



Report on the functioning of  
the Audit and Control  
Committee of the Board of  
Directors of Naturgy Energy  
Group, S.A.  
during Financial Year 2019.



The Board of Directors, pursuant to Recommendation N<sup>o</sup>. 36 of the Unified Code of Good Governance, Article 8 of the Regulations of the organization and functioning of the Board of Directors and its Committees and Article 529 nonies of the Spanish Corporate Enterprises Act, is required to conduct an annual assessment of the quality and effective functioning of the Board itself and of its Committees, following a report from the same. In financial year 2020, the assessment process was conducted by an external consultant.

Accordingly, this report on the Audit and Control Committee is issued in light of the following considerations and conclusions:

## I.- BACKGROUND AND LEGAL REGULATIONS

The Articles of Association of Naturgy establish in Article 8 that the Company shall have an Audit Committee, setting forth the characteristics of the same with respect to its composition and functioning.

Article 26 of the Regulations of the Board of Directors specifies its competences which substantially coincide with those established by law. And the Board of Directors of 24 November 2020 adopted a decision complementing this list.

In addition to complying with these legal requirements, the Regulation of the Committee follows the principles and recommendations for functioning established in the Code of Good Governance of Listed Companies approved by the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores, or CNMV for short) of November 2020 and has taken into account the Technical Guide 3/2017, on Spanish Audit Committees for Public Interest Entities, of 27 June 2017.

## II.- KEY FACTS

In addition to regular monitoring functions on a quarterly, half-yearly or annual basis (e.g. on risk, cyber-security or treasury stock), the Commission has addressed the following relevant issues during 2020:

- The appointment of a new Internal Auditor and the establishment of his organisation
- The process of selecting a new External Auditor to be proposed to the Shareholders' Meeting for the period 2021-23
- The proposed amendment to the Internal Code of Conduct in the securities market and the Treasury Stock Policy



- Evaluation of the hypotheses and assumptions used in impairment tests

### III.- COMPOSITION OF THE AUDIT COMMITTEE

The Audit and Control Committee is made up of seven Directors and one Non-Member Secretary, the Independent Directors being the majority.

At 31 December 2020, positions on the Audit and Control Committee were arranged as follows:

<b>Chairman:</b>	Mr. Francisco Belil Creixell	Independent
<b>Committee Members:</b>	Mrs. Isabel Estapé Tous	Proprietary
	Mr. Pedro Sáinz de Baranda Riva	Independent
	Mr. Ramón Adell Ramón	Independent
	Mrs. Helena Herrero Starkie	Independent
	Mrs. Lucy Chadwick	Proprietary
	Mr. José Antonio Torre de Silva López de Letona (THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l)	Proprietary
<b>Secretary:</b>	Mr. Manuel García Cobaleda	

The profile of the members is available on the website of the Company [www.naturgy.com](http://www.naturgy.com) (Shareholders and Investors - Corporate Governance - Governing Bodies - Composition of the Board of Directors of NATURGY ENERGY GROUP, S.A.).

The composition of the Committee is particularly well-balanced, supported by the presence of profiles in regard to accounting and auditing, new technologies, legal, financial and risk management, including institutional.

### IV.- POWERS AND FUNCTIONS

The Audit and Control Committee exercises the powers entrusted to it by the



Board of Directors within the framework of article 529.14 of the LSC, the Articles of Association, its Rules of Organisation and Operation and the agreement of the Board of Directors of 24 November 2020:

- Supervision of related-party transactions.
  - In regard to the information and control systems:
    - Supervise the preparation process and the integrity of the financial and non-financial information relating to the company and the control and management systems for financial and non-financial risks relating to the company, if applicable, to the group, including operational, technological, legal, social, environmental, political and reputational risks or risks related to corruption, reviewing compliance with regulatory requirements, the appropriate definition of the scope of consolidation and the correct application of accounting criteria.
    - Establish and supervise a mechanism that, while guaranteeing confidentiality and even anonymity, allows employees and other persons related to the company to communicate potentially significant irregularities, including financial and accounting irregularities, or irregularities of any other nature, related to the company that they notice within the company or its group.
    - Ensure in general that the policies and systems established for internal control are effectively applied in practice
- In relation to the internal auditor
- Ensuring the independence of the unit assuming the internal audit function
  - Setting the annual budget, approving the annual audit plan and supervising its monitoring, setting the fixed remuneration, setting and evaluating the variable remuneration and proposing it to the Executive Chairman for his dismissal and appointment. Contrary to the recommendation of the CNMV, it is considered more appropriate for this functional unit to be part of the Commission as a whole and not of the Chairman of the Commission, as it is the Commission and not its Chairman who exercises this set of competences.
  - Receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- With regard to the Compliance Officer



- Ensuring the independence of the compliance unit
- Setting the annual budget, approving the annual compliance plan and supervising its monitoring, setting the fixed remuneration, setting and evaluating the variable remuneration.
- Receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

- In relation to the external auditor.

- In the event of the external auditor resigning, examine the circumstances that may have caused it.
- Ensure that the remuneration of the external auditor for its work does not compromise its quality or independence.
- Supervise that the Company notifies the CNMV of the change of auditor and accompanies it with a statement regarding the possible existence of disagreements with the outgoing auditor and, if these have existed, their content.
- Ensure that the external auditor holds an annual meeting with the Board of Directors in order to inform it of the work carried out and of the evolution of the Company's accounting situation and risks.
- Ensure that the company and the external auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on auditor independence

- Additionally:

- Analyse and inform the Board of Directors about the economic conditions and the impact on the accounts and, in particular, if applicable, about the exchange ratio, in relation to the operations of structural and corporate modifications that the Company plans to carry out.
- Supervise the exercise of the internal control and risk management department's functions.
- Supervision of compliance with the Codes of Conduct.

## V.- FUNCTIONING

In compliance with that set forth in Article 26 of the Regulation, the Audit and Control Committee shall meet when necessary for submitting reports and proposals within the scope of their competency, when deemed appropriate by its Chairman or on prior request by two of its members and at least four times a year.



The Audit and Control Committee has ordinarily called meetings within the minimum notice period set forth in the Regulation following instructions from the Chairman and taking with them to the calls all available information considered appropriate or relevant on the issues to be addressed.

During 2020 the Audit and Control Committee has met on ten occasions and the attendance rate is close to 100%.

The business discussed at the meetings was rich and varied during the year, with the active involvement of all Directors, with most of the resolutions being unanimously adopted by those present at the meetings.

At certain meetings the Company's senior executives from the supervisory and control areas were invited to give talks or presentations on matters relating to their competencies or to answer questions on matters within the scope of their competency that were raised by the Directors.

The Internal Auditor has attended most of the meetings of the Committee, the External Auditor has attended two meetings and the Compliance Director has attended four of said meetings.

The evaluation carried out by the external consultant concluded that the Board and the Committees function with a high degree of satisfaction, but that there are various views on the Board which require reflection by the Board, so that no concrete action plan has been drawn up.

## VI.- RISK CONTROL

During the financial year 2020, the Audit and Control Committee has supervised the effectiveness of the internal control and risk management systems, ensuring that they identify the different types of risks and the measures to mitigate them and to address them in case they materialise.

It has supervised and reviewed Naturgy's Corporate Risk Map, receiving a quarterly report on the situation of the Company's main risks, as well as an annual report on the status of litigation and tax risks. It has also been informed of the changes that the new heads of the risk area wish to introduce in the risk control system for the year 2021.

In 2020, the Committee also monitored the effectiveness of the ICFR with the support of the internal audit unit and the external auditor.



In 2020, given the volatility of the energy scenario, the main risks examined were those inherent to the activity carried out, such as: exposure to regulatory risks, fuel and pool volatility in Spain, exchange rate, interest rate, credit or counterparty risks.

## VII.- RELATIONSHIP WITH EXTERNAL AUDITOR

During 2020 and according to the resolution adopted by the General Shareholders' Meeting held on 20 April 2017, Ernst & Young S.L. were appointed as the Accounts Auditor of the Company.

It should be noted that as a result of the relations with the Accounts Auditor, and after analysing the non-audit work contracted and related services and the written confirmation of the Accounts Auditor on its independence, the Committee states that it has not identified issues in the independence of the firm Ernst & Young in the provision of its services, both those corresponding to the Accounts Auditor's work and those services provided additional to the accounts audit and associated services.

## VIII.- CONCLUSION

The Audit and Control Committee has worked during financial year 2019 as expected, fully exercising their competencies without interference. With regard to the performance of the functions by the Chairman during the period, the same has conformed in full to the decisions of the Committee.

*\*This assessment report of the functioning of the Audit Committee corresponding to financial year 2020 was approved in the meeting held on 1 February 2021.*