG) (MtCO ₂ eq)	18.3	20.5	22.4
Emission factor including nuclear (tCO ₂ /GWh)	342	388	371
Generation of hazardous waste (kt)	8.3	9.8	9.4
Environmental investments and expenses (euros million) ³	494	96	60
Interest in people	2018	2017	2016
Number of employees ⁴	12,700	14,718	15,502
Men/Women (%)	69/31	71/29	71/29
Women in management posts (%)	28.3	26.2	25.7
Personnel costs (euros million)	1,010	1,009	974
Annual investment in training (euros)	10,454,626	14,322,806	14,014,713
Employees covered by collective bargaining agreements (%)	75.9	77.2	79.5
Health and safety⁴	2018	2017	2016
Accidents requiring sick leave	28	45	65
Days lost	1,524	1,708	2,424
Mortalities	0	0	0
Frequency rate	1.00	1.30	1.72
Severity rate	0.055	0.05	0.06
Incident rate	1.99	2.65	3.48
Absenteeism rate (%)	2.68	2.18	2.15
Responsible supply chain	2018	2017	2016
Suppliers with contracts currently in force	8,670	9,877	12,072
Total purchase volume awarded (euros million)	3,147	3,428	3,599
Purchasing budget targeted at local suppliers (%)	94.94	90.75	91.9
Assessment of suppliers ESG (number) ⁵	6,906	4,758	-
Commitment to society	2018	2017	2016
Evolution of the contribution from Naturgy (euros million)	11	12.86	9.98
Breakdown by type of action (%)			
Social	30.04	61.00	27.00
Environmental	26.48	8.00	22.00
Cultural	43.48	31.00	51.00
Sponsorship and social action activities (number)	253	361	403
Integrity and transparency	2018	2017	2016
Correspondence received by the Code of Ethics Committee	199	141	178
Correspondence received per 200 employees	3.18	1.67	1.92
Average time for resolving correspondence (days)	26	44	63
Audit projects analysed on the basis of operational risks	58	77	88
Communications received in the area of human rights ⁶	0	0	0
Number of persons trained on the Human Rights Policy ⁷	7,508	10,132	10,180

1. Figures for residential customers.

2. Figures measured on a scale of 1 to 7.

3. The 2018 data includes investment in renewable energies.

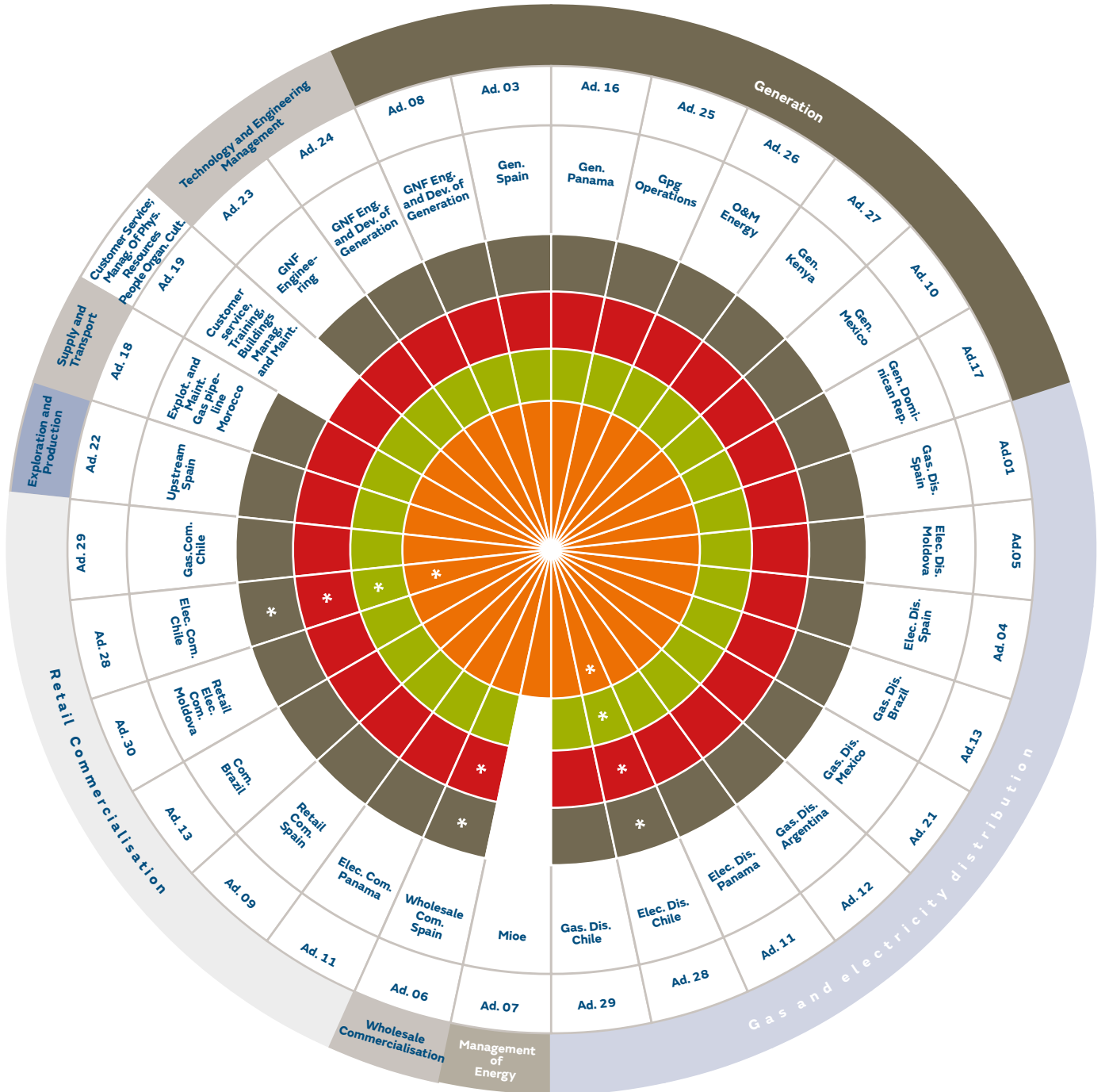
4. It does not include the number of employees in businesses classified as discontinued operations (786 people in 2018 and 2,053 people in 2017).

5. Environmental, Social and Governance (ESG). The suppliers ESG assessment is conducted at the main subsidiaries of the group where the Achilles tool is implemented, and through which the business classification of suppliers is carried out.

6. The human rights issues referred to in this indicator are freedom of association and collective bargaining, respect for the rights of ethnic minorities and the rejection of child labour and, in general, any form of exploitation.

7. The decrease in the figure reported is due to a change of criterion, as in previous reports this included those persons that had been trained, whether or not at the company, and the figure included in this report only considers the current active workforce.

Quality, environment and health and safety certifications chart



- Quality
- Integrated Management System
- Environment
- Health and safety

NB: (*) Recent changes.

Integrated management system

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS) that is continuously changing and improving, certified according to the requirements of the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001 standards. This system is audited externally every year.

The processes certified through this system are:

- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Electricity generation (thermal, hydraulic and renewable sources).

- Distribution of natural gas and electricity.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in the organised Iberian electricity markets.
- Corporate activities involving Customer Service, Billing and Payment, Training and Management of Office Buildings.

With regard to the previous year, 2018 saw completion of certification of the electricity distribution and

commercialisation activities in Chile and health and safety and IMS certification for wholesale commercialisation activities in Spain. Additionally, in the gas distribution process in Spain, the scope of gas distribution has been expanded by incorporating the process of LPG conversion to NG. With regard to the Integrated Management System, it should be highlighted that both Energy Management certification in the field of Commercialisation according to the ISO 50001 standard and Road Traffic Safety certification was achieved according to the ISO 39001 standard were achieved in Spain.

The present and future of Naturgy: strategic bases

In June 2018, Naturgy presented its new Strategic Plan 2018–2022, in which it prioritises the generation of value through simplicity and accountability, optimisation, financial discipline and shareholder retribution.

The company is working on simplifying its corporate structure, as well as on its governing bodies and the organisation. The new management of the company gives the business units full responsibility in their sphere of action, whilst adapting the organisation to the company's needs.

Within the context of its new Strategic Plan, Naturgy introduces an ambitious efficiency plan. It commits to reducing its annual operating expenses by a cumulative Euros 500 million by 2022,

thus contributing to significantly improving its profitability.

Also, in the timeline of the 2018–2022 Plan, the company plans to invest Euros 8.4 billion –of which Euros 5.3 billion correspond to growth investments already identified. In this way, the proportion of investments targeted at growth increases, representing more than 60% of the total for the period.

In addition, the company plans to substantially improve shareholder remuneration by increasing its dividend to Euros 1.3 per share in 2018, which represents a 30% increase year-on-year. Regarding the dividend per share, Naturgy undertakes to raise this by a minimum of 5% per annum from 2018, up to Euros 1.59 per share in

2022. In order to strengthen the new shareholder remuneration policy, and in case inorganic investments that comply with the established minimum investment criteria do not materialise, the company may dedicate a maximum amount of Euros 2 billion in the period to share buyback, with a maximum of Euros 400 million per year.

Regarding the financial targets for 2022, the new Plan sets an Ebitda of Euros 5 billion and a net profit of Euros 1.8 billion.

Avant-garde and sustainable innovation

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Encouraging innovation	28
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Innovation overview

[103-1], [103-2] and [103-3] (Innovation and sustainable technology)

Naturgy considers innovation as the function that enables it to guide and drive the advances required, access them and apply them effectively in accordance with the targets set out in its Strategic Plan. Accordingly, it has an innovation policy based on principles that provide the framework for the introduction of guidelines, objectives and goals, which serve as guides for all Group employees.

The innovation model, promoted by Senior Management, is based on the concept of synchronised innovation, in which roadmaps, plans and action programmes have been defined in all businesses and areas of activity: technology, market, commercial, regulation and social. In addition to covering innovation in the product and in the process, the company includes innovation in those cross-cutting and support areas, such as marketing, organisation and social.

The company encourages innovation to form part of the people's everyday activity, developing motivating work environments that foster the generation of ideas, and promoting entrepreneurship schemes that allow them to innovate in a more flexible way and transform themselves according to changes in the environment.

Likewise, Naturgy opens up its innovation processes by sharing its challenges through partnerships and by taking part in innovation forums focused on the value chain and geared at securing common objectives. Thus, it partners with public administrations to identify the general development needs and define innovation plans within its scope of action. The company continues to hold a presence at the different leading entities and institutions of the energy sector, as well as on the different technological platforms such as the Spanish technological platform for electricity grids (FutuRed), the Spanish Energy Efficiency Technological Platform (PTE-EE) or the interplatform of smart cities (GICI), among others.

In this way, through innovation, Naturgy contributes to the capture of efficiencies, to the development of new business models and to the vision of the customer at the centre, a key element in obtaining competitive advantages in the markets and achieving sustainable development of its activity.



Innovation focus

[103-1], [103-2] and [103-3] (Innovation and sustainable technology)

Naturgy's innovation model is structured through priority innovation lines, in line with the targets of the Strategic Plan that sponsor and support businesses. The company defines four strategic innovation areas: energy transition, digitalisation, customer at the centre and new business models.

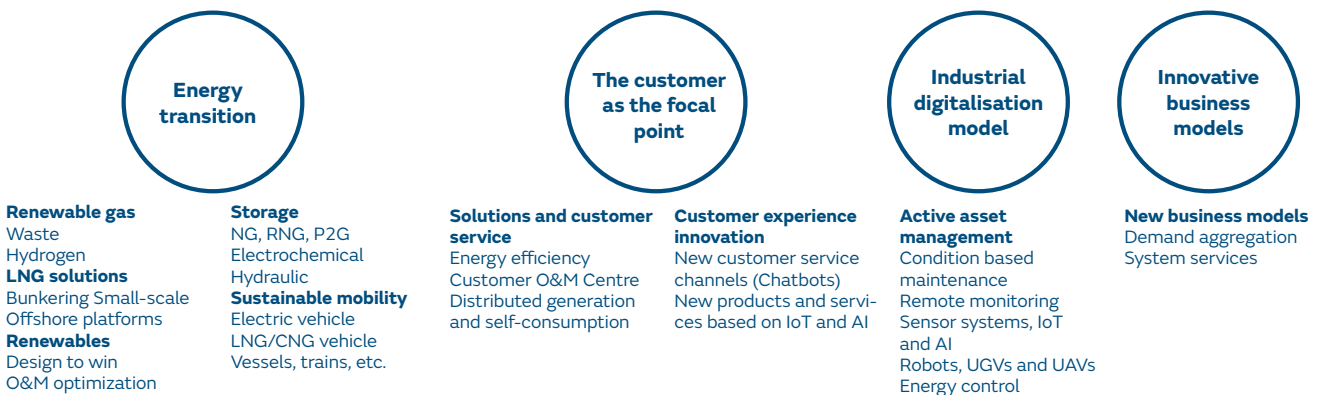
To develop this plan, Naturgy uses a twin-focus push & pull innovation model. The former, which focuses on the development of own technological solutions that respond to the challenges set out in the Strategic Vision. The latter focus seeks the pull of the open innovation ecosystem to find business opportunities, ideas and talent.

This innovation model is based on the concept of synchronised innovation, defined by roadmaps that collect the main insights of the environment and guide actions to take advantage of inroads in technology. The roadmaps incorporate a strategy of implementation and commercialisation, regulation and legal support and communication aimed at society perceiving the value of the company's actions.

The information contained in the roadmaps is structured around four axes:

- The aspects that make the technological area the key, the most relevant trends and the implications for the company.
- The aspirational objectives aimed at accomplishing the Strategic Plan and the challenges posed in the longer timeline.
- The map of activities in the five axes of innovation (technology, market, commercial, regulation and social) and their indicators of maturity.
- The work plan at all levels, highlighting the programmes (projects and POCs), working groups and action plans.

Strategic lines of innovation



Investment in innovation [OG2] (euros million)

63.3
euros million

Process innovation **53.2%**

Product innovation **30.9%**

Marketing innovation **6.8%**

Organisation innovation **4.7%**

Social innovation **4.4%**

Innovation Plan

The innovation plan is structured around priority lines of action to help achieve the goals set in the Strategic Plan. In this plan, innovation is supported by five multidisciplinary working networks and eight technological innovation areas.

Liquefied Natural Gas (LNG)

Taking into account that the use of LNG reduces emissions of carbon dioxide (CO₂), sulphur dioxide (SO₂) and particulate pollutants with respect to other fuels, Naturgy is taking specific actions to improve LNG, since it is the fuel both of and for transformation, as the European Union considers in its latest strategic plans.

This energy is the technology that supports renewable electric generation, and is the only real and feasible solution while storage research is being carried out.

The main objective of the company in this line is to strengthen transport infrastructure, storage and distribution of LNG, at all levels, to promote its use as an alternative fuel to traditional oil derivatives. An outstanding example of this is the LNG on Wheels project.

The DirectLink LNG project, Universal Floating Transfer System (UTS) developed between 2016 and 2017, has been awarded the Platts Award for the best project in the Emerging technology category. This is an integral patented solution for the transfer and bunkering of LNG from ship to shore with minimum environmental impact.

Projects to develop new LNG distribution logistics solutions

LNG on Wheels (2017–2018)

The aim of the project is to enable the reliable supply of LNG to industrial customers of up to 50 MWe, even in remote locations.

The project involves an LNG tanker vessel able to resupply itself from a small carrier off-shore, anchored near to the closest port to the customer. Once in the port, the LNG is distributed directly through tanker lorries.

Generation: renewables and storage

Renewable energy

Naturgy is committed to energy efficiency and renewable energy, within the framework of a global transition towards a low carbon economy, both in Spain and worldwide.

Wind energy

Activities have focused on the monitoring architecture of wind farms, the role of renewable generation in supplementary services of the system, and greater control over the useful life of the assets.

Hydroelectric energy

During 2018, the company has maintained its commitment to the introduction of new technologies both in areas of environmental control as well as in the establishment of mobility systems and remote monitoring, without overlooking the improved performance of its hydraulic facilities.

Solar power

In 2018, tests continued on the different cells available for use in new solar plants. In addition, innovations have been made in the O&M of existing plants.

Storage

Naturgy addresses innovation in energy storage as an improvement and integration of renewable energies. Naturgy actively takes part in different working groups where the use of storage technology is debated in the areas of interest for the company.

Renewable generation projects: wind

Windex (2017–2019)

The aim of the project is to develop a system capable of assessing in real time the consumption of structural life of a wind turbine, based on the development of aeroelastic models, structural instrumentation and the manufacture of smart models.

Renewable generation projects: solar

Solar-Photovoltaic Laboratory Durango, Mexico (2017–2018)

This laboratory aims to perform tests on different solar panels from among the most commercialised solutions, analysing the most important O&M parameters.

In addition to continuing with the testing activities, the second phase of the project involved installing solar trackers, the acquisition and installation of new bifacial modules and the development of software application for monitoring and data analysis.

Storage projects

Renewable Hybridization-Storage La Vega I & II wind farm (2017–2020)

The objective is to test the performance of the system and the behaviour of different storage technologies in real conditions, to improve the manageability of the energy delivered to the system at these types of plants. It will start with the installation of a vanadium flow battery in the first four months of 2019.

Generation: reduction of emissions and energy efficiency

Thermoelectric power generation

In its commitment to minimise the impact that its industrial activity could have, the company is carrying out a range of technological developments at its facilities, through projects such as Turbo-reflex. In addition, the company continues to work to improve the efficiency of its coal and combined-cycle plants, by introducing solutions to extend the useful life of its facilities.

Projects to reduce emissions and efficiency in thermoelectric generation

Turbo-reflex (2017–2020)

The Turbo-reflex mission is the development and optimisation of technologies applicable to the main equipment of combined cycles, to modernise both the existing ones and the new ones, so that they allow a more flexible operation, providing adequate support for renewable generation. Specifically, Turbo-reflex will assess the technical and economic impact on O&M costs.

Grids: revitalising of gas networks

The main company's challenges in this line are focused on achieving greater automation of the grid (remote action, reduction of cut-offs and interruptions, improved operational efficiency and maintenance and increased energy performance) and greater interaction with the customer (energy efficiency and active management of demand).

Renewable gas

Actions have focused on the production of biomethane from biogas, on methanation with hydrogen and on the gasification of solid biomass to promote the use of renewable natural gas.

Naturgy is currently involved in several projects at national and European level, aiming to provide renewable natural gas generated from renewable resources, and through which different processes can be fed into the distribution network of natural gas, with the right quality for subsequent application.

Automation of gas distribution networks

Naturgy works together with technological partners to develop new sensors of low consumption and low cost that can be deployed in the different types of grid. Likewise, and with the help of the new data-processing techniques and technologies, different solutions are being undertaken that will enable predictive operations.

Energy control

Development of solutions that enable control of energy to guarantee the correct balances of energy throughout the gas and electricity network. The aims of this line include improving the detection of fraud, lowering the cost of this detection and transferring the best results among the different pilot schemes.

Small-scale gas distribution

It allows us to supply small nuclei far from transport infrastructures and to introduce unconventional gases to the grids, achieving a circular economy pattern.

Project to revitalise gas networks

Smart Green Gas (2014–2018)

In this project, the company's main goal is to obtain a smart system to measure the quality of biomethane during the integrated production process.

This project, which will extend until the end of 2018, studies the treatment of biogas obtained at the waste treatment plants and its conversion into high quality biomethane, with a concentration of 95%, to be able to be fed into the gas network or used as vehicle fuel.

Grids: electricity grids 4.0

Naturgy continues to make efforts in the digitalisation of the electricity distribution grids. The increase in the level of monitoring and control of medium and low voltage grids will allow a better integration of new customers and could transform them, if the regulation allows, into new resources for the distribution system operator.

New role of the distributor

The paradigm shift of electricity distribution and the appearance of two-way energy flows means that the distributor has a new role in the grid operation. The improvement in the observability and controllability of grids is crucial for the integration and optimal management of energy flows. Naturgy must prepare the grids to facilitate these new forms of energy generation and consumption in order to ultimately develop new business models. Innovative solutions are being tested for this purpose.

Automation of electricity grids

The automation of the electricity grids together with technological innovation and interaction with the customer give rise to a new model of digital grid in which the digital infrastructure deployed is showcased, improving the accuracy of grid information, performing active management of the infrastructure and including the customer in the information processes.

Advanced management of the electricity grid assets

In order to efficiently manage the grid and optimally assign resources, it is necessary to have more and better information on assets and properly manage their risks.

Electricity grids 4.0 projects

GALA Project – Advanced Management of Overhead Cables (2019–2020)

The aim is to achieve safer and more efficient inspection and more precise and environmentally friendly management of vegetation in the vicinity of overhead power lines, making good use of the new technologies of 3D digitisation, automatic image analysis and advanced risk management. It comprises the following phases:

- Digitisation of the overhead network, using LIDAR laser technology.
- Development of a risk management model that accounts for the predicted growth of the different species.
- Monitoring vegetation growth and the evolution of risks by means of satellite imaging and automated data analysis.

Customer: Smart Client

In the Smart Client area, the company is focusing on providing products and services with high value-added for different types of end customers.

GEDIS and self-consumption

This action line is based on the implementation and validation of solutions targeted at optimising both energy management of residential and tertiary customers as well as utilizing the flexibility of these to provide services to the network.

Integration of new solutions

IoT digital solutions and products that enable us to segment and get to know our customers better in order to offer them recommendations and customised products and services.

Data Analytics

The main purpose is to provide the importance necessary to the data through innovative tools and to achieve usage cases that are highly beneficial to the company's different business.

Smart Client projects

GrowSmarter (2015–2019)

In 2018, the most relevant actions were:

- Completion of energy rehabilitation in residential and tertiary buildings.
- Continuation of the installation of photovoltaic panels and Smart Home equipment in residential buildings.
- Validation of the 2017 results.
- Development of the management system to maximise self-consumption.
- Development of a data management platform.



Customer: energy efficiency and mobility

Energy efficiency is still a key area for Naturgy. The company is focused on improving procedures to increase energy efficiency in all links of the energy chain. It is determined to provide customers with information and services to help them improve their energy efficiency and to reduce the environmental impact of their energy consumption and habits.

Through different projects related to buildings, Naturgy develops new passive and active solutions to adapt the product portfolio to new efficiency requirements. Heat recovery in the industrial sector has been the object of different developments during 2018, and this will continue to be the case.

Naturgy simultaneously maintains its commitment to sustainable mobility solutions. The company is implementing nationwide vehicular natural gas charging infrastructure for public use. The company is also taking part in a range of EU programmes for the purpose of providing Europe with transport corridors that make it possible for road transport using lorries that run on LNG. In addition to extending the supply network, the company pays special attention to improving energy and economic efficiency of the service stations.

In the rail sector, Naturgy is working on an initiative to introduce the first railway traction pilot test with liquefied

natural gas (LNG) in Europe. In the maritime field, Naturgy is testing new propulsion systems which, thanks to the combination of gas engines, electric propulsion and thrust systems, improve the energy efficiency and sustainability of this type of transport.

Lastly, in the field of electric mobility, the company has also undertaken its first steps in the development of cargo infrastructure of different types.

LNG and CNG fleets and service stations

	2018	2017	2016
Public station vehicles	5,815	3,030	2,070
Public service stations	32	30	27
Private service stations	19	20	17

LNG and CNG sales at service stations ^(GWh)

	2018	2017	2016
LNG and CNG sales at service stations	707	626	605

Energy efficiency and mobility project

PIDIM – Smart Platform for the Sizing and Design of Multigeneration Facilities (2017–2019)

This project has the purpose of designing, developing and introducing a smart platform for the sizing and design of facilities for the distributed generation of heating and cooling electricity. This computing platform will operate in the cloud, receiving data such as consumption and responding with the most suitable energy solutions for the client. The activity in 2018 has focused on the design and development of most of the tool's modules, obtaining a fully functional initial version by the year-end. In addition, extra functionalities have been added, such as the calculation and integration of the demand associated with the charging of electric vehicles.

Automation and management of information

The area of robotics, sensor system and advanced information management is a cross-sectional area that aims to bring together projects already being developed in the company to gain synergies and enhance results. This area is home to the most disruptive technologies that will form part of the technological ecosystem, such as robotics, artificial intelligence, sensor systems, IoT, Blockchain, etc.

Automation and sensor systems

Development of both software and hardware solutions that allow the automation of the gas and electricity grid via sensor systems and advanced management of information.

Energy control

Development of solutions that enable control of energy to guarantee the correct balances of energy throughout the gas and electricity network.

Work assisted with robots and drones

The main objective of this line involves using automatic solutions to perform certain operations, mainly heavy, repetitive and hazardous ones, autonomously to facilitate the tasks of Naturgy employees.

Complementary system services and the role of renewable generation

Analysis of the role of renewable generation in the market of complementary services.

Wind farm monitoring architecture

Design of the monitoring architecture and development of the model to lengthen the useful life at wind farms.

Virtual reality / Augmented reality and BIM

This line seeks the cross-sectional involvement of the whole company in the evaluation of the application of VR/AR and BIM technologies in the sphere of activity.

Projects for the digitalisation of gas networks

Energy Harvesting UP4 (2017–2018)

The aim is to capture energy to feed sensors that will be installed in the gas network. The pilot project consisted of the test, at laboratory level, of a device based on a sheet of piezoelectric material to generate small amounts of electricity. The device is put into a gas tube and energy is produced through the flow interaction structure.

Innovation planning

During 2018, the company has continued with the development of a digital innovation management system, capable of incorporating the policies, methodologies, processes and tools necessary for execution of the innovation activity in the company. Progress is being made towards a highly flexible model that is able to incorporate best practices and to update them as appropriate.

Support and technological transfer

The support and technological transfer department aims to provide support to the group's businesses in the optimisation of their exploitation, by incorporating new technology and technological knowledge.

Of particular importance in 2018 is the ongoing collaboration with institutions of the technological environment, chief among which are the Electric Power Research Institute (EPRI), the Gas Technology Institute (GTI) and the American Gas Association (AGA). In more general areas, it is also worth mentioning the Institute of Electrical and Electronics Engineers (IEEE) and Massachusetts Institute of Technology (MIT).

Both areas are integrated through support activities that cross-reference needs and possibilities, and through transfer activities to obtain the appropriate expertise and incorporate the most up-to-date technology. During 2018, these activities have required the work of 35 ad-hoc groups deployed in different units.

Technology watch and observatory

Technology watch represents a major component as a source of information for the company, to facilitate decision-making in the management of technologies identified as key and to form a basis of self-knowledge for the organisation. At Naturgy, there is coordination with Technological Observatories, in which 160 experts from the company's different units take part, ranging from purely technological aspects to those of a commercial, regulatory, social or market nature.

During 2018 the activity of these groups has been consolidated, gradually increasing their activities and contributing value, for example with the creation of technological roadmaps or with participation in forums and reference associations in their area. In addition, during the year the Pathways workshops were held in which the various observatories shared the analysis they are carrying out, the state-of-the-art of different technologies, and their impact and applicability at Naturgy.

Encouraging innovation

In 2018, Naturgy promoted different initiatives that foster entrepreneurship and the development of innovative projects, partnering start-ups, universities, research organisations, entrepreneurs and public administrations for the purpose of speeding up the development of new products and services, and introducing new technologies that transform the company's processes and operations.

Intrapreneurship

In its commitment to intrapreneurship, and for the purpose of taking advantage of all its internal talent, in 2018, Naturgy created four groups with specific challenges of high impact on businesses. These groups have worked using Agile methodology, showcasing their application throughout the entire value chain of businesses.

Open innovation

Open innovation is a new model of relations between companies with external players such as universities, start-ups, research centres and entrepreneurs, to promote collaboration and the exchange of ideas.

In 2018 Naturgy has worked on improving open innovation by identifying the entrepreneurial poles of the sector.

Sponsorship and participation in open innovation initiatives

South Summit 2018 (Madrid. Spain)

Naturgy has taken part in the most important event of the innovative and entrepreneurial ecosystem of Southern Europe, which was held in Madrid at the beginning of October. For the third consecutive year, as an Innovation Partner, Naturgy presented its initiatives in relation to entrepreneurship and its open innovation model. The meeting allowed the analysis of more than 60 start-ups, of which 22 were of potential interest, with intrapreneurial initiatives that could contribute to the solution of the different innovation challenges posed by the company.

Highlighted programme from the corporate accelerator and incubator

Cleantech Camp

This is an entrepreneurial programme promoted by InnoEnergy and Naturgy. The aim of the programme is to foster technology transfer and entrepreneurship in the field of clean energy.

In the third edition of the Cleantech Camp, a total of 70 projects were submitted from emerging companies in Spain and Portugal. From all the projects received, fifteen were selected for mentoring by experts to develop their business plan over a four-month period. Naturgy has had special follow-up in five of the selected start-ups.

innovaHub

The Barcelona and Madrid innovaHubs are spaces of innovation created to encourage open innovation in the company through the opening and traction of the ecosystem, in order to identify new solutions and business models, promoting knowledge, organising activities that raise awareness of the latest technological trends, connecting with the entrepreneurial ecosystem, and providing a space for the co-creation of new services and solutions that redefine the future of the energy sector.

Technology Centre

The mission of the Technology Centre is to serve as an initiator and facilitator of innovation at Naturgy. It has three main objectives:

- The creation and management of meeting points with the technological ecosystem.
- The introduction and exploitation of resources for technological development, through experimentation and pilot schemes for technological solutions.
- Demonstration of the company's innovation activity.
- innovaHub@MAD: a robust communications network deployed to support automation and big data projects that are hosted in the innovaHub information systems.
- Robotics Laboratory: this has been a fundamental resource that has supported projects in the fields of robotics, sensor systems and virtual reality, among others.
- Control Centre: construction has finalised with the new environment and an improvement in the performance of equipment, such as the incorporation of a content management system that supports, streamlines and makes more flexible the operation of audio-visual resources.

In the different spaces created in previous years, the most outstanding activities of 2018 have been:



Governance

Good governance for efficient and transparent management **30**

Risks and opportunities **35**

Internal Auditing and Compliance **39**

Proposed actions 2018

Follow-up of new items in issues of corporate governance and the company's proposal to adapt to these.

Launch of the Compliance Communication Plan ("Compliance Café" campaign).

Planned actions 2019

● Finalise the implementation of the Continuous Audit Indicators Model.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Good governance for efficient and transparent management

[102-12]

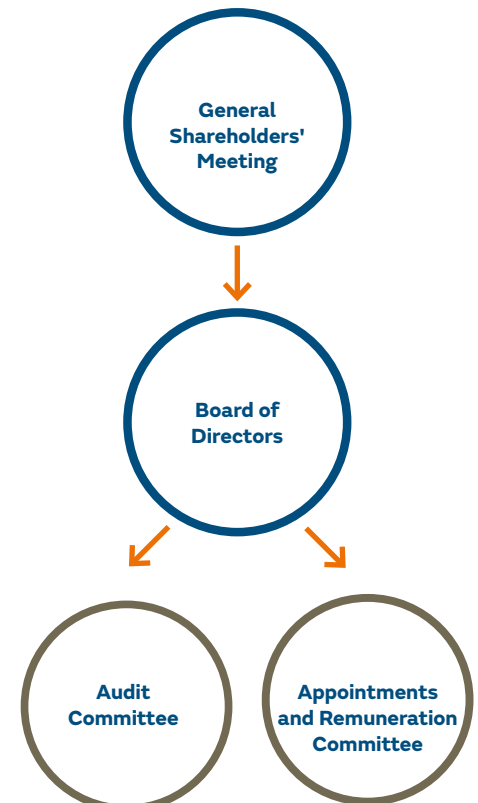
Good governance, in constant evolution

Governance at Naturgy is based on the principles of efficacy and transparency established in accordance with the main existing recommendations and standards on the world stage.

Good governance actions are instrumented through the Board of Directors, mainly through the annual analysis and approval of the company's risk profile, including ethical, social and environmental issues in the planning of activities. To this end, the company frequently reviews its internal audit and compliance procedures and uses its internal regulations to set out those practices that should lead to greater knowledge of the company's way of working.

In 2018, the Board Regulations were amended to simplify them and adapt them to the changes that occurred during the year, in compliance with the recommendations of the CNMV Code of Good Governance.

Governing structure of Naturgy



Functions and composition of the Board of Directors

[102-18], [102-26], [102-28] and [102-32]

Risk prevention management and consideration of aspects tied to corporate social responsibility are part of the Board of Directors' activities, and the Board is responsible for approving the corporate governance and corporate responsibility policies. Every year, through the compilation of the respective reports, it reviews and approves the information on risks and opportunities in these areas.

The Board of Directors exercises the powers attributed to it through the Law, the Articles of Association and its Board Regulations. Specifically, the following general powers correspond exclusively to the Board of Directors, according to Article 3 of the Regulations.

Non-delegable matters:

- Those provided for in legislation as non-delegable.
- Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
- The appointment and removal of executives who have a direct dependence on the Board or any of its members, as well as the introduction of basic conditions of their contracts, including their remuneration.
- Matters subject to an enhanced majority contemplated in section 4 of article 7 of these Regulations.

Matters ordinarily non-delegable, but which may be adopted by the delegated bodies or persons, for reasons of urgency duly justified and which must be ratified at the first Board of Directors session held after the take-up of the resolutions, of which the following stand out:

- The approval of management targets, the annual financing plan, the investment and financing policy and the corporate social responsibility policy.
- The determination of the company's corporate governance policies, of the risk control and management policy and, including tax ones, and supervision of the internal reporting and control systems.
- The approval of the financial reporting which, due to its status as a listed company, must be made public periodically by the company.
- The approval of investments or operations of a strategic nature.

Assessment and capacities of the Board of Directors

Pursuant to the recommendations laid down in the Good Governance Code of Listed Companies and the Board Regulations, the quality and efficiency of the Board and of its committees is assessed every year.

According to these assessments, the Board of Directors and its committees operated as expected during 2018, fully exercising their powers without interference and in full observance of both current legislation and the standards for the organisation and performance of the Board's own regulations.

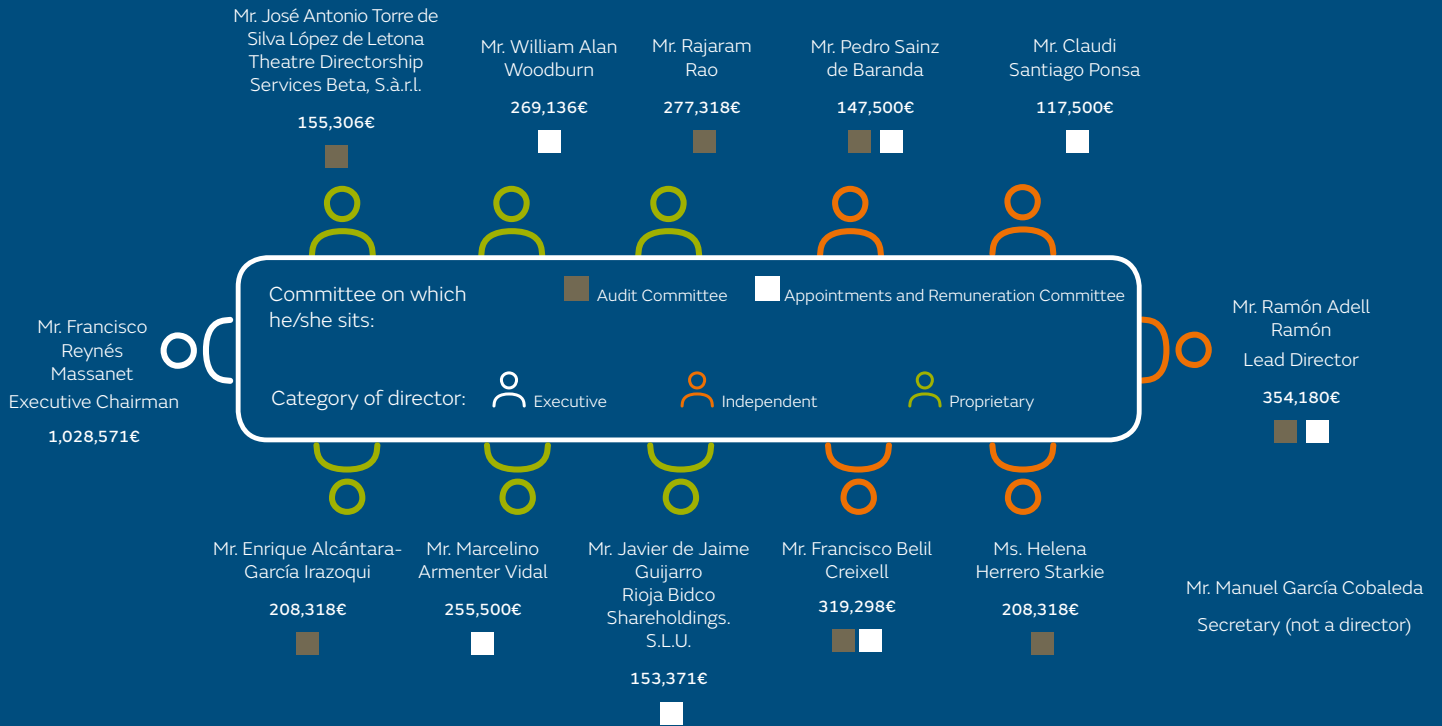
Following the recommendations of the evaluation carried out in 2017 by an external auditor, this year there have been significant changes in the internal organisation and in the applicable procedures:

- Approval of a new regulation.
- Reduction in the number of Board members from 17 to 12.
- Change to the composition of the Appointments and Remuneration Committee, from 5 to 7 members.
- Elimination of the Executive Committee.

All this has allowed the improvement in compliance with the Good Governance recommendations of the CNMV.

Board of Directors at 31 December 2018¹

[102-22] and [102-23]



1. The sum of cash remuneration for members who ceased to be directors in 2018 is: Euros 917,862

Diversity in the appointments process and renewal of Directors

[102-24], [102-25] and [405-1]

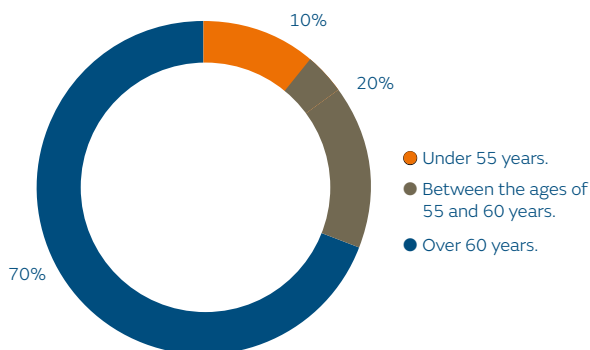
The Board of Directors comprises 12 members, of which one is a woman. Among Board Members there is a broad diversity of professional

experience and academic knowledge (engineers, lawyers, economists, among others).

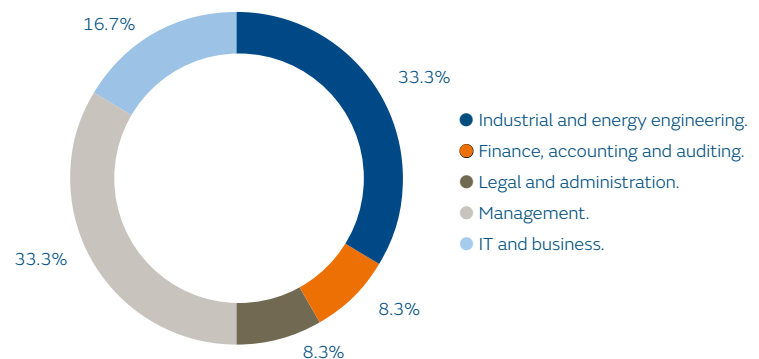
The company, in its Board Member selection policy, expressly specifies that the Appointments and Remuneration Committee shall ensure that the screening procedures do not include any implicit bias that could involve any discrimination whatsoever.

Regarding the selection of candidates for the post of director, the process is based on an evaluation by the Appointments and Remuneration Committee, which may seek external advice. The analysis is based on the company's needs and on the skills, knowledge and experience needed on the Board, as well as the alignment of the candidate with the principles, values and vision of Naturgy.

Breakdown of the Board of Directors by age (%) [405-1]



Professional experience and academic knowledge of the Board of Directors (%) [405-1]



Remunerative model of the Board of Directors

[102-35], [102-36] and [102-37]

Remuneration of Directors represents an issue of major importance in the company's good governance. In accordance with the current legal framework, Naturgy regularly reports on remuneration of members of the Board of Directors through its Integrated Annual Report, the Annual Accounts and the Annual Report on Remuneration of Directors, all publicly available.

Remuneration of Directors for sitting on the collegiate decision-taking bodies is considered as fixed remuneration. Only the Chairman of the Board of Directors receives remuneration based on the executive functions he performs outside of sitting on the Board.

The determination of each Director's remuneration corresponds to the Board of Directors, which shall take into consideration the duties and responsibilities attributed to each Director, the Board committees on which they sit and other objective circumstances that are relevant. In this regard, the remuneration of directors must maintain a reasonable proportion with the importance and economic situation of the company, and the market standards of comparable companies.

The established remuneration system must be targeted at promoting profitability and long-term sustainability of the company and incorporate the precautions required to

avoid the assumption of excessive risks and rewarding unfavourable results.

No outsourced consultants have been used to determine the remuneration of Directors.

In the Ordinary General Shareholders' Meeting of 2018, the Annual Report on Remuneration of Board Members for 2017 was approved by a majority vote, as follows:

Number of shares that have cast valid votes	838,788,724
Total number of valid votes cast	838,788,724
Proportion of the share capital that the valid votes represented	83.82
Votes in favour	754,225,985
Votes against	83,389,225
Abstentions	1,173,514
Quorum of attending at the Shareholders' Meeting	83.82

Issues dealt with at the General Shareholders' Meeting

[102-21], [102-33] and [102-34]

The quorum of attendance at the meeting represented 83.82% of all shares in Naturgy.

Issue	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and the Management Report of Gas Natural SDG, S.A.; the Consolidated Annual Accounts and the Management Report of the Consolidated Group for the financial year that closed on 31 December 2017.	Economic	Approved by a majority
Approval of the allocation of profits for the year that closed on 31 December 2017.	Economic	Approved by a majority
Transfer to the "Voluntary Reserve" account.	Economic	Approved by a majority
Approval of management performed by the Board of Directors in 2017.	Economic/social	Approved by a majority
Amendment to the Articles of Association.	Economic/social	Approved by a majority
Amendment of certain articles of the General Meeting Regulations.	Economic/social	Approved by a majority
Report on remuneration of members of the Board of Directors.	Economic/social	Approved by a majority
Re-election, ratification and, where applicable, appointment of members of the Board of Directors.	Economic/social	Approved by a majority
Remuneration Policy for Directors for 2018, 2019 and 2020.	Economic	Approved by a majority
Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.	Economic	Approved by a majority
Amendments of the Regulations for the Organisation and Functioning of the Board of Directors of Gas Natural SDG, S.A. and its Committees.	Economic/social	Approved by a majority

Risks and opportunities

Risk management at Naturgy

[102-29] and [102-30]



Naturgy identifies and quantifies the impact of the main risk factors for the company, ensuring uniformity in the criteria used in measuring these risks and proposing control and corrective measures together with the businesses affected.

Audit Committee

Supreme body in charge of the efficacy of internal control and of the company's risk management systems. It checks that these systems identify the different kinds of risks and the measures introduced to mitigate said risks, and to tackle them in the event that effective damages materialise.

Risk Committee

Responsible for determining and reviewing the objective risk profile of the company. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and managing the most significant risks.

Risk Control Units

Responsible for monitoring, controlling and reporting the risk assumed, and ensuring this is within the limits defined by the objective risk profile. We can highlight the following units: Risks and Insurance, Gas & Power Risks and Internal Audit.

Business Units, Corporate and Project Areas

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

A model that anticipates the developing situation

The risk management model of Naturgy seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders. This means establishing risk tolerance by setting limits for the most relevant risk categories. By doing this, the company can anticipate the consequences of certain risks materialising, and is perceived in the market as a solid and stable company.

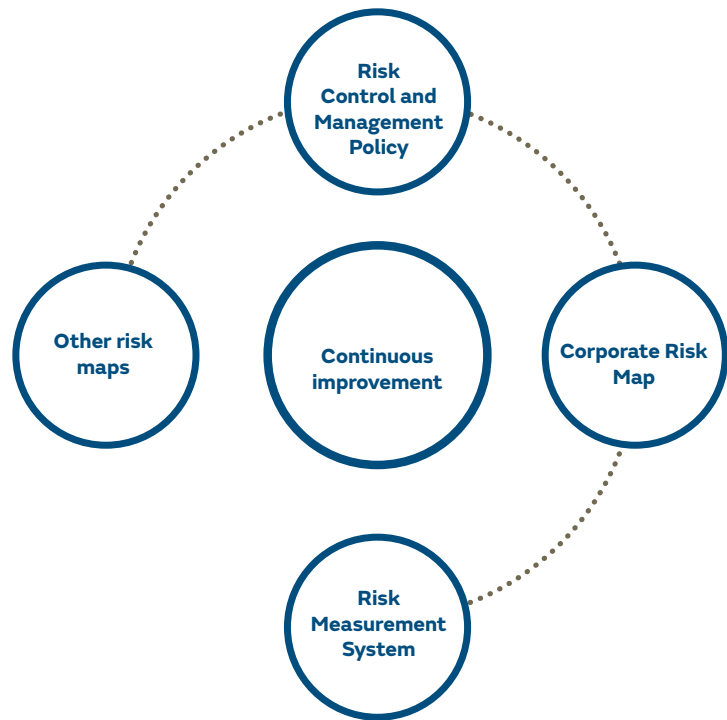
Naturgy has a framework that integrates the corporate vision of governance, risks and compliance, enabling an integrated overview of the group's processes, the existing controls over these and the associated risk.

An integrated management

[102-11], [102-15] and [102-31]

Naturgy analyses its global risk profile through its potential impact on the company's financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management.

The tools that enable the continuous improvement of the process for identifying, characterising and determining Naturgy's risk profile are the following:



With regard to management of environmental risks, Naturgy has identified these risks at its facilities in accordance with the benchmark regulations (UNE 150008, in Spain). To prevent these risks, the company has introduced an integrated system of management that is certified and audited every year by AENOR as well as internally, which sets out the operational control and environmental management procedures. In addition, emergency plans have been introduced at facilities and storage premises at risk of an environmental accident, including an action plan, containment measures and regular drills.

Risk Control and Management Policy

Approved in February 2018 by the Board of Directors, its aim is to lay down the general principles and behaviour guidelines to guarantee the appropriate identification, information, assessment and management of Naturgy's exposure to risk.

Corporate Risk Map

The identification and characterisation of the risks take into account the characteristics of the position at risk, the impact variables, the potential quantitative and qualitative severity, the probability of occurrence and the degree of management and control. It is updated and submitted every year to the company's supervisory body, the Audit Committee.

Within the framework of the new Strategic Plan 2018–2022, methodologies have been developed to quantify and control the impact on value of Naturgy's most relevant risks during the plan's time horizon.

Other Risk Maps

At their discretion, the Naturgy Business Units promote risk maps that are specific, consistent and aligned with a common methodology, which serve as the basis for the Corporate Risk Map.

Risk Measurement System

This is designed to provide the recurrent and probabilistic quantification of the risk position assumed on a global scale for the different risk categories. Naturgy undertakes an analysis of corrective risks, a sensitivity analysis and stress tests for the main risks identified.

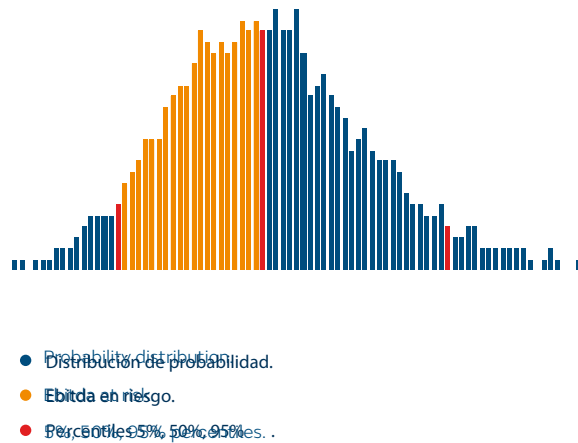
Description of main risks

[102-15]

The Risk Area seeks to guarantee the recurrence and sustainability of the performance indicators. One of its key tasks is the modelling of the financial statements, targeted at identifying their main sensitivities and anticipating possible incidents. Quantitative modelling is organised in accordance with the areas of credit risk, market risk and operational risk.

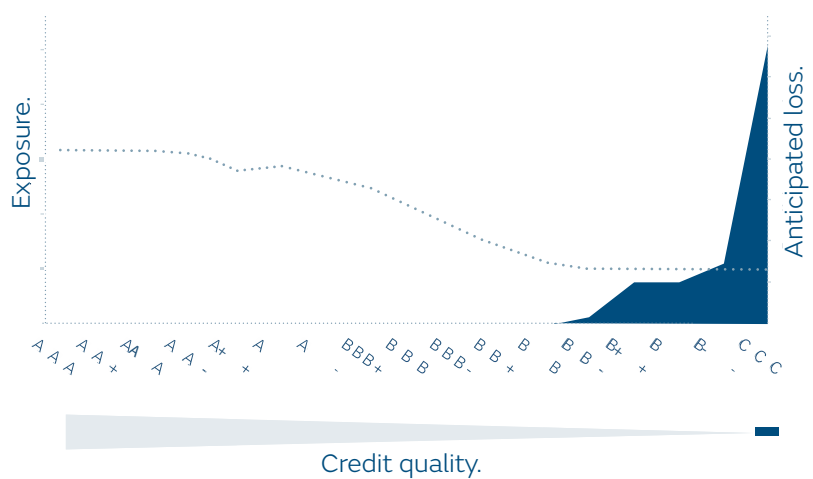
Market risk

Range of values that the annual Ebitda of Naturgy can reach due to the evolution of market factors: price of gas, price of electricity and exchange rates.



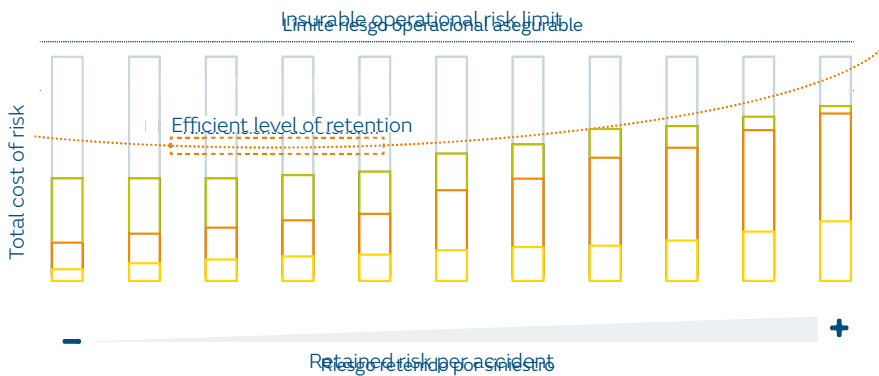
Credit risk

Logic of the risk profile and anticipated loss. Poor levels of credit quality mean the company's exposure has to be limited. It also shows the distribution of the anticipated loss, which increases with the deterioration of customer credit quality.



Insurable operational risk

Fundamental magnitudes with regard to management: efficient level of retention and breakdown of overall costs associated to the risk (premium, unexpected loss, expected loss). The insurable operational risk profile is characterised by the level of potential exposure whereby the materialisation of unforeseen events that can be mitigated through insurance policies have an impact on the equity of Naturgy. The quantification of such exposure is likely to be objectified by estimating the total cost of risk.



Subsequent to the approval of the new Strategic Plan, Naturgy has registered asset impairment or write-offs of Euros 4.851 billion, 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.

Looking ahead, the company values emerging risks that may have a significant long-term impact on the business. In this regard, faced with uncertainty in the domestic and worldwide economic outlook, the company seeks 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. In this way, Naturgy seeks to balance the weight of its businesses in its mix of activities, placing greater ambition on increasing the contribution of regulated activities and enhancing its more electric profile.

Description of main opportunities

[102-15]

Through the new Strategic Plan 2018–2022, Naturgy will reinforce its commitment to create value through simplicity and accountability, optimisation, financial discipline and shareholder retribution. These factors fulfill the parameters of profitability, quality of service and security. The following opportunities should be noted in particular:

- Reduction of operating expenses and optimisation of structures. Organic growth over the next five years. Thus, the company will work on the reduction of Opex and Capex optimisation.
- Operations in markets with legal security. Countries with greater legal security and stable macroeconomic environments to ensure constant growth and ensure profitability and value generation, both for each of the businesses and the Group itself.
- Greater balance in the mix of activities: the company will boost those regulated activities and with a more electric profile. The Plan stipulates that at least 70% of the business be derived from regulated infrastructure activities and 50% of the electricity business.

Internal Auditing and Compliance

[205-1]

Assurance function of Internal Auditing

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, through definition and introduction of the Annual Internal Audit Plan. It also provides support to the departments in achieving their objectives.

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.

In 2018, 87 internal audit projects were carried out, 58 of which corresponded to the review of processes associated with the main operational risks (corruption, fraud and legal) of the business and services departments of Naturgy. The analysis carried out extended to 100% of the departments and placed special emphasis on those with greater probabilities of these risks materialising. In the projects performed in 2018, no significant incidents related to corruption were detected.

Assurance function of Compliance

Responsible for supporting the Ethics and Compliance Committee with ongoing assurance of compliance with the external regulations and the

policies and procedures introduced into the group to mitigate the main legal, corruption and fraud risks. In this regard, the Compliance unit is responsible for managing the Crime Prevention Model and, in collaboration with the Legal Services, assesses the legal risks in the models that are developed, the criminal and regulatory prevention ones in particular.

Also, the Compliance Unit takes charge of managing the Code of Ethics of Naturgy, through dissemination of the code and by overseeing compliance with the same and the Anti-Corruption Policy. The Unit, through the Ethics and Compliance Committee, regularly informs the Audit Committee of the activity carried out in the exercise of its functions.



Corporate Responsibility and Naturgy

Corporate Responsibility Policy **40**

Management and measurement of corporate reputation **41**

Stakeholders of Naturgy **42**

Naturgy's contribution to the Sustainable Development Goals **43**



Proposed actions 2018

Implementation of the non-financial reporting directive.

Implementation of the Internal Communications Plan in issues of Corporate Responsibility.

Planned actions 2019

Corporate Responsibility Policy Management.

● Update of the Human Rights Policy.
Preparation of the Sustainability Plan 2019–2022.

● Implementation of the Internal Communications Plan in issues of Corporate Responsibility.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Corporate Responsibility Policy

The Naturgy Corporate Responsibility Policy –approved by the Board of Directors in 2015 and updated in January 2019– establishes the common framework for action, which guides the socially responsible behaviour of the company and the commitments assumed. These commitments determine the structure of a large part of this report.

The main purpose of this policy is to introduce the operating principles and the company's commitments to its stakeholders, in harmony with the company's corporate strategy, as well as setting out the responsibilities and

specific monitoring instruments to guarantee compliance with these.

Those persons or companies that work with the company and who have an influence on the company's reputation are also encouraged to be familiar with the policy and to apply it.

Management and measurement of corporate reputation

In 2018, measurement of Naturgy's reputation was conducted through the MERCO business reputation monitor. This international benchmark study has a global evaluation that integrates the perception of eight stakeholders with an impact on the business world –financial analysts, economic information journalists, government, NGOs, trade unions, consumer associations, influencers/social media managers and professors from the business area–.

This tool was used in countries such as Argentina, Brazil and Chile, among others. In 2018, in Spain, Naturgy holds 24th position in the general ranking of companies with the best national reputation, and is second in the ranking of best reputation in its sector.

In the 2018 results, we should highlight the improved performance of Naturgy in six of the eight expert groups measured, compared to the 2017 results. Financial analysts and economic

information journalists are the ones who best evaluate the company.

Naturgy has also continued measuring reputation in the general public, using its own study tools, with positive and stable results.



Stakeholders of Naturgy

[102-40]



Dialogue with stakeholders

[102-42], [102-43] and [102-44]

The company carries out actions that enable it to discover the expectations and demands of its stakeholders, so that it can evaluate some of the main risks and opportunities associated with the business and establish long-lasting and stable relationships with the key agents in those markets in which it has a presence.

The Naturgy's actions as far as dialogue is concerned are divided into:

- Consultancy actions: two-way actions. The company and its stakeholders interact to exchange information quickly and fluently.
- Informative actions: one-way actions. The company transmits information to its stakeholders.

Naturgy's contribution to the Sustainable Development Goals (SDGs)

In August 2015, the United Nations Organisation (UN) introduced the 2030 Agenda for Sustainable Development, establishing 17 Sustainable Development Goals (SDGs) and 169 related targets.

Thus, Naturgy, analysing each of the goals, joined these universal challenges in two ways:

- Direct contribution: the company carries out initiatives, programmes or actions that contribute towards said goal.
- Indirect: through the impact of policies and practices in countries in which it operates.

SUSTAINABLE DEVELOPMENT GOALS



Service excellence

[103-1], [103-2] and [103-3]
(Customer care and satisfaction)

Client at the centre of all decisions **44**

Quality and reliability of the service **45**

Products and services adapted to customers' requirements and priorities **46**

Customer service **47**

Customer's satisfaction and experience **48**

Communication, transparency and customer protection **49**

Proposed actions 2018	Planned actions 2019
CeX advanced training.	● Digitalisation of the bill and greater self-management by the customer on the website.
Greater dissemination of knowledge about the sector, company and products and services.	● Annual Customer Centricity Action Plan.
Consolidation of personal experimentation of the customer reality.	● Simplification of the Naturgy Customers digital universe.
Visible commitment.	● New in-store customer service model.
Recognition / Pride of belonging.	● Redesign of e-commerce from the point of view of simplicity (SimpleMind Project).
Evolution trips and measurement.	●
COMeX consolidation.	●
Roll-out of the Partners programme.	●
Raising awareness about the centrality of the customer to our business.	●
Development of the new wholesale Virtual Office.	●

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Client at the centre of all decisions

In 2018 the company began a new stage with an overhauled brand that reflects the corporate transformation, an evolution resulting from 175 years' experience and which supports our commitment with the customer to adapt ourselves to both the present and the future.

This new stage reasserts our customer centricity vocation as the basic pillar of the Strategic Plan 2018–2022, placing the customer at the focal point of all decisions in order to offer an excellent service in a simpler, more innovating, more digital, nearer and more environmentally friendly way.

Quality and reliability of the service

[103-1], [103-2] and [103-3] (Access to energy)

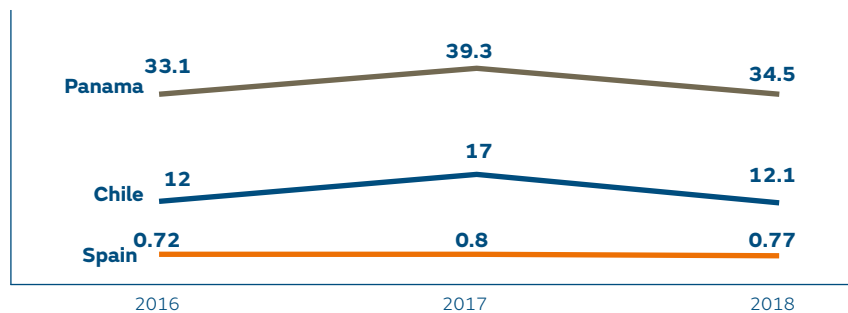
To ensure a safe and continuous supply, the company performs a series of inspection and evaluation actions, which help to define the corresponding preventive and mitigation measures, maximising the useful life of the assets, and which are included in Naturgy's Maintenance Plan for each type of installation.

The processes of preventive and corrective maintenance are periodically subjected to internal reviews. The maintenance actions performed by the company are reflected in the evolution of the main quality/service indicators, which have revealed a notable improvement in recent years. These indicators measure, inter alia, response times to a notification of a malfunction or anomalous situation affecting the grid, the stoppage time per customer or installed power, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of the grid.

To ensure that supply meets demand, Naturgy regularly reviews the operating conditions of its networks, to make sure these are correctly sized or, if appropriate, to determine the potential needs of repowering or enlarging these. Furthermore, in electricity distribution, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the development of smart grids, the use of drones to the maintenance of installations and the introduction of predictive maintenance techniques for the main grid equipment.

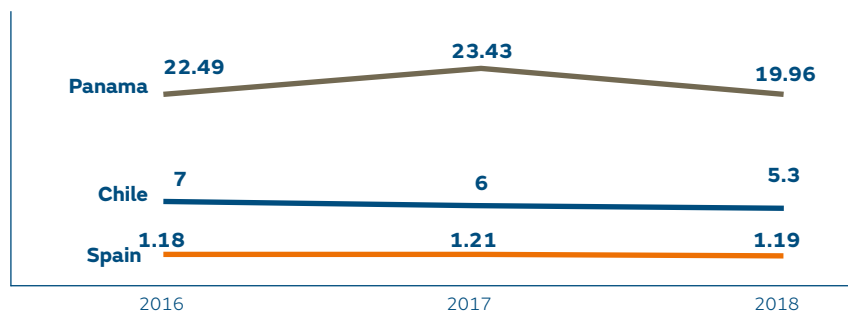
Installed capacity equivalent interrupt time (ICEIT) [EU29]

(hours)*



* Figures relative to the electricity business.

Frequency of electrical power cuts (No. of interruptions by customer)* [EU28]



* Defined as the average number of interruptions which a customer would experience or SAIFI (System Average Interruption Frequency Index): total No. of interruptions to customers/total No. of customer supplied. Customers have been assimilated to supply points.

Products and services adapted to customers' requirements and priorities

The commercial strategy of Naturgy focuses on customer satisfaction, meeting their expectations with value-added proposals, innovating and incorporating digitalisation, whilst seeking to simplify the portfolio of products and services to facilitate a simpler and more complete experience to customers.

Naturgy therefore employs specific tools and plans to find out the customer's needs and priorities, in order to adapt the products and services to their expectations. During 2018 the company has continued to perform

major research work to meet the needs of its customers.

In its service offer, Naturgy takes charge of the planning and execution of the main energy facilities and their optimal maintenance throughout the entire contract:

- Renovation of facilities and, if necessary, transformation to natural gas.
- The financing of the entire project.
- The most suitable maintenance plan

to obtain the maximum efficiency of their business.

- Total guarantee of the facility.
- Customer service 24 hours a day, 365 days a year.
- Digital platform for management of customer consumption.

This value proposal is contextualised in different services:

Innovative products and services [102-2]	
Residential	
Eco Gas Tariff	Since 2017, Naturgy has had an ECO Gas Tariff, with a stable kWh price for one year, for those customers with a greater sensitivity in environmental matters.
Servelectric Car	Comprehensive and personalised electric mobility solution that allows customers to enjoy their electric vehicle charging point.
Offer for the photovoltaic installation	Comprehensive offer to encourage the installation of solar panels (includes flexible nightly tariff, preventive maintenance and financing).
SMEs	
ECO Business Plan	ECO electricity offer for businesses that want 100% of their energy to be from a renewable source.
Fixed ECO Gas Plan	ECO gas offer for those customers with a greater sensitivity towards environmental matters.
Wholesale	
Personalised self-consumption solutions	From execution and commissioning of the installation to the O&M services, monitoring services in real time and the possibility of financing the installation.
LNG bunkering	Product targeting at large consumers of gas in maritime transport.
Gas and electricity coverage	Transactions agreed directly with the customer and which are settled by differences. These enable the price to be set beforehand, removing uncertainties.
CO ₂ management	Compensation of the Carbon Footprint of a product, service, event, activity or organisation, and neutralisation of the equivalent CO ₂ emissions.

Standard solutions (tertiary market and retail business energy solutions)

Gascomfort	Gascomfort is a production plant optimisation service through the renewal/transformation of the room and comprehensive management throughout the contract.
Climatecomfort	Electric air conditioning service, which allows the customer to renew their old air conditioning equipment with the best systems on the market.
Efficient lighting solutions	Solutions in which an overhaul of the lighting is carried out using LED technology, such as public lighting projects or the Ledplus service.
LNG option	The company provides a service that enables natural gas to be taken to customers that are some distance from this fuel distribution network.
PV option	Integral service of photovoltaic self-consumption, from design and installation to maintenance and management of the surplus.

Customer service

Naturgy has introduced an innovative Customer Service Model that is fully adapted to customers' characteristics and needs, offering close at hand and accessible solutions that allow for greater comfort and flexibility to our customers' requests. The model applies technological innovation to reduce language, cultural, low literacy and disability related barriers with the

aim to make communication more accessible and simpler.

The customer service channels that Naturgy makes available to customers aim to offer a customised service that satisfies their expectations, and with a particular focus on digital channels, to achieve a swift and flexible resolution with self-management, simplicity and in an environmentally friendly way.

In 2018, Naturgy placed a special focus on the most vulnerable groups as an example of its commitment to promote simple, clear and easy communication with all its customers, adapting to their needs. For this reason, the company has the highest accessibility technology in all customer service channels.

Customer service model at Naturgy

Operational and training model

the aim is to anticipate customers' needs through predictive and data analysis models

Technological model

committed to a technological revolution that encourages greater self-management by customers

Procurement and financial model

building a partnership model with suppliers and an alignment of the win-to-win objectives

Means of customer service

Telephone channel

Digital channel

Face-to-face channel - Personal Management

Face-to-face Channel - Centres

Guarantee Office

Customer's satisfaction and experience

[102-43] and [102-44]

Naturgy listens to its customers' opinions and incorporates them into the decision-making process in order to develop innovative products and services that meet their needs and expectations.

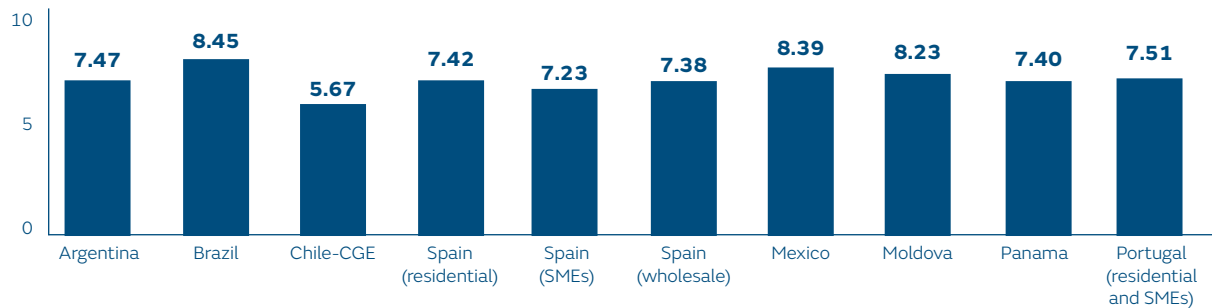
The company has a model to measure customers' experience, through which it constantly monitors the satisfaction of its customers and the level of recommendation. The model is based on three levers:

1. Measurement	2. Analysis	3. Close the loop
<p>Naturgy collects the opinion of customers:</p> <ul style="list-style-type: none"> • General surveys. • Surveys of interaction with the company (digital surveys). 	<p>The digital surveys allow a real-time analysis that can drive improvement initiatives in a fast and expeditious way.</p> <p>The model analyses the different segments of customers and the critical contact points with an impact on the customer in every country in which the company operates.</p>	<p>Digitalisation of the measurement model allows online management of the discontent of its customers through the close-the-loop process, ensuring immediate corrective action through the management of alerts that are activated when the minimum satisfaction and recommendation thresholds required are not reached.</p>

Customer Experience

Since 2015, Customer Experience has used a methodology through which the customer is at the centre the decision-making process, changing the way we do things in order to meet their needs and expectations, but above all, being sensitive to how they perceive the company and their experience within the company. The aim is to make Naturgy a benchmark at international level, in customer satisfaction in the energy sector, measured in terms of recommendation.

Overall satisfaction with service quality



*Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.

Communication, transparency and customer protection

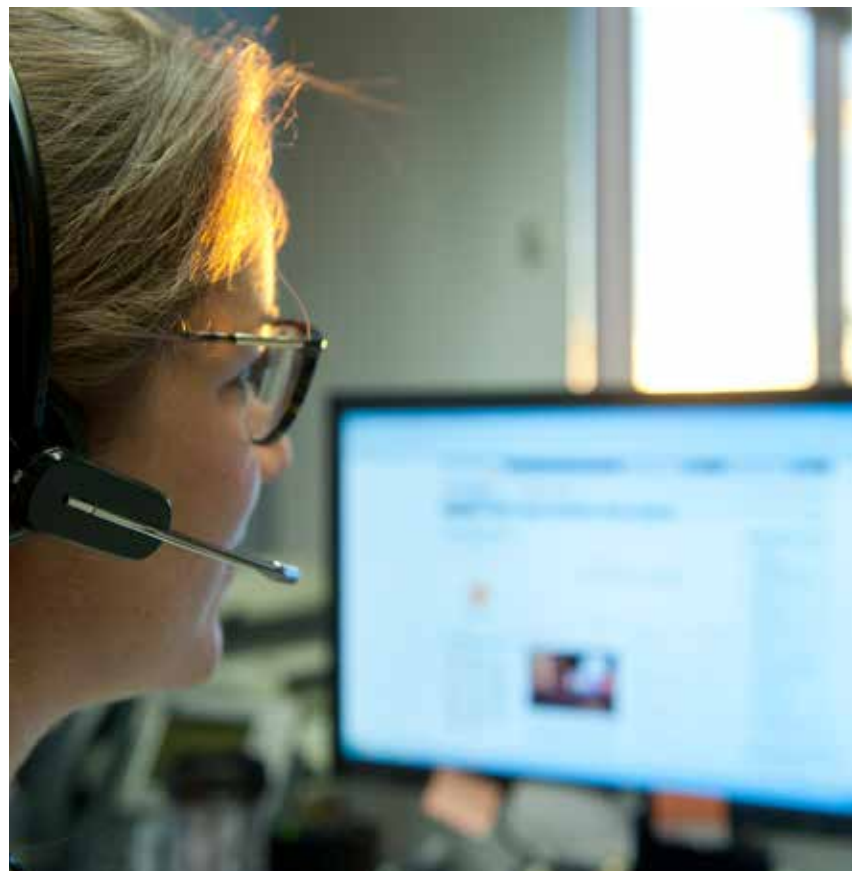
New channels of communication

Naturgy has adapted communication with customers through the use of new technologies, which encourages ongoing contact.

In 2018, the online sales of Naturgy in Spain consolidated the growth of previous years, with a total of 31,572 sales of services and supplies. In addition, we have continued to perform tests with the online contracting channel and have obtained appreciable results in the last quarter. Any tariff can be contracted from the postal address, avoiding more complex data for the customer.

In 2018, more than 13.1 million customers visited the website and received online information about Naturgy's products and services. As regards customer service, a total of 7.2 million customers used the company's online platforms. The Net Promoter Score (NPS) at the close of 2018, is as follows: 57%, customers area: 41%, customers area mobile: 33%, online attention: 62%. The rate of online versus off-line use in servicing has increased, up to 18.5%.

In 2018, the company reached 100,000 users on social networks. Over the same period, the community managers have handled 2,148,258 requests, thus improving customer satisfaction levels in the after-sales service, with the NPS at 62%.



The bill as a channel of communication

The bill provides information that is both relevant and of interest to customers:

- All customers with the gas product contracted have been sent information with safety tips –the marketer is obliged by law to send this type of communication to all customers every two years.
- Tips to save on heating before the cold weather arrives.
- Channels to read the meter and perform other steps to enhance knowledge of digital channels (app and web).

In addition, different Customer Focus Groups have taken place in Spain to get customers' opinion and to introduce improvements in the reading, billing and payment service.

Communication to raise customer awareness

Since 2007, Naturgy has had the Natural Commitment programme, which seeks to protect the environment by involving large customers, extending its environmental commitment beyond its own performance and that of its employees and suppliers.

In addition, the company has a space on the website available to customers, both individuals and companies, where they share experiences and information on efficient solutions and technologies.

Privacy and security of the customer's data

Naturgy has defined an Information Security Policy that ensures proper processing of this data throughout its life cycle, from collection and processing through to removal or safeguarding this data once the relationship has terminated.

This policy is communicated to employees, suppliers and customers, and is implemented through a regulatory corpus in line with the legal requirements that govern the processing of information, the internationally accepted best practices and standards. This regulatory corpus includes the technical standard, which is for the purpose of guaranteeing the protection of personal data at Naturgy, and applies to all organisational units and companies of the group that capture or process personal data, as well as partners and suppliers that collaborate in such processing.

In addition, there are procedures for updating and correcting new vulnerabilities of systems, to propitiate better proactive conduct in the prevention of security incidents, and in the analysis and management of information security risks.



Cybersecurity Plan (2015–2018)

Naturgy has a cybersecurity plan at international level, which is based on three key pillars: people, processes and technology. Also in 2018 we worked on ten projects, nine of which finalised that year:

- Review of the cybersecurity policy and regulatory body.
- The new General Data Protection Regulation.
- Conducting the business Impact analysis (BIA).
- Conducting the risk analyses of Critical Infrastructures.
- Integration of cybersecurity processes in Systems.
- Implementation of a tool for Governance, Risk and Compliance (GRC).
- Standardisation of corporate network access (phase 2).
- Adaptation of Critical Infrastructures to the regulations (InCrit).
- Communication and training in cybersecurity.

During 2018 we have undertaken the project to adapt Naturgy to the new General Regulations governing Personal Data Protection (hereinafter, RGPD). Following the implementation, an external report has been drawn up to assess the adequacy of the GDPR. Although some points of improvement and recommendation have been detected by the auditors, the adjustment has been made in accordance with the provisions of the regulation.

During 2018, the company has maintained partnerships in cybersecurity with the National Institute of Cybersecurity (INCIBE) and the ITSMF Forum.

Protection of strategic assets at Naturgy

In compliance with Law 8/2011, Naturgy was designated critical operator, implementing the Critical Infrastructures project (CI). Throughout 2018, the Security and Cybersecurity units have carried out the supervision of the processes and actions required for their protection through the analysis of security risks, the introduction of physical protection measures and cybersecurity, the development of training actions, the development of the required documentation, management of incidents and dialogue with the CNPIC (National Centre for the Protection of Infrastructures and Cybersecurity).

Likewise, through the risk analysis and intelligence service of the Security Unit, Naturgy has accurate information at the right time to detect and neutralize potential security risks (terrorism, organised crime, natural disasters, socio-political conflicts, among others), mitigate the impact of these and promote resilience and continuity of operations.

Commitment to results

Focus on growing and sustained profitability **52**

Communication channels adapted to the needs of shareholders and investors **54**

Sustainable financing and investor activities that take ESG criteria into account **54**

Inclusion in socially responsible investment indices **55**

Proposed actions 2018

Hosting of an Investor Day with the financial community to launch the Strategic Plan 2018–2022.

Extension of activities with minority shareholders in A Coruña and Valencia.

Improvements to the economic-financial information on the website based on best practices.

Maintaining a presence on sustainability indices.

Planned actions 2019

Maintaining a presence on sustainability indices.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Focus on growing and sustained profitability

Overall results

Net turnover	Net turnover for 2018 amounted to Euros 24.339 billion, an increase of 4.9% in comparison with the previous year.
Ebitda performance	Ebitda in 2018 reached Euros 4.019 billion including non-core items. Without considering these last figures, ordinary Ebitda grew by 11.8% to Euros 4.413 billion, mainly supported by the improvement in the gas and electricity business and the stability of infrastructure business; all this has allowed us to more than offset the negative effect of exchange rates. The net result of 2018 was a loss of Euros 2.822 billion, mainly as a result of the asset impairment of Euros 4.905 billion carried out in the first half of the year. Excluding this impact and other non-core items, ordinary net income increased 59.1% to Euros 1.245 billion due to higher activity, lower amortisation and lower financial expenses resulting from optimising the Group's debt.
Debt ratio	At 31 December 2018, net debt totalled Euros 13.667 billion, down 9.8% year-on-year. The fall in net debt/Ebitda to 3.4x from 3.9x in 2017, coupled with the improvement in Ebitda/cost of net financial debt to 7.5x from 6.4x at the end of last year, shows the strengthening of the company's financial solidity in 2018.
Cash flow	Cash flow after minority interests increased from Euros 746 million to Euros 3.054 billion, reflecting the company's greater focus on cash generation and the completion of several sales processes during the period.
Completed transactions	<ul style="list-style-type: none"> ● Sale of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, equal to its book value, net of dividends received, with no impact on the consolidated profit and loss statement. ● Sale of the gas distribution and commercialisation business in Italy, together with the sale of the gas supply contract, for Euros 766 million, generating a capital gain of Euros 188 million after taxes. ● Sale of a minority stake of 20% in the natural gas distribution business in Spain (Nedgia) for an amount of Euros 1.5 billion, which resulted in an increase of Euros 1.016 billion equity in the consolidated balance sheet.

Investments

Tangible and intangible investments for 2018 reached Euros 2.321 billion, an increase of 30.2% year-on-year, due to the increase in investment in renewables both in Spain and on the international stage, and the acquisition of two new methane tankers under a financial lease.

The maintenance Capex in 2018 amounts to Euros 683 million vs. Euros 853 million in 2017, a decrease of 19.9% as a result of the maintenance Capex optimisation in the infrastructure business and other activities.

The growth Capex in 2018 represents 70% of the total Capex and amounts to Euros 1,638 million vs. 929 million in 2017. Basically it includes:

- Euros 380 million corresponding to the acquisition of methane tankers.

- Euros 382 million invested in the development of different renewable projects in Spain (wind and solar) with 32.6 MW put into operation in 2018 in the Canary Islands and another 929 MW that are expected to come into operation before 2020.
- Euros 106 million related to the acquisition and development of solar projects in Brazil of 85 MW that have come into operation in the fourth quarter of 2018.
- Euros 75 million targeted at the development of 96 MW of wind capacity in Australia that came into operation in the fourth quarter of 2018.

In addition, the award of 180 MW has been achieved in a wind farm project in Australia and 324 MW of wind and solar energy in Chile that will be developed in the third quarter of 2020 and the first quarter of 2021, respectively.

Stock market performance and profitability

As regards the company's stock market performance, the Naturgy shares closed 2018 at a price of Euros 22.26 and stock market capitalisation of Euros 22.275 billion, which represents a 15.6% increase versus the previous year end. This evolution stands out against the annual decline experienced by the Ibex 35, the main index of the Spanish stock market, of 15%.

Stock market indicators [102-7]

	2018	2017	2016
No. of shareholders (in thousands)	73	79	82
Share prices at 31/12 (euros)	22.26	19.25	17.91
Earnings per share (euros)	(2.83)	1.36	1.35
Share capital (No. of shares)	1,000,689,341	1,000,689,341	1,000,689,341
Stock market capitalisation (euros million)	22,275	19,263	17,922

Financial ratios

	2018	2017	2016
Debt ¹	48.4%	45.3%	44.8%
Ebitda/Net financial debt cost	7.5x	6.4x	6.3x
Net debt/Ebitda	3.4x	3.9x	3.3x

1. Net financial debt/Net financial debt + Equity.

Net result consolidated (euros million)

	2018	2017	2016
Net profit of Naturgy	(2,822)	1,360	1,347

Communication channels adapted to the needs of shareholders and investors

Naturgy has its own communication channels that allow it to offer the best service under a criterion of homogeneity, simultaneity and diligence.

The company provides shareholders with specialised financial reporting through informative meetings and the corporate website. In addition,

it invites them to corporate and cultural visits, and places at their disposal the shareholder's office and the shareholder's club, meeting points and services for minority investors.

The company also continued its communication programme with analysts and investors, in order to strengthen and provide more

transparent economic-financial information to enable them to monitor Naturgy's business project. Along this line, during 2018, representatives of the company's management team and the Investor Relations Unit held 523 meetings with institutional investors.

Communication channel indicators

	2018	2017	2016
Meetings with shareholders and analysts	523	589	520

Sustainable financing and investor activities that take ESG criteria into account

Since 2012, Naturgy has held meetings with investors that take ESG criteria into account. Throughout 2018, the company has continued with that activity and took part in the conference organised by Société Générale in Paris on 14 November in which there were meetings with Sycomore asset management, Axa investment, ODDO-BHF, Société Générale CIB, Amundi asset management and M&G Investments.

Throughout 2017, and in line with its sustainability commitment, Naturgy introduced a framework for the emission of green bonds targeted at financing renewable energies. In 2018, the Green Bonds Committee of Naturgy met to assess the suitability and progress of projects as well as the adaptation of their developments to the targets set out in the bond issue. The green bond was approved by the Oekom rating agency, obtaining a B+ rating.

In addition, and in order to cover its financing needs, in 2017 Naturgy signed a sustainable loan partially pegged to the company's environmental, social and corporate governance behaviour. In the first credit review mentioned, and thanks to the improved score given by this agency, the financing conditions were improved with a lowering of the interest rate.

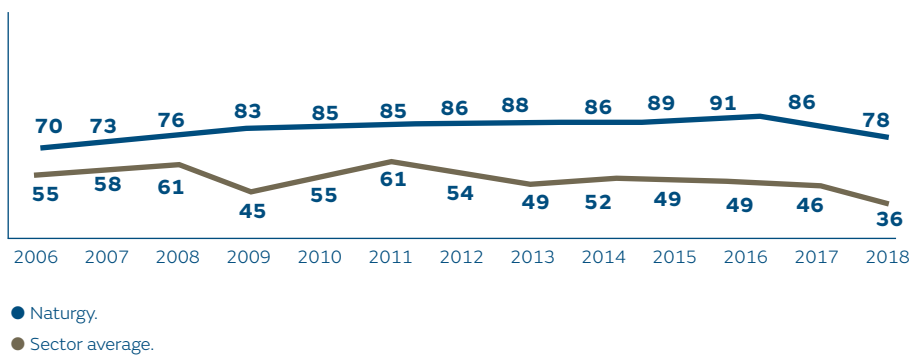
Inclusion in socially responsible investment indices

The company's performance in these matters has allowed it to position itself in benchmark positions in the main sustainability indices that Naturgy has been part of. This includes the Dow Jones Sustainability Index for 14 years without interruption, and in 2018, Naturgy achieved worldwide leadership in the Gas Utilities sector for the second year in a row. In the same way, the company has belonged to the FTSE4GOOD since its creation in 2001, obtaining the global leadership of the Multiutilities sector. Also, during 2018 Naturgy has been evaluated by rating agencies such as Oekom, Sustainalytics and Vigeo. The company is part of three variants of Euronext Vigeo: World 120, Europe 120 and Eurozone 120. Naturgy has also obtained the highest rating, AAA, from the MSCI rating agency and is part of the MSCI Global Climate Index and the MSCI ESG Leaders Index.

In 2018, Naturgy has been recognised as a world leader for its action against climate change, as it is included in The Climate Change A List index of the Carbon Disclosure Project (CDP). The company has obtained the highest possible score in this climate change index, in recognition of its actions to reduce emissions, mitigate climate risks and develop a low carbon economy.

The presence of Naturgy on these three prestigious indices highlights the efforts made by the company in areas of corporate responsibility and transparent reporting, and represents external recognition of its excellent evolution in these fields.

Evolution of Naturgy and sector average on DJSI (scale from 0 to 100)



NB: the decrease in figures in 2018 is due to the methodology change of the index.



Responsible management of the environment

Environmental management **57**

Climate and air quality **61**

Circular economy **66**

Natural capital and biodiversity **70**

Proposed actions 2018

Programme of Environmental Strategy actions to 2020.

Growth in low or zero-emission renewable power in alignment with climate and air quality strategy.

Development of renewable gas projects.

Progress in the certification of new environmental management systems pursuant to ISO 14001.

Promotion of sustainable mobility.

Extension of the Biodiversity Action Plans.

Planned actions 2019

Increase in installed power capacity for renewable energy by at least 900 MW, in line with the targets of the Strategic Plan 2018–2022.

Development of at least two renewable gas innovation projects.

Encourage the use of natural gas in land and sea mobility to improve air quality, by creating at least 25 new natural gas service stations and doubling the number of vessels on which bunkering operations are carried out (natural gas refuelling) throughout the year.

Implementation of 100 or more biodiversity initiatives at both national and international levels.

Review of the Naturgy Environmental Policy.

Integration of the climate change variable into the supply chain by means of the CDP Supply Chain initiative.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started



Environmental management

The environmental management of processes

The commitment to responsible management of the environment is structured with Management leadership through:

- An organisational structure that defines the environmental responsibilities of the different areas of the company.
- The integration of the environment throughout the value chain of the businesses, including the decision-making processes, risk and opportunity management, planning and execution of activities.

- A certified and externally audited environmental management system based on indicators and targets for centralised monitoring and continuous improvement of processes.
- Annual action plans aligned with the environmental objectives.
- Methodologies and specific tools for environmental management.
- Innovation in technologies and business models that are eco-efficient and less intensive in CO₂.
- Communication, awareness and training of employees, collaborating companies and stakeholders.
- Preparation of regular reports on environmental performance and participation in international sustainability indexes.

Environmental management is structured around three strategic pillars:

- Climate and air: contributing to mitigating climate change, the energy transition and improving of air quality.
- Circular economy: promoting eco-efficiency in the use of resources to reduce negative environmental impacts.
- Natural capital and biodiversity: encouraging the preservation of natural and cultural heritage within the areas of operation.

Country	Exploration and production	Procurement and transportation	Generation	Gas and electricity distribution	Wholesale commercialisation and global accounts	Retail commercialisation	Customer service	Physical resources management	Technology and engineering management
Argentina				●					
Brazil				●		●			●
Chile				●		●	●		
Costa Rica			●						
Spain	●		●	●	●	●	●	●	●
Morocco		●							
Mexico			●	●		●			●
Panama			●	●		●			●
Dominican Republic			●						

● Certified ● In the process of obtaining certification

Environmental risks

[306-3]

Naturgy identifies, records and analyses the environmental risks and events that have occurred in order to define, apply and disseminate preventive measures to reduce potential damage to the environment.

To do this, facilities with environmental risk are assessed using recognised standards as a reference.

The first element for management of environmental risks are self-protection plans, in which the most appropriate risks and responses are identified in light of potential accidents and emergency situations. In addition, there are global and uniform procedures and systems in the different businesses

and geographies for reporting, classifying, monitoring and managing environmental events (Prosafety). This approach allows preventive action, since it not only focuses on accidents, but also records and manages environmental incidents, which do not generate significant damage but are a source of learning and prevention of major events.

Occurrence	Location	Naturgy's action
Two oil spills (260 litres and 60 litres) at wind farms in operation.	Spain	Cleaning and waste removal by authorised handler.
200,000 litres of seawater leaked from sump and discharges at a combined cycle plant.	Spain	Construction of a containment barrier to prevent the discharge affecting the soil on adjacent land. Emptying by means of tanker trucks.
Four dielectric oil spills (1000, 100, 134 and 200 litres) at electricity transportation and distribution facilities.	Spain	Cleaning and waste removal by authorised handler.
Nine dielectric oil spills (1000, 727, 2100, 200, 280, 2500, 10000 and 150 litres) at electricity transportation and distribution facilities.	Chile	Cleaning and waste removal by authorised handler.
Two dielectric oil spills (306 and 94 litres) at electricity transportation and distribution facilities.	Panama	Cleaning and waste removal by authorised handler.
Breakage of a concrete pump hose. Spillage of 200 litres of hydraulic oil.	Brazil	Collection and management of contaminated soil by authorised company.
800-litre oil spill in the area of the gas compressor at a combined cycle plant.	Mexico	Collecting oil and absorbent material and delivery to authorised handler.



Awareness and training

[306-3]

Training

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in our activities.

1,192 participants received a total of 3,115 hours of training in 2018, with plan objectives being met by 183% and 117%, respectively. The % increase over planning is due to the activity in hours and participants carried out in Chile and not contemplated initially.

Communication

In 2018, Naturgy developed an Environmental Communication Plan to support the dissemination of knowledge and awareness on environmental issues and to promote a constructive dialogue with the different stakeholders.

The activities developed in 2018 included the following:

- Publication of annual reports on carbon footprint, biodiversity, water management and the environmental footprint.
- Participation in the UN conference on climate change in 2018 (COP24, Katowice).
- Sponsorship and participation in the National Environment Congress (CONAMA, Madrid).
- Elsewhere, the company partnered with the Empresa y Clima Foundation for the development and presentation of the Worldwide Status of CO₂ Emissions Report-2016.

- Participation in the Spanish Green Growth Group, of which Naturgy is a founding partner.
- Participation in other initiatives that aim to improve the environment, such as the Circular Economy Commission of the Chamber of Commerce of Spain, the Clean Air Platform, and the Forética Climate Change Cluster.

The company has continued to encourage corporate environmental volunteer actions targeted at promoting a positive attitude among employees and their families about the preservation of nature.

Lastly, to guarantee effective communication with the external interested parties, there are different formal complaint mechanisms in operation. Dealing with environmental complaints properly is of great value because these complaints represent an opportunity to improve environmental management. In 2018, there were 109 environmental complaints or claims, all of which were resolved during the same period.



Legal requirements

Naturgy continuously monitors environmental legislation to be aware in advance of the repercussion this has on its activity, to define its positioning and to adapt itself to new requirements. The company participates proactively in the processes of consultation and public information in the international, European and national context.

The company did not receive any significant sanctions (fines over Euros 60,000) for environmental breaches in 2018.

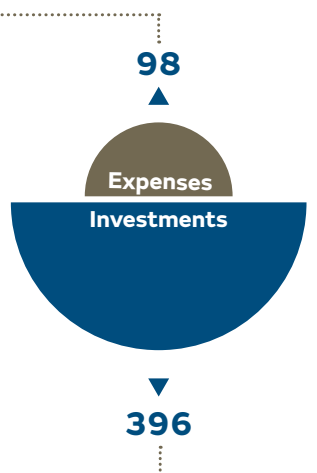
Environmental investments

Naturgy makes significant efforts in issues of environmental protection, making sure its facilities are provided with the resources required to guarantee compliance with prevailing environmental legislation; to reduce the environmental impact of its activities; to prevent contamination; to mitigate climate change; to control and minimise emissions, dumping and waste; to guarantee, improve and obtain certification for the environmental management of its facilities; to improve environmental management and information systems, and to enhance the environmental training and awareness of employees, customers, suppliers and other stakeholders.

The environmental actions carried out in 2018 have reached a total of Euros 494 million (Euros 96 million in 2017), of which Euros 396 million correspond to environmental investments and Euros 98 million to expenses incurred in the environmental management of the facilities, excluding those resulting from the carbon market. Among the investments made, those corresponding to the new renewable generation projects (Euros 314 million), mainly wind and photovoltaic farms, stand out, which will contribute to reducing specific emissions of CO₂ and other atmospheric pollutants.

Breakdown of environmental expenditures and investments (euros million)

Total general	98.125
Taxes, licenses and environmental charges	70.791
Climate change prevention	9.339
Specialised staff and environmental management tools	6.648
Prevention and minimisation of air pollution, radiation, noise and vibrations	2.494
Waste management	2.044
Risk prevention and environmental insurance	2.001
Biodiversity conservation	1.642
Environmental studies and vigilance	1.388
Prevention and minimisation of water and soil contamination	1.091
Improvement of the landscape	0.489
Environmental training, communication and sponsorships	0.198



Total general	395.773
Climate change prevention	387.593
Prevention and minimisation of air pollution, radiation, noise and vibrations	2.420
Prevention and minimisation of water and soil contamination	2.248
Waste management	1.211
Environmental studies and vigilance	0.655
Biodiversity conservation	0.646
Specialised staff and environmental management tools	0.601
Risk prevention and environmental insurance	0.366
Improvement of the landscape	0.033

Climate and air quality

[103-1], [103-2] and [103-3] (Emissions and climate change) [201-2] [EU5]

Commitment

The main strategic lines of action in terms of climate, to contribute to mitigating climate change and the energy transition, are:

- Favouring the mitigation of climate change and the improvement of air quality, increasing participation in gas and the renewable sources of electricity displacing carbon-intensive fuels, and promoting energy savings and efficiency both at our own facilities and at those of our customers.
- Contributing to a low-carbon economy through the development of intelligent networks that favour the integration of electricity and renewable gas.
- Supporting international climate change negotiations and mechanisms that foster technological neutrality and industrial competitiveness, promoting the development of the most appropriate technologies at each stage of the energy transition.

Accordingly, Naturgy's climate action is based on the following pillars:

- Climatic change governance, where the body responsible for supervision of the company's climate change strategy is the Board of Directors.
- Managing risks and opportunities of climate change and the energy transition aligned with the recommendations of the Task Force on Climate related Financial

Disclosures (TCFD) of the Financial Stability Board. This process allows us to identify, assess, prevent, manage and supervise the risks and opportunities linked to climate change, thus integrating the climate variable and the energy transition into the company's global risk map.

For this, Naturgy has a specific tool, developed in Ms Excel and @ Risk, which allows it to estimate its exposure to risks, at an aggregate level and broken down by business, geography, technology and temporal scope (short, medium and long term). Thus, it estimates the impact of different climate change scenarios (IPCC) through physical, environmental, business and economics indicators. In addition, it means we can simulate impact assessment scenarios based on new products and services, etc. and the implementation of R&D&I actions.

In addition, Naturgy has a stochastic model that it developed itself, with Monte Carlo simulation, which allows us to determine the optimal abatement cost in the European Union to meet the GHG reduction targets by 2030.

- This target is aligned with science to avoid an increase in temperature above 2°C (Science Based Targets Initiative Tool V8): reduction of 26% of total emissions scopes 1 and 2 for the 2013–2025 period, taking 2012 as the base year.

- Measurement and control tools for GHG emissions and operational plans implemented to reduce them, including the annual calculation of the Group's carbon footprint.
- Transparency and dissemination of information, publishing the carbon footprint report and participating in the international benchmark indexes on climate change, such as the CDP, and any other initiatives related to climate.

With regard to managing the coverage of facilities regulated by the European Union Emissions Trading Directive during Phase III (2013–2020), Naturgy performs integral management of its emission rights portfolio in order to acquire 100% of emission rights equivalent to its output, given that the electricity sector has not been receiving free assignment since 1 January 2013. For this purpose, it actively participates both in the primary market, through auctions, and in the secondary market. In 2018, CO₂ emissions affected by the laws governing the Emissions Trading System came to total of 9.1 million tonnes.

Management of climate change at Naturgy in figures

Total GHG emissions (scopes 1 and 2) were 19.4 MtCO₂eq, with a 11.2% reduction compared to 2017.

Reduction in GHG emissions scopes 1 and 2 in 2018 in relation to 2012 was 25.9%, meeting 99.6% of the SBTi target set for 2025.

Specific emissions of CO₂ from electricity generation totalled 342 g CO₂/kWh generated, representing a year-on-year reduction of 12%.

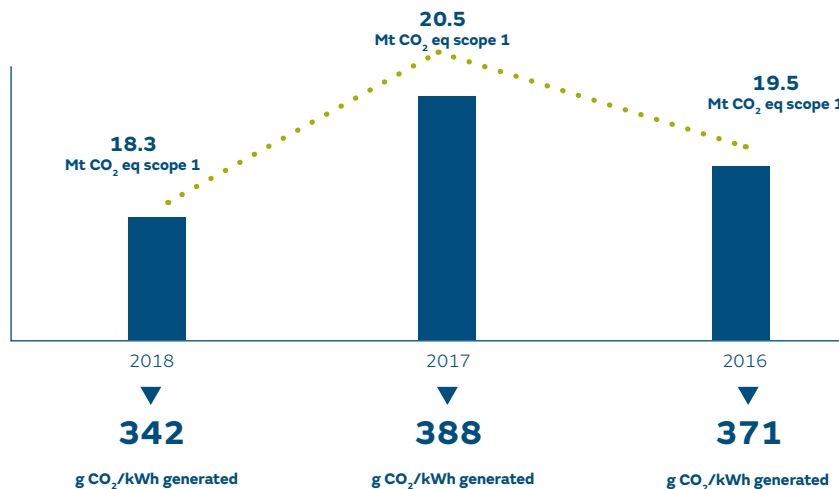
Emissions prevented in 2018 came to a total of 126.2 MtCO₂, most of which (93%) resulted from the use of natural gas to replace other more carbon-intensive fossil fuels.

Emissions of methane per kilometre of gas transportation and distribution network totalled 9.4 tCO₂eq/km.

Main indicators

	2018	2017	2016
Direct emissions of GHG (MtCO ₂ eq)	18.3	20.5	19.5
Indirect emissions of GHG (ktCO ₂ eq)	106,658	114,506	107,062
Emission factor including nuclear (tCO ₂ /GWh)	342	388	371
Emissions prevented (MtCO ₂ eq/year)	126.2	132.4	107.5
Emissions by leaks in gas networks (tCO ₂ eq/km network)	9.4	9.6	9.3

Direct GHG emissions. Total Naturgy (MtCO₂eq and gCO₂/kWh generated) [305-1]



Initiatives for reducing GHG emissions and associated energy savings [302-4], [302-5] and [305-5]

Emissions prevented	2018 emissions prevented (tCO₂eq)	Energy savings (GWh) 2018	2017 emissions prevented (tCO₂eq)	Energy savings (GWh) 2017
Natural Gas	117,087,372	154,450	123,863,986	162,859
Natural gas is the best fossil fuel to replace other fossil fuels				
Electricity production	72,032,142	125,395	76,474,255	132,923
Industry	22,474,173	10,006	24,657,729	11,035
Residential/Commercial	12,125,495	12,785	11,733,509	12,313
Transport	2,702,044	2,707	2,809,704	2,812
Cogeneration	7,753,518	3,557	8,188,789	3,776
Natural resources management	4,764,285	16,853	3,170,359	10,685
Generation of renewables to replace combustion of fossil fuels				
Wind farms	1,835,989	6,335	1,810,365	5,915
Hydroelectric production	2,853,530	10,129	1,336,842	4,650
Photovoltaic production	74,766	389	23,152	120
Energy saving and efficiency	1,238,398	3,125	1,824,028	7,541
Energy efficiency and saving actions on the company's own facilities and on the customers' premises				
Own facilities: Energy Efficiency Operations Plan				
Upgrading of networks in gas T&D	739,793	544	1,060,899	779
Actions in electricity distribution	56,601	296	93,031	160
Combined cycle	78,837	412	313,786	1,545
Coal-fired power stations	39,576	115	31,273	87
Fuel oil-fired power stations	7,036	26	2,791	10
End customer				
Energy services	316,555	1,732	322,248	4,960
Others	3,095,565	(10,662)	3,577,125	(11,581)
Nuclear production	3,095,565	(10,662)	3,577,125	(11,581)
Total	126,185,620	163,766	132,435,498	169,504

Atmospheric emissions

[305-6]

The EU Industrial Emissions Directive, limiting emissions from electricity generation, was met in 2018, with a reduction in absolute and relative atmospheric emissions of NO_x, SO₂ and

particulate matter. This was due to the reduction in coal power generation and the increase in electricity generation from renewable resources in Spain, as a result of greater water availability.

With reference to other pollutants, 0.06 tonnes of mercury, 0.01 tonnes of HCFC and 0.9 tonnes of freon R22 refrigerant were emitted.

Compliance with total atmospheric emissions targets (kt) [305-7]

	Target value 2018 path	2018	2017	2016
SO ₂	17.6	10.7	19.2	18.2
NO _x	30.6	18.4	29.3	30.8
Particles	-	1.4	1.8	1.5



The main achievements obtained in climate and air quality in 2018

Line of action	2018 milestones
Climate management	Naturgy has been internationally recognised for its climate management, with inclusion on the CDP's A List. Moreover, it was the only Spanish company and one of the five utilities in the world to achieve this, of the 6,937 participating companies.
Fostering renewable electricity	Increasing renewable power capacity by 210 MW through wind farms that have started operating in Australia and Spain and solar farms in Brazil.
Reduction in GHG emissions and other air pollutants	The Anllares coal-fired thermal power station ceased operation in 2018, after authorisation was received for its decommissioning. This measure led to a reduction in GHG emissions and other air pollutants.
Displacement of carbon intensive fuels	<p>The distribution and commercialisation of natural gas to replace more carbon-intensive fuels (coal, petroleum derivatives) led to the reduction of 117 million MtCO₂eq, and other air pollutants (SO₂, particulate matter, NO_x).</p> <p>Two innovative projects have been implemented that will allow liquefied natural gas (LNG) to reach areas that were previously unviable, promoting the replacement of carbon-intensive fuels and reducing other air pollutants:</p> <ul style="list-style-type: none"> • DirectLink LNG project: the first ship-to-shore floating LNG transfer system, which is compatible with any type of methane tanker and with minimum impact on the marine environment. • LNG on Wheels: making it possible to deliver LNG to small and medium industrial customers, including those in remote locations.
Encouraging the gas-renewable binomial in generation	More than 9,200 MW of installed power in combined-cycle power stations, which is the most eco-efficient conventional thermal technology and which provides a back-up for renewable power generation, favouring its penetration into the electricity system.
Reducing fugitive GHG emissions	<p>Renewal of pipes and connections in the gas networks of Argentina and Brazil, and optimising operations in order to reduce fugitive emissions.</p> <p>Implementation of measures in the Nedgia gas distribution network in Spain to reduce methane emissions into the atmosphere:</p> <ul style="list-style-type: none"> • Vacuum pumps have been incorporated into new stretches of pipelines in order to purge internal air before coming into operation. • Implementation of a new procedure for liquefied gas recirculation in LNG plants with support from tanker trucks to lower the temperature of the gas, avoiding the need for automatic venting of pipelines required for safety reasons owing to pressure build-up under conditions of low demand and high temperatures. <p>Pilot project for the regeneration of unusable SF₆ (greenhouse gas) from Union Fenosa Distribución switchgear. Tests have been conducted to verify the necessary quality, demonstrating that gas that meets the UNE EN 60480 standard can be obtained for reuse in high-voltage switchgear. The purpose of this is to avoid the need to manage unusable residual SF₆ or to purchase new gas, reducing its production, which is the process in which most fugitive atmospheric emissions occur. The practice is expected to be expanded in 2019.</p>

Circular economy

Naturgy is committed to reducing the environmental impact by promoting a circular economy through the efficient use of resources to reduce environmental impacts. To do this, different lines of action are developed, focused fundamentally on:

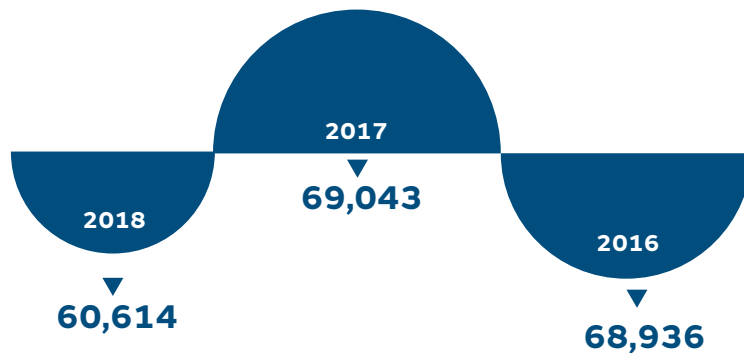
- Promoting the circular economy and improving eco-efficiency in the use of resources, energy and water, reducing pollution and waste, and their impact on the environment.
- Promoting innovation in renewable gas as an energy and storage vector that facilitates the transition to a circular and low-carbon economic model.
- Offering sustainable mobility solutions for cities and land and sea transport that reduce emissions and improve air quality.

Energy and material resources

[103-1], [103-2] and [103-3] (Energy efficiency and energy consumption)

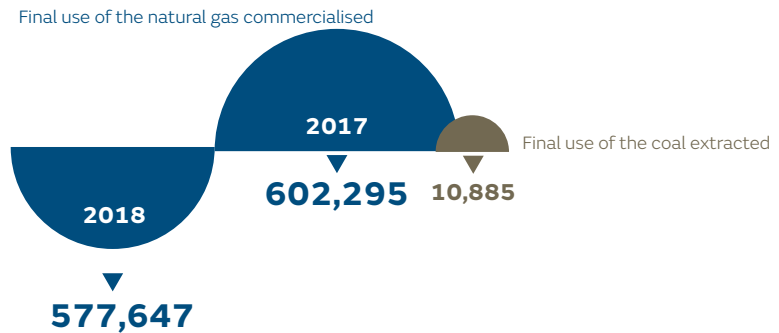
The consumption of fuels and chemical products fell in 2018 owing to the lesser operation of coal-fired power stations. The fact that magnetite consumption has ceased should also be highlighted, owing to disinvestment in the Kangra coal mine in South Africa.

Total energy consumption within the organisation (GWh) [302-1]



NB: 2016 and 2017 figures include the consumption data for Moldova, Kenya and South Africa, whereas 2018 does not.

Energy consumption outside the organisation (GWh) [302-2]



NB: 2017 figures include the consumption data for South Africa, whereas 2018 does not.

Materials used (tonnes)

	Amount
Fuels	6,728,514
Natural gas	4,735,782
Coal-fired	1,630,253
Petroleum derivatives	351,730
Uranium	10,749
Other materials	29,808
Calcium carbonate	25,280
Lubricant/hydraulic oil	1,180
Sulphuric acid	972
Nitrogen	486
Sodium hypochlorite	945
Calcium hydroxide	945
Total	6,758,322

Energy consumption intensity ratios within the organisation by segment of activity [302-3]

	Gas and electricity	EMEA	LatAm North	LatAm South	Corporate	Total
Energy consumption within the organisation (GWh)	54,104	2,345	818	3,264	83	60,614
Net turnover (euros million)	19,560	2,419	1,367	5,080	0	28,426
Ratio (GWh / Net turnover)	2.77	0.97	0.60	0.64		2.13

Water

[303-2], [303-3] and [306-5]

Most water consumption at the Naturgy facilities is due to the operation of the electricity power stations, in particular to the evaporation of water in the cooling towers.

In 2018, there was a significant decrease in the volume of water

consumed, mainly due to lower activity at the coal-fired power stations.

Most of the water collected is returned to the environment, with the percentage consumed in 2018 standing at 3.4%. Depending on its origin, the main source of supply is the sea (97%), with freshwater accounting for a much smaller contribution.

As regards effluent discharges, all thermal power stations monitor and analyse not only effluents but also the waters in the environment receiving the effluent discharges. In 2018, no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made.

Water collection, consumption and discharge. Compliance with targets (hm³) [303-1]

	2018 target value path	2018
Total volume of water taken from the environment		777.48
Total water consumption	31.00	26.54
Total volume discharged		753.72

Waste management

Within the framework of the integrated management system, Naturgy develops management and control procedures aimed at minimising the waste that is disposed of in landfill, through prevention, reuse, recycling and/or energy recovery.

In 2018, generation of non-hazardous waste decreased significantly compared with 2017. Also highlighted is the reduction in waste from coal-fired power stations, in particular ashes, cinders and gypsum, owing to the lesser operation of these facilities.

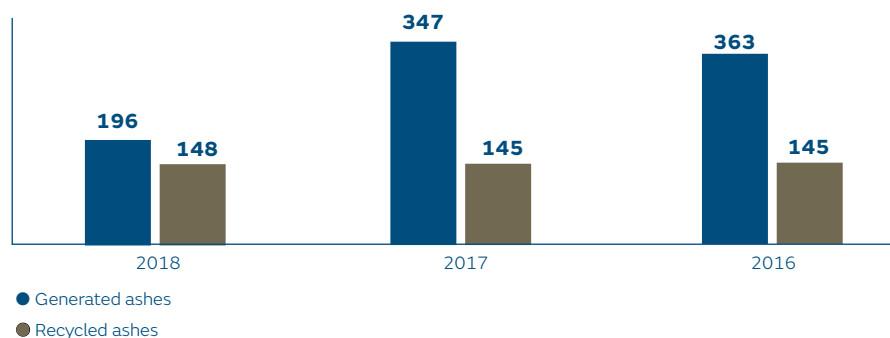
Finally, special mention should be made of the actions undertaken to promote renewable gas. This energy vector can be produced from the conversion

of surplus renewable energy or from the transformation of organic waste. Because it is carbon neutral, this gas reduces CO₂ emissions (and can even be used as a carbon sink), preventing the negative environmental and social impacts caused by the waste from which it is produced and fostering economic activity in rural areas.

Non-hazardous waste management and compliance with targets (kt)

	2018 target value path	2018
Soil and rubble		143.6
Ashes		196.1
Gypsum		48.3
Sludge		8.3
Cinders		34.5
Waste plant matter		2.7
Others		7.9
Total	1,001.21	441.4

Generation and recycling of ashes (kt)



Management of hazardous waste (%)

	2018 target value path	2018	2017	2016
Recycled and energy recovery	62.9	87.8	86.0	86.0
Incineration and landfill	37.1	12.2	14.0	14.0

Hazardous waste management and compliance with targets (kt)

Type	2018 target value path	Amount
Hydrocarbons plus water		3.6
Sludge from oil and fuels		1.5
Solid waste contaminated with hydrocarbons		1.2
Used oil		0.5
Hydrocarbon-contaminated soils		0.3
Others		1.3
Total	7.6	8.4

Products sold for reuse (kt)

Product	2018
Ashes	148.1
Cinders	9.4
Sludge from oil and fuels	1.5

In 2018, Naturgy continued with the removal of polychlorinated biphenyls (PCB). There are currently 172 tonnes of dielectric oils to be removed, which have concentrations of PCB above 50 ppm.

Initiatives and actions

The 2018 milestones in the circular economy are described below:

Milestones in the circular economy

Line of action	2018 milestones
Increasing energy efficiency at our own facilities and those of our customers	Energy Efficiency Operations Plan in own facilities, preventing the emission of 0.92 MtCO ₂ eq. Boiler upgrades, efficient lighting and electrical HVAC systems for customers.
Reduction of water consumption	Use of urban wastewater for operations of different combined-cycle power stations (Hermosillo, Naco and Norte Durango in Mexico, and Malaga in Spain), which are mostly located in areas of high water stress, avoiding the need to consume freshwater. The use of recycled water in the last three years has led to savings of 20.6 hm ³ , the equivalent of filling 8,228 Olympic size swimming pools. Improved operations at different thermal power stations to reduce water capture and consumption: adjusting cycles of concentration for cooling water, reuse of liquid effluents, improvement in water treatment plant performance, monitoring and reduction of water leaks. Measures in vehicle fleets (waterless car wash) and offices (timers on taps, posters and awareness campaigns for saving water, etc.).
Promoting renewable gas	Commissioning and operation of two biogas upgrading plants at the EDAR Bens facility (A Coruña) and the Metamorphosis project (Lleida) to enhance the technical and economic feasibility of renewable gas.
Sustainable mobility	Expansion of the vehicular natural gas charging infrastructure for public use, including participation in European Union programmes to create road transport corridors for LNG-powered heavy goods vehicles. Improvement in the efficiency of natural gas supply stations. Encouraging the use of natural gas in different Spanish ports.

Natural capital and biodiversity

Biodiversity and natural capital

[103-1], [103-2] and [103-3] (Biodiversity)

Naturgy is committed to preserving natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species. For this purpose, based on the precautionary principle, prior environmental impact and archaeological studies are

conducted as required for all projects, in order to reduce the negative impacts on the full life cycle. In addition, measures are set out to mitigate the impacts caused by facilities on the natural environment and cultural heritage, particularly with regard to those located in the area of influence of high environmental value and protected areas. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced.

During the operating stage of facilities, the company applies strict operation control and risk management procedures (environmental emergency plans, drills, etc.) to prevent incidents before they occur or to minimise any damage.



The following table analyses the impacts on biodiversity that may be caused by the company's operations:

		Upstream	Transport and distribution		Electricity generation		
			Gas	Electricity	Thermal	Hydroelectric	Wind
Construction and operation of plants and transport infrastructures	The building and operation of plants and gas and electricity transportation and distribution infrastructures may impact on the plant and animal life in the surrounding area. The main causes of these impacts are the occupation of land, localised removal of vegetation and disturbance of wildlife by the operation of the facilities.	●	●	●	●	●	●
Pollution	Emissions caused by operations may have an impact on the abiotic and biotic environments in the areas surrounding facilities.	●	●	●	●	●	●
Introduction of invasive species, pests and pathogens	No operations involve the introduction of exotic invasive species. The only risk associated with these species could be their proliferation owing to involuntary transfer or the creation of favourable conditions for their establishment.	●	●	●	●	●	●
Species reduction	The building and operation of plants and infrastructure may lead to a reduction in specimens of certain species in the area. However, the magnitude of such impacts will on no account lead to the total disappearance of the affected species.	●	●	●	●	●	●
Habitat transformation	Changes in the use of land and the permanent presence of facilities in the natural areas may have an impact on the populations of species present in the surrounding area. The reservoirs associated with hydro-electric power stations can cause the most significant transformations with regard to biodiversity, which may be negative or positive.	●	●	●	●	●	●
Changes in ecological processes outside of their natural range of variation	The most significant effects are caused by discharges of liquids during the operation of facilities, which may lead to changes in the environmental variables that affect the aquatic ecosystem.	●	●	●	●	●	●

● Low impact ● Medium impact ● Significant impact ● No significant impact

For management of biodiversity, there is a specific working group that operates across the board in the company and which features participation from all businesses and geographies. Likewise, company employees are invited to participate in environmental volunteer programmes that encourage the development of individual attitudes and behaviour to respect and protection of the natural environment.

Indicators

[304-2]

Naturgy's business activities require the occupation of land, whether temporarily during the construction stage or permanently during the operation of facilities. The following table shows the total surface area of facilities located within or adjacent to areas of high biodiversity or protected natural spaces. In order to determine the facilities located adjacent to these types of spaces, consideration has been given not only to their physical limitations but also to a number of specific impact ratios according to type of facility. Consequently, the infrastructure is classified as interior (within areas of high biodiversity), adjacent (radius of impact within the protected space) or exterior when it is outside.

Description of land owned, leased, managed within or adjacent to protected natural spaces or unprotected high biodiversity areas [304-1]

Business	Type of operation	Location with regard to the protected area	Surface area (ha)	Value of biodiversity
Gas	Exploration	Within the area	114	SCI, SPA, PNS, RAMSAR
	Transport and distribution	Within the area and next to the area	7,343	PNS, SCI, SPA, RAMSAR, BR, NR, PGR, SEI, EPA, GB, MR, RD, NRCS, RR, EPA, ASU, AIBC, NPR, PS, MER, PA, FR
Electricity	Generation	Within the area and next to the area	21,100	SCI, SPA, PNS, RAMSAR, BR, AIBC, NRA
	Transport and distribution	Within the area and next to the area	42,207	SCI, SPA, PNS, RAMSAR, BR, NM, NR, PLA, NAM, SR, NRA, NP, NM, WR, CONAF, MC, NM, NR, PF, RF, PIN, WET, PS

SCI: Sites of Community Importance (Spain); SPA: Special Protection Areas (Spain); PNS: Protected Natural Spaces; RAMSAR: wetlands classified through the Ramsar Convention (international); BR: Biosphere Reserve, UNESCO (international); NR: Natural Reserve (Morocco and Argentina); RPC: Permanent Game Reserve (Morocco); SEI: Site of Ecological Interest (Morocco); EPA: Environmental Protection Area (Brazil); NRA: National Recreation Area (Panama); AIBC: Areas of Importance for Bird Conservation (Mexico); NM: National Monument (Spain and Chile); PLA: Protected Landscape Area (Dominican Republic); NM: Natural Monument (Panama); RA: Recreation Area (Panama); NP: National Park (Panama); WR: Wildlife Refuge (Panama); CONAF: National Forest Corporation (Chile); MC: Monument Council (Chile); NR: National Reserve (Chile); BG: Botanical Gardens (Chile); PF Protected Forest (Panama); EPA: Ecological Preservation Area (Mexico); ASU: Area of Sustainable Use (Mexico); NPR: Natural Private Reserve RNP (Chile); PS: Priority Site (Chile); WET: Wetlands (Chile); MER: Municipal Educational Reserve (Argentina), PA: Protected Area (Argentina), FR: Forestry Reserve (Argentina).

Number of species whose habitats are in areas affected by operations* [304-4]

Type	Critically endangered species	Endangered species	Vulnerable species	Almost threatened species
Mammals	2	1	6	11
Birds	2	3	9	28
Reptiles	3	8	13	15
Amphibians	20	15	12	14
Fish	5	8	13	3

* According to the species catalogue of the International Union for the Conservation of Nature (IUCN red list).

Initiatives and actions

[OG4]

Line of action	2018 milestones
Biodiversity protection	More than 300 biodiversity initiatives in course on an international level.
Environmental studies [EU13]	<p>More than 200 studies have been conducted, particularly within the scope of electricity generation facilities (thermal, hydro-electric and wind farms) and distribution in order to monitor the environmental and ecological status of the surrounding areas. In the case of thermal and hydro-electric power stations, these include sampling campaigns to determine the physical, chemical and biological of the aquatic environment (rivers, reservoirs, etc.).</p> <p>Recent studies confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.</p>
Environmental actions [304-3]	<p>More than 110 initiatives have been implemented directed towards conservation of species and natural spaces, both voluntary and as obligated by environmental authorities for projects and facilities, including compensatory measures in other areas of interest for biodiversity.</p> <p>In 2018, planting began of lavender began for the protection of the Eurasian skylark in the surrounds of the Fuentelsaz wind farms in order to create ecological corridors for the species. The project also takes into consideration the local society and economy, with promotion of productive and sustainable activities in the area associated with organic agriculture and the production of essential oils.</p>
Dissemination and awareness actions	<p>The aim of these is to disseminate knowledge on biodiversity and bring created environmental awareness for both company employees and other stakeholders. Included among these activities were environmental volunteer meetings, lectures, specialist publications, educational material and Internet publicity campaigns.</p> <p>The Practical Guide to Ecological Restoration was published in 2018, coordinated by Fundación Biodiversidad, in which Naturgy took part by sharing its experiences, lessons learnt and successes.</p> <p>https://ieeb.fundacion-biodiversidad.es/content/guia-practica-de-restauracion-ecologica</p>
Agreements and alliances with third parties	<p>For the purpose of supporting some of the initiatives included in the previous sections, we have different partnership agreements with third parties, in particular with conservation organisations and also with the public administrations, which provide the technical knowledge required to ensure the efficiency of the actions carried out.</p> <p>2018 saw the completion of the project undertaken in partnership with GREFA, the Spanish National Research Council (CSIC) and the Spanish National Museum of Natural Sciences to reuse old abandoned industrial buildings (transformation stations) in order to encourage biodiversity. As a result, a number of transformation stations were restored to provide nesting sites for birds and shelter for bats. The results of the project were disseminated to the public through CONAMA 2018.</p>



Interest in people

Commitment to people	74
Compensation and remuneration	87
Labour relations	88
Internal communication	89

Proposed actions 2018

New organisational model of the group.

Scale up the use of People Analytics in the preparation of diagnostics and in taking decisions that concern people.

Implement new methods of working and new ways of collaboration that run alongside the business evolution.

Consolidate the digitalisation of talent management towards a just-in-time model.

Planned actions 2019

● Application of the new People Model.

● DigitalTEAM. New ways of working project.

● Launch of the Transformational Leadership Academy.

● Naturgy in-house Communication Plan focused on: corporate priorities, the executive role in communication, and fostering participation.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Commitment to people

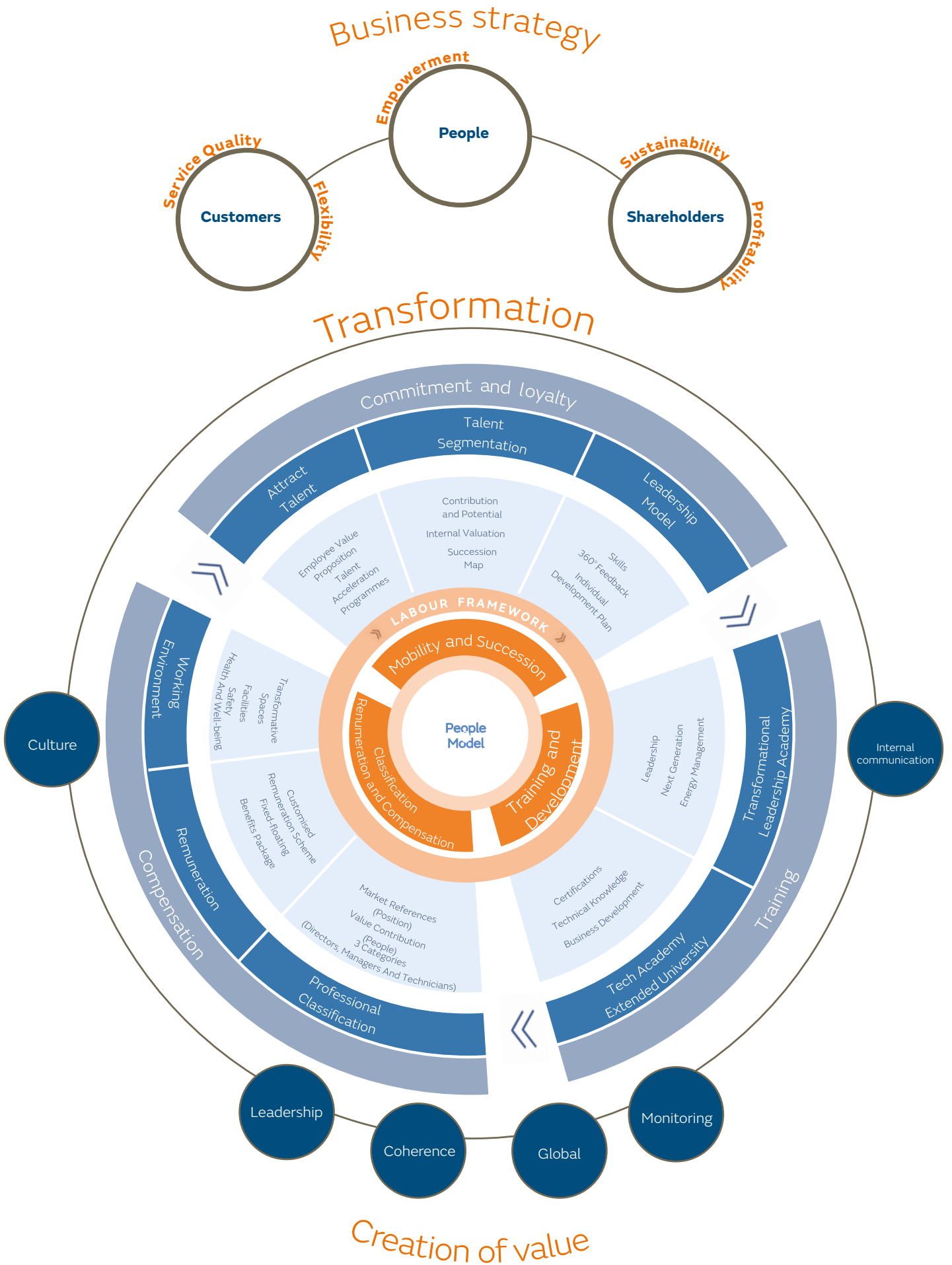
[103-1], [103-2] and [103-3] (Talent retention and attraction)

The Naturgy People Model

During 2018 the people management strategy at Naturgy has revolved around the transformation and creation of value, as set out in the company's roadmap. The empowerment of people is one of the levers that drives the transformation the company is introducing. In this regard, management of people has focused on defining its management model, bridging the new strategic targets with people and simplifying processes to accompany the creation of value.

Naturgy's people model is conceived as a dynamic ecosystem that allows people to be part of the company's evolution. This model integrates three large areas –commitment and loyalty, training and reward–, where there is convergence of a series of axes and their associated processes that ensure consistency and solidity.





Summary of awards obtained in 2018

Seals and certifications



Rankings



Argentina



Argentina

Awards



Workforce

Naturgy offers its employees stable, quality employment together with a solid, structured and attractive professional career, where 98% of the positions have open-ended contracts. The company has a global model of homogeneous selection for all the businesses and countries where

it operates, enabling it to ensure best practices in the identification, recruitment and retention of talent.

The rigour and professionalism of the people that form part of Naturgy, the interest in ongoing learning and self-development, the innovative spirit, as

well as the sustainable commitment and involvement in the corporate objectives, are features of the profile of professionals in all geographies and businesses. In this regard, we can highlight the fact that 84% of employees declare they have a high level of commitment to the company.

Team key items

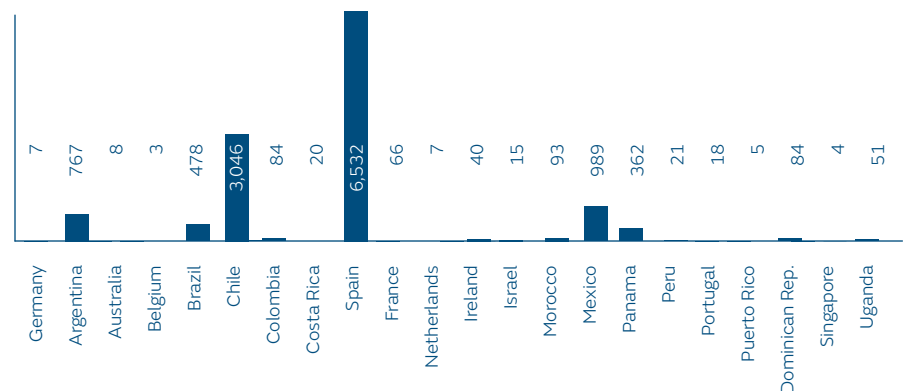
[102-7] and [102-8]

Naturgy performs its activity in more than 27 countries. At the close of 2018, the company was operating through the direct involvement of 12,700¹ persons, of which 52.5% performed their activity in Europe, 46.1% in America and the remaining 1.4% in other continents.

31% of the workforce was made up by women and 69% by men, and had an average age of 43.9 years, with an average seniority of 14.2 years, considering that the company carried out a centralized management of its personnel policies (12,508 employees).

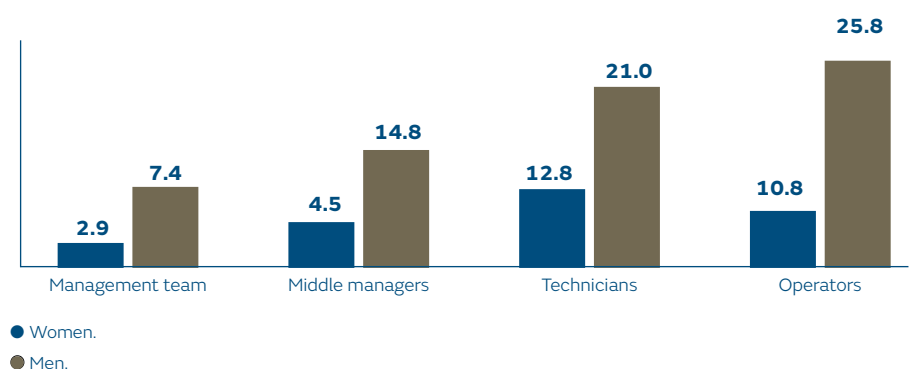
1. Workforce at the year-end with centralised and non-centralised management due to the percentage of participation.

Staff index (Number of employees)



NB 1: the companies consolidated through the equity method and which do not provide a headcount breakdown would total 4,085 employees, distributed as follows: Colombia 1,451, Argentina 862, Spain 757, Egypt 148, Kenya 79, Moldova 707 and Puerto Rico 81.

Breakdown of staff by professional category and gender (%)



Talent management

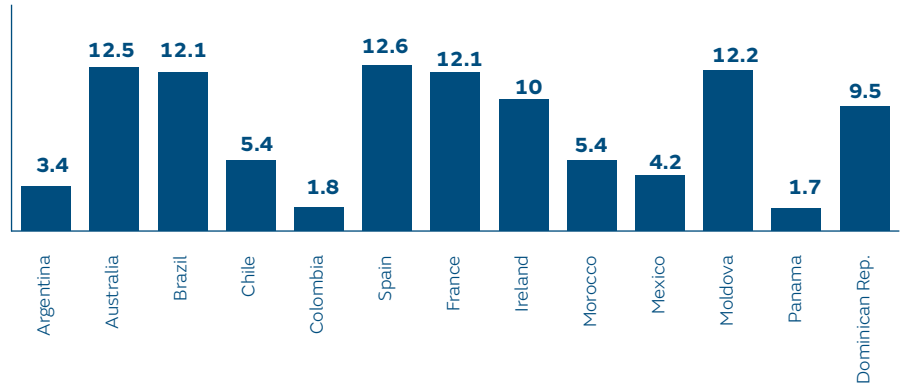
[404-2]

In 2018, Naturgy's new people model defines the management of talent as one of its three strategic axes, where the leadership model, the assessment and segmentation of professionals to adapt their development to the different profiles, as well as the processes of identification and development of successors, are key parts of the attraction, loyalty and commitment of people.

New organisational model of the group

Talent management has been one of the elements that has defined the implementation of the new organisational model, as an element of corporate transformation. The changes have been sweeping and overarching, with the aim of reducing the scope of control and complexity, avoiding the overlapping of functions, giving the business units full responsibility, optimising the support they receive from corporate functions, as well as bringing the organisation into line with the new Strategic Plan.

Staff promoted (%)



Talent attraction

Naturgy has a pool of young professionals with sound technical and management training.

Talent attraction initiatives

Professional practices programme

Naturgy has partnerships with leading universities and higher educational institutions in the different countries where it operates, with special relevance in Spain. These partnerships enable the company to select young people for work experience. Every year, the Group as a whole provides training to more than 125 university students and more than 100 Vocational Training (VT) students or equivalent.

Dual VT

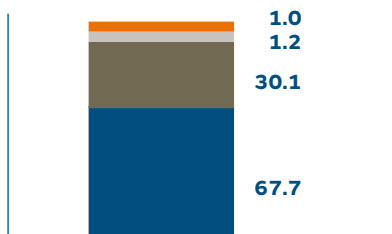
Naturgy's commitment to Dual VT has continued in 2018 with the addition of a fifth vocational training centre. This year there were 133 students enrolled between the first and second course of the four centres sponsored by the company, who together with the 27 students that had already completed the first graduation in previous years, make up a total of 160 people trained in our vocational training cycles. During the 2018-2019 course there will be more than 140 students enrolled in the Naturgy training cycles.

The commitment to the inclusion of young people in the business has allowed the company to renew in 2018 the seal of entrepreneurship and youth employment strategy.

On-boarding

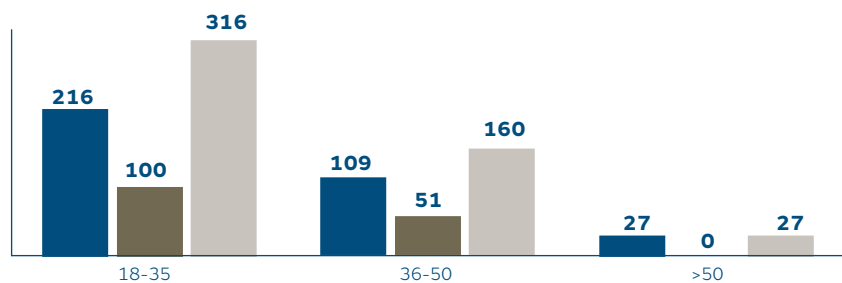
Based on results of the Employee Experience Project developed during 2017, the company has worked on the redefinition and optimisation of the on-boarding process, the purpose of which is to accompany the new professionals that join the organisation. During 2018, the new model has been put into practice resulting in an improvement of the employee experience.

Type of contract (%) [102-8]



- Permanent contract men.
- Permanent contract women.
- Temporary contract men.
- Temporary contract women.

New recruitments by gender and age group [401-1]



- Men.
- Women.
- Total.

Talent development

At Naturgy, talent management is a homogeneous function in all businesses, and is governed by shared objectives defined in the leadership model. This framework, targeted at achieving the Group's results, defines the competences and expected behaviour of Naturgy professionals, based on the principles of ethics, collaboration, equal opportunities and respect for difference.

The tools for talent management, used for the purpose of finding out about professionals, promoting their development and optimising mobility and promotion, are built around four pillars: evaluation, development, succession and job posting.

The in-depth organisational transformation in 2018 has meant that 87% of the management team has changed functions. Of these changes, 44% have taken place between different departments, that is, transversal mobility. Also, during 2018, a total of 853 vacancies have been filled through the mobility process.

Talent management also ensures the incorporation of external talent, guaranteeing that we attract high potential professionals through programmes such as the Management Staff, which in 2018 had more than 75 professionals from 14 nationalities, of which 60% have been promoted to management positions and 12% occupy positions of structure.

New Employee Value Proposition (EVP) – Protagonists of change to build the future

We are designing a challenging project: we are protagonists of the transformation, we face challenges every day, in every business, in every country, in every corner. We are designing a future and innovative project in which to grow as people and professionals.

The energy comes from the team: many people and just one team. A professional and diverse team that shares inspiration and learning. A team to lean on to grow, to imagine the future and to achieve it.

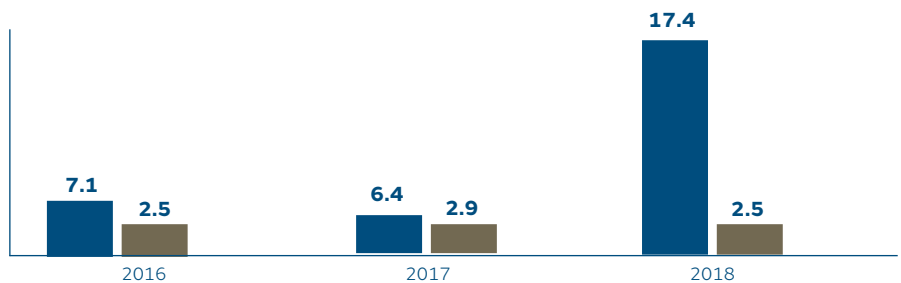
Contributing value thanks to employees: believing in their energy, responsibility and autonomy as the key to our business. Believing in their daily effort to make an impact on our customers and in the search for a more sustainable and prosperous society.

Leading our own destiny as the key to our destiny as a company, as a team and as people. Spearheading the change is in the hands of all those who make it possible for Naturgy to be real.

Within the framework of the transformation started by Naturgy in 2018, the adaptation of the Employee Value Proposition (EVP) has been a priority task to refocus the employer branding policy and synchronise it with the people model. The new EVP incorporates the attributes and reasons that define Naturgy as a place to work.

This adaptation has been made by addressing the four basic axes of any value proposition: remuneration, attraction, commitment and reputation, and has involved Naturgy employees in all geographies. The process starts with the analysis of the company's Strategic Plan, the main trends and practices in employer branding within the sector and the IBEX 35, and the economic and social context linked to sustainability.

Rotation index and voluntary rotation index (%)* [401-1]









- Rotation
- Voluntary rotation.

(*) Rotation: layoffs/average staff. Voluntary rotation: voluntary layoffs/average staff.

NB: the breakdown of this indicator according to geographical location is available in the appendix to this report.

Rotation indices according to gender and age group (%) (*) [401-1]

		Rotation index	Voluntary rotation index
18-35		16.96	6.26
		15.67	6.27
36-50		9.46	1.82
		8.46	2.32
>50		35.02	0.79
		28.25	0.37

(*) Rotation: layoffs/average staff. Voluntary rotation: voluntary layoffs/average staff.

NB: the breakdown of this indicator according to geographical location is available in the appendix to this report.

Diversity and equal opportunities

[103-1], [103-2] and [103-3] (Diversity and equal opportunities)

For Naturgy it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue. There is a special focus on gender diversity targets, on the inclusion of individuals with various disabilities and extending this commitment to suppliers and collaborating companies.

Integrated Diversity Plan

In 2018, the company's commitment to diversity remained strong, consolidating the Integrated Diversity Plan which brings together specific initiatives for people management, classified into three areas: gender, disabilities and age.

Integrated Diversity Plan initiatives and tools

Gender	Continuity of the specific development plan for female talent with the following areas of action: incorporation of talent, promotion of leadership (Take the Lead, Hazte Visible (Become Visible), Mentoring) and online training in diversity (Women Empowerment, inclusive leadership and diversity management).
Disability	As regards integration and accessibility of people with different capabilities, the Management of Naturgy acts as an impetus for a range of actions targeted at standardising management of functional diversity: Familia Plan, Capacitas Plan, Aflora Plan and Bequal Plus Certificate.
Age	Naturgy works generational diversity through directed and planned actions: Junior Talent, acceleration of talent, monitoring of mobility and promotion.

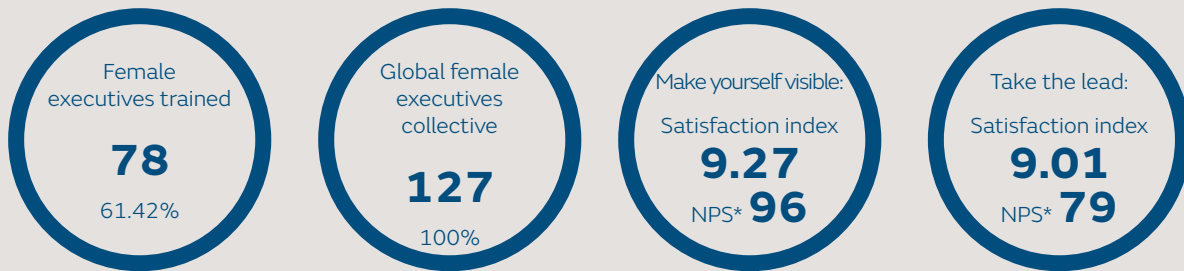
Take the Lead and Hazte visible (Become Visible)

The programmes have been designed to promote a global and diverse vision with senior and middle management of the company, to empower them in their leadership role with their personal and professional brand.

The objectives pursued by these programmes are:

- Connect participants with the need to lead their career and encourage them to be the protagonists of their development.
- Develop a strong personal brand, in line with the professional vision and purpose.
- Build a shared vision and discover the attributes, values and skills that define and make each female director unique.
- Increase the visibility of the group of female middle managers and enhance their networking in the organisation.

The impact and degree of satisfaction of the programmes are:



* Net promoter score

Women in management posts (%)

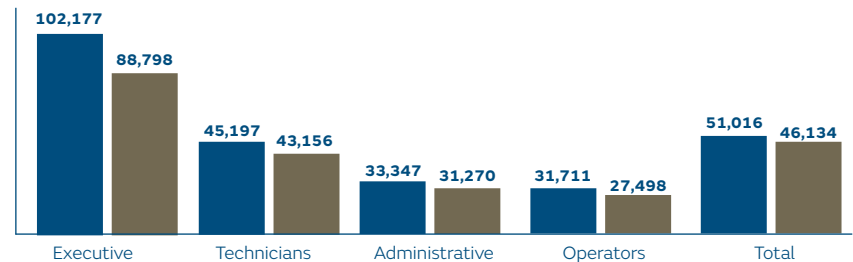
2016: **25.7**
2017: **26.2**
2018: **28.3**

Employees with disabilities (%)

Spain: **2.40**

Average salary of men and women by professional category. Spain (euros)

[405-2]



- Men.
- Women.

NB 1: the breakdown of this indicator according to geographical location is available in the appendix to this report.
NB 2: the difference in salary shown by the results is in line with the context of the sector and generated mainly by the company's past gender make-up, which means greater average seniority of men in comparison with women.
NB 3: data is calculated on fixed pay.

Flexibility

[401-2]

Naturgy is committed to promoting an appropriate work-life balance through a significant number of flexible employment measures, services and benefits adapted to employees' needs.

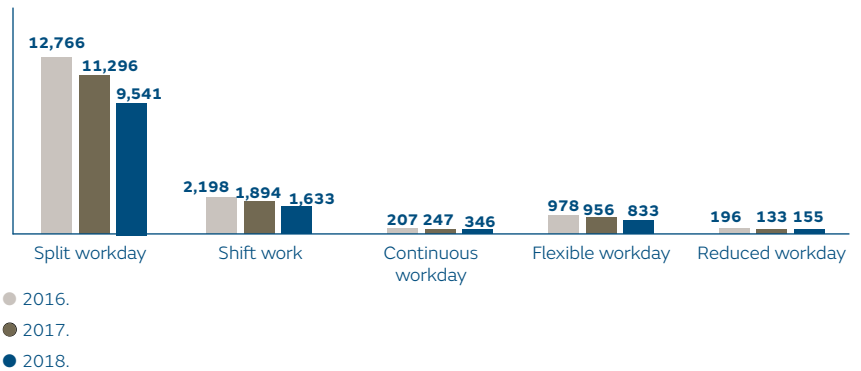
The EFR Global certificate, reviewed in 2018, recognises Naturgy as a benchmark for the new socio-labour and business culture, thanks to the corporate and local measures it offers in matters of work-private life reconciliation and the services it provides to its employees, such as the Time Bank.

Comparison of employees with maternity/paternity leave with those who made use of this right [401-3]



- With right.
- They used their right.

Flexibility and support for the personal environment



Employee satisfaction

Knowing employee satisfaction and the value they place on the actions and the products that the company makes available to them is a key element of Naturgy's commitment to people.

Tools such as the climate survey, conducted every two years, give rise to actions and improvement plans that are reflected in the results of subsequent years. Currently, the commitment percentage is around 84% –this result has been obtained separately for men and women–, and the figure is above the benchmark average.

Employee Care Service (SAE)

The service, introduced in Spain and Latin America, has celebrated its sixth anniversary in 2018, consolidating itself as a single and centralised point of contact between the employee and the organisation.

The SAE allows the consolidation of global and unique models in terms of care for professionals during their life cycle in the company. The service has a multichannel approach, thanks to the online platform, and personalised attention that is accessible from any device.

2018 has been a year of growth in the SAE, with the incorporation of new services and the technological evolution of the tool to improve functionality and the employee's experience.

Currently, the NPS of the service is 67.21%, 121,164 requests from employees have been answered and 90.22% of the requests have been resolved within the deadline.

Culture and Employee Experience

Within the framework of Naturgy's transformation, and accompanying the strategic vision of the company, the empowerment of people is one of the three key levers, together with customers and shareholders, in the creation of value.

The Naturgy culture frames the processes of the people model from consistency, global approach and leadership, giving meaning and projection to the transformation towards value creation.

In recent years, the implementation of new ways of working through flexible methodologies (scrum, design thinking or lean start-up), new technologies and open innovation environments have allowed us to make important strides in adapting the Group's culture.

Likewise, during 2018, the analysis of the Naturgy culture was updated. Analysis based on the Denison model diagnosis and in line with the messages of Senior Management, focusing on the concept of transformation as a key element and giving meaning to the 15 words that have been identified as the structure on which to build the Naturgy culture model.

The analysis has been completed with the involvement of employees in all geographies and has resulted in the Naturgy keys: team, innovation and ways of working.

Naturgy culture keys

Team: cohesion, collaboration, leadership, enthusiasm

Innovation: evolution, digitalization, flexibility

Working methods: flexible, collaborative, simplicity

Currently, Naturgy has several cross-cutting projects underway, which allow employees to visualise the cultural keys, such as the implementation of cloud tools, the adaptation of workspaces to collaborative and flexible models, or DigitalTEAM and LEAN projects that promote transformation in order to provide collaborative and digital ways of working, efficiency and flexibility in businesses.

15 key words



Corporate University

[404-2]

Training is one of the key areas of the people model. The training and development plan is instrumented through the Corporate University, as this is a strategic lever of transformation that serves the business to build the future, create value and achieve the goals set out in the Strategic Plan.

The Corporate University's mission is to help develop professionals that make Naturgy's vision a reality. Its aim is to ensure adequacy between the job position and the person, the acquisition of expertise linked to new needs of the organisation and the development of skills and abilities related to the Naturgy leadership and culture model.

2018 has seen consolidation of the introduction of Evolution as an on-line training platform and the new training model based on three levers: employee experience, personalisation of the training available and centralised global operations.

The Corporate University's management model responds to the training needs through its two academies:

- The Tech Academy guarantees the transfer of specific technical knowledge in each business, thus permitting its efficient development and ensuring quality and uniformity in all countries. Among the most relevant programmes: General Data Protection Regulation, Digital Transformation of Technical Services, Smile Project and new Law of Public Sector Contracts.
- Transformational Leadership Academy: focused on transformation through the leadership of the executive and management team, strengthening its role as natural accelerators of organisational and cultural change. It offers a diversified and personalised training proposal managed through partnerships with the best national and international centres. Among the most relevant programmes: Take the Lead, Transformational Leadership, Savia 4.0, Avanza Programme and Innovation Programme.



Evolution of training hours per employee

2016: **51.0**
 2017: **38.4**
 2018: **49.9**

NB 1: in 2017 there is a decline in average hours per employee, and generally in all indicators of training, through the consolidation of data in Chile, with a training volume that is less than the rest of the Group; and through a reduction of the number of cross-cutting programmes company-wide compared to previous years, and for the interruption of the corporate university's activity for three months while the new platform was implemented.

Corporate University's figures

Satisfaction surveys answered	43,204
Participants' average satisfaction (0–10)	8.3
Average degree of application of knowledge and skills in the job (%)	77%
Number of programmes with evaluation of application	38
Average perception index (0–10)	8.0

Naturgy training indicators [404-1]

	2018	2017	2016
Staff trained (%)	91.0	93.7	87.4
Training hours per employee	49.9	38.4	51.0
Total course hours	645,311	613,623	889,625
Men	438,412	430,995	656,880
Women	206,899	182,628	232,746
Annual investment in training (euros)	10,454,626	14,322,806	14,014,713
Investment in training per person (euros)	809.2	897.4	803.1
Attendees	93,379	97,604	138,872
Online hours	204,622	176,995	330,213
People who were trained through the online channel (%)	77.1	69.3	69.7
Participants' degree of satisfaction (out of 10)	8.3	8.4	9.0
Net Promoter Score (NPS)	35.6	35.9	

Training hours per employee and professional category

		Management team	Middle managers	Technicians	Operators
Staff trained (%)	Men	88.7	94.8	92.5	86.1
	Women	89.3	91.6	93.3	93.6
	Total	88.9	94.1	92.8	88.3
Training hours per employee	49.9	86.7	54.3	48.2	39.2
Total course hours	645,311	113,262	137,823	204,617	189,609

Compensation and remuneration

[103-1], [103-2] and [103-3] (Talent retention and attraction) [201-3]

The concept of reward is the third of the areas on which the Naturgy model of people is built and aims to provide a framework for classification, compensation, benefits and work environment, which drives and aligns professional performance with the strategy of Naturgy.

Remuneration policy

The remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two remuneration models, one for employees included in the collective bargaining agreement and another for employees not included.

In 2018, a new professional classification model has been implemented for those employees who are excluded from the agreement and the process of evaluating the positions of the new structure has begun.

Variable remuneration

The annual variable remuneration has been transformed into a structure of uniform objectives for the whole group, with metrics differentiated according to the business unit, corporation or project to which it belongs. The aforementioned metrics include economic-financial objectives, as well as safety and quality issues. In addition, a qualitative objective that measures the "how" in the achievement of the objectives is valued.

The management by objectives for managers and employees not included in the agreement, and variable remuneration for commercials, are methods in place at Naturgy as incentives for employee involvement in achieving the company's targets and direct share in results.

Social benefits and flexible remuneration

The remuneration package of Naturgy employees is supplemented with a social benefits system, which includes a pension plan and other social benefits. On the international stage and in accordance with the legal frameworks of each country, Naturgy has agreed to the introduction of social benefits and reconciliation measures with employees' representatives.

In 2018, a flexible offer without salary substitution has been established, enabling the employee to personalise their overall remuneration. Thus, depending on the cost of their current benefits, employees may be able to select the benefits that they themselves establish.

Breakdown of personnel costs (euros million)

	2018	2017	2016
Wages and salaries	882	877	823
Social Security costs	123	134	128
Defined contribution plans	36	44	42
Defined benefit plans	9	9	9
Share-based payments	5	-	-
Work carried out for the company's fixed assets	(115)	(122)	(109)
Others	70	67	81
Total	1010	1009	974

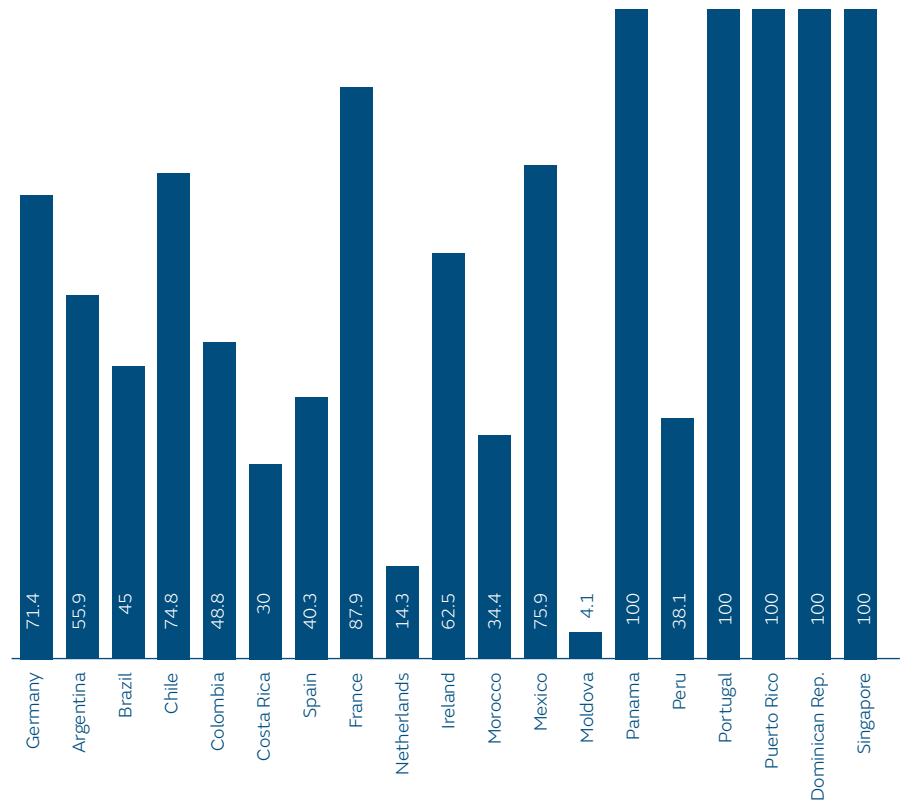
In addition, employees in Spain have a flexible compensation system that allows them to design the composition of the remuneration package using the existing product offer.

In the case of Spain, the Joint Pension Plan for Employees of the Naturgy group is a defined contribution plan for retirement and defined benefits in the event of death or incapacity whilst actively working. Employees are automatically added to the plan as soon as they are registered.

The Plan currently has a net worth of around Euros 500 million, which is distributed among approximately 6,300 active employees (99% of the workforce), and more than 2,000 beneficiaries.

In the international arena, the Group's policy is based on the provision of retirement savings instruments and death and disability coverage whilst an active worker, taking into account the particularities and social welfare needs of each country.

Performance management and Management by Objectives (MbO) indicators (*) [404-3]



(*) Percentage of participants in the MbO system. The breakdown by gender for this indicator is available in the appendix of this report.

Labour relations

[407-1]

Naturgy, through its Code of Ethics, establishes the principles and behaviour guidelines that govern the performance criteria of all employees. In accordance with these, and with international legislation and the prevailing legal framework of each country where it is present, Naturgy respects the values of their respective cultures and is committed to compliance with applicable labour regulations.

Naturgy places a particular focus on the freedom to join a union, fundamental rights, collective bargaining and the culture of the agreement. Thus, in Spain, various agreements have been signed with the representation of workers in matters such as the Workers' Pension Plan.

In the international arena, 26 negotiation processes have been completed,

among which the following stand out: Chile (seven collective bargaining processes), Panama (two collective bargaining agreements) and Mexico (seven negotiations, between salary agreements and collective bargaining negotiations).

As a global result, 32 collective agreements have been reached in all areas in which Naturgy is present.

Within the scope of all societies in which Naturgy operates in 2018, there are a total of 62 unions with representation in all spheres of action, seven in Spain and 55 internationally.

Finally, it should be pointed out that, at 31 December 2018, there had been a total of 15,493 visits, enquiries and downloads of “Employment Information” on Naturalnet across the group, and 98,134 enquiries, incidents and requests through the Employee Care Service, dealt with directly by the service or through the different People Organization and Culture Departments in all countries where it is implemented.

Internal communication

Naturgy has a range of communication channels for employees, such as the corporate Intranet, Naturalnet, and the magazine Natural, which is distributed internationally and the social network Yammer. During 2018 a new channel, Naturalnews, has been launched, which operates as Naturgy’s digital newspaper. In 2018, this channel has been operational in Argentina, Spain, Mexico and Panama, and it is expected that by 2019 it will be incorporated into the remaining countries.

The transformation carried out by the company during 2018 has had an intense communication campaign. In

the section of awareness campaigns, the most prominent issues were the Commitment to Health and Safety, energy volunteering, cybersecurity, compliance, customer experience and the fight against gender violence.

In addition, numerous initiatives have been introduced in 2018 to encourage active employee participation and closeness to Senior Management, through face-to-face dialogues such as the Dialogue Programme with more than 1,200 participants.



Health and safety

[103-1], [103-2] and [103-3]
(Occupational health and safety)

Health and safety strategy of Naturgy	91
Risk management	95
Communication to employees and action plans	97
Training and awareness	98
Certifications, safety audits and process diagnostics	100
Health	100



Proposed actions 2018

Data Visualization. Predictive analysis of safety and the accident rate.



Meeting point. Two-way information exchange channel with suppliers and collaborating companies.



Spear. Security of consumers and communities management programme.



Plan to assist employees while they are on sick leave.



Consolidation of the healthy business model in countries already certified, and achieving certification in Chile.



Planned actions 2019

Horus: Multi-factor analytical preventive analysis.

Integra: Exchange of best practices and learning through collaboration with collaborating companies.

Kepler: Innovation project applied to prevention.

Optimise the approach to cases of colon cancer.

Optimise the approach to osteomuscular injuries.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Recognising a job well done

Naturgy considers the management of health and safety as a key factor of business leadership, representing a cornerstone of the entire business strategy implemented with the same quality standards in all activities and countries. That is why it has been rewarded with international recognition through several initiatives, awards and relevant prizes.



Safety Awards: Fleet safety and Safety employees



Most innovative company in safety



Excellence in prevention

Stakeholders of Naturgy and health and safety

According to the analysis conducted by the company to identify the most relevant issues, people, suppliers, customers and society are the most sensitive stakeholders to management of health and safety at the company.

The company's responsibility in this area is not limited to its employees, facilities or processes, but also requires the commitment of its external partners. Accordingly, Naturgy works to transmit its culture to the companies with which it collaborates and to introduce the appropriate screening and assessment mechanisms for suppliers that achieve the best performance in health and safety.

Health and safety strategy of Naturgy

Safety as a strategy guides the way in which Naturgy operates. This premise has been consolidated during 2018 based on a common culture in which all levels of the company, spearheaded by the Board of Directors, have acquired a firm commitment to prevention and ongoing improvement in this area.

The health and safety strategy has revolved around four pillars, leading to

the development of different strategic objectives and goals to be achieved.

The Health and Safety Committees held in 2018 have become the most suitable channel for demonstrating the visible commitment of senior management. In turn, health and safety continue to represent the largest area of knowledge, with 195,526 hours, and extending the health and safety culture to collaborating

companies is guaranteed through the 32,826 work inspections and supervisions that have been introduced as a mechanism to support compliance with the operational discipline.

Strategic pillars



Consolidating health and safety as a strategic lever to align and capture efficiencies.



Maintaining Naturgy as a **worldwide benchmark in health and safety issues.**



Drastically reducing the accident rate at collaborating companies.



Implementing the commitment in all countries where the company will have a presence.

Evolution of the Health and Safety Commitment

Since 2017, the company has been working on establishing the new steps of the strategy, maintaining five areas of action based on: leadership, employees, collaborating companies, process and facility security management and society.

Health and safety leadership

Leadership is considered the driver of cultural change in the company. It involves an effort at all organisational levels and is promoted from management, in a resolute and firm way, so that it is perceived in the company's decision-making process. Naturgy's commitment to the target of zero accidents is strengthened through

the involvement of senior management in the management of safety in all activities.

Senior management and the various committees have the necessary tools and the power to control and apply the appropriate measures in the event of any sign or anomaly concerning safety issues in all activities and countries.

Safety standards pursuant to the new culture

Cultural change is the result of the implementation and maintenance of the very highest standards of health and safety. These standards are procedures aimed at staff to promote safe conduct and ways of working that have been brought into line with Naturgy's new strategy and culture to guarantee the adequate regulatory framework that a changing environment needs.



Risk prevention

To ensure safety in the activities of Naturgy, measures aimed at preventing accidents and incidents have been introduced. Risk prevention is a key factor that governs business leadership and is supported on these principles:

This is the commitment of Naturgy and also the one that must be shared and applied by its collaborating companies.

Based on these, Naturgy has introduced Vision Zero, a transformational approach to prevention promoted by the International Social Security Association (ISSA) in favour of zero occupational accidents, illnesses and

damages, and the purpose of which is to foster the preventive culture in organisations. The EU-OSHA has also joined the initiative.

Furthermore, we have also developed mechanisms to learn from events that occur and to avoid them in the future. These actions revolve around the main cultural axes of the company's health and safety, the cornerstone of its commitment.

1
Nothing is more important than health and safety

... not production, not sales, not profits.

2
All accidents can be avoided

... there are no inevitable accidents.

3
Safety is Management's responsibility

... and it must be managed as such.

4
Safety is an individual responsibility

... and a condition of employment, and of procurement for collaborating companies.

5
All work must be planned and carried out with a focus on safety

... ours, that of our employees, collaborating companies, visitors, customers and the community.

Employee accident-rate indicators [403-2]

	Target 2019	Target 2018	2018			2017			2016		
			Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave ¹	27	41	28	25	3	45	40	5	65	55	10
Days lost ²	1,448	1,537	1,524	1,497	27	1,708	1,605	103	2,424	1,870	554
Mortalities ³	0	0	0	0	0	0	0	0	0	0	0
Frequency rate ⁴	0.95	1.19	1.00	1.30	0.35	1.30	1.65	0.49	1.72	2.04	0.91
Severity rate ⁵	0.052	0.05	0.055	0.078	0.003	0.05	0.07	0.01	0.06	0.07	0.05
Incidence rate ⁶	1.89	2.41	1.99	2.58	0.69	2.65	3.34	0.99	3.48	4.14	1.85
Absenteeism rate ⁷	-	2.15	2.68	-	-	2.18	-	-	2.15	-	-

NB 1: Across-the-board decrease in all indicators that supports the group's Health and Safety Commitment:

- 24% decrease in accidents with sick leave and 14% in the frequency rate with regard to 2017.

- 18% decrease in the incidence rate.

NB 2: it should be noted that since the start of the commitment there has been a cumulative decrease of 80% in the Frequency Rate (5.60 to 1.12).

NB 3: It does not include the information of Moldova, Kenya and South Africa. The accident rates including Moldova and South Africa are:

No. of accidents with sick leave: 34; Days lost: 1,745; Mortalities: 1; Frequency rate: 1.138; Severity rate: 0.058; Frequency rate: 2.204.

1. Accidents requiring sick leave: number of accidents in the workplace leading the employee to take sick leave.

2. Days lost: days not worked due to sick leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.

3. Mortalities: number of workers who died due to accidents at work.

4. Frequency rate: number of accidents with sick leave occurring during the working day for every million hours worked.

5. Severity rate: number of days lost as a result of occupational accidents for every 1,000 hours worked.

6. Incidence rate: number of occupational accidents for every 1,000 employees.

7. Absenteeism rate: absence of employees from their jobs.

Activities that Naturgy develops in each stage of safety management

	Prevention	Detection	Control	Occurrence	Mitigation	Communication	Learning
Leadership		Creation of the Accident Rate Committee Management Committees for accidents analysis Health and Safety Committees	Personal Action Plan Zero tolerance Preventive Safety Observations	Leadership workshops	Creation of committees to analyse and investigate accidents and incidents Introduction of action plans and monitoring to reduce the accident rate	Direct involvement of the management line	Analysis of accidents and incidents in all committees and meetings Introduction of the "Safety Pause" for the entire company in the event of mortalities and particularly relevant accidents
Employees		Regular health and safety meetings Risk assessment and management mechanisms Training and information	Motivation and recognition of employees Preparation of health and safety standards Safety contacts	Awards for employees. Leader in health and safety for the year Emergency preparation and response Documented inspections	Lessons learnt and good practices Red lines: Employee safety breaches	Reporting accidents and incidents	
Collaborating companies		Preliminary classification of collaborating companies Awareness workshops	Coordination of activities with collaborating companies Preventive Safety Observations Documented inspections		Introduction of action plans and monitoring to reduce the accident rate Red and yellow lines: Safety breaches	Greater importance given to the targets associated to reducing the accident rate Inclusion of a penalties scales in procurement with those collaborating companies	Introduction of specific emergency plans Decertification of collaborating companies where serious repetitive breaches are detected
Facilities and processes		Collaboration in intersectoral workgroups for learning purposes Technology-based information of technical processes	Zero tolerance Emergency preparation and response	Risk analysis of the safety of technical processes	Industrial safety observatory	Lessons learnt and good practices	Communication and investigation into industrial accidents and incidents
Pillars of the Health and Safety Commitment	Activities carried out before the event			Activities carried out after the event			

Risk management

In this regard, the company has mechanisms that allow the assessment and management of risks, this being a process of continuous learning in the prevention and mitigation of their consequences.,

Risk assessment and management mechanisms

The process of occupational risk assessment aims to estimate the magnitude of those risks that could not be avoided, gathering the information necessary for the adoption of effective preventive measures. Likewise, the company seeks to detect and minimise risks in activities, products and services that could affect its facilities or its environment.

Naturgy has specific management mechanisms to achieve its target of reducing the number of accidents to a minimum. In 2018, these mechanisms have been:

Preventive Safety Observations	Documented occupational safety inspections	Zero tolerance records
16,392	32,826	4,308
Safety Pauses	Personal Action Plans	Monitoring of actions
2,408	3,835	28,216
Investigation of	Lessons learnt	Safety contacts
100% of the accidents and incidents that occurred		

Risk map and process safety management

Naturgy has its own risk assessment tool for certain types of industrial facilities in operation that can detect points of risk and potential conditions to later prevent and minimise impacts on the environment.

Fire protection (FP)

During 2018 we have continued with the development, adjustment and introduction of the FP model, taking into consideration that this model aims to reduce fire incidents and accidents and reduce the consequences of incidents and accidents by using best practices and operational solutions on the premises.

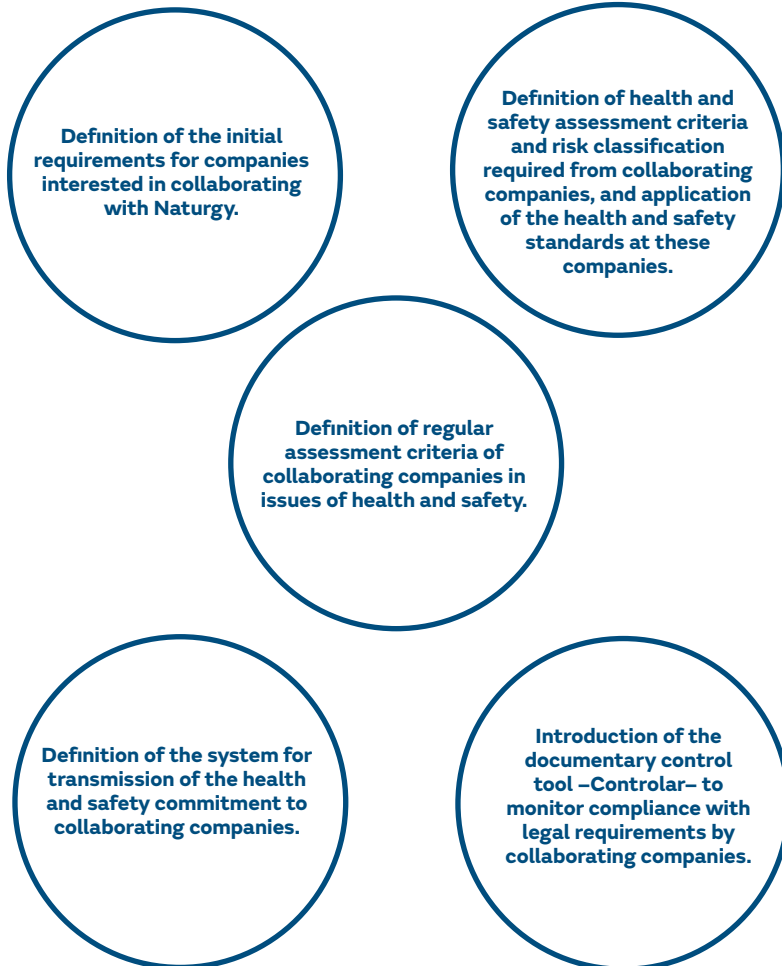
In addition, the role of Naturgy is strengthened every day in the different fire protection forums and associations, such as CEPREVEN (Spain), sharing experiences and knowledge.

Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

Safety is an indispensable condition of procurement for all collaborating companies, and is taken into consideration in the assessment and award of tenders and bids.

Naturgy develops other mechanisms designed to ensure that the safety level of collaborating companies is the same as for its own staff.

In 2018, the health and safety documentary management system of Naturgy registered 3,743 collaborating companies that performed a total of 89,334,998 hours worked among contractors and subcontractors, for the performance of, inter alia, construction, operation or maintenance activities.



Management and investigation of accidents and incidents

One of the basic preventive pillars of Naturgy is the reduction of risk situations in order to eliminate accidents. In this regard, the actions arising from investigations into accidents and incidents, and the learning derived from it represent an essential part. The quick and efficient reporting of events to all levels of the company for rapid and uniform implementation of the preventive measures identified are the keys to eradicating the situations that arise. In 2018, a total of 3,640 incidents were reported.

As key milestones, in previous years we managed to achieve the unification of reporting and investigation criteria of events for all countries and businesses, and a number of specific action plans and actions targeted at avoiding their repetition. In addition, in 2018 there were 15,370 health and safety meetings and committees, to monitor the rate of accidents, distribute lessons learnt and monitor actions targeted at reducing these.

Communication with employees and action plans

The Health and Safety Commitment sets out as the main communication objectives the reinforcement of the commitment and acknowledging the effort. These two communication objectives have been achieved through the following actions:

- Putting the focus on the existing risks and mainly on risk of falls at the same level, raising awareness of road safety and the safety of collaborating companies.
- Providing value-added to the employee through participatory actions.
- Giving prominence to the employee through recognition.

Consultation and participation

[403-1] and [403-4]

Naturgy's management of health and safety requires the commitment of all of the company's employees. For this reason, the Group has channels for the transmission of information, queries and participation that allow us to encourage awareness and to respond to their information needs in health and safety issues.

One of the mechanisms for consultation and direct participation is the periodic health and safety meeting. It is held in all areas of the company, with 100% of employees represented at these meetings. It does not serve as a substitute for the different health and safety committees that correspond to each country under labour legislation.

The main issues, formerly dealt with during 2018 of these kinds of meetings with the workers' representatives, were:

Main issues formerly dealt with during 2018



Dissemination

Regarding outreach activities, as part of the Health and Safety Commitment we can highlight the internal dissemination to all the company's personnel regarding own or third-party events, from lessons learnt to best practices. Everything learnt is available on the Intranet platform and the most relevant cases are disseminated individually. The content of this dissemination is reaching contractor companies through the business units.

Recognition and achievements of employees

III Health and Safety Leadership Award

The Health and Safety Leadership Awards recognise employees whose health and safety conduct is a reference for their colleagues. All employees can take part, proposing the candidate that best satisfies the attributes measured.

The definition and organisation of the III Health and Safety Awards of Naturgy have been carried out with a particular focus on compliance with the principles of globality, fairness and diversity.

Training and awareness

The cultural change achieved at the company in recent years in terms of health and safety issues is largely due to the efforts made in providing quality training, both for our own employees as well as collaborating companies.

In 2018, we have managed to define a new model for management of health and safety training within the global sphere of the company, to achieve uniform management of health and safety training in all countries where Naturgy has a presence.

To provide adequate training, the company receives support in management from the Occupational Risk Prevention Classroom, a tool that the Corporate University has in order to comply with the goals established.

In 2018, this issue has been the area of knowledge on which most hours have been spent, training a total of 34,497 participants, over 2,664 sessions, which translates into 195,526 training hours.

Training of collaborating companies

[EU18]

To ensure the collaborating companies' commitment to health and safety, Naturgy requires by contract that all its suppliers and contractors certify that

their employees have received specific occupational risk prevention and safety training for the work commissioned to them.

As regards collaborating companies, in 2018, 100% of the Naturgy collaborating companies certified that their employees had received health and safety training.

Internal rules of global application have also been established in which operational coordination between business units and their collaborating companies is promoted through leadership workshops and awareness in health and safety issues.



Safety among employees, customers and society

The safety of people is one of the main commitments of Naturgy's corporate policy, involving not only employees, but also suppliers, collaborating companies, customers and other stakeholders. The duty to protect involves identifying risks to personal security to which people are exposed in their work and travel, and the necessary measures or actions with which to mitigate them, including:

- Protection during travel and for expatriates:
 - Information on security risks in countries and advice and recommendations on how to act, with 107 country security guides currently available.
- Evacuation:
 - Coordination for evacuation processes in countries where conditions pose a threat to personal security.
- Operational support:
 - Evaluation of risks for work in areas of conflict.
 - Protective equipment, in coordination with emergency services and law enforcement agencies for works performed in high-risk environments, with 106 actions recorded in 2018 in Spain.

- Provision of specific security services in destination countries, with more than 1,000 services provided in 2018.
- Monitoring of employees during their travels, with more than 7,300 journeys monitored in 2018.
- Twenty-four hour incident-response service for employees.

Also, Naturgy conducts accident prevention campaigns for customers of the company, through giving advice that is communicated through the global communication channels. Additionally, the company uses the bills as a direct communication channel with customers.

During 2018, more than 42,000 people throughout the Group have attended awareness days in this field.

In relation to the distribution assets and according to the records of the various Group companies, there were unfortunately 65 accidents involving the general public, causing 11 deaths and 120 injuries in 2018. At the end of the year, 11 legal actions were brought against Naturgy.



Certifications, safety audits and process diagnostics

The company has a Global Certification Plan for the Occupational Health and Safety System; its aim consists of achieving global certification according to the OHSAS 18001 international standard. For its fulfilment, multi-discipline working parties were created as advised by the Prevention Service.

In order to verify compliance with the prevailing rules and regulations of the country, throughout 2018 a total of 68 internal audits were conducted by qualified auditors and 37 external audits of the management system in accordance with OHSAS 18001.

To verify compliance with the country's prevailing rules and regulations, Naturgy has conducted safety audits of the company's different technical processes, of the technical procedures introduced by the group and the own internal regulations of the business unit.

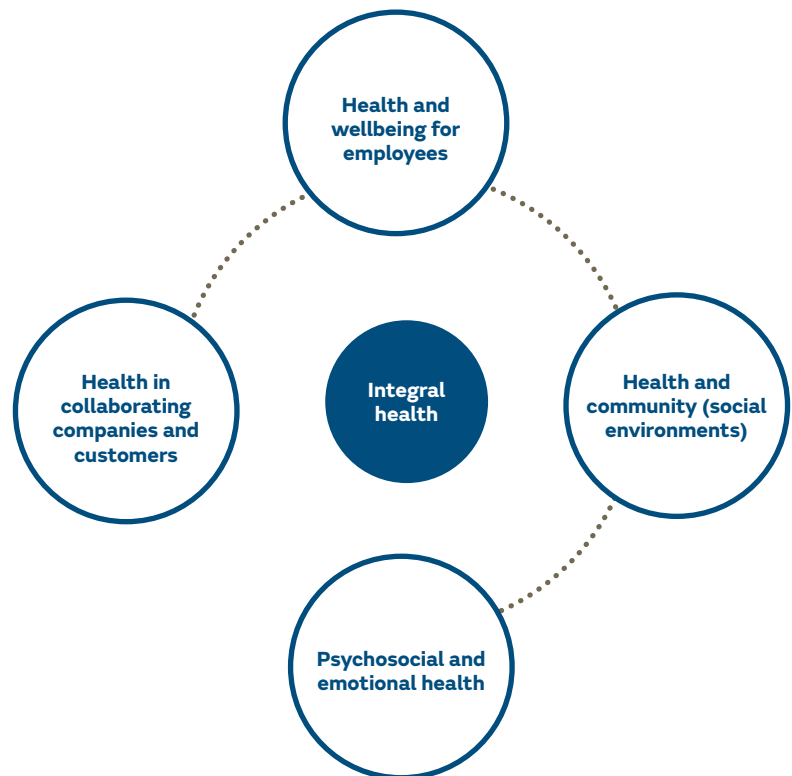
To contribute value to the business lines and to assist in the ongoing improvement of processes, there is monitoring and control of the operational risks concerning technology, accidents and malfunctions and impacts on the environment, and of the relevant management parameters.

As regards diagnostics, these are conducted on technical processes and on request by the different business units. The aim is to show the degree of control of the business, the monitoring mechanisms and, if anomalies are found, the appropriate actions for correction can be carried out.

Health

[403-3]

The work of Naturgy is based on excellence and ongoing innovation to place a global strategy of health and well-being at the disposal of employees, family members, collaborating companies, customers and the social environment, a strategy that includes everything necessary for their benefit. This includes prevention, promotion, healthcare, and training and information regarding healthy habits, taking into account both the individual needs and the particularities of each country.



Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of healthcare, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the Group.

Actions for employees' health

At Naturgy, in general we perform activities related to ergonomics and applied psychosociology, health promotion campaigns and medical examinations.

Prevention campaigns and health promotion

In 2018, we continued to implement prevention campaigns and health promotion campaigns, continuing with the regular and introducing other new ones. The purpose of the campaigns is to raise awareness and mobilise workers to generate a culture of prevention of disease, promote healthy lifestyles and control risk factors that can cause various diseases.

Throughout 2018, the post-traumatic stress prevention mechanism has been activated in Spain, to address both the personal environment of employees as well as business circumstances. In the international arena, new health promotion and prevention campaigns have been introduced and a comprehensive annual health plan has been prepared.

Healthcare monitoring

Every year, the company checks the health of all its employees, with particular scrutiny on those that perform special risk activities. We continually perform an analysis and assessment of methodologies concerning management, scientific and technological advances, a process which enables us to validate our way of doing things and the position and leadership of the Group in health and well-being issues.

Healthy company model

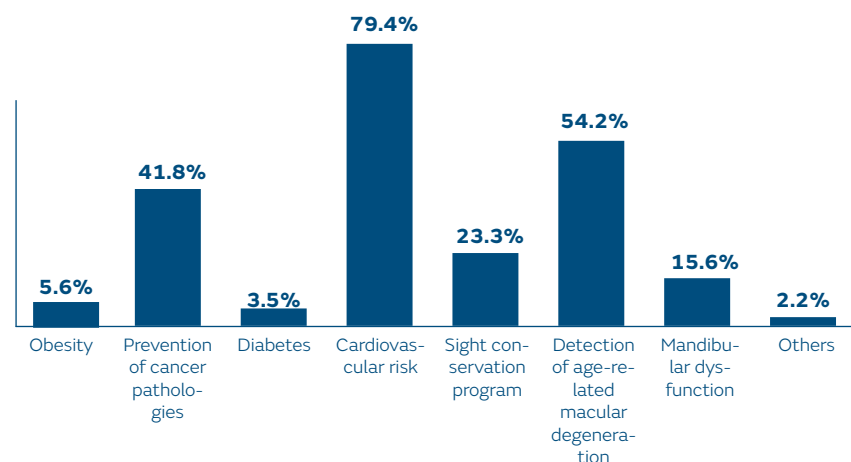
Naturgy was the first energy company in Spain to obtain certification as a healthy company, a commitment that was renewed in 2018 when the company achieved recertification that drives a new cycle of continuous improvement for the coming years.

This certification establishes the requirements of a management system

for organisations committed to the principles and existing international recommendations for healthy companies that want to continuously promote and protect health, safety and welfare of workers and sustainability in the working environment of their workers, their families and the community in which the business operates.

The scope of the international implementation of this model currently extends to: Argentina, Brazil, Morocco, Mexico, and Dominican Republic. Chile is in the process of being certified, and is expected to achieve this in the first quarter of 2019. In addition, on the international stage, work has been carried out on the inclusion of the healthy company model in the Naturgy Integrated Management System, using the Enablón tool and the Management Review Report to manage its activity.

Staff taking part in prevention campaigns (%)



Responsible supply chain

[103-1], [103-2] and [103-3] (Assessment of the supply chain)

The supply chain of Naturgy **102**

Management of the supply chain **104**

Proposed actions 2018

Increase and extend to all countries the number of ESG audits conducted with suppliers.

Planned actions 2019

Quarterly monitoring of successful suppliers based on reputational, economic-financial and CSR ratings of external data sources.

Implementation of the updated risk matrix in the whole group.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

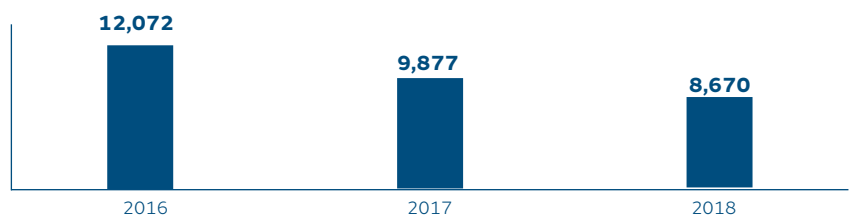
The supply chain of Naturgy

Naturgy performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in the company's policies, rules and procedures, as well as internationally recognised principles of good

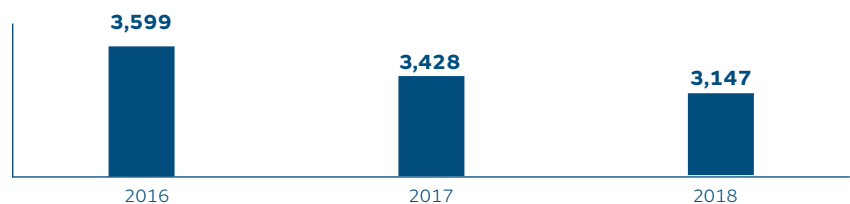
governance of ensuring a uniform, efficient and sustainable model.

In 2018, Naturgy set up trade relations with a total of 8,670 suppliers which accounted for a total expenditure of Euros 3.147 billion.

Suppliers with contracts currently in force



Total purchase volume awarded (euros million)



Main indicators and targets

KPI: Definition	2017	2018 Objective	2018	2019 Objective	Principle of acting responsibly
Coverage level of ESG audits over purchase volume with high ESG risk	41.38%	45%	51.62%	50%	Extending the culture of the company to the supply chain, passing on the target of excellence in service and the principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
Percentage of purchase volume with Code of Ethics approval	67.78%	+5%	73.04%	+10%	Fostering compliance with the codes and policies of the company in the supply chain, in particular in the area of human rights, ethics and health and safety.
Purchase volume assigned to local suppliers	90.75%	Exceeds 80%	94.94%	Exceeds 80%	Promoting procurement of suppliers from the country or region where the company carries out its activities, helping to generate a positive social impact and supporting traceability and fair trade. Local suppliers are located in the same geographical markets in which Naturgy operates.

*NB: In 2018, the calculation system for the "percentage of purchase volume with acceptance of the Code of Ethics" indicator was modified. In 2017 the global amount awarded by country was used and the reported value was 82.3% and in 2018 the calculation takes into account those suppliers that are registered in the Achilles platform and which adhere to the Naturgy Supplier Code of Ethics, and so the 2017 indicator has been recalculated with this criterion.

Naturgy suppliers according to the nature of their activity

Two thirds of the overall amount awarded corresponds to service suppliers that fundamentally take part in the following business areas:

- Development and maintenance of grids, both natural gas and electricity.
- Operators and maintenance workers of energy plants.
- Commercial management services.

The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity. The development of this activity has been carried out mainly in Argentina, Brazil, Chile, Spain, Mexico, Moldova and Panama, and, to a lesser extent, in Australia, Colombia, Kenya, Morocco, Peru, the Dominican Republic and South Africa.

Management of the supply chain

[102-9]

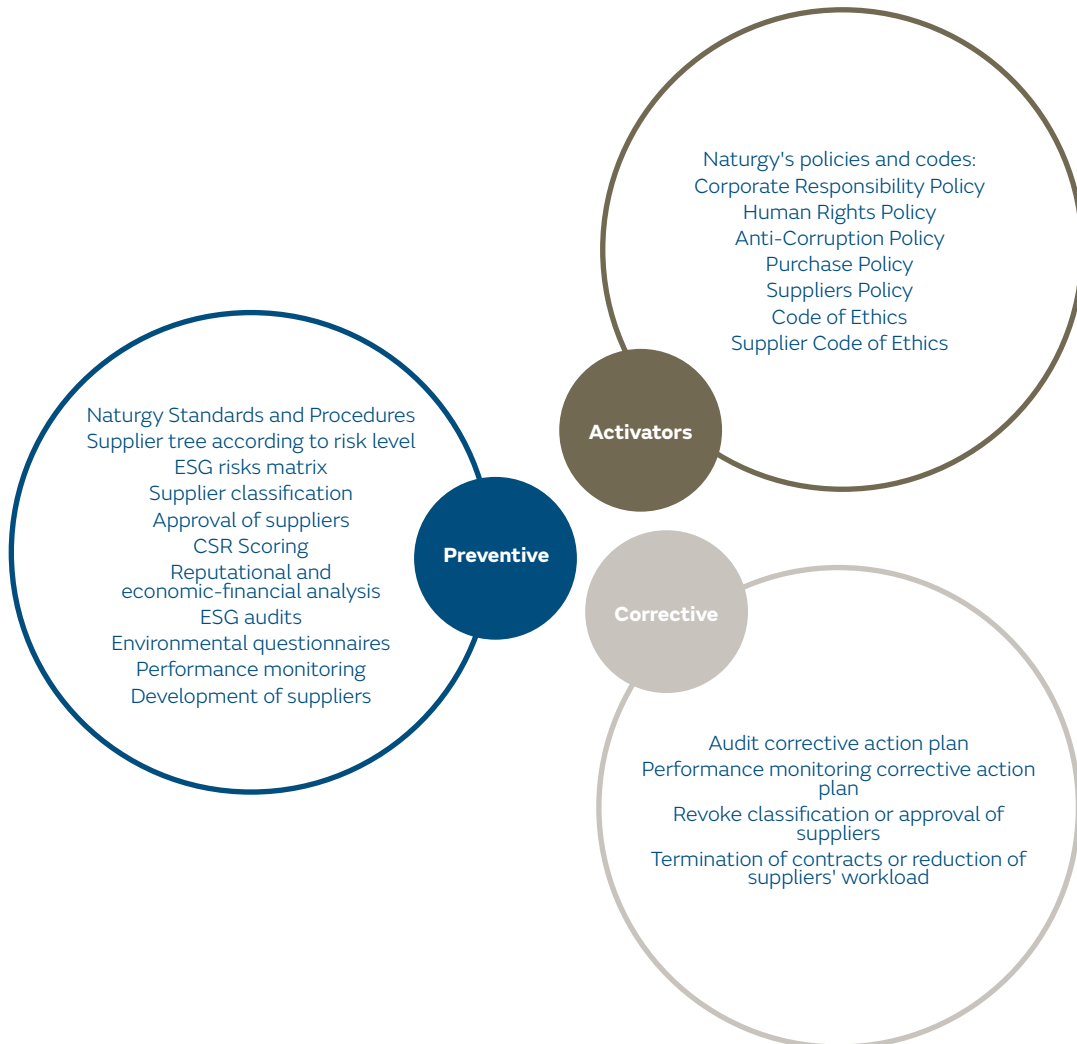
Purchasing model

The Purchasing and Supplier Management model introduces a management process with unified and overarching criteria for Naturgy's entire scope of operations.

In the remaining cases, the contracting of suppliers from the country or region where the company performs its activities is encouraged, supporting the generation of a positive social impact through the creation of wealth and investment in the local community, generating economic inclusion in the company's spheres of influence.

The levers and measures that activate Naturgy's purchasing model are summed up in the following graph:

Levers and measures that activate Naturgy's purchasing model



Elements to be highlighted in management of the Naturgy supply chain	
Corporate Responsibility Policy	It lays out the commitments, actions and indicators of the company for responsible management of its supply chain.
Supplier Code of Ethics	Since 2016 all group suppliers have to adhere to the Supplier Code of Ethics.
Human Rights Policy	Naturgy's Human Rights Policy extends to the Supplier Code of Ethics. The assessment of suppliers includes issues related to human rights practices that are used to exclude suppliers in the event of an unsatisfactory response. In 2018, no breach of human rights by suppliers was detected.
Transparency in purchases and communication with suppliers	<p>Mechanisms and communication channels have been established with the supplier that ensure free competition, objectivity, impartiality and transparency, and which facilitate access to the information necessary for them to take part in the procurement processes:</p> <ul style="list-style-type: none"> • Use of secure electronic means for managing tenders and a specific section for suppliers on the Naturgy website. • The supplier portal is the online platform that provides the supplier with the technical regulations that apply in the procurement categories awarded, duly notifying any updates to the regulations, and managing orders. • The Supplier Channel is the online tool available to the supplier to sort out any doubts or incidents in the procurement process and has been established as a communications channel for any queries or suggestions.
Reporting Channel	All suppliers, contractors and external collaborating companies can contact the Ethics and Compliance Committee through the email published in the Naturgy Supplier Code of Ethics.

Supply chain management process

[102-9], [308-1], [308-2], [414-1] and [414-2]

In order to promote responsible management in the supply chain, Naturgy has a comprehensive purchase process, with application of unified and universal contractual conditions for the company's entire sphere of operation.



Policies and procedures for supervising the management of subcontracted activities	
General External Procurement Standard	It 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.
General Supplier Quality Standard	It represents the principles of the processes of evaluation, approval, monitoring and development of suppliers.
Counterparty Due Diligence Procedure	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.

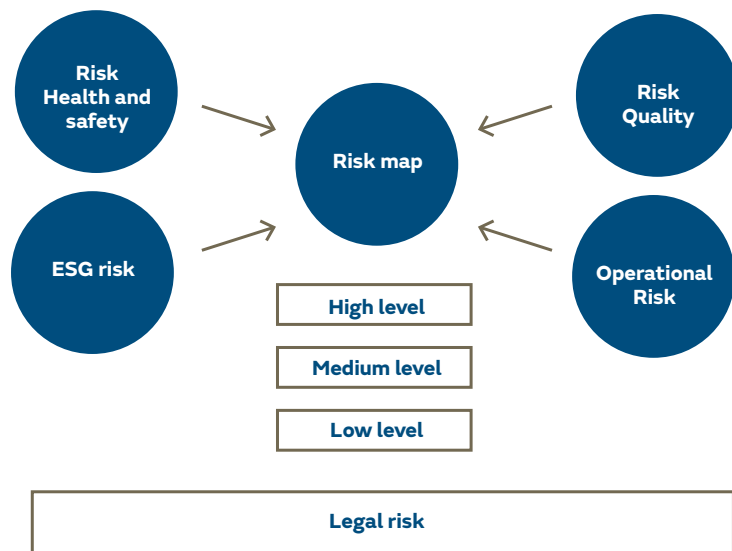
Risk management of the supply chain

The process of global supply chain management is based on the assessment of risk factors that are intrinsic in outsourcing a service or supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally.

Thus, risk mitigation mechanisms are established at three levels -high, medium or low- depending on the purchase categories that each supplier intends to supply and the country where it is carried out.

In addition, for suppliers with high risk, the company has established mechanisms for analysing aspects that could negatively affect its reputation and sustainability, and may even exclude suppliers for this reason. In accordance with the company's Health and Safety Commitment, specific regulations have been introduced for classification of the health and safety risk of suppliers, by defining objective aspects and criteria for evaluation, requirements for classification, selection and evaluation of bids in adjudication procedures. In a complementary way, for those suppliers

In the process of assessment of Naturgy suppliers, the following risk factors are taken into account



that perform activities classified as high risk, their performance is measured using objective metrics and the method established in the Naturgy "Health and Safety Standard: Assessment of performance of collaborating companies in health and safety issues".

Naturgy has developed environmental specifications for suppliers and contractors that are attached to the corresponding contracts and which

include minimum environmental management requirements for application during procurement.

40.20% of the volume of purchases from critical suppliers has an environmental management system with external certification.

Likewise, regarding the ESG risk (environment, social and good governance), Naturgy has an ESG risk matrix of its supply chain that has been reviewed in 2018. The differentiation within the “Atmosphere” aspect between “Climate change” and “Pollution” has been determined as a good practice, as has the introduction of a new social aspect “Freedom”, which will be implemented in the purchasing process in 2019.

Assessment of suppliers

Assessment of suppliers is introduced in the processes of business classification and approval of suppliers according to activity. Both processes are set out in the risk map by purchase category.

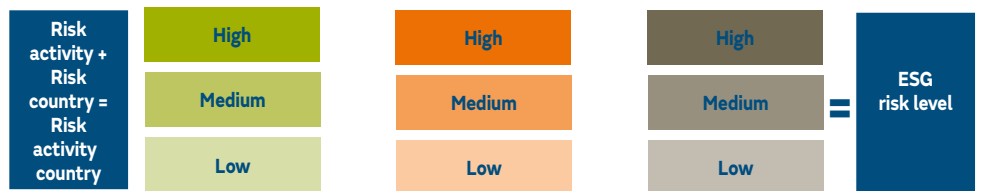
With the risk evaluation of the 324 purchase categories that are managed worldwide, and assessing the risks of 50 countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country. Suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply will be considered by the company as critical suppliers.

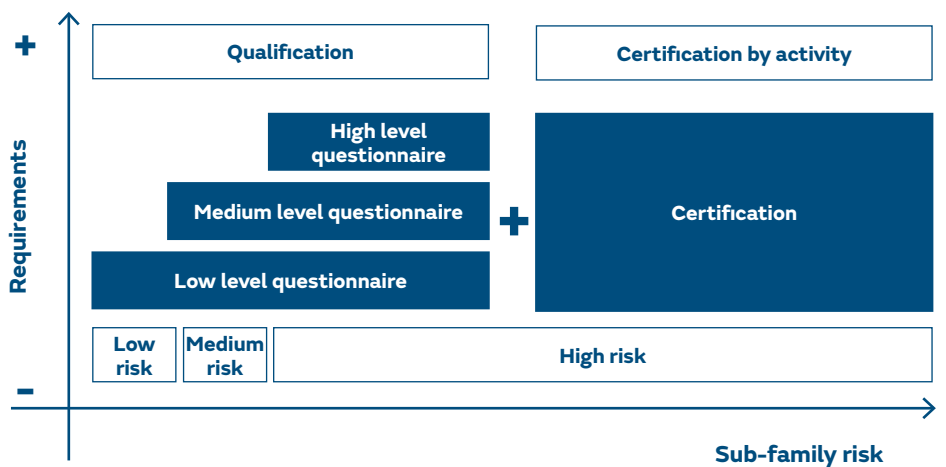
In 2018, the number of suppliers with a valid contract in critical activities was 2,584, representing 61.27% of the purchase volume. In addition, the number of critical non-tier 1 suppliers identified by the company was 116 suppliers, mainly corresponding to categories of purchase of critical

Process map and sustainability criteria included in the ESG risk matrix:

Environment	Social	Good Governance
Atmosphere	Community well-being	Fraud
Biodiversity	Human rights	Corruption
Water	Employee rights	Skills
Soil	Personal data protection	Terrorism
Countryside / Territory / Heritage	Safety and quality of products	Work ethic
Consumption of resources	Health and ORP	Compliance with regulations
Waste		



Risk map by purchase category



products that represent 1.46% of the overall purchase volume.

Naturgy also identifies the suppliers with high risk in sustainability, considering those that reveal a high risk level in the health and safety and ESG factors. In 2018, the number of suppliers in this category was 1,234, representing 43.17% of the total purchase volume. In addition, eight non-tier 1 suppliers with high risk of sustainability have been identified.

Business classification of suppliers

This process is based on the assessment of compliance at business level of what is required by Naturgy in the different risk factors, in order to participate in the procurement process of goods and services. All suppliers must pass this process before maintaining commercial relations with Naturgy.

The classification is conducted using self-assessment questionnaires that take into consideration legal, economic-financial, criminal, solvency, experience,

business organisation, quality, safety, human rights, environmental, social and employment practices criteria. The length and depth of the questionnaire increases depending on the level of risk of the purchasing category according to the Naturgy risk matrix, and is carried out, basically, by means of registration in the Achilles platform –a supplier classification system. Naturgy also requires that critical suppliers register in the Repro Community of the energy sector of Southern Europe and South America.

In 2018, Naturgy has evaluated a total of 6,979 suppliers, including potential and active ones, which have to be assessed on an annual basis. The result of the overall process shapes a suppliers tree in which they are classified in accordance with the purchase category for which they are able to supply services or products, and for which they have been rated as suitable with regard to the associated risk.

Furthermore, Naturgy has managed the ESG assessment of 6,906 suppliers, carried out in the Group's main

subsidiaries, where the Achilles tool is installed. The weight of ESG issues raised to high-risk level suppliers during the business classification process represents 65.6% of the total.

The high and medium level classification process includes obtaining a grade that enables suitable suppliers to be assessed in accordance with objective and measurable criteria, for use in the different stages of the bid processes. In addition, during the process the assessment of the suppliers in terms of sustainability is carried out, quantifying each suppliers' relative position with respect to the market. All information is available to suppliers to undertake the actions they deem appropriate for improvement.



Official approval and management of supplier quality

Naturgy has introduced the goal whereby all suppliers that perform critical activities through being defined with a high risk in any of the ESG, quality and health and safety risk factors must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any non-compliances detected during the

audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the non-tier 1 suppliers corresponding to categories of purchase of critical products, over which audits are conducted based fundamentally on quality-related aspects.

In 2018, 782 audits were performed on suppliers and sub-suppliers, of which 373 were conducted at the supplier's facilities (129 audits of approval

and 244 inspections of materials at source). 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.

60% of the approval audits carried out at the suppliers' premises has resulted in the need to submit a corrective action plan. Moreover, one supplier had their official approval either suspended or withdrawn for failing to pass this process as a consequence of breaches related to safety, quality and other issues.

Monitoring, follow-up and development of suppliers

Monitoring of suppliers

Criteria considered in monitoring	
Corporate image and reputation	<p>In addition to what is established in the Code of Ethics, other analyses based on reputational risk and corporate social responsibility are carried out with suppliers assessed as suitable at the high risk level. Throughout 2018, 1,838 additional analyses were carried out on 1,069 suppliers.</p> <p>In addition, reputational due diligence is performed on suppliers to analyse the alignment with Naturgy's corporate responsibility undertakings. Based on the findings, the risk and the actions to be carried out are assessed.</p> <p>In 2018, no supplier was disqualified on the grounds of fraud or unethical practices.</p>
Economic-financial information	<p>The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers.</p> <p>In addition, in the evaluation process the supplier's economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier's global scoring that can be used in the supplier's valuation during the contract award strategy.</p>

Monitoring of suppliers

Criteria considered in monitoring	
Performance follow-up	<p>It is carried out with the most relevant suppliers and involves the performance of surveys with the Naturgy units to measure their level of satisfaction with suppliers and detailed aspects concerning quality, health and safety, operations and ESG.</p> <p>In 2018, 627 performance evaluations were conducted with the heads of user units in Argentina, Brazil, Chile, Spain, Mexico, Moldova, and the Dominican Republic, assessing a total of 305 providers. The results and classification obtained are reported to the affected internal units of the company, also specifying their weak points and where they need to improve. In 2018, action plans have been agreed with 19 suppliers whose score in the performance measurement proved insufficient.</p>
ESG audits	<p>Suppliers classified with a high risk level are required to provide documentary evidence and/or audits carried out from the point of view of corporate responsibility. In 2018, a total of 116 in situ audits were carried out with suppliers of Naturgy, mostly critical or with a high purchase volume, to check the data provided previously in the classification questionnaire and to obtain further information on aspects related to the systems of CSR, quality, safety, health and the environment.</p> <p>In 2018, non-tier 1 critical suppliers were included in the ESG audit process, with 2 audits of tier 2 and tier 3 suppliers of material considered to be of high criticality from the ESG point of view.</p>

In the case of suppliers of critical purchasing categories with current contracts, the self-assessment and quality control mechanisms are agreed upon prior to the delivery of products or services; monitoring audits are carried out based on the level of risk

in the purchase category; equipment calibration control is carried out and there is verification that personnel performing high risk activities are authorised or certified to carry out said activities through accreditations or identification.

Also, products corresponding to critical categories are subjected to inspections, technical acceptance and FAT at the production centres.



Development of suppliers

The Corporate University, through its Extended University, offers a wide range of training to external partner companies, customers and suppliers of Naturgy, both technical as well as management. This enables companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The Extended University thus helps to establish a common planning and management model, contributing to the professionalisation of companies that form part of the value chain of Naturgy. The Extended University is fully consolidated as a strategic partner of the businesses, with a

recurrent activity of more than 14,000 participants every year and 100,000 hours of training.

In addition, supplier segmentation actions are carried out by analysing the amount incurred and managing relations with strategic and important suppliers in order to obtain a mutual and lasting benefit, in an environment of collaboration and efficiency between both parties, sharing information, aligning strategies, seeking continuous improvement and encouraging innovation.



Bettercoal: responsible purchase of coal guarantee

In 2013, Naturgy became a member of Bettercoal, an initiative made up of major European energy companies that strive to attain the ongoing improvement of corporate responsibility in the coal supply chain. The initiative seeks to include social, environmental and ethical practices into the coal supply chain, with the aim of producing changes that benefit employees, communities, businesses and the environment.

During 2018, the company acquired 1,299,493 tonnes of coal (94% of the total acquired) under a formal agreement with suppliers, to cater to the requirements defined in the Bettercoal Code.



Commitment to society

[103-1], [103-2] and [103-3]

(Development of the communities and social action)

Economic contributions	112
Creation of wealth and well-being where the company operates	114
Energy vulnerability	116
Relationship with communities	118
Social action in Latin America	120
Patronage and sponsorship	120
Corporate volunteers and employee participation	121
Naturgy Foundation	122

Proposed actions 2018

Planned actions 2019

Energy vulnerability social action.



Consolidating the Energy Rehabilitation Solidarity Fund and obtaining sufficient resources to refurbish the maximum number homes of vulnerable groups.

Energy and smart mobility to improve air quality.



Strengthening and extending training in vehicular natural gas at vocational training centres.

Launching actions to support dissemination of the Vulnerability Plan and the promotion of energy efficiency.



Approval of the General Procedure of Sponsorship and Donations and its introduction in all countries and societies.

Reviewing and updating the General Regulation on Sponsorship and Donations.



Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Economic contributions

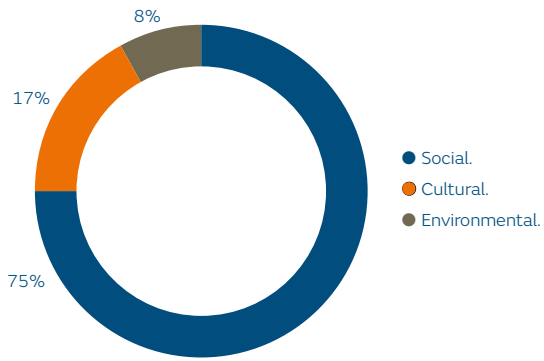
[102-12]

The aim of the contributions to social programmes is to increase the company's commitment to the local community. The programmes to which these resources are therefore allocated form part of the business development strategy. In 2018, they totalled Euros 11.01 million.

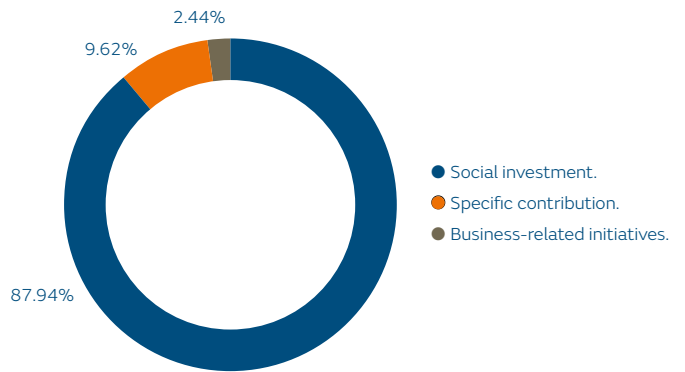
In order to measure the results, Naturgy has tools for assessing the reputation of the social programmes it carries out. As in previous years, in 2018 it continued to use the London Benchmarking Group methodology (LBG), which offers an overall view of social investment and enables a comparison of the results obtained with those of other companies.



Breakdown by type of action (%)

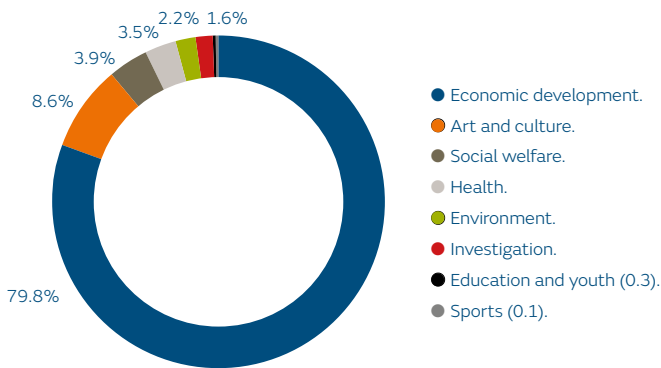


Motivation for initiatives (%)*



* London Benchmarking Group methodology (LBG).

Area of action (%)*



* London Benchmarking Group methodology (LBG).

Evolution of contributions

(euros million)

2016: **9.98**
 2017: **12.86**
 2018: **11.01**

Creation of wealth and well-being where the company operates

[102-13]

Naturgy develops its commitment to society through four main lines of action, aligning with the company's core activities.

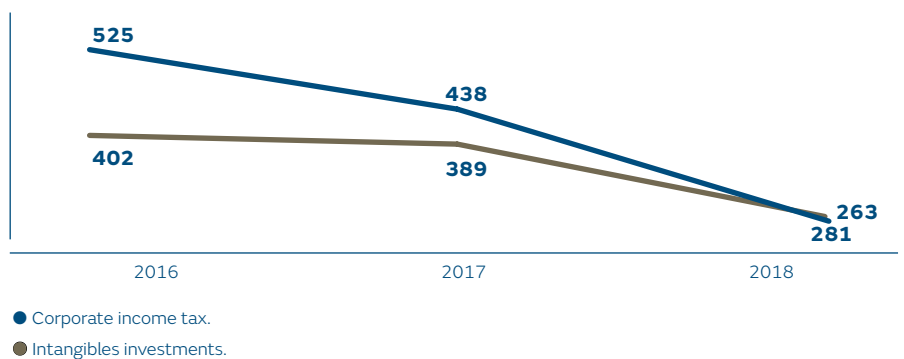
Lines of action

Sponsorship, patronage and donations	Social action. Latin America Integrated Operational Centre (COIL)	Relationship with communities. Social impact	Energy vulnerability
Cultural Social Energy and environment Naturgy Foundation	Inclusive business Responsible consumption Talent promotion	Corporate Governance Environmental management Infrastructure Products and services Employment Skills and training Suppliers Taxes	

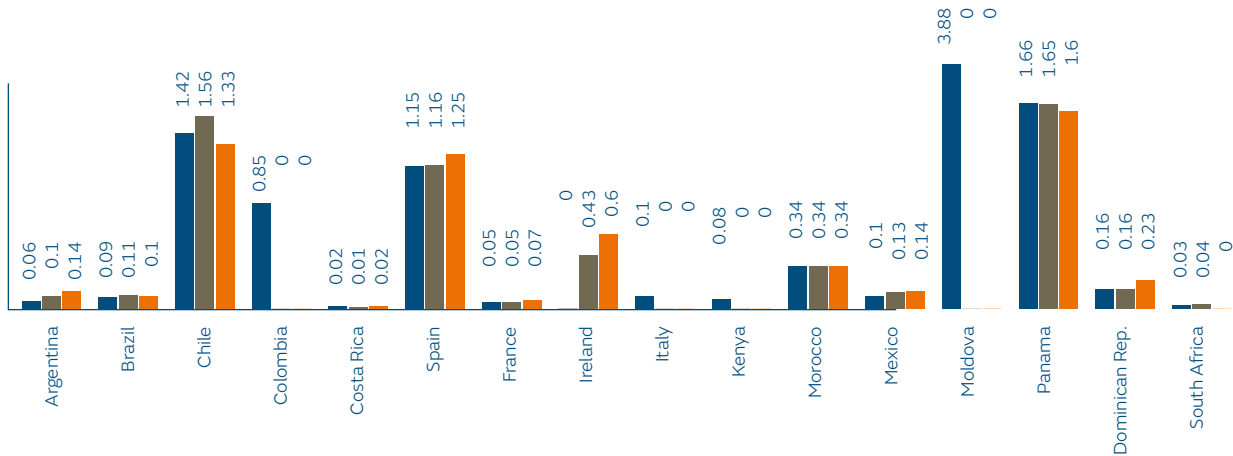
Naturgy actively collaborates with prestigious national and international sectoral and business institutions, in which it participates with its experience, know-how and resources.

It is also part of the governing bodies of the business federations for the electricity and gas sectors, Unesa and Sedigas respectively, of the International Chamber of Commerce (ICC) and the Spanish Energy Club. Naturgy is a member of Forética and of the Spanish Association for the UN Global Compact. The company also takes part in the Foundation for Renewable Energy & Environment and in the Corporate Excellence Centre for Reputation Leadership.

Contribution to society (euros million)



Contribution to GDP by country (%)



● 2016. ● 2017. ● 2018. Note: The contribution to GDP of the companies of Colombia, Italy, Kenya, Moldova and South Africa that appear as 0, are as part of the divestments produced in those countries.

Resilience

Companies must be prepared to cope with crisis scenarios that may endanger their goals or society itself (supply of essential services, fires, discharges, etc.). In this context, cooperation with public and private entities is essential.

Naturgy has a resilience model with which it anticipates and deals with situations of crisis by reducing their impact on the business, customers and society. This model includes the implementation of Crisis Management Plans (CMPs) and education and training programmes for Crisis Management Committees and teams involved, and a relationship with affected stakeholders.

Naturgy currently has CMPs in Morocco, Egypt, Kenya, Moldova Chile, Brazil, Mexico and Spain. Five crisis simulations were carried out in 2018, the aim of which was to ensure the effective action of teams and to verify the operability and coherence of the protocols set out in the CMPs.

Action against energy fraud

Energy fraud deserves a special mention. Aside from the economic impact it can cause the company, it also implies:

- Reduced tax collection.
- Higher energy costs for end users.
- Unfair competition between companies.
- Risk for public safety from illegal connections.

In 2018, there were 1,699 cases of investigation and anti-fraud action in Argentina, Brazil, Colombia, Panama, Mexico, Spain and Moldova. Of these actions, 1,428 cases corresponded to planned investigations and anti-fraud projects in the field of electricity and gas distribution, and a further 271 cases were instigated at the request of the different areas and businesses of the company.

These actions led to the recovery of significant volumes of energy through billing for the energy defrauded, reducing fraud in the sphere of electricity and gas distribution, more specifically 2.89 GWh of electricity, which led to an amount recovered of Euros 0.388 million and 5.31 million m³, equivalent to Euros 4.522 million.

This programme demonstrates the company's proactiveness and firm commitment against criminal conduct and corruption.

Energy vulnerability

[103-1], [103-2] and [103-3] (Access to energy)

Naturgy performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. This is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

Inclusive integral gas supply model (Argentina)

Argentina continues to develop an inclusive model to allow impoverished neighbourhoods access to the gas network. Thus, in 2018, Naturgy, reached an agreement with the National State within the framework of the Comprehensive Tariff Review agreed, to extend the gas network in around a dozen neighbourhoods in the districts of Moreno, Tigre, José C. Paz and Zárate, adding a total of 231,319 metres of network to benefit 11,388 homes.

Aware of the limitations in accessing credit to adapt the internal gas facilities of impoverished homes, at Naturgy we have been working on introducing proposals that allow these homes to gain access to the service. Thus, it has set up credit facilities in collaboration with the municipality of Pilar, with the Ministry of Housing through the “Procrear Better Home” programme, thanks to which 7,146 households remain connected to the network and more than 6,000 works are in progress. It also partners Banco Ciudad, allowing 115 households to be connected and with more than 626 in process.



Providing vulnerable customers with access to energy

Naturgy is sensitive to the different issues and situations that can cause difficulty in paying for the supply. For this reason, the company uses a range of mechanisms to ensure the supply is not cut off, thus protecting vulnerable customers. These mechanisms include payment by instalments, applied in specific situations.

The company has always pursued a proactive policy against energy poverty, which covers more than 94% of its customers in Spain, based on agreements and on cooperation and information from the municipal social services.

To date, the administrations have forwarded the company's 26,562 cases of vulnerable customers, from 885 towns and cities throughout the country, and we have managed to prevent cutting-off the supply because of non-payment.

In 2018, in Spain, Naturgy carried on signing agreements to protect vulnerable customers with different administrations to prevent cutting off customers that social services had reported as being vulnerable.

Energy Vulnerability Plan in Spain

Together with the Foundation, during 2018 Naturgy has continued implementing the Energy Vulnerability Plan throughout Spain to protect vulnerable customers.

The plan aims to intensify the actions that were already being carried out, to systematise the management of vulnerable customers and strengthen collaboration with government and third sector organizations.

To do this, Naturgy has launched a specific package of 20 measures with a financial endowment of Euros 4.5 million and a team of 60 employees. The initiatives are both of an operational and social nature, allowing us to conduct comprehensive monitoring and development towards energy vulnerability.

With this plan, the company seeks to give a proactive response, focused on the generation of adapted solutions that optimise savings in the homes of families at risk of energy vulnerability. 2018 indicators include:

- Naturgy is protecting 26,562 customers from 885 localities.
- 142,000 calls to customer service from vulnerable customers were attended to.
- 75,160 emails have been managed with social services.
- 406 rehabilitation projects of vulnerable homes for improving the energy efficiency through the Foundation's Solidarity Fund have been processed.
- A massive telephone counselling action has been carried out with vulnerable customers to explain the best method of contracting.

Relationship with communities

[413-1], [413-2] and [OG9]

Naturgy, under its Human Rights Policy, makes a firm commitment to respect local communities. To achieve this commitment, the social impact that company activities may have on communities and contributing to improving the living conditions of these communities are key aspects for evaluation.

Naturgy has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company currently prioritises the performance of social impact assessments in those locations where the company is looking to carry out new investment projects. These assessments measure a range of impacts, including the impact on human rights.

As a result of these social impact assessments, Naturgy implements programmes adapted to the needs of the communities, with the aim of improving the quality of life of the people around them. The most outstanding programmes take place at:

- Bujagali hydroelectric plant (Uganda).
- Bií-Hioxo wind farm (Mexico).
- Naco Nogales combined-cycle power station (Mexico).
- Durango combined-cycle power station (Mexico).
- Hermosillo combined-cycle power station (Mexico).
- Nairobi thermal power station (Kenya).
- Torito hydroelectric power station (Costa Rica).
- La Joya hydroelectric power station (Costa Rica).
- CGE (Chile).
- Sobral I photovoltaic plant (Brazil).
- Mobilization of the social technical team necessary to carry out continuous communication with the community.
- Meetings and actions for outreach and dialogue with the Neighbourhood Committee of the Quilombola Community.
- Recovery of access roads to the Quilombola communities of Elisiê and Estreito.
- Recovery of the freshwater canal located in Saco/Curtume.
- Installation of a solar pump kit in the well of the Quilombola community of Riacho do Anselmo.
- Construction of a learning centre in the community of Malhada.
- Signing of a collaboration agreement with the Sul do Piauí Training Academy, thanks to which 40 training grants in occupational safety and nursing will be awarded during the 2019/20 academic year.

Sobral I photovoltaic plant (Brazil)

Since the start-up in 2017 of the Sobral I photovoltaic plant, located in the municipality of São João do Piauí, the implementation of the Quilombola Basic Environmental Project (PBAQ) is being carried out as a measure of mitigation and compensation for the impacts that the plant may cause quilombolas communities in the territories of Riacho dos Negros and Saco/Curtume.

The PBAQ is a programme of actions resulting from dialogue and the participation of the communities according to the criteria of the Palmares Cultural Foundation, which is responsible for monitoring the implementation of the same. The actions carried out in 2018, as part of the PBAQ, have been:

Bíí-Hioxo wind farm (Mexico)

It is a wind energy generation project that produces 234 MW. It comprises 117 wind turbines and is located in Juchitán de Zaragoza, Oaxaca, (Mexico).

Naturgy, according to its firm commitment to respect human rights and specifically the traditional ways of life, has consistently worked

with the community. Thus, it has launched programmes that respond to the needs of the community and contribute to improving their living conditions. The lines of action are: health, education, infrastructure, productive projects and the environment.

It is important to mention that following the 2017 earthquakes that occurred in the Isthmus region, the population and the area were left highly affected, with ensuing new and different needs. Faced with this,

the following projects were launched: debris removal, reconstruction of the social fabric through workshops and consultations, extraordinary earthquake support to home-owners and collaborators, participation within the Oaxaca-AMDEE Fund to support fire-fighters, school infrastructure and training of medical and psychological personnel

Programmes derived from the Bíí-Hioxo wind farm project (Mexico) in 2018

Support to local development	Acquisition of material to carry out activities in fishing communities, and improvement of the road infrastructure from Vicente Beach.
Relationship and social activities with those leasing their lands	Relationship and social activities with those leasing their lands, to encourage clear and fluid dialogue.
Social and educational activities for the community	Environmental education workshops, leisure and sports activities, psycho-emotional and health workshops with more than 600 beneficiaries.



Social action in Latin America

Naturgy believes that its community investment programmes have to focus on the geographical areas where it has a presence and must develop in tandem with the corporate activity. To meet this target, the Latin America Integrated Operational Centre (COIL) for Management of Community Investment Projects was created in 2011. Under the motto “Energy to Grow”, it implements three kinds of projects.

Inclusive business

Initiatives that promote the inclusion of the most disadvantaged social sectors through the implementation of inclusive programmes such as the Energy of Flavour programme and the Training Classrooms programme.

Responsible consumption

Projects targeted at providing knowledge about energy in general, safety and efficient use, of both gas and electricity. In addition, they seek to raise awareness among the different target publics about the importance of preserving the environment. As part of this pillar, the following traditional programmes were carried out: Responsible Gas Consumption programme and Sowing the Future programme.

Talent promotion

Projects that foster the studies and access to employment for the children and relatives of collaborators in Naturgy Argentina. Of particular note: Planning your Future programme, Natural Vocation programme and Summer Internship programme.

Patronage and sponsorship

The resources assigned to cultural, social and environmental programmes pays special attention to those community projects that generate greater value for society, while also strengthening the Company's commitment to positive integration in each community and country where the group operates.

Through the General Regulation on Sponsorship and Donations of Naturgy, the general management principles are established for sponsorships and

donations by the company and to define the processes that regulate and control its development. The main lines of action are:

- Educational initiatives: a wide range of collaboration, participation and sponsorship initiatives with different educational entities in Spain and Latin America.
- Social action focused on underprivileged groups: promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.

- Promotion of music, theatre and films: Contributing to the development of culture with initiatives such as a series of musical events and artistic seasons.

Corporate volunteers and employee participation

Naturgy has defined the corporate volunteering programme objectives in three areas– corporate, employees and the environment– and an integrated structure of committees that includes both the areas of people as well as communication and the environment of all countries that form part of the programme (Argentina, Brazil, Colombia, Spain, Mexico, Moldova, Panama and the Dominican Republic).

Throughout 2018, employees have spent more than 7,757 hours volunteering, featuring participation by 1,267 employees worldwide. Globally, a total of 32 environmental volunteer actions, 49 social volunteer actions were carried out along with three energy volunteer actions.

Solidarity Day

Created in 1997 and managed by the employees. It involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which Naturgy operates.

For the Solidarity Day event, the company donates an amount equal to the amount donated by employees and assumes all management costs, so that 100% of the amount raised can be used for the annual selected project. Close to 1,500 employees around the world took part in this initiative. In 2018 these employees donated Euros 240,000 from their salaries and the company gave an additional contribution for the same value, as well as assuming the management costs of the association. From the outset, Solidarity Day has raised Euros 2.5 million in donations from employees, and the company has provided an equal sum.

In 2018, Solidarity Day financed the education of over 330 school, technical and university students as part of the ordinary projects being implemented in Argentina, Brazil, Colombia, Morocco, Mexico, Moldova, Nicaragua, Panama, Chile and Portugal.

The proceeds raised by Solidarity Day in 2018 will be used for new educational projects in Brazil, set to begin in 2019.



Naturgy Foundation

As in previous years, the foundation placed in the top spots of the transparency ranking carried out by the Compromiso y Transparencia Foundation.

The core axes of the Foundation are based on training, dissemination and awareness in the field of energy and the environment.

During 2018, fifteen seminars have been held in Spain, among other presentations on these subjects, with participation by more than 1,667 people. One new item this year has been the commencement of two new action lines as part of the “energy and technology” and “smart energy and mobility” sphere.

The forecast for 2019 is to continue developing these action lines through seminars, forums and training, with the signing of collaboration agreements with companies and Autonomous Regions.

The Energy Vulnerability Plan, a programme that started in 2017, has become a priority issue for the Foundation. In this area, agreements have been renewed with entities from the third sector, such as Cáritas and the Red Cross, and new ones have been added with different entities.

During 2018, the energy volunteer programme “Energy advice in homes” was consolidated. A total of 481 volunteers took part and more than 1,200 families that attended the energy consultancy workshops received an energy efficiency kit, 437 families were catered to in their own homes and, of these, 108 express rehabilitations were carried out.

The training activity of the Energy School has also grown, training social workers from public entities and NGOs in energy issues, to improve the life quality of vulnerable people. Throughout the year, the school gave a total of 832 sessions with 9,361 attendees, of which 60% are families.

In relation to the agreement signed with Cáritas, more than 450 actions have been developed both at centres and homes belonging to the entity and in the homes of families served, from which more than 8,000 people have benefited.

We can highlight the following actions within the Vulnerability Plan:

- Creation of the Energy Rehabilitation Solidarity Fund, to finance improvements at vulnerable homes through donations from individuals and a contribution from the Foundation.
- Job Circle project: training course for long-term unemployed people, which aims to refurbish fifteen homes and has the commitment from businesses to recruit 25% of participants.
- Social entrepreneurs: the purpose of which is to enable Naturgy employees to encourage initiatives promoted by not-for-profit organisations and which are related to energy and the environment. In 2018, the beneficiary project of the first edition of the contest in Spain was “Custodiando el bosque atlántico en el río Mandeo (Galicia)” (Looking after the Atlantic Forest on the River Mandeo).

The Foundation also has an ambitious education and outreach programme in the field of energy, which has the mission of transferring to society the values of efficiency, responsible energy consumption and knowledge of industrial heritage, as well as promoting technological and scientific vocations for a better future for all.

In 2018, with the aim of giving new impetus to its educational activity and facilitating access to its teaching programme throughout the territory, the Foundation has multiplied its participation in numerous innovative and flexible events adapted to different types of public. In 2018, educational and informative activities, in addition to the Travelling Energytruck exhibition, generated 217,940 users.

At international level, specifically in Algeria, Argentina, Brazil, Chile, Morocco, Mexico, Panama and South Africa, seminars and programmes were developed to promote the rational use of energy resources and encourage sustainable development.

Activities of the Naturgy Foundation. Spain

	2018	2017	2016
Active agreements with autonomous regions	24	24	24
Seminars/courses held	19	19	20
Seminars carried out: First Export programme	0	16	28
Budget allocation in acts (% out of total)	50	20	45
Publications	1	1	0
Articles about energy and the environment	2	3	0

International activities of the Naturgy Foundation

	2018	2017	2016
Activities	12	15	17
International activities budget (% out of total)	12	14	24
Countries in which it operates	7	9	11

Refer to the www.fundacionnaturgy.org website for in-depth information about the activities of the Naturgy Foundation.



Integrity and transparency

Integrity is key to the company's success **124**

Code of Ethics Management Model **125**

Taxation **128**

Human Rights Policy **129**

Non-compliances and fines **129**

Proposed actions 2018

Planned actions 2019

Launching of the Conflict of Interest Policy.



Launching of the Compliance Communication Plan.



Development of the Compliance Communication Plan.

Audit the implementation of the Human Rights Policy.



Approval of update of the Human Rights Policy text to concepts and terminology of the United Nations Guiding Principles on Business & Human Rights.



Update of the Human Rights Policy.

Level of fulfilment:

● Finalised ● Major progress ● Intermediate progress ● Little progress ● Not started

Integrity is key to the company's success

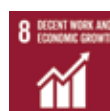
[102-16]

Naturgy has a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics. These mechanisms include: the Code of Ethics management model, the Crime Prevention Model, anti-fraud and anti-corruption policies and plans, tax policies and the company's Human Rights Policy.

These elements seek to ensure that the company's activities and those of its employees and suppliers comply with applicable standards and laws in every country in which it operates. They also

seek to ensure that all the units and organisations behave impeccably in accordance with ethical values and formal commitments to conduct, and to prevent and detect any breach in the appropriate time and manner.

These programmes give rise to indicators for the management, control and supervision of the company's ethical conduct, which makes it possible to measure the effectiveness of the programmes that are in place and develop new improvement plans adapted to the specific needs of the business.



Code of Ethics Management Model

[102-16] and [102-17]

The Code of Ethics of Naturgy, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of Naturgy, in their daily work, with regard to relationships and interactions with all its stakeholders.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance. Naturgy also has an

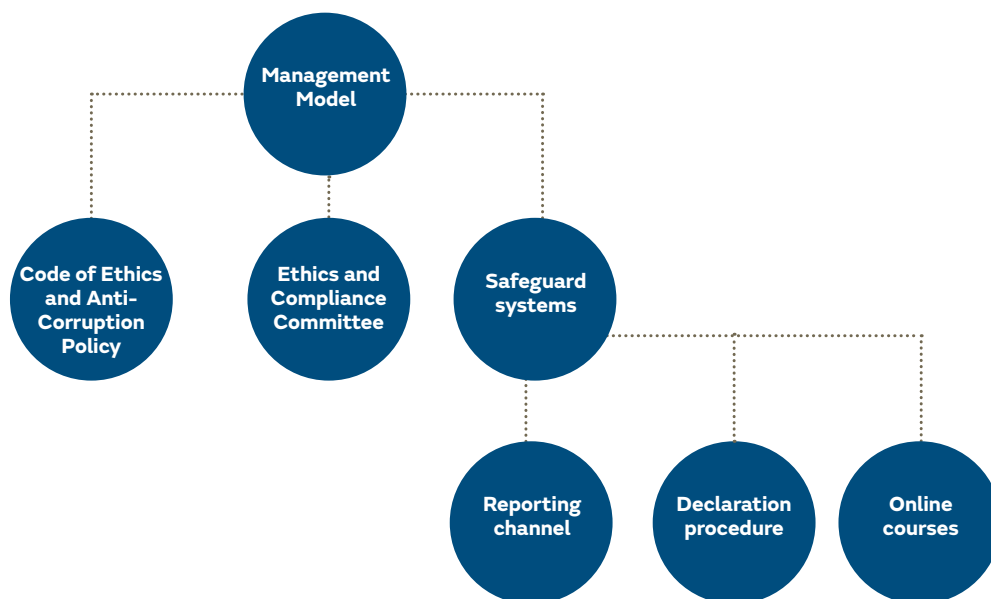
Anti-Corruption Policy, as an extension of chapter 4.7. on “Corruption and Bribery” of the Code of Ethics, in compliance with national and international legislation in this matter.

The company also has a Code of Ethics and an Anti-Corruption Policy management model, headed by the Compliance Unit, whose targets are to ensure the knowledge, application and fulfilment of the code.

This model also provides that the Audit Committee of the Board of Directors must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to

the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy.

Components of the Management Model



Ethics and Compliance Committee

In 2018, the Code of Ethics Committee has ceased its activities and its functions have been assigned entirely to the Ethics and Compliance Committee, which reports its actions to the Audit and Control Committee.

Likewise, the Committee, chaired by the Chief Compliance Officer (CCO), has changed its composition in 2018, and now comprises the heads of some of the units most directly involved in the matters set out in the Code of Ethics.

The functions of the Ethics and Compliance Committee in these issues are to:

- Promote the distribution and knowledge of the Code of Ethics.
- Interpret the Code of Ethics and provide guidelines on what to do in the event of any doubt or conflict.
- Facilitate and manage a channel of communication with all employees, suppliers and collaborating companies.

At international level, Naturgy has local committees in those countries where the company is most active, enabling us to ensure the existence of safeguard procedures in these countries.

In 2018, the Ethics and Compliance Committee held five work meetings.

Naturgy expects all its employees to render a high level of commitment to compliance with its Code of Ethics and Anti-Corruption Policy and, therefore, places an emphasis on transmitting the company's culture of integrity. Its breach is analysed according to internal procedures, legal regulations and existing agreements.

Following the entry into force of the new Organic Law on Data Protection and Guarantee of Digital Rights, and in accordance with the provisions thereof, the Naturgy reporting channel allows for anonymous consultations and whistleblowing. In 2018:

- 24% of notifications were related to respect for people, all of which were properly resolved.
- No notifications were reported related to labour or child exploitation or in relation to the rights of the corresponding local communities and human rights.

During 2018, Naturgy managed various disciplinary situations from complaints made to the Ethics and Compliance Committee, or from situations covered in the Code of Ethics or the Anti-Corruption Policy. In total, 5 misdemeanours, 17 serious offences

and 9 serious offences, of which 8 have resulted in layoffs were handled.

In 2018, it was not necessary to repair damages relating to impacts caused by human rights cases.

Crime prevention model and policies

The company has a Crime Prevention Model which is updated annually. Thus in 2018, the model was subject to a process of adaptation to the new organisational structure in force at Naturgy.

From an organisational standpoint, the Board of Directors has assigned the functions of Autonomous Body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and oversight of the working and compliance with the Crime Prevention Model.

Each year, the model is assessed by an independent third party. In 2018 this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2018, the model has also been subject to a gap analysis by an independent expert to identify improvement elements that allows the model to be submitted to the

certification process in accordance with the UNE 19601 standards (Criminal compliance management systems) and ISO 37001 (Anti-bribery management systems). Worldwide, Naturgy has also gradually deployed crime prevention models in countries with laws governing the civil liability of legal persons.

During 2018, the online training course -mandatory for all employees- continued on the Crime Prevention Model, Code of Ethics and Anti-Corruption Policy. The aim of the course is to emphasise the importance of compliance, ensure implementation of preventive and control activities and to inform all employees of the current status in these matters.

Anti-fraud and anti-corruption policies

The Anti-Corruption Policy aims to establish the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

It covers all the actions in this area and avoid conduct that may give rise to fraud or corruption and lead to situations that are damaging for the company, its administrators and employees from a legal point of view or in relation to its reputation. These plans and measures include the investigation of the incidents, the definition of solutions and the establishment of disciplinary measures.

Prevention of money laundering

The Naturgy Crime Prevention Model is based on an analysis of criminal risks, including the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.



Key areas considered in the Naturgy anti-corruption programme approach

- Establishment of an anti-fraud and anti-corruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.
- Development of measures and response plans in the event of situations that constitute fraud and corruption.

Naturgy organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that administrators, employees and suppliers are given enough and appropriate information to act accordingly.

Likewise, Naturgy has implemented a Corporate Hospitality Policy, within the framework of the Code of Ethics and Anti-corruption Policy, whose purpose is to regulate the conditions in which Naturgy administrators and employees can accept or offer courtesies to

business counterparts within the framework of the performance of their professional functions. This is to ensure effective compliance with the principles set out in the Code of Ethics and Anti-Corruption Policy of Naturgy and thus avoid improperly influencing their commercial, professional or administrative relationships, both with public and private entities. In 2018, a specific disclosure campaign was carried out on this policy, aimed at all employees.

In addition, in all risk operations the company has a counterpart due diligence procedure that is applied systematically, to ensure that the analyses and evaluations of reputational risk and corruption are carried out in an efficient and uniform way whenever third parties intervene in the business relationships of the companies that make up Naturgy.

Taxation

In 2018, the Board of Directors, with the favourable report from the Audit Committee, 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. The fiscal policies of Naturgy are in line with the company's Corporate Responsibility Policy and its Code of Ethics, the Code of Good Tax Practices (CGTP) and the guidelines of the Organisation for Economic Cooperation and Development (OECD) for multinational companies.

No presence in tax havens

At the end of 2018, Naturgy does not have any company in any territory considered to be a tax haven pursuant to Spanish regulations that determine the countries that are considered tax havens (Royal Decree 1080/1991, of 5 July and Royal Decree 116/2003, of 31 January).

For the 95% stake in Buenergía Gas & Power, Ltd. (indirect holding company of a single industrial shareholding that engages in the production of electricity through a gas combined cycle in Puerto Rico (Ecoeléctrica L.P.), which was registered in the Cayman Islands, on 2 February 2018 the change of registered office to Puerto Rico was completed.

Likewise, for the 52.2% stake in Gasoducto del Pacífico (Cayman), Ltd. (a dormant company incorporated into the group as a result of the acquisition of the CGE group) that had its registered office in the Cayman Islands, on 12 January 2018, the liquidation of the company was completed and its dissolution took place with the effective removal from the public registry of companies on 12 April 2018.

Fiscal contribution

Accordingly, it pays special attention to complying with its tax obligations in accordance with laws applicable in each territory. In 2018, the total fiscal contribution of Naturgy amounted to Euros 3,268 billion.

Human Rights Policy

Since 2011, Naturgy has a Human Rights Policy approved by the Management Committee. In 2018, the policy was exhaustively analysed in order to ensure that it was completely in line with the UN Guiding Principles on Business and Human Rights.

The policy is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Naturgy undertakes to guarantee a level of protection equivalent to the other areas in which it carries out its business.

Knowledge of and compliance with the policy are strengthened at the company through the communication and training plan, which includes an online course that is mandatory for all employees. Towards the end of 2018, the course had been completed by 7,508 people.

As indicated in the policy, the company is actively taking steps to include human rights matters in the process of analysing new investments, introducing this variable in any assessments of social impact.

Training on human rights for security guards

Training on human rights focuses on the characteristics of each of the countries in which Naturgy has contracted the services of security guards and the activities performed by the company in each of them, allowing a more specific and effective training.

In 2018, 633 security guards served in Spain, Morocco, Moldova, Argentina, Brazil, Chile, Mexico, Panama and the Dominican Republic, of which 597 (94.31%) participated in the different

refresher courses on the subject of private security, and 431 (68.09%) on courses to update knowledge and ways of acting in respect of human rights, dedicating a total of 2,941 hours.

Therefore, best practices are adopted, taking as reference initiatives such as the Voluntary Principles on Security and Human Rights, and the UN Basic Principles on the Use of Force and Firearms for staff belonging to surveillance and security companies that the company hires.

*The decrease with regard to 2017 is due to the unbundling and the sale of group subsidiaries

Non-compliances and fines

In Spain, in the area of retailers, in 2018 there has been a fine of Euros 600,000, non-appealable, for failing to comply with the Administration's requirement that a contract be terminated.

In addition, in 2018 two fines –imposed in 2014– on Trillo and Almaraz nuclear power plants were confirmed, as they did not legally adapt in time, for an

amount of Euros 1,035,000 and Euros 339,000, respectively.

In Chile, CGE has been subject to an administrative fine, amounting to Euros 413,681 –upheld by the Court of Appeals and pending filing with the Supreme Court– for an infraction of article 139 of the General Electric Services Law (lack of maintenance)

for a fault on the 66 kV Los Peumos -Curacautín line, which affected 11,002 customers for four hours and three minutes.

There have been no fines for monopolistic practices.

Process for drafting this report. Materiality

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Materiality focus

Naturgy has based itself on the Global Reporting Initiative (GRI) standards, more popularly known as the GRI Standards, in compiling this 2018 Corporate Responsibility Report.

The company believes that the report has been prepared in accordance with the comprehensive option of GRI Standards. The Materiality Disclosures methodology has been applied for yet another year. This methodology reviews the definition of material issues, their scope and the information on the commitment of the interested parties.

One new item, in 2018 and prior to approval of Law 11/2018 on non-financial reporting and diversity, was an analysis of materiality carried out in accordance with the recommendations

of Royal Decree-Law 18/2017, aligned with the company's commitments and corporate responsibility strategy and integrating the analysis of the degree of compliance with the Sustainable Development Goals in the countries where the company has a presence.

Furthermore, we have identified material issues at events and news through the KPMG Eye on Earth and Buzzsumo tools, which captures information from more than 300,000 different sources, including digital newspapers of 190 countries worldwide, websites of multinationals or governmental webs.

The material issues identified at the corporate level are those that:



Are of greatest relevance from the standpoint of corporate responsibility and reporting.



Can promote a more significant change in terms of economic, environmental and social impact.



Are considered most relevant to the stakeholders of the company.

List of material aspects at corporate level

[102-47]

Naturgy has identified eleven material issues of the utmost importance. It has also identified 15 other matters of interest.

	#	Issue identified	Nature of the issue
Issues of utmost importance	1	Emissions and climate change.	Environmental.
	2	Occupational health and safety.	Social.
	3	Access to energy.	Social.
	4	Development of the communities and social action.	Social.
	5	Innovation and sustainable technology.	Economic.
	6	Customer care and satisfaction.	Economic.
	7	Biodiversity.	Environmental.
	8	Talent retention and attraction.	Social.
	9	Energy efficiency and consumption.	Environmental.
	10	Assessment of the supply chain.	Economic.
	11	Diversity and equal opportunities.	Social.
Other issues of interest	12	Responsible purchasing.	Economic.
	13	Employability and employment.	Social.
	14	Health and safety of consumers and of society.	Social.
	15	Anti-Corruption.	Economic.
	16	Management of leaks, effluent and waste.	Environmental.
	17	Assessment of human rights.	Social.
	18	Water management.	Environmental.
	19	Competition practices.	Economic.
	20	Taxation.	Economic.
	21	Socio-economic and environmental compliance.	Economic.
	22	Political influence and lobbying.	Economic.
	23	Indirect economic impacts.	Economic.
	24	Materials used, recycled and reused.	Environmental.
	25	Freedom to join a union and management of relations with workers.	Social.
	26	Cybersecurity and information security.	Economic.

NB: each country has a different prioritisation based on its corporate responsibility agenda.

Process for the identification of material matters

[102-46] and [102-49]

For the updating of material issues carried out in 2018, we have followed the 33 specific standards defined by GRI and they have been adapted to the company's own characteristics.

Furthermore, for the prioritisation and definition of material issues we conducted interviews with different areas of the company and with external stakeholders, and have included other inputs, both internal and external.

For each of the eleven material issues identified, Naturgy has collected, identified and analysed the following information in its materiality study:

- Management approach –responding to the GRI Standards and to the ISO 19600 on compliance management:
 - How Naturgy manages the issue (policies, strategies, tools, initiatives and objectives).
 - Sustainable Development Goal (SDG) associated to the issue.
 - Stakeholder linked to the issue.

- What is material:
 - Definition and description of the issue.
 - Material sub-issues.
 - Relevance for the business, for the sector, the impact it can have on the activities and regulation in this regard.
 - Relevant events for stakeholders related to the issue.
- Formal reporting references:
 - GRI Standards indicators related to the issue.
 - Strategic lines of the Sustainability Plan that consider the matter.

- Investors: material issues identified by RobecoSAM for the Dow Jones Sustainability Index (DJSI) and material issues identified by other analysts such as FTSE4Good, MSCI, Sustainalytics and Vigeo Eiris.
- News and social networks: analysis of the main global events of interest for each issue that has taken place during the year.
- Main risks: the Global Risks Report 2018 and Global Risks of Highest Concern for Doing Business of the World Economic Forum.
- Benchmark: companies in the sector with high performance in corporate responsibility.
- Integration of the Sustainable Development Goals.
- Regulation: non-financial reporting and diversity bill.

Sources and stakeholders consulted

In the identification and prioritisation of material issues, the following sources were taken into consideration:

- Reference framework for the preparation of sustainability reports: 33 specific standards of the Global Reporting Initiative (GRI Standards) and GRI Sustainability Topic for Sectors report.
- Sustainability Accounting Standards Board (SASB) Materiality Map.
- Internal interviews: interviews with key areas of the company.
- External interviews: interviews with external stakeholders.
- Reputational analysis: reputational risks identified by the company.
- Corporate Responsibility Policy: matters included in the policy.
- Relevant issues identified and analysed.

Review of material issues by country where Naturgy is operational

Naturgy has identified the relevance of each material issue in each country in which it operates. These issues are identified according to the agenda of each country, taking into account the degree of achievement of the Sustainable Development Goals in these countries and establishing the key targets on which the company must focus through commitments at local level to help achieve these.

The company analysed the following countries: Australia, Algeria, Argentina, Belgium, Brazil, Chile, Costa Rica, Dominican Republic, Egypt, France, Germany, India, Ireland, Italy, Jamaica, Japan, Jordan, Luxembourg, Morocco, Mexico, the Netherlands, Oman, Panama, Pakistan, Peru, Portugal, Puerto Rico, Singapore, South Africa, Spain and UK.

Map of material issues

[102-46] and [102-49]

In order to respond to the GRI Standards, a map of material issues that identify what represents a material issue for Naturgy and where it is relevant is provided. As regards the latter criterion, Naturgy identifies the materiality of the issue from three standpoints:

- Impact of the aspect inside and outside the company and, consequently, the stakeholder affected.
- Geographic location. To determine the countries with material issues that make it necessary to crosscheck the following table with the activity map at the beginning of this report. In this way, and based on the governing philosophy of integrated and uniform management at Naturgy, the issue will be material in those countries that perform the activity of the value chain in which the issue is material.
- Point of the value chain at which the issue is material.



#	Material issues for Naturgy	GRI Standard related to the material issue	Nature
1	Emissions and climate change	305: Emissions.	EN
2	Occupational health and safety	403: Occupational health and safety. EU25: Number of injuries and fatalities to the public involving company activities.	SO
3	Access to energy	EU26: Percentage of population unserved in licensed distribution or service areas. EU27: Number of residential disconnections for non-payment. EU28: Power outage frequency. EU29: Average power outage duration. EU30: Average plant availability factor by energy source and by regulatory regime.	SO
4	Development of the communities and social action	413: Local communities. EU22: Number of people physically or economically displaced and compensation. OG10: Number and description of significant disputes with local communities and indigenous people. OG11: Number of sites that have been decommissioned and sites that are in the process of being decommissioned.	SO
5	Innovation and sustainable technology	OG2: Total amount invested in renewable energy.	EC
6	Customer care and satisfaction	417: Marketing and labelling.	EC
7	Biodiversity	304: Biodiversity. EU13: Biodiversity of offset habitats. OG4: Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored.	EN
8	Talent retention and attraction	102-7: Size of the organization (number of employees). 102-8: Information on employees and other workers. 404: Training and education.	SO
9	Energy efficiency and energy consumption	302: Energy.	EN
10	Assessment of the supply chain	102-9: Supply chain. 102-10: Significant changes to the organization and its supply chain. 308: Supplier environmental assessment. 404: Training and education. 414: Supplier social assessment.	EC
11	Diversity and equal opportunities	401: Employment. 405: Diversity and equal opportunities. 406: Non-discrimination.	SO

Stages of the value chain where the material issues have greatest impact							Impact of the aspect inside and/or outside the organisation by stakeholder	2018 Corporate Responsibility Report chapter that deals with the issue
Electricity			Gas					
Genera-tion	Distribu-tion	Commer-cialisation	Procure-ment	Transpor-tation	Distribu-tion	Commer-cialisation		
●	●		●	●	●		Society and administrations.	Responsible management of the environment.
●	●		●	●	●		Employees and suppliers.	Health and safety.
●	●	●	●	●	●	●	Customers, society, administrations and regulatory bodies.	Commitment to society.
●	●	●	●	●	●	●	Society.	Commitment to society.
●	●	●	●	●	●	●	Customers.	Avant-garde and sustainable innovation / Service excellence.
	●	●			●	●	Customers.	Service excellence.
●	●		●	●	●		Society.	Responsible management of the environment.
●	●	●	●	●	●	●	Employees and suppliers.	Interest in people.
●	●	●	●	●	●	●	Customers and society.	Responsible management of the environment.
●	●	●	●	●	●	●	Suppliers.	Responsible supply chain.
●	●	●	●	●	●	●	Employees and suppliers.	Interest in people.

Scope of the information

[102-48], [102-49] and [102-50]

This report contains the consolidated financial and non-financial data of Naturgy, referring to all the activities carried out during 2018 as a global gas and electricity operator, although they show peculiarities in some chapters.

As a consequence of the divestment process of the mining business in South Africa formalised in 2018, and described in Note 11 “Non-current assets and disposable groups of items held for sale and discontinued operations” of the consolidated annual accounts, the 2017 consolidated profit and loss statement and the trading figures for 2017 have been restated, for comparative purposes with the information concerning 2018, in application of IFRS 5.

In 2018, this information on discontinued activities refers to companies in Moldova, Kenya and South Africa. The companies in Kenya and South Africa were sold prior to the year-end, which has entailed an additional difficulty in obtaining non-financial information with regard to certain indicators. For the purpose of clarifying the scope used in the

indicators and to provide the best transparency possible, in each chapter of the corporate responsibility report we will use a footnote to specify those indicators for which we have been unable to obtain data from some of these countries.

In the field of human resources, the information reported corresponds to the countries in which Naturgy is present and has incorporated companies with hired personnel assigned to them and where the company performs centralised management of its human resources policies, except for the number of employees and the percentage of men/women, which take into account all Group employees according to consolidation scope. The indicators that represent the evolution over the year, will include the information from the companies held for sale, provided that the opposite is not specified in a footnote, while the indicators that represent information at the year-end will not include information about these companies.

The information included in the environment section refers solely to those companies or activities in which the participation is equal to, or greater than, 50%, that have the capacity to influence environmental management and which have a significant capacity to impact environmental data, considering the global data.

With regard to compliance, the report shows the fines greater than Euros 60,000 imposed against the company in 2018 which were final judgements in channels of administrative review.

The complete list of companies making up Naturgy at 31 December 2018 appears in Annex I of the consolidated annual accounts, “Companies of Naturgy”.

Furthermore, the changes in the scope of consolidation are described in Annex II to the consolidated annual accounts.

Compliance with benchmark standards

[102-46] and [102-54]

The company prepares its report in accordance with the GRI Standards, and includes the applicable additional information required by the “Utilities” and “Oil and gas” supplements. The company believes that the report has been prepared in accordance with the comprehensive level of GRI Standards. This report has also been drawn up in accordance with the AA1000 AP (2018) Standard and the United Nations Guiding Principles Reporting Framework.

- AA1000 AP (2018) Standard. The purpose of this standard is to provide organisations with a set of principles to situate and structure the way in which they understand, govern, administrate, implement, assess and surrender their accounts in sustainability performance.
- Global Reporting Initiative. In accordance with the Global Reporting Initiative recommendations, the balanced and reasonable presentation of the organisation's performance requires application of certain principles to determine the content of public information on this issue and to guarantee its quality.
- United Nations Guiding Principles Reporting Framework. The idea behind this framework is that the companies should report all information relating to human rights in line with the UN Guiding Principles on Business and Human Rights.

The consideration of the principles set out in the following table ensures that the information satisfies the guarantees required by the foregoing standards.

Application of the AA1000 AP (2018) [102-56]

- Inclusiveness. In relation to this principle, particular importance is placed on the information presented by Naturgy in the chapter of this report on actions that lead to dialogue with its stakeholders.
- Relevance. The relevant matters for Naturgy are included in its Corporate Responsibility Policy that was approved in December 2015. This report is structured according to said matters. The contents of this report are also determined by the materiality study.
- Capacity for response. It includes key performance indicators of the company, as well as its core policies and management systems in the spheres taken into account.
- Impact. Organisations should monitor, measure and be accountable for how their actions affect their broader ecosystems.

Principles for drafting this report (GRI) [102-46]

- Stakeholder engagement. The Company has defined its stakeholders, identified its expectations and set actions to establish a two-way dialogue. This process is explained in the sections on dialogue with interest groups and corporate responsibility governance.
- Sustainability context. The report offers a detailed analysis of the company's performance in the context of the social, environmental and economic requirements of its social and market environments. The sections on business model, strategy and sustainable opportunities focus specifically on this area.
- Materiality. Those issues identified in the materiality study have been considered as material and have been included in the 2018 Corporate Responsibility Report.
- Exhaustiveness. The outline of contents are defined with the help of those in charge of the key management areas of the company. This guarantees that essential aspects and impacts that each activity area of Naturgy has on its environment and on its own business targets have been taken into consideration.

Quality of the information given [102-52]

- **Accuracy.** All the information in the report is accurate and given in sufficient detail for the company's stakeholders to be able to value its performance in an appropriate manner.
- **Balance.** The report clearly shows the positive and negative aspects of the organisation's performance, which enables a reasonable valuation thereof.
- **Clarity.** The information is presented in a way that is understandable, accessible and useful. To enable its correct understanding, the use of technical terms is avoided. In addition, it uses graphs, diagrams, tables and indicators to describe the company's most relevant impacts and make it easier to read the document.
- **Comparativeness.** The information given in this report makes it possible to analyse the evolution of the company's performance over time.
- **Reliability.** The figures given in this report have been verified by EY. The drafting of the report took into account the four principles required by the AccountAbility AA1000 AP (2018) Standard, and whether or not the information given responds to the stakeholders' concerns and requirements.
- **Frequency.** Naturgy publishes its Corporate Responsibility Reports annually, as soon as the information is available, so that the stakeholders have a good understanding of the company.

United Nations Guiding Principles Reporting Framework

- Setting human rights reporting in the business context.
- Meeting a minimum threshold of information.
- Demonstrating ongoing improvement.
- Focusing on respect for human rights.
- Addressing the most severe impacts on human rights.
- Providing balanced examples from relevant geographies.
- Explaining any omission of important information.

Verification

[102-56]

The integrity, sound and truthful nature of the information given in this report are maintained by the policies and procedures included in Naturgy internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In the said policies and in accordance with the Global Reporting Initiative

recommendations, Naturgy conducts an annual external verification of the contents of its report.

This review is made by an independent expert, EY, which reviews the adaptation of the contents of the Corporate Responsibility Report to the provisions laid down in the Global Reporting Initiative Guidelines and the AA1000 AP (2018) Standard.

As a result of this process, an independent review report is drawn up to include the goals and scope of the review, as well as the verification procedures used and the corresponding conclusions, which can be consulted in the "Additional information" chapter of this report.

Queries and additional information

[102-53]

In addition to this Corporate Responsibility Report, in 2018 Naturgy is publishing the Integrated Annual Report, the Corporate Governance Report and the Audit and Control Committee Report, all pertaining to 2018.

Furthermore, special mention must be made of the fact that Naturgy publishes corporate responsibility reports in Argentina, Brazil, Chile, Mexico, and Panama.

Readers can send their doubts, queries or requests for information to the company's website, <https://www.naturgy.com/inicio>.

Additional information

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Annex of indicators

Indicators of the business model

Installed capacity by source of energy and regulatory regime [EU1]

	Year-end 2018 (MW)	Year-end 2017 (MW)
Power installed in ordinary system. Spain	11,325	11,569
Hydraulic	1,954	1,954
Nuclear	604	604
Coal-fired	1,766	2,010
Combined-cycle	7,001	7,001
Power installed in special system. Spain	1,179	1,147
Wind	1,012	979
Small hydro	109	110
Cogeneration	58	58
Total installed power. Spain	12,504	12,716
Power installed in ordinary system. International	3,093	2,732
Hydraulic	123	123
Fuel-oil	198	198
Combined-cycle	2,289	2,109
Wind	330	234
Solar	153	68
Total power	15,597	15,448

Average efficiency by technology and regulation system [EU11]

System	Technology	Efficiency (*) (%) 2018
Ordinary. Spain	Combined-cycle	53.7
	Coal thermal	34.7
International	Combined-cycle	54.4
	Fuel-oil	40.4

* Efficiency over Net Calorific Value (NCV) calculated as the average weighted by the real production of each technology.

Net energy production by energy source and regulation system [EU2] and [OG3]

	Year-end 2018 (GWh)	Year-end 2017 (GWh)	Year-end 2016 (GWh)
Production in ordinary system. Spain	25,736	27,953	28,504
Hydraulic	3,359	1,126	3,933
Nuclear	4,431	4,578	4,463
Coal-fired	3,694	5,953	5,687
Combined-cycle	14,252	14,011	11,963
Production in special system. Spain	2,571	2,285	2,458
Wind	1,958	1,800	1,844
Small hydro	549	407	562
Cogeneration	64	77	52
Total production Spain	28,307	25,668	26,046
Production in ordinary system. International	18,351	18,436	17,857
Hydraulic	424	467	496
Fuel-oil	1,092	925	920
Combined-cycle	15,923	16,340	15,648
Wind	757	656	793
Solar	155	48	-
Total production	46,658	46,389	46,361

Average availability factor by technology and regulation system [EU30]

System	Technology	Availability 2018 (%)	Availability 2017 (%)	Availability 2016 (%)
Ordinary. Spain	Hydraulic	93.15	93.28	92.64
	Coal thermal	91.70	91.50	89.65
	Nuclear	89.91	92.98	90.60
	Combined-cycle	93.91	94.36	86.41
Special. Spain	Wind	98.20	97.65	97.19
	Small hydro	99.13	99.22	98.66
	Cogeneration	75.20	93.00	89.00
International	Hydraulic	92.34	96.25	93.45
	Fuel-oil	90.19	92.11	89.41
	Combined-cycle	92.11	96.61	93.43

Electrical energy losses in transport and distribution (%) [EU12]

	2018	2017	2016
Ordinary regime. Spain	8.46	8.58	8.90
Argentina	10.36	7.03	9.40
Chile	7.92	8.44	8.55
Panama	11.70	11.74	11.95

Service excellence indicators

Customers disconnected due to non-payment classified by the total duration between disconnection for non-payment and payment of debt [EU27]	Gas business	Fewer than 48 hours
		Between 48 hours and 1 week
		Between 1 week and 1 month
	Electricity business	Between 1 month and 1 year
		Over 1 year
		Fewer than 48 hours
Customers disconnected due to non-payment classified by the total duration between debt payment and reconnection [EU27]	Gas business	Between 48 hours and 1 week
		Between 1 week and 1 month
		Between 1 month and 1 year
	Electricity business	Over 1 year
		Fewer than 24 hours
		Between 24 hours and 1 week
Average duration of electrical power cuts (hours) [EU29]	Over 1 week	
	Fewer than 24 hours	
	Between 24 hours and 1 week	
Average System Interruption Frequency Index (ASIFI) [EU28]	Over 1 week	
	2016	
	2017	
Satisfaction rate with main processes. Residential customers (on a scale of 1 to 10) ¹	2018	
	Continuity of gas supply	
	Continuity of electricity supply	
	Billing and payment	
	Telephone Customer Service	
	Centres	
	Emergencies	
Inspection/review		
Satisfaction rate with main processes. Wholesale customers (on a scale of 1 to 10)	New customers/start-up	
	Global satisfaction	
	Negotiation and contracting	
	Quality of gas supply	
	Quality of electricity supply	
	Commercial management	
Customer service ratios ²	Commercial manager	
	Customer requests solved immediately (%)	
	Average time for solving requests (days).	
		Calls answered within 20 seconds (%)

1. Chile has been calculated based on a 1-7 scale.

2. In Spain, the calculation ratio is calculated in accordance with the calls responded to within 15 seconds.

Argentina	Brazil	Chile	Spain	Mexico	Moldova	Panama	Portugal
39,046	56,104	-	605	-	-	-	-
25,724	26,421	-	419	-	-	-	-
14,640	22,413	-	725	-	-	-	-
12,546	9,252	-	406	-	-	-	-
19	0	-	44	-	-	-	-
-	-	400,487	14,856	-	-	34,158	-
-	-	82,328	2,280	-	-	5,739	-
-	-	96,249	4,321	-	-	6,297	-
-	-	61,806	1,661	-	-	5,388	-
-	-	2	-	-	-	0	-
15,744	80,880	-	434	-	-	-	-
76,149	33,310	-	1,349	-	-	-	-
82	-	-	416	-	-	-	-
-	-	620,013	20,243	131,456	-	44,058	-
-	-	20,734	2,730	45,583	-	8,491	-
-	-	125	145	817	-	837	-
-	-	14.00	1.13	-	2.99	59.14	-
-	-	17.00	1.19	-	-	63.09	-
-	-	12.4	-	-	-	54.87	-
-	-	5.80	0.80	-	2.57	17.04	-
-	-	6.00	0.86	-	-	19.08	-
-	-	5.10	0.78	-	-	15.78	-
8.73	9.27	6.61	8.90	9.06	-	-	-
-	-	5.93	8.22	-	8.89	7.47	-
7.54	8.75	5.92	-	8.36	9.76	8.17	-
8.04	8.12	5.55	7.70	7.51	-	7.94	-
7.88	8.86	5.55	8.02	8.24	-	-	-
7.65	8.92	5.68	8.24	8.92	-	-	-
-	-	-	8.79	-	-	-	-
-	-	-	7.72	-	-	-	-
-	-	-	7.38	-	-	-	-
-	-	-	7.64	-	-	-	-
-	-	-	8.40	-	-	-	-
-	-	-	7.86	-	-	-	-
-	-	-	7.64	-	-	-	-
-	-	-	8.47	-	-	-	-
45.5	83.6	10.4	92.86	99.4	86.39	-	-
21.5	2.7	16.0	7.90	0.9	5.08	12.1	-
90.6	83.8	89.0	75.73	76.8	63.91	83.5	-

Gas and electricity customers (thousands)* [EU3]

	2018	2017	2016
Gas customers			
Last resort tariff	1,289	1,306	1,337
Deregulated market (consumption >50,000 kWh/year to 500 MWh/year in high pressure and up to 1,000 MWh/year in low pressure)	30	31	32
Deregulated market (rest consumption)	2,855	2,904	2,893
Total	4,174	4,241	4,262
Electricity customers			
Last resort tariff/PVPC	2,233	2,257	2,313
Deregulated market (power <10kW)	2,014	2,067	1,970
Deregulated market (power >10kW and sales to 0.75 GWh) (SMEs and others)	242	281	285
Total	4,489	4,605	4,568

* Figures from Spain.

Responsible environmental management

Indicators

Direct GHG emissions. Total Naturgy (ktCO₂eq) [305-1]

	CO ₂	CH ₄	N ₂ O	SF ₆	HFC	PFC	Total Group
Gas and electricity	16,551.6	7.9	21.1	1.9	2.6	0.0	16,585.3
EMEA	249.4	443.4	0.1	19.5	0.0	0.0	712.4
LatAm North	0.0	194.3	0.0	5.2	0.0	0.0	199.6
LatAm South	235.8	500.4	0.2	4.3	0.0	0.0	740.6
Corporate	20.0	0.2	0.3	0.0	10.8	0.0	31.3
Total	17,056.9	1,146.2	21.7	31.0	13.4	0.0	18,269.2

Indirect CO₂ emissions. Total Naturgy (ktCO₂eq) [305-2] and [305-3]

	2018	2017	2016
Fixed sources. Indirect CO ₂ emissions. Scope 2	1,102	1,323	1,631
Emissions from natural gas sold to third parties. Scope 3	105,557	109,476	101,409
Emissions from coal extracted from the Kangra mine. Scope 3	0	3,707	4,002
Total	106,658	114,506	107,062

Ratio of energy emissions intensity by segment of activity 2018 [305-4]

	Gas and electricity	EMEA	LatAm North	LatAm South	Corporate	Total
Emissions of GHG (ktCO ₂ eq)	16,585.3	712.4	199.6	740.6	31.3	18,269.2
Net turnover (euros million)	19,560	2,419	1,367	5,080	0	28,426
Ratio (ktCO ₂ eq/million euros of net turnover)	0.85	0.29	0.15	0.15	-	0.64

Total specific atmospheric emissions (g/kWh) [305-7]

	2018	2017	2016
SO ₂	0.23	0.46	0.43
NO _x	0.37	0.70	0.73
Particles	0.03	0.04	0.04

Total energy consumption within the organisation (GWh) [302-1]

	2018	2017	2016
Non-renewable fuels	97,254	103,060	98,187
Natural gas	69,984	68,952	64,645
Coal-fired	10,202	15,713	15,346
Petroleum derivatives	3,844	4,661	4,807
Uranium	13,224	13,734	13,389
Renewable fuels	0	0	0
Electricity acquired for consumption	2,850	3,479	5,158
Renewable electricity generated (not included in the consumption of fuels)	7,187	4,582	7,690
Electricity and steam sold	(46,677)	(42,078)	(42,099)
Total	60,614	69,043	68,936

NB: consumption of Moldova, Kenya and South Africa has been maintained in 2016 and 2017.

Energy consumption outside the organisation (GWh) [302-2]

	2018	2017
Final use of the natural gas commercialised	577,647	602,295
Final use of the coal extracted	0	10,885
Total consumption	577,647	613,181

NB: consumption of South Africa has been maintained in 2017.

Capture of water by source and compliance with targets (hm³) [303-1]

	2018	2017	2016
Surface water captured (sea)	753.62	874.19	772.49
Surface water captured (rest)	15.31	25.36	37.04
Groundwater captured	0.07	0.13	0.14
Wastewater used from another organisation	6.76	7.01	6.8
Water captured from the supply network	1.73	0.25	0.19
Total volume of water captured from the environment	777.48	906.96	816.66

Consumption of water and compliance with targets (hm³)

	2018 target value path	2018	2017	2016
Consumption of cooling water		21.49	24.06	20.44
Consumption of water in water/steam cycle		0.69	0.83	0.76
Consumption of water in other processes		2.45	2.47	1.96
Consumption of water in ancillary services and building		1.92	0.63	0.63
Total water consumption	31.00	26.54	28.00	23.79

Water discharge and compliance with targets (hm³)

	2018	2017	2016
Water discharged into the sea	744.88	865.22	766.39
Water discharged into waterways	8.41	14.21	16.72
Water discharged into the public sewerage system	0.40	0.23	0.23
Water discharged into septic tanks	0.01	0.01	0.005
Water discharged for use by an aquifer	0.01	0.02	0.02
Total volume discharged	753.72	879.68	783.37

Main indicators in Moldova and Kenya

The main indicators of companies in Moldova held for sale and in Kenya, which was sold before the end of the year, in December 2018 are shown below. Consequently, only the most significant indicators could be obtained, as mentioned in the Scope section of this report.

	Moldova	Kenya
Consumption of material resources (t)	77	100
Direct energy consumption (GWh)	254	211
Emissions scope 1 (tCO ₂ eq)	1,923	58,844
Emissions scope 2 (tCO ₂ eq)	124,987	0
Emissions scope 3 (tCO ₂ eq)	0	0
SO ₂ (t) emissions	0	316
NO _x (t) emissions	0	750
Particles emissions (t)	0	20
Water captured (hm ³)	0.01	0.03
Water consumed (hm ³)	0.01	0.03
Water discharged (hm ³)	0.01	0.01
Non-hazardous waste (t)	3,889	32
Hazardous waste (t)	17	345

Interest in people indicators

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France		
Number of employees ¹		7	767	8	3	478	3,046	84	20	6,532	66		
Breakdown of staff by age range (%). 2018	18-35	14.29	21.25	50.00	66.67	25.73	27.25	36.90	20.00	11.07	57.58		
	36-50	57.14	37.42	37.50	33.33	61.51	49.08	48.81	65.00	59.89	40.90		
	>50	28.57	41.33	12.50	0.00	12.76	23.67	14.29	15.00	29.04	1.52		
Breakdown of staff by gender (%). 2018	Men	71.4	77.4	87.5	33.3	62.8	75.1	42.9	95.0	65.3	48.5		
	Women	28.6	22.6	12.5	66.7	37.2	24.9	57.1	5.0	34.7	51.5		
Women in management posts (%)	2016	0	14.7	0	0	38.1	17.3	44.6	0	25.5	22.2		
	2017	0	17.6	0	0	34.8	19.8	45.5	0	26.7	20.0		
	2018	0	17.6	0	0	35.9	25.3	55.0	0	28.6	22.2		
Senior managers from the local community (%)	2016	0	100.0	0	0	40.0	25.0	50.0	0	99.4	50.0		
	2017	0	87.5	0	0	40.0	81.3	0	0	98.9	50.0		
	2018	0	75.0	0	0	66.7	73.3	0	0	98.8	50.0		
Breakdown of staff by professional categories and gender (%). 2018 [102-8]	Management team	Men	0.0	3.7	0.0	33.3	5.2	2.2	10.7	5.0	11.1	10.6	
		Women	0.0	0.8	0.0	0.0	2.9	0.8	13.1	0.0	4.4	3.0	
	Middle managers	Men	0.0	13.7	0.0	0.0	12.8	12.6	6.0	5.0	15.2	6.1	
		Women	0.0	3.5	0.0	33.3	7.1	3.2	9.5	0.0	4.6	7.6	
	Technicians	Men	71.4	15.1	25.0	0.0	15.5	26.5	17.9	10.0	19.9	28.8	
		Women	28.6	4.8	0.0	33.3	11.5	11.0	22.6	0.0	15.0	31.8	
	Operators	Men	0.0	45.0	62.5	0.0	29.3	33.7	8.3	75.0	19.2	3.0	
		Women	0.0	13.4	12.5	0.0	15.7	10.0	11.9	5.0	10.6	9.1	
	Breakdown of workforce by contract type (%). 2018 [102-8]	Permanent contracts	Men	71.4	77.4	87.5	33.3	62.8	75.0	20.2	95.0	64.9	48.5
			Women	28.6	22.6	12.5	66.7	37.2	24.9	19.0	5.0	34.4	51.5
Temporary contracts		Men	0	0	0	0	0	0.1	22.6	0	0.4	0	
		Women	0	0	0	0	0	0	38.2	0	0.3	0	
Average salary of men and women by professional category (euros). 2018	Executives	Men	-	59,279	-	-	51,148	156,804	83,685	-	102,177	100,743	
		Women	-	46,587	-	-	39,534	96,992	75,116	-	88,797	76,888	
	Technicians	Men	-	22,995	-	-	21,571	46,327	15,804	-	45,197	52,909	
		Women	-	20,060	-	-	18,399	43,515	11,377	-	43,156	43,353	
	Administratives	Men	-	17,868	-	-	-	28,184	6,156	-	33,347	35,231	
		Women	-	15,799	-	-	18,494	23,125	6,305	-	31,270	32,339	
	Operative	Men	-	20,135	-	-	14,887	17,591	-	-	31,711	-	
		Women	-	16,555	-	-	11,306	14,456	-	-	27,498	-	

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Netherlands	
Ratio between the standard minimum salary and the local minimum salary by country and gender. 2018.	Total	-	3.68	-	-	3.28	1.47	2.18	-	2.00	1.52	-	
	Men	-	3.82	-	-	3.42	1.50	2.18	-	2.00	1.46	-	
	Women	-	3.54	-	-	3.14	1.43	2.18	-	2.00	1.57	-	
Total annual ratio of the best paid person of the company with the total annual average remuneration of the workforce ²	2018	-	5.40	-	-	6.69	10.38	13.40	-	17.46	4.15	-	
[102-38]													
Ratio between the percentage increase of total annual remuneration of the best paid person of the company with the percentage increase of the total annual average remuneration of the entire workforce ^{3,4}	2018	-	1.4	-	-	0	0	0	-	2.84	1.74	-	
[102-39]													
Rotation index (%) (number of layoffs/ average staff) [401-1]	2018	46.0	9.8	22.8	86.7	15.0	25.0	21.4	5.0	14.4	20.9	50.4	
Voluntary rotation index (%) (number of voluntary layoffs/ average staff) [401-1]	2018	34.5	2.4	22.8	21.7	2.0	3.1	19.4	0	1.0	15.7	0	
Performance Management and Management by Objectives (MbO) indicators broken down by gender and professional category. 2018	Management team	Men	0	3.4	0	0	5.2	2.1	10.7	5	10.9	10.6	0
		Women	0	0.8	0	0	2.9	0.8	13.1	0	4.4	3	0
	Middle managers	Men	0	9.8	0	0	7.9	12.6	4.8	5	4.3	6.1	0
		Women	0	3.1	0	0	5.4	2.9	9.5	0	2.6	7.6	0
	Technicians	Men	57.1	9.4	0	0	2.1	19.3	7.1	10	8.3	28.8	14.3
		Women	14.3	3.7	0	0	2.1	7.5	3.6	0	5.3	31.8	0
	Operators	Men	0	20.6	0	0	12.1	23.4	0	10	2.2	0	0
		Women	0	5.2	0	0	7.1	6.3	0	0	2.3	0	0
	[404-3]												
	Total	Men	57.1	43.2	0	0	27.4	57.4	22.6	30	25.7	45.5	14.3
Women		14.3	12.8	0	0	17.6	17.4	26.2	0	14.6	42.4	0	
	Men	71.4	55.9	0	0	45	74.8	48.8	30	40.3	87.9	14.3	

Ireland	Israel	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Rep.	Singapore	South Africa	Uganda	Total
1.61	-	-	-	2.81	2.63	2.58	1.44	-	3.53	-	2.31	-	-	-	-
1.61	-	-	-	2.94	2.70	2.66	1.51	-	4.13	-	1.96	-	-	-	-
1.61	-	-	-	2.63	2.56	2.49	1.36	-	2.93	-	2.66	-	-	-	-
10.74	-	-	-	3.35	6.99	6.65	9.84	-	2.65	-	5.66	-	-	-	-
1.3	-	-	-	1.54	0	1.02	1.72	-	1.58	-	0	-	-	-	-
33.2	18.2	-	2.5	4.2	23.6	8.4	17.8	9.3	5.4	41.5	19.4	21.3	-	9.8	17.9
26.0	18.2	-	0	3.1	6.8	0	5.3	4.6	5.4	0	4.1	21.3	-	9.8	2.7
12.5	-	-	-	3.2	5.8	2.3	5	0	0	40	1.2	-	25	0	7
2.5	-	-	-	1.1	1.2	1.4	2.5	4.8	11.1	0	2.4	-	0	0	2.8
5	-	-	-	9.7	13.7	0.4	21.3	9.5	0	40	23.8	-	0	0	7.8
5	-	-	-	2.2	3.9	0	9.9	4.8	0	0	9.5	-	0	0	3.1
15	-	-	-	11.8	21.6	0	12.7	9.5	16.7	0	3.6	-	75	0	11.4
17.5	-	-	-	2.2	9.1	0	11.6	9.5	44.4	0	7.1	-	0	0	5.9
5	-	-	-	0	11	0	25.4	0	5.6	0	50	-	0	0	10
0	-	-	-	4.3	9.6	0	11.6	0	22.2	20	2.4	-	0	0	4.2
37.5	-	-	-	24.7	52.1	2.7	64.4	19	22.2	80	78.6	-	100	0	36.2
25	-	-	-	9.7	23.9	1.4	35.6	19	77.8	20	21.4	-	0	0	16
62.5	-	-	-	34.4	75.9	4.1	100	38.1	100	100	100	-	100	0	52.2

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Netherlands
Staff promoted (%)	2016	-	1.4	-	-	11.2	9.2	2.5	-	9.9	21.1	-
	2017	-	1.6	-	-	11.0	5.4	11.2	-	10.2	12.5	-
	2018	-	3.39	12.50	-	12.13	5.38	13.10	-	12.62	12.12	-
Employees with/without collective bargaining agreement (%). 2018 ² [102-41]	Excluded from agreement	0	19.3	0	33.3	25.5	4.6	47.6	0	32.0	72.7	0
	Included in agreement	100	80.7	100	66.7	74.5	95.4	52.4	100	68.0	27.3	100
Trade union membership (%) ⁵	2016	-	48.00	-	-	9.90	67.10	4.93	-	35.30	-	-
	2017	-	47.00	-	-	11.30	68.00	3.80	-	24.63	-	-
	2018	-	48.38	-	-	10.2	75.9	-	-	25.84	-	-
Employees five years from retirement age (%). 2018	Management team	0	20.6	0	0	5.1	13.2	25.0	0	2.1	0	0
	Middle managers	0	15.2	0	0	3.2	3.3	0	0	3.2	0	0
	Technicians	0	7.8	0	0	2.3	5.0	5.9	0	2.1	0	0
	Operators	0	17.6	0	0	0.9	7.6	0	0	5.5	0	0
	Total	0	15.4	0	0	2.1	6.1	8.3	0	3.4	0	0
Employees ten years from retirement age (%). 2018	Management team	0	47.1	0	0	17.9	22.0	50.0	0	13.0	0	0
	Middle managers	0	36.4	0	0	11.6	13.3	15.4	0	13.4	0	0
	Technicians	28.6	16.3	0	0	10.9	11.8	5.9	0	11.4	0	0
	Operators	0	32.6	0	0	8.4	20.8	0	12.5	23.3	0	0
	Total	28.6	30.6	0	0	10.5	16.3	16.7	10.0	15.6	0	0

Ireland	Israel	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Rep.	Singapore	South Africa	Uganda	Total
-	-	12.9	-	2.1	6.2	15.5	1.7	-	-	-	16.2	-	-	-	-
82.9	-	3.8	-	-	5.9	14.7	3.6	-	-	-	2.9	-	-	-	-
10.00	-	-	-	5.38	4.15	12.16	1.66	-	-	-	9.52	-	-	-	-
100	0	-	-	34.4	19.0	-	61.9	0	0	0	3.6	100	0	0	24.1
0	100	-	-	65.6	81.0	-	38.1	100	100	100	96.4	0	0	100	75.9
-	-	42.30	45.80	67.70	21.60	60.60	37.70	-	-	-	-	-	86.70	31.40	-
-	-	42.00	48.50	65.30	20.30	59.10	39.40	-	-	-	-	-	91.00	37.10	-
-	-	-	48.5	65.59	23.97	58	40.6	-	-	-	-	-	91	37.5	-
0	0	-	-	25.0	0.0	-	18.5	0	0	0	33.3	0	-	0	4.2
0	0	-	-	23.1	0.5	-	8.8	0	0	0	3.6	0	-	0	4.1
0	0	-	-	15.4	0.0	-	10.2	0	0	0	0.0	0	-	0	3.1
0	0	-	-	10.8	0.8	-	29.1	0	0	0	9.1	0	-	0	7.4
0	0	-	-	17.2	0.4	-	17.4	0	0	0	7.1	0	-	0	5.0
0	0	-	-	100	2.9	-	40.7	0	0	0	66.7	0	-	100	15.5
0	0	-	-	66.7	2.0	-	21.2	0	0	0	14.3	0	-	0	14.6
0	0	-	-	30.8	1.5	-	18.2	0	0	0	0	0	-	0	10.8
0	0	-	-	48.6	5.8	-	44.8	0	0	0	25.0	0	-	11.5	21.9
0	0	-	-	55.9	3.3	-	30.7	0	0	0	20.2	0	-	7.8	16.0

		Germany	Argentina	Australia	Belgium	Brazil	Chile	Colombia	Costa Rica	Spain	France	Netherlands
New employees [401-1]	2016	2	40	0	0	6	528	61	0	164	21	0
	2017	2	55	1	1	33	267	38	0	217	11	0
	2018	3	38	7	0	6	180	0	0	87	2	2
No. of employees with maternity/paternity leave entitlements. 2018 ⁶ [401-3]	Men	0	0	0	1	8	54	0	0	136	3	0
	Women	0	1	0	0	1	77	1	0	64	4	0
	Total	0	1	0	1	9	131	1	0	200	7	0
No. of employees who took maternity/paternity leave. 2018 [401-3]	Men	0	0	0	1	8	21	0	0	129	3	0
	Women	0	1	0	0	1	77	1	0	64	4	0
	Total	0	1	0	1	9	98	1	0	193	7	0
No. of employees who did not return to work once their maternity/paternity leave ended. 2018 [401-3]	Men	0	0	0	0	0	0	0	0	1	0	0
	Women	0	1	0	0	1	26	0	0	5	0	0
	Total	0	1	0	0	1	26	0	0	6	0	0
Ratio of employees who returned to their position following paternity / maternity leave and continue in the company one year after their leave (%). 2018 [401-3]	Men	-	-	-	-	100	100	100	-	99.41	100	-
	Women	-	100	-	-	63	68	0	-	96.81	100	-
	Total	-	100	-	-	82	74	50	-	98.48	100	-

1. NB: the companies consolidated through the equity method and which do not provide a headcount breakdown would total 4,085 employees, distributed as follows: Colombia 1,451, Argentina 862, Spain 757, Moldova 707, Egypt 148, Puerto Rico 81 and Kenya 79.

2. NB: relationship between the total annual remuneration of the best paid person of the organisation in each country where significant operations are carried out with the average annual total remuneration of the entire workforce (without counting the best paid person) of the corresponding country.

3. NB: ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.

4. NB: the figures showing zero mean that one of the indicators is equal to zero.

5. NB: highlighting the increase in union membership in Chile, mainly due to the Multirut effect. With the exception of Spain, in the other countries the data is estimated.

6. NB: the concept of maternity/paternity leave and the related social benefits present specifics that are connected to the labour laws in force in each of the countries where Naturgy operates and must be taken into account when interpreting this information. For instance, legislation in Moldova determines that women have the right to maternity leave of 126 days 100% paid by the Social Security system. After this period, they have the right to take maternity leave of absence for up to three years, with 30% payment by the Social Security system, and from three to six years of unpaid leave, which explains why the number of people who did not return to work after their leave was complete was so high for this country.

Ireland	Israel	Italy	Kenya	Morocco	Mexico	Moldova	Panama	Peru	Portugal	Puerto Rico	Dominican Rep.	Singapore	South Africa	Uganda	Total
48	-	6	1	0	91	27	41	7	4	0	2	-	-	7	1,059
8	-	0	0	1	212	45	34	6	1	2	5	0	-	5	945
13	17	-	0	0	54	58	13	4	1	0	0	0	-	18	503
3	0	-	0	5	4	19	15	1	0	0	4	0	-	5	258
0	0	-	0	1	4	7	4	0	0	0	1	0	-	1	166
3	0	-	0	6	8	26	19	1	0	0	5	0	-	6	424
3	0	-	0	5	4	8	15	1	0	0	0	0	-	5	203
0	0	-	0	1	4	7	4	0	0	0	1	0	-	1	166
3	0	-	0	6	8	15	19	1	0	0	1	0	-	6	369
0	0	-	0	0	0	8	0	0	0	0	0	0	-	0	9
0	0	-	0	0	0	3	0	0	0	0	1	0	-	0	37
0	0	-	0	0	0	11	0	0	0	0	1	0	-	0	46
100	-	-	-	100	100	100	100	-	-	-	100	-	-	100	96.62
50	-	-	-	-	100	100	100	-	-	-	-	-	-	50	87.68
67	-	-	-	100	100	100	100	-	-	-	100	-	-	80	93.04

Health and safety indicators

Accident indicators by countries of employees

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate	Absenteeism rate
Germany	0	0	0	0.00	0.00	0.00	-
Argentina	5	105	0	3.05	0.06	6.35	3.32
Australia	0	0	0	0.00	0.00	0.00	-
Belgium	0	0	0	0.00	0.00	0.00	-
Brazil	1	2	0	1.09	0.00	1.97	1.85
Chile	10	603	0	1.36	0.08	2.62	1.12
Colombia	1	1	0	4.74	0.00	10.10	1.12
Costa Rica	0	0	0	0.00	0.00	0.00	2.03
Spain	9	756	0	0.67	0.06	1.32	2.80
France	0	41	0	0.00	0.30	0.00	2.66
Netherlands	0	0	0	0.00	0.00	0.00	-
Ireland	0	0	0	0.00	0.00	0.00	-
Kenya	0	0	0	0.00	0.00	0.00	0.58
Morocco	0	0	0	0.00	0.00	0.00	1.59
Mexico	1	5	0	0.41	0.00	0.90	0.43
Panama	1	11	0	1.14	0.01	2.54	1.12
Peru	0	0	0	0.00	0.00	0.00	0.32
Portugal	0	0	0	0.00	0.00	0.00	-
Puerto Rico	0	0	0	0.00	0.00	0.00	-
Dominican Republic	0	0	0	0.00	0.00	0.00	1.52
Singapore	0	0	0	0.00	0.00	0.00	-
Uganda	0	0	0	0.00	0.00	0.00	0.36

NB: generalised decrease in almost all indicators, with Mexico (-75%), Chile, (-65%) and South Africa (-20%) all standing out in the Frequency Rate. Increases in the Frequency Rate of Colombia and South Africa with the same number of accidents due to the divestments made in those countries.

Accident rates of contractors and subcontractors

	2018			2017			2016		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring sick leave ¹	357	335	22	491	459	32	856	769	87
Days lost ²	9,587	9,021	566	12,674	11,789	885	17,465	15,819	1,646
Mortalities ³	6	6	0	2	2	0	5	4	1
Frequency rate ⁴	4.00	4.56	1.39	4.41	4.87	1.88	7.72	8.12	5.37
Severity rate ⁵	0.11	0.12	0.04	0.11	0.13	0.05	0.16	0.17	0.10
Incident rate ⁶	6.52	7.44	2.26	7.41	8.19	3.15	13.99	14.76	9.56

NB 1: across-the-board decrease in almost all indicators that supports the group's Health and Safety Commitment:

- 27% decrease in accidents requiring sick leave.
- 24% decrease in days lost with regard to 2017.
- 12% decrease in the Incidence Rate.

NB 2: the across-the-board decline since the Health and Safety Commitment has been implemented has been reduced, reducing the Frequency Rate since 2013 by 78% (from 18.24 to 3.71).

1. Accidents requiring sick leave: number of accidents in the workplace leading the employee to take sick leave.
2. Days lost: days not worked due to sick leave caused by work accidents. Calculated from the day following the day the sick leave is received and considering calendar days.
3. Mortalities: number of workers who died due to work accidents.
4. Frequency rate: number of accidents with sick leave occurring during the working day for every million hours worked.
5. Severity rate: number of days lost as a result of occupational accidents for every 1,000 hours worked.
6. Incidence rate: number of occupational accidents for every 1,000 employees.

Accident indicators by country and business of public affected due to the company's activities [EU25]

	Accidents	Injuries	Deaths	Legal actions
Gas business	44	104	6	9
Argentina	1	4	0	2
Brazil	0	0	0	1
Spain	43	100	6	6
Electricity business	21	16	5	2
Chile	14	10	4	1
Spain	6	6	0	0
Panama	1	0	1	1
Total	65	120	11	11

NB: in Australia, Colombia, Costa Rica, Egypt, France, Guatemala, Ireland, Italy, Morocco, Mexico, Moldova, Portugal, Puerto Rico, Dominican Republic and Uganda, the number of accidents and the accident rate for the affected public were zero.

Accident indicators by countries of contractors and subcontractors

	Accidents requiring sick leave	Days lost	Mortalities	Frequency rate	Severity rate	Incident rate
Germany	0	0	0	0.00	0.00	0.00
Argentina	24	1,130	0	2.06	0.10	2.86
Australia	0	0	0	0.00	0.00	0.00
Belgium	0	0	0	0.00	0.00	0.00
Brazil	41	945	2	4.67	0.11	8.32
Chile	135	2,296	1	7.15	0.12	11.56
Colombia	0	0	0	0.00	0.00	0.00
Costa Rica	0	0	0	0.00	0.00	0.00
Spain	87	4,387	1	2.70	0.14	5.18
France	0	0	0	0.00	0.00	0.00
Netherlands	0	0	0	0.00	0.00	0.00
Ireland	0	0	0	0.00	0.00	0.00
Israel	0	0	0	0.00	0.00	0.00
Kenya	0	0	0	0.00	0.00	0.00
Morocco	0	0	0	0.00	0.00	0.00
Mexico	6	156	0	0.64	0.02	0.84
Panama	60	656	2	15.48	0.17	25.50
Peru	4	17	0	2.53	0.01	4.77
Portugal	0	0	0	0.00	0.00	0.00
Puerto Rico	0	0	0	0.00	0.00	0.00
Dominican Republic	0	0	0	0.00	0.00	0.00
Singapore	0	0	0	0.00	0.00	0.00
Uganda	0	0	0	0.00	0.00	0.00

NB 1: Across-the-board decrease in almost all indicators, in particular highlighting the decrease in accidents with sick leave in Colombia and Uganda (-100%), Mexico (-40%) and Chile (-8%).

NB 2: increase in Peru due to the increase in activity, reducing the Frequency Rate by 8%.

Safety training for employees

	2018	2017	2016
Attendees in terms of total staff (%)	69.77	78.66	78.76
Training actions completed	2,224	2,236	3,518
Training hours per employee	7.70	9.99	15.32

NB: during 2018 an adjustment of the hours of training was carried out after the completion of the Leadership in Health and Safety training in all countries. Does not include data from Kenya and Moldova.

Quantitative health indicators

Participants in occupational health campaigns

	2018	2017	2016
Prevention and/or early detection campaigns	24,452	29,501	30,067
Vaccination campaigns	2,110	3,183	4,547
Medical check-ups	9,041	11,139	12,095
Medical assistance	22,039	28,843	34,857

Integrity and transparency indicators

Fiscal contribution by country

Country	Own taxes				Third-party taxes											
	Corporate income tax ¹		Others ²		Total		VAT		Taxes on hydrocarbons		Others ³		Total		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Spain	62	112	621	537	683	649	1,056	845	409	342	270	228	1,735	1,415	2,418	2,064
Argentina	10	15	17	67	27	82	9	19	-	-	39	34	48	53	75	135
Brazil	52	51	46	67	98	118	73	74	-	-	13	7	86	81	184	199
Colombia	-	60	-	57	-	117	-	-	-	-	-	11	-	11	-	128
Chile	31	101	13	11	44	112	60	81	-	-	47	22	107	103	151	215
Mexico	71	66	2	4	73	70	39	57	-	-	13	19	52	76	125	146
Panama	6	10	7	9	13	19	-	-	-	-	4	4	4	4	17	23
Rest LatAm	7	8	2	1	9	9	5	4	-	-	8	4	13	8	22	17
Total LatAm	177	311	87	216	264	527	186	235	-	-	124	101	310	336	574	863
Europe	24	15	8	35	32	50	161	170	80	111	3	14	244	295	276	345
Total	263	438	716	788	979	1,226	1,403	1,250	489	453	397	343	2,289	2,046	3,268	3,272

1. Corresponds to corporate income tax paid in the year shown in the Cash Flow Statement of the consolidated annual accounts. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 "Fiscal Status" of consolidated annual accounts.

2. Includes energy taxes which in Spain totalled Euros 306 million in 2018 (Euros 260 million in 2017), local taxes, social security payable by the company and other specific taxes of each country.

3. Basically includes withholdings on employees and Social Security for the employee's contribution.

GRI contents index

[102-55]



For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.”

The GRI Materiality Disclosures Service was performed on the Spanish version of the report.

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance	
GRI 101: Foundation 2016					
GRI 102: General disclosures 2016					
Organizational profile	102-1 Name of the organisation	6		Yes	
	102-2 Activities, brands, products and services	13, 46		Yes	
	102-3 Location of headquarters	184		Yes	
	102-4 Location of operations	10		Yes	
	102-5 Ownership and legal form	2018 Annual Consolidated Financial Report, Note 1, page 19		Yes	
		https://www.naturgy.com/en/shareholders_and_investors/the_company/annual_reports			
	102-6 Markets served	10, 13		Yes	
	102-7 Scale of the organisation	12, 53, 77		Yes	
	102-8 Information on employees and other workers	77, 79, 148		Yes	
	102-9 Supply chain	104, 105		Yes	
	102-10 Significant changes to the organization and its supply chain	10		Yes	
	102-11 Precautionary principle or approach	36		Yes	
	102-12 External initiatives	30, 112		Yes	
	102-13 Membership of associations	114		Yes	
	EU1 Installed capacity	140		Yes	
	EU2 Net energy output	141		Yes	
	EU3 Number of clients	144		Yes	
	EU4 Length of above and underground transmission and distribution lines	14		Yes	
	EU5 Allocation of CO ₂ emissions allowances or equivalent	61		Yes	
	Strategy	102 -14 Statement from senior decision-maker	6		Yes
102-15 Key impacts, risks and opportunities		36, 37, 38		Yes	

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Ethics and integrity	102-16 Values, principles, standards and norms of behaviour	124, 125		Yes
	102-17 Mechanisms for evaluating and reporting ethical issues	125		Yes
Governance	102-18 Governance structure	31		Yes
	102-19 Delegating authority		The Board of Directors delegates certain powers to the Executive Chairman who in turn grant specific faculties to different managers in issues of an economic, environmental and social nature. Within their respective terms of reference, they have supreme responsibility, and the economic, environmental and social issues are related to a greater or lesser extent in all departments.	Yes
	102-20 Executive-level responsibility for economic, environmental and social topics		Because of its specialised nature, the Financial Department has responsibility over economic issues and the Corporate Resources Department has general responsibility over environmental and social issues.	Yes
	102-21 Consulting stakeholders on economic, environmental, and social topics	34		Yes
	102-22 Composition of the highest governance body and its committees	32		Yes
	102-23 Chair of the highest governance body	32		Yes
	102-24 Appointment and selection of the highest governance body	32		Yes
	102-25 Conflicts of interest	32		Yes
102-26 Role of the highest governance body in setting purpose, values, and strategy	31		Yes	

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Governance	102-27 Collective knowledge of highest governance body		<p>The company's different managers are regularly invited to Board meetings in order to present issues arising within the scope of their respective competences in regard to which the Board of Directors is required to reach an agreement or to be informed. Consequently, these economic, environmental and social issues that affect development of the company's businesses are examined and debated by the Board.</p> <p>We should point out that, because the company adheres to the Code of Good Tax Practices, the Board of Directors receives regular information on the tax policies applied by the company.</p>	Yes
	102-28 Evaluating the highest governance body's performance	31		Yes
	102-29 Identification and management of economic, environmental and social impacts	35	<p>The Board of Directors is responsible for approving reports that analyse the different kinds of risks for the company. Through this submission, the Board analyses the effectiveness of the processes of managing economic, environmental and social risks. Furthermore, any operation or project submitted to the Board is also considered from the point of view of the accompanying risks.</p> <p>By virtue of the culture of risk prevention in all the company's operations, due diligence is performed for each country at the start of relevant operations.</p> <p>In addition, only the Board of Directors has the authority to adopt the decision to disinvest and cease operations in a country, based on different criteria, among them questions of legal security in particular.</p>	Yes
	102-30 Effectiveness of risk management processes	35		Yes
	102-31 Review of economic, environmental, and social topics	36		Yes
	102-32 Highest governance body's role in sustainability reporting	31		Yes
	102-33 Communicating critical concerns	34		Yes
	102-34 Nature and total number of critical concerns	34		Yes

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
	102-35 Remuneration policies	33		Yes
	102-36 Process for determining remuneration	33		Yes
	102-37 Stakeholders' involvement in remuneration	33		Yes
	102-38 Annual total compensation ratio	150		Yes
	102-39 Percentage increase in annual total compensation ratio	150		Yes
Stakeholder engagement	102-40 List of stakeholder groups	42		Yes
	102-41 Collective bargaining agreements	152		Yes
	102-42 Identifying and selecting stakeholders	42		Yes
	102-43 Approach to stakeholder engagement	42, 48		Yes
	102-44 Key topics and concerns raised	42, 48		Yes
Reporting practice	102-45 Entities included in the consolidated financial statements	2018 Annual Consolidated Financial Report, Appendix I, pages: 156-161 https://www.naturgy.com/en/shareholders_and_investors/the_company/annual_reports		Yes
	102-46 Defining report content and topic Boundaries	132, 133, 137		Yes
	102-47 List of material issues	131		Yes
	102-48 Restatements of information	136		Yes
	102-49 Changes in reporting	132, 133, 136		Yes
	102-50 Reporting period	136		Yes
	102-51 Date of most recent report	Year 2017		Yes
	102-52 Reporting cycle	138		Yes
	102-53 Contact point for questions regarding the report	139		Yes
	102-54 Claims of reporting in accordance with the GRI Standards	137		Yes
	102-55 GRI content index	160		Yes
102-56 External assurance	137, 139, 179		Yes	

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Material issues				
Emissions and climate change				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	61		Yes
	103-2 The management approach and its components	61		
	103-3 Evaluation of the management approach	61		
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	62, 144		Yes
	305-2 Energy indirect (Scope 2) GHG emissions	144		Yes
	305-3 Other indirect (Scope 3) GHG emissions	144		Yes
	305-4 GHG emissions intensity	145		Yes
	305-5 Reduction of GHG emissions	63		Yes
	305-6 Emissions of ozone-depleting substances (ODS)	64		Yes
	305-7 Nitrogen oxides (NO _x), sulphur oxides (SO _x), and other significant air emissions	64, 145		Yes
Occupational health and safety				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	90		Yes
	103-2 The management approach and its components	90		
	103-3 Evaluation of the management approach	90		
GRI 403: Occupational health and safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	97		Yes
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	93		Yes
	403-3 Workers with high incidence or high risk of diseases related to their occupation	100		Yes
	403-4 Health and safety topics covered in formal agreements with trade unions	97		Yes
	EU18 Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	98		Yes
	EU25 Number of injuries and fatalities to the public involving company assets	157		Yes

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Access to energy				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45, 116		Yes
	103-2 The management approach and its components	45, 116		
	103-3 Evaluation of the management approach	45, 116		
EU: Access 2016	EU26 Percentage of population unserved in licensed distribution or service areas		Not available. The information systems of the company do not allow this information to be reported.	Yes
	EU27 Number or residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime	142, 143		Yes
	EU28 Power outage frequency	45, 142, 143		Yes
	EU29 Average power outage duration	45, 142, 143		Yes
	EU30 Average plant availability factor by energy source and by regulatory regime	141		Yes
Development of the communities and social action				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	112		Yes
	103-2 The management approach and its components	112		
	103-3 Evaluation of the management approach	112		
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	118		Yes
	413-2 Operations with significant actual or potential negative impacts on local communities	118		Yes
	EU22 Number of people physically or economically displaced and compensation		In 2018 there was no people displaced as a result of the company's infrastructure development projects.	Yes
	OG10 Number and description of significant disputes with local communities and indigenous people		No records of incidents of this nature.	Yes
	OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned		No records of this type of situation.	Yes
Innovation and sustainable technology				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	18, 19		Yes
	103-2 The management approach and its components	18, 19		
	103-3 Evaluation of the management approach	18, 19		
	OG2 Total amount invested in renewable energies	19		Yes

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Customer care and satisfaction				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	44		Yes
	103-2 The management approach and its components	44		
	103-3 Evaluation of the management approach	44		
GRI 417: Marketing and labelling 2016	417-1 Requirements for product and service information and labelling		The general terms and conditions of contracting for the services provided by Naturgy provide customers with the appropriate information about their rights and obligations and about the features of the services provided (gas and electricity). There are no records of breaches of agreements regarding the legal obligations required in each country in which the company operates in this area.	Yes
	417-2 Incidents of non-compliance concerning product and service information and labelling		The company recorded no sanctions in 2018 for non-compliance in relation to product and service information and labelling.	Yes
	417-3 Incidents of non-compliance concerning marketing communications		In 2018, the company registered no fines for breach of regulations on commercialisation communications, including advertising, promotions and sponsorship.	Yes
Biodiversity				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	70		Yes
	103-2 The management approach and its components	70		
	103-3 Evaluation of the management approach	70		
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	72		Yes
	304-2 Significant impacts of activities, products and services on biodiversity	72		Yes
	304-3 Habitats protected or restored	73		Yes
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	72		Yes
	EU13 Biodiversity of offset habitats	73		Yes
	OG4 Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	73		Yes

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Talent retention and attraction				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	74, 87		Yes
	103-2 The management approach and its components	74, 87		
	103-3 Evaluation of the management approach	74, 87		
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	86		Yes
	404-2 Programmes for upgrading employee skills and transition assistance programmes	78, 85		Yes
	404-3 Percentage of employees receiving regular performance and career development reviews	88, 150, 151		Yes
Energy efficiency and consumption				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	66		Yes
	103-2 The management approach and its components	66		
	103-3 Evaluation of the management approach	66		
GRI 302: Energy 2016	302-1 Energy consumption within the organization	66, 145		Yes
	302-2 Energy consumption outside of the organization	66, 145		Yes
	302-3 Energy intensity	67		Yes
	302-4 Reduction of energy consumption	63		Yes
	302-5 Reductions in energy requirements of products and services	63		Yes
	OG3 Total amount of renewable energy generated by source	141		Yes
Assessment of the supply chain				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	102		Yes
	103-2 The management approach and its components	102		
	103-3 Evaluation of the management approach	102		
GRI 308: Supplier environmental assessment 2016	308-1 New suppliers that were screened using environmental criteria	105		Yes
	308-2 Negative environmental impacts in the supply chain and actions taken	105		Yes
GRI 414: Supplier social assessment 2016	414-1 New suppliers that were screened using environmental criteria	105		Yes
	414-2 Negative social impacts in the supply chain and actions taken	105		Yes

GRI Standard	Disclosure	Page	Direct response / Omission	External assurance
Diversity and equal opportunities				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	81		Yes
	103-2 The management approach and its components	81		
	103-3 Evaluation of the management approach	81		
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	79, 80, 81, 150, 151, 154, 155		Yes
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	83		Yes
	401-3 Parental leave	83, 154, 155		Yes
GRI 405: Diversity and equal opportunities 2016	405-1 Diversity of governance bodies and employees	32		Yes
	405-2 Ratio of basic salary and remuneration of women to men	82		Yes
GRI 406: Non-discrimination 2016	406 -1 Incidents of discrimination and corrective actions taken		No records of incidents of this nature.	Yes

Glossary of corporate responsibility indicators

Key Corporate Responsibility Indicator	Description
Service excellence	
Overall satisfaction with service quality	Customers' degree of satisfaction with the quality of global service on a scale from 1 to 10 (in Chile from 1 to 7), broken down by country or geographical region.
Commitment to results	
Net turnover (euros million)	Company turnover.
Gross operating profit. Ebitda (euros million)	Company earnings before interests, tax, depreciation and amortisation.
Evolution the DJSI percentile	The company's global score in the annual Dow Jones Sustainability Index evaluation
Responsible management of the environment	
Direct greenhouse gas emissions (GHG) (MtCO ₂ eq)	Greenhouse gases emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor including nuclear (tCO ₂ /GWh)	Emission rate as a result of electrical generation activity arising from the ratio of the amount of atmospheric pollution emitted (tonnes of carbon dioxide) divided by energy generated (GWh).
Generation of hazardous waste (kt)	Amount of most representative hazardous waste generated.
Environmental investments and expenses (euros million)	Expenditure for environmental actions carried out during the year, corresponding to investments and expenses incurred in the environmental management of the facilities, excluding emission rights.
Interest in people	
Staff rate	Number of company employees at year-end.
Men/Women (%)	Number of male staff against total company headcount at year-end, as a percentage/Number of women staff against the company's total headcount at year-end, as a percentage.
Women in management posts (%)	Percentage of women in management posts against the total company employees with positions in managements posts at year-end.
Personnel costs (euros million)	Monetary amount representing the staff expenses for the company (wages and salaries, Social Security expenses, defined contribution plans, defined benefit plans, works performed on the company's fixed assets, and others).
Annual investment in training (euros)	Total monetary amount invested by the company in employee training.
Employees covered by collective bargaining agreements (%)	Percentage of employees who are represented in a collective bargaining agreement as against total employees, at year-end.
Health and safety	
Accidents requiring sick leave	Number of accidents in the workplace causing the employee to take medical leave.
Days lost	Days not worked due to medical leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.
Mortalities	Number of workers who have died due to accidents at work.
Frequency rate	Number of accidents with sick leave occurring during the working day for every million hours worked.
Severity rate	Number of days lost as a result of accidents at work for every 1,000 hours worked.
Incident rate	Number of accidents in the workplace for every 1,000 employees.
Absenteeism rate (%)	Workers' absences from their jobs as a consequence of common illnesses and non-occupational accidents, measured as the ratio of the number of working hours lost over the total theoretical working hours during the year.

Key Corporate Responsibility Indicator	Description
Responsible supply chain	
Suppliers with contracts currently in force	Number of suppliers from which any product or service has been contracted during the last year.
Total purchase volume awarded (euros million)	Total monetary amount used to cover the company's procurement.
Purchasing budget targeted at local suppliers (%)	Amount of budget used for the procurement of suppliers located in the geographical area from where the purchases are made over the total procurement budget.
ESG assessment of suppliers (number)	Number of suppliers that have been assessed in environmental, social and governance matters.
Commitment to society	
Evolution of the contribution from Naturgy (euros million)	Economic contribution to social action or investment, sponsorship and patronage programmes.
Breakdown by type of action (%)	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LGB) methodology.
Sponsorship and social action activities	Number of sponsorship, patronage and social action activities carried out by the company.
Integrity and transparency	
Correspondence received by the Code of Ethics Committee	Number of communications made by employees and suppliers relating to the Code of Ethics and Anti-Corruption Policy which have been received by the Code of Ethics Committee.
Correspondence received per 200 employees	Ratio of number of communications received relating to the Code of Ethics and the Anti-Corruption Policy which have been received by the Code of Ethics Committee for every 200 company employees.
Average time for resolving correspondence (days)	Average number of days from the time the company receives the communications until it resolves them.
Audit projects analysed on the basis of operational risks	Number of audit projects analysed on the basis of operational risks.
Communications received in the area of human rights	Number of communications which the company has received concerning human rights.
Number of persons trained on the Human Rights Policy	Number of employees who have taken part in training about the Human Rights Policy.

Contents in accordance with the United Nations Guiding Principles Reporting Framework

Indicator	Page	Level of fulfilment
Governance of respect for human rights (A)		
A1. Policy commitment	CRR 2018 Human Rights Policy Code of Ethics - Pages 8-9	Complete
A1.1 Development of public commitment	CRR 2018 Human Rights Policy - Page 19	Complete
A1.2 Extent and scope of application of commitment	CRR 2018 Human Rights Policy - Pages 6 and 7	Complete
A1.3 Form of communication of commitment	CRR 2018 Human Rights Policy - Pages 17 and 18	Complete
A2. Embedding respect for human rights	CRR 2018 Code of Ethics - Page 8 Human Rights Policy - Pages 17 and 18 2018 Annual Report on Remuneration	Complete
A2.1 Organisation of responsibility in the field of human rights	CRR 2018 Human Rights Policy - Page 18	Complete
A2.2 Human rights issues escalated to the senior management and the governing board	CRR 2018 Human Rights Policy - Page 18 2018 Audit and Control Report	Partial
A2.3 Raising employees' awareness about human rights issues	CRR 2018 Human Rights Policy - Pages 15 and 18 2018 Annual Report on Remuneration	Partial
A2.4 Company's form of stating its commitment towards human rights in commercial relations	CRR 2018 Human Rights Policy - Pages 11, 17-18	Complete
A2.5 Lessons learnt about human rights and consequences which have arisen as a result	CRR 2018	Partial

Indicator	Page	Level of fulfilment
Defining the focus of reporting (B)		
B1. Statement of salient issues	CRR 2018	Complete
B2. Determination of salient issues	CRR 2018	Partial
B3. Choice of focal geographies	CRR 2018	Complete
B4. Additional severe impacts	CRR 2018 2018 Internal Audit Report	Complete
Management of salient human rights issues (C)		
C1. Specific policies	CRR 2018	Complete
C1.1 Importance of human rights policy for persons responsible for implementing it	CRR 2018	Complete
C2. Stakeholders commitment	CRR 2018	Complete
C2.1 Identification of stakeholders to take part in salient human rights issues	CRR 2018	Partial
C2.2 Stakeholders which have had relations with the company in connection to human rights	CRR 2018	Partial
C2.3 Influence of the stakeholders' vision regarding human rights issues	CRR 2018	Partial
C3. Assessing impacts	CRR 2018	Complete
C3.1 Patterns or trends in human rights impacts	CRR 2018	Partial
C3.2 Severe impacts on human rights	CRR 2018	Complete
C4. Integrating findings and taking action	CRR 2018	Partial
C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues	CRR 2018	Partial
C4.2 Tensions of human rights impacts	CRR 2018 Human Rights Policy – Commitment - Page 6	Partial
C4.3 Actions taken to prevent or mitigate potential impacts on human rights	CRR 2018	Partial
C5. Tracking performance	CRR 2018	Partial
C5.1 Effective management of human rights issues	CRR 2018	Partial
C6. Remediation	CRR 2018	Complete
C6.1 Means of claiming regarding human rights issues	CRR 2018 Code of Ethics – Page 22	Partial
C6.2 People's capacity to make claims or complaints	CRR 2018 Code of Ethics – Page 22	Partial
C6.3 Processing of claims and evaluation of effectiveness of results	CRR 2018 Code of Ethics – Page 22 2018 Audit and Control Report 2018	Partial
C6.4 Patterns and trends in claims or complaints	CRR 2018	Partial
C6.5 Repairs in relation to any impact relating to human rights	CRR 2018	Complete

Report on the green bond

Indicators of use of funds

At 31 December 2018, the total number of projects assigned to Green Bonds issued on 15 November 2017 was 63, representing a total investment of Euros 446.34 million. These assigned funds represent 55.79% of the total amount obtained through the issuance of Green Bonds, with Euros 353.66 million yet to be assigned.

Technology	Location	Project Name	Year launched	Status	Assigned Green Bond financing (euros million)	% Financed with Green Bonds	Prevented emissions (tCO ₂)
Wind	Spain	P.E. Balcón De Balos	2018	Operation	6.09	50%	17,465.82
Wind	Spain	P.E. Doramás	2018	Operation	1.14	50%	4,254.26
Wind	Spain	P.E. Fuerteventura li	2018	Operation	2.72	50%	7,159.81
Wind	Spain	P.E. La Haría	2018	Operation	1.97	50%	4,729.37
Wind	Spain	P.E. La Vaquería	2018	Operation	1.93	50%	4,907.52
Wind	Spain	P.E. Montaña Perros	2018	Operation	1.89	50%	5,200.33
Wind	Spain	P.E. Triquivijate	2018	Operation	3.40	50%	9,415.37
Wind	Spain	P.E. Vientos Del Roque	2018	Operation	3.42	50%	10,580.28
Solar	Spain	C.F. Carpio De Tajo	2019	Construction	25.33	100%	24,870.11
Solar	Spain	C.F. La Nava	2019	Construction	27.13	100%	27,903.09
Solar	Spain	C.F. Picon I	2019	Construction	19.08	100%	29,554.70
Solar	Spain	C.F. Picon II	2019	Construction	18.01	100%	29,554.70
Solar	Spain	C.F. Picon III	2019	Construction	5.86	100%	29,554.70
Wind	Spain	P.E. Ampliacion El Hierro	2019	Construction	12.84	100%	39,049.51
Wind	Spain	P.E. Barasoain	2019	Construction	23.99	86%	35,311.74
Wind	Spain	P.E. Merengue	2019	Construction	32.00	100%	45,270.35
Wind	Spain	P.E. Mirabel	2019	Construction	15.14	100%	25,434.18
Wind	Spain	P.E. Monciro	2019	Construction	10.68	100%	39,779.13
Wind	Spain	P.E. Peñaforcada - Catasol II	2019	Construction	6.75	100%	8,324.33
Wind	Spain	P.E. Piletas I	2019	Construction	9.18	50%	26,914.83
Wind	Spain	P.E. San Blas	2019	Construction	24.58	100%	35,000.95
Wind	Spain	P.E. Teso Pardo	2019	Construction	20.67	100%	30,321.81
Wind	Spain	P.E. Tesorillo	2019	Construction	20.18	100%	24,075.45
Wind	Spain	P.E. Tirapu	2019	Construction	9.35	87%	12,612.85
Wind	Spain	P.E. Montejo De Bricia (Ampliación)	2019	Construction	5.45	90%	5,829.63
Wind	Spain	P.E. Carratorres	2019	Construction	14.44	75%	35,406.33
Wind	Spain	P.E. Fréscano	2019	Construction	7.85	100%	23,550.17
Wind	Spain	P.E. San Agustín	2019	Construction	5.25	100%	32,683.10
Wind	Spain	P.E. Monte Tourado - Eixe	2019	Construction	29.14	100%	42,147.08
Wind	Spain	P.E. Pastoriza - Rodeiro	2019	Construction	10.42	100%	44,451.04
Wind	Spain	P.E. Serra Do Punago - Vacariza	2019	Construction	8.67	100%	32,696.13
Wind	Spain	P.E. Torozos A	2019	Construction	14.68	100%	38,913.76
Wind	Spain	P.E. Torozos B	2019	Construction	11.51	100%	33,182.57
Wind	Spain	P.E. Torozos C	2019	Construction	13.99	100%	38,892.52
Wind	Spain	P.E. Mouríños	2019	Construction	6.73	100%	11,670.00
Wind	Spain	Infraestructuras Comunes	2019	Construction	8.81	70%	-
					440.27		866,667.49

Technology	Location	Project name	Year launched	Status	Assigned Green Bond financing (euros million)	% Financed with Green Bonds	Prevented emissions (tCO ₂)
Solar	Spain	C.F. Canredondo	2021	Development	0.08	100%	
Solar	Spain	C.F. Las Jaras	2021	Development	0.27	100%	
Solar	Spain	C.F. Miraflores	2021	Development	0.16	100%	
Solar	Spain	C.F. Puerto Del Rosario	2021	Development	0.07	100%	
Solar	Spain	C.F. Salinetas	2021	Development	0.02	100%	
Solar	Spain	C.F. Tabernas I	2022	Development	0.26	100%	
Solar	Spain	C.F. Tabernas II	2022	Development	0.26	100%	
Solar	Spain	C.F. El Escobar I	2021	Development	0.07	100%	
Solar	Spain	C.F. El Escobar II	2021	Development	0.07	100%	
Solar	Spain	C.F. Sureste Sostenible I	2021	Development	0.05	100%	
Solar	Spain	C.F. Sureste Sostenible II	2021	Development	0.05	100%	
Solar	Spain	C.F. Sureste Sostenible III	2021	Development	0.05	100%	
Solar	Spain	C.F. Sureste Sostenible Iv	2021	Development	0.05	100%	
Solar	Spain	C.F. Aguayro Solar I	2021	Development	0.05	100%	
Solar	Spain	C.F. Aguayro Solar Ii	2021	Development	0.05	100%	454,691.40
Solar	Spain	C.F. Aguayro Solar III	2021	Development	0.05	100%	
Solar	Spain	C.F. Aguayro Solar Iv	2021	Development	0.05	100%	
Solar	Spain	C.F. Aldea Blanca	2021	Development	0.02	100%	
Wind	Spain	P.E. Picato	2021	Development	1.33	100%	
Wind	Spain	P.E. El Moralito	2022	Development	0.00	50%	
Wind	Spain	P.E. La Tablada	2022	Development	0.01	50%	
Wind	Spain	P.E. Punta Redona	2021	Development	0.02	60%	
Wind	Spain	P.E. Tres Termes	2021	Development	0.02	60%	
Wind	Spain	P.E. Los Barrancs	2021	Development	0.02	60%	
Wind	Spain	P.E. Agüimes	2021	Development	0.14	100%	
Wind	Spain	P.E. Puerto Del Rosario	2022	Development	0.38	100%	
Wind	Spain	P.E. Torozos II	2021	Development	2.45	100%	
					6.07		

The net funds of the bond issue have been managed within the liquidity portfolio of Naturgy's treasury, in cash or other short-term liquidity instruments that do not include intensive greenhouse gas or other controversial activities. At the year-end, Naturgy has maintained a minimum cash level equivalent to the funds pending award of the green bond.

Environmental benefit indicators

The estimated environmental benefit of the green bond is expected to be 1,321,358.89 tCO₂/year avoided, based on a total of approximately 1,419 MW of power that is expected to be installed with green bond financing, with associated production of about 3,988 GWh/year.

Actions in environmental and social matters

In the projects, sustainability has been considered throughout its life cycle, in partnership with the competent administrations, with participation of the different stakeholders.

In the design stage, an environmental study has been carried out in all the projects, where information has been gathered about the environment (physical, biological, socio-economic and cultural). This study has served as a baseline to define the most environmentally and socially sustainable project alternatives, identify and assess the associated

impacts and define the necessary prevention, mitigation and, if necessary, compensation measures.

During the construction phase, a thorough environmental and archaeological follow-up is carried out in order to ensure that the project is executed with the established environmental and social guarantees.

During the operation stage, the facilities are covered by the Naturgy's environmental management system, which is certified and externally audited pursuant to the UNE-EN ISO 14001, which ensures control and compliance with environmental requirements, the prevention of environmental accidents and the ongoing improvement in the reduction of our impacts.

Glossary of indicators

Indicators for use of proceeds	
Description of the financed projects	Description of the projects financed with Green Bonds, with details of generation technology, location (country), project name, year launched, completion status (1. Development, 2. Construction, 3. Operation and maintenance), at the closing date.
Assigned Green Bond financing: amount assigned (in euros) per project and in total	Sum attributable to Green Bonds invested in projects that meet the Green Bond eligibility criteria listed in the Naturgy Green Bond Framework (in millions of euros), at the closing date.
% Financed with Green Bonds	Percentage of project investment attributable to Green Bonds, at the closing date.
Number of projects	Number of projects with financing attributable to funds from Green Bonds, at the closing date.
Total quantities assigned relative to total funds (%)	Percentage of the total investment attributable to Green Bonds across all projects relative to the total sum obtained through the issuance of Green Bonds (bond funds), at the closing date.
Description of the use of non-invested funds	Description of the management of funds obtained through the issuance of Green Bonds that have not been assigned to any project, at the closing date, according to the "Naturgy Green Bond Framework".
Environmental benefit indicators	
Greenhouse gas (GHG) emissions prevented	CO ₂ emissions (tCO ₂ /year) expected to be avoided each year through renewable energy projects (wind and solar). This amount is calculated by multiplying expected energy production by a regional average emissions factor (peninsula and Canary Islands). This emissions factor has been calculated using the methodology used by UNFCCC Clean Development Mechanism (CDM) projects. This allows the use of either an average regional emissions factor excluding emissions from low cost/must-run power stations when generation from these stations represents less than 50% of the electricity system total ("simple" method) or an average emissions factor from the entire regional electricity mix (including emissions from low cost/must-run power stations) when generation from these stations represents more than 50% of the electricity system total ("average" method). The data used to calculate the applied emissions factor come from publicly available information sources based on official statistics.
Energy capacity	Total power (MW) corresponding to the projects expected to be financed by Green Bonds.
Energy production	Estimated annual electrical power generation (GWh/year) calculated by multiplying the energy capacity by the estimated average number of operating hours per year for each project expected to be financed by Green Bonds.

Green bond independent review report



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

INDEPENDENT LIMITED ASSURANCE REPORT ON THE GREEN BOND INDICATORS

To the Board of Directors of Naturgy Energy Group, S.A.:

Scope of work

We have conducted our work to provide limited assurance on the Green Bond Indicators included in the "2018 Green Bond Report" of Naturgy Energy Group, S.A. (hereinafter "Naturgy") for the year ended December 31, 2018, prepared in accordance with the criteria defined by Naturgy in the section "Glossary of indicators" on page 4 of the "2018 Green Bond Report", and defined in accordance with the "Gas Natural Fenosa Green Bond Framework" (Gas Natural Fenosa changed its name to Naturgy in June 2018) published by Naturgy and available on its website:

(https://www.naturgy.com/files/Gas_Natural_Fenosa_Green_Bond_Framework_def-2.pdf).

Specifically, we have reviewed the Green Bond Indicators included in the sections "Indicators of use of funds" and "Environmental benefit indicators" on pages 2 and 3 of the "2018 Green Bond Report".

The Directors of Naturgy Energy Group, S.A. are responsible for the preparation, content and presentation of the Green Bond Indicators included in the "2018 Green Bond Report" in accordance with the criteria set by Naturgy, and the definition of these criteria in accordance with the "Gas Natural Fenosa Green Bond Framework".

This responsibility also includes designing, implementing and maintaining the internal control required to ensure that the Green Bond Indicators included in the "2018 Green Bond Report" are free of any material misstatement due to fraud or error.

The Directors of Naturgy Energy Group, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the Green Bond Indicators included in the "2018 Green Bond Report" is obtained.

Criteria

Our responsibility is to express our conclusions in a limited assurance report based on the work performed. We have conducted our engagement in accordance with the requirements of the International Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Procedures performed

The procedures performed in a limited assurance engagement vary in nature and timing from a reasonable assurance engagement and are less in extent. Thus, the level of assurance obtained is substantially lower.



Our work has involved making inquiries of management, reviewing the procedures for gathering and validating the information included in the Green Bond Indicators and performing certain analytical procedures and random sampling tests, which are described below:

- ▶ Meetings with Naturgy's personnel from various departments who have been involved in the preparation of the Green Bond Indicators.
- ▶ Analysis of the procedures used for collecting and validating the data and information included in the Green Bond Indicators.
- ▶ Analysis of the Naturgy's Green Bond Indicators adaptation to the criteria set by Naturgy, described in the section "Glossary of indicators" of the "2018 Green Bond Report".
- ▶ Verification of the traceability of the allocation of funds from Green Bond proceeds to project financing and the traceability of not allocated funds, and verification that investments made by Naturgy in projects through funds attributable to the Green Bond have been made in accordance with the criteria of the "Gas Natural Fenosa Green Bond Framework".
- ▶ Verification, by means of review tests based on a random sample, and performance of substantive and analytical tests on the quantitative and qualitative information of the Naturgy's Green Bond Indicators. We have also verified whether they have been appropriately compiled from the data provided by the Naturgy's sources of information.
- ▶ Obtaining of the representation letter from the Directors and Management of Naturgy Energy Group.

Independence and quality control

We have performed our work in accordance with the Independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Green Bond Indicators included in the Naturgy's "2018 Green Bond Report", for the year ending December 31, 2018, contain significant errors or have not been prepared, in all material respects, in accordance with the criteria set by Naturgy pursuant to the "Gas Natural Fenosa Green Bond Framework".



Use and distribution

This report is only issued to the Directors of Naturgy, in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the addressees of our report.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Antonio Capella Elizalde

April 10, 2019

Independent review report

[102-56]



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INDEPENDENT REVIEW REPORT ON THE CORPORATE RESPONSIBILITY REPORT 2018

To the Board of Directors of Naturgy Energy Group, S.A.:

Scope of work

As commissioned by the Management of Naturgy Group, S.A. (hereinafter, Naturgy), we have completed our review of the sustainability information contained in the "2018 Corporate Responsibility Report" of Naturgy (hereinafter, the Report) and the GRI Content Index of the attached Report. This Report was prepared in accordance with the conditions contained in:

- GRI Sustainability Reporting Standards (GRI standards) and their sector supplements "Electric Utilities Sector Supplement" and "Oil and Gas Sector Supplement".
- The principles contained in Standard AA1000AP (2018) issued by AccountAbility (Institute of Social and Ethical Accountability).
- The "Glossary of corporate responsibility indicators", included in the chapter "Additional Information" of the attached Report.

The limits set by Naturgy for the preparation of this Report are defined in section "Scope of the information" of chapter "Process for drafting this report. Materiality" of the attached Report.

The preparation of the attached Report and its contents are the responsibility of the Management of Naturgy, which is also responsible for defining, adapting and maintaining those internal management and monitoring systems whereby the information is obtained. It is our responsibility to issue an independent report based on the procedures applied in our review.

Criteria

We have performed our review in accordance with:

- The Guidelines for the review of Corporate Responsibility Reports issued by the Spanish Institute of Chartered Accountants (ICJCE).
- Standard ISAE 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), with a level of reasonable assurance for the key corporate responsibility indicators regarding integrity and transparency included in the section "An integrated and sustainable business model" of chapter "Business Model" of the attached Report and a level of limited assurance for the rest of the indicators included in the GRI content index of the attached Report.
- Standard AA1000AS (2008) of AccountAbility, under a moderate level of assurance at type 2.



Procedures performed

Our review consisted of the preparation of questions for the Reputation and Sustainability Directorate and the various Business Units that participated in the preparation of the attached Report and in the application of certain analytical procedures and review tests on a sample basis as described below:

- Interviews with personnel responsible for the preparation of sustainability information in order to obtain an appreciation of how sustainability objectives and policies are evaluated, placed in practice and integrated into Naturgy's strategy.
- Analysis of the processes for collecting and validating the sustainability information contained in the attached Report.
- Confirmation of the processes whereby Naturgy determines what its material aspects are, as well as the participation of stakeholders in them.
- Review of the suitability of the structure and contents of the sustainability information in accordance with the Guide for the preparations of sustainability reports under Global Reporting Initiative (GRI) Standards and their sectoral supplements "Electrical Utilities Sector Supplement" and "Oil and Gas Sector Supplement" for the preparation of reports in accordance with the comprehensive compliance option and the principles of Standard AA1000AP (2018).
- Confirmation through review testing based on sample selections of the quantitative information of the indicators included in the GRI Content Index and its satisfactory compilation based on the data provided by the informational sources. The review tests have been defined for the purposes of providing the indicated level of assurance.
- Verification that the financial information in the Report has been audited by an independent third party.

These procedures have been applied to the sustainability information contained in the attached Report and in the GRI Content Index, with the extent and scope indicated above.

The scope of our review is substantially less than that of reasonable security. Therefore, the security assigned is also lower.

In addition, with respect the key corporate responsibility indicators regarding integrity and transparency included in the section "An integrated and sustainable business model" of chapter "Business Model", we have carried out reasonable assurance work. The work entailed understanding the internal control system relevant to the aforementioned indicators contained in the Report, assessing the risk of material errors that the indicators might contain, testing and evaluating their content, as well as performing other procedures we considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

This Report is not in any way to be considered an audit report.

Independence and quality control

We have complied with the requirements of independence and other ethical requirements of the Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our company applies International Standard on Quality Control 1 (ISQC 1), and therefore maintains a global quality control system that includes documented policies and procedures for compliance with ethical requirements, professional standards and legal provisions, and applicable regulations.

This assignment has been performed by a team of specialists in sustainability with extensive experience in the review of this sort of information.



Conclusions

In our opinion, the key corporate responsibility indicators regarding integrity and transparency included in the section "An integrated and sustainable business model", reviewed with a reasonable level of assurance, are prepared and presented, in all material respects, in accordance with the criteria established by Naturgy and described in the section "Glossary of corporate responsibility indicators" included in chapter "Additional Information" of the attached Report.

In addition, as a result of our review, nothing has come to our attention that causes us to believe that the rest of the indicators contained in the GRI content Index has not been prepared in all its significant aspects in accordance with the Guide for the preparations of sustainability reports under Global Reporting Initiative (GRI) Standards and their sectoral supplements "Electric Utilities Sector Supplement" and "Oil and Gas Sector Supplement", including reliability of data, suitability of the information presented and the absence of significant deviations and omissions.

Regarding the application by Naturgy of AccountAbility Principles Standard AA1000AP (2018), no aspect was discovered that would indicate to us that Naturgy has not applied the principles of inclusivity, relevance, responsiveness and impact as outlined in the section "Compliance with benchmark standard" included in chapter "Process for drafting this report. Materiality" of the attached Report.

Recommendations

We have presented our recommendations for improvement to the Management of Naturgy in regard to the application of the principles of Standard AA1000AP (2018); the most significant recommendations refer to:

- **Inclusivity:** Each department designs conversation actions with their most relevant stakeholders that are divided into consult and training actions. Due to the changes in structure and increasing autonomy in the countries, we recommend defining a process for ensuring that local relationship groups are included therein and encouraging periodical consult initiatives with stakeholders in the countries where the company operates.
- **Materiality:** The Corporate Responsibility Policy, which was updated in January 2019, establishes Naturgy's action framework for Corporate Responsibility and determines the structure of the accompanying Report. Additionally, Naturgy has established a process for identifying and assessing material matters that are described in the content of said Report. We recommend continuing with the analysis of materiality, consulting with different categories of stakeholders periodically, and encouraging their involvement in strategic decision-making and risk management in Naturgy.
- **Responsiveness:** Naturgy defined a sustainability plan in 2017 and is currently working on defining a new one for 2019-2022, using the company's strategic plan as starting point. Our recommendation is to take the opportunity offered by the definition of the new plan to determine mid-term quantitative sustainability objectives both at a corporate level and in the group's business units.
- **Impact:** The 2019-2022 sustainability plan will support the company's strategic leverages and the cornerstones of growth in the middle and long terms. Its purpose will be to manage the company's main impacts. To integrate impact management in decision-making efficiently, we recommend linking impacts to the company's performance and remuneration system.



This Report has been prepared exclusively in the interest of Naturgy, in accordance with the terms of our engagement letter.

ERNST & YOUNG, S.L.  AA1000
Licensed Assurance Provider
300-08

(Signature on the original in Spanish)

Antonio Capella Elizalde

May, 24, 2019

[102-3]

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