

2018 Green Bond Report



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Report on the green bond

Indicators of use of funds

As 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 II	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. MOURIÑOS	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%	454,691.40	
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%		
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.

* The nine controversial activities defined by Vigeo Eiris are: alcohol, animal abuse, weapons, dangerous chemicals, gambling and betting, genetically modified organisms in food and feed, nuclear energy, sex industry and tobacco.

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.

Glosary 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), 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, which 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

**Independent Limited Assurance Report on the Green Bond Indicators for
the year ended December 31, 2018**

Naturgy Energy Group, S.A.

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 Engagement 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