

**ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED PUBLIC
LIMITED COMPANIES**

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Registered Office:

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ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED PUBLIC LIMITED COMPANIES

A COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

A.1 Explain the Remuneration Policy for Directors in force applicable to the current financial year. Insofar as it is relevant, certain information referring to the Remuneration Policy approved by the General Meeting for Shareholders may be included, as long as the same is clear, specific and concise.

The decisions specific to the current financial year should be described, including the remuneration of the Directors for their capacity as such as well as for exercising executive functions, that the Board may have carried out in accordance with that set forth in the contracts signed with the Executive Directors and with the Remuneration Policy approved by the General Meeting of Shareholders.

In any case, information should be given on the following aspects, at the very least:

- Description of the procedures and bodies of the Company involved in the determination and approval of the Remuneration Policy and its terms and conditions.
- Indicate and, as the case may be, explain if comparable companies have been examined to establish the Company's Remuneration Policy.
- Information on whether any External Consultant has participated and, as the case may be, the identity of the same.

Explain the Remuneration Policy

When establishing its remuneration policies, the aim of the Company, in accordance with that set forth in new Art. 9 of the Articles of Association, is to promote the long-term profitability and sustainability of the Company, through the creation of sustainable value over time, while ensuring that the Remuneration Policy is both transparent and competitive.

The Directors' Remuneration Policy is decided upon and reviewed on a regular basis by the Board of Directors subject to favourable report from the Appointments and Remuneration Committee, in order to maintain the same in line with the best practices in the reference market and with the objectives stipulated in the Articles of Association. To do this, the Board, subject to prior favourable report from the said Committee, submitted to the General Meeting of Shareholders held in March 2019 for approval a Remuneration Policy for the 2019-2021 period, with the objective of further alignment of the Directors' remuneration with the creation of value in the long term for all Shareholders, in accordance with that set forth in the Articles of Association and through a new Long-Term Incentive (LTI) Plan. The provisions of the new policy do not affect the

remuneration of Directors for exercising non-executive functions. The General Meeting of Shareholders approved said 2019-2021 Remuneration Policy in their meeting on 5 March 2019.

Specialised external consultancy services were involved in the design of the new Long-Term Incentive, for benchmarking analysis and legal and technical counsel on the incentive.

Accordingly, the remuneration of the Directors is based on the following principles:

- It must be sufficient to compensate their dedication, experience and responsibility, without compromising their independence.
- It must be on a par with market standards and reflect the remuneration paid to Directors of peer-listed companies of similar stature to NATURGY ENERGY GROUP S.A.
- It should facilitate the Company having access to the best talent possible available at any moment in time.

The Board, at its meeting on 4 February 2020, agreed to propose to the General Meeting of Shareholders that the Policy be modified for the years 2020, 2021 and 2022 in two specific aspects: i) In the remuneration of Directors for their status as such, maintaining the scheme of allocation of a fixed annual amount, which is the traditional remuneration scheme for Directors, it is considered appropriate to introduce an element linked to the dedication factor of the Directors for their membership of the Board, so that part of the remuneration will continue to be fixed and annual, while that linked to membership of the Committees will be linked to attendance at their meetings and ii) with regard to the variable annual remuneration of the executive Director, the literal wording of Recommendation no. 60 of the CNMV's Code of Good Governance for Listed Companies is included with regard to the existence of possible qualifications in the report of the Company's external auditor.

Moreover, Art. 9 of the Company's Articles of Association establishes a Directors' remuneration regime for generic functions as well as those specifically executive or delegated.

Remuneration for non-executive functions involves an annual fixed payment that may be in the form of remuneration in shares or reference them. The distribution of said remuneration, within the limit periodically set in the Remuneration Policy, is performed by the Board of Directors and may be different depending on the Committee(s) to which each Director is a member and the dedication and responsibility required for each position(s). It may also differ depending on the responsibility and function assumed by each Director on the Board or on the Committee(s).

The remuneration of the Executive Chairman for specifically exercising executive or delegated functions is made up of the following concepts:

- Annual fixed base remuneration. Includes any remuneration paid

for being a member of any governing body of a company of the Naturgy group, including its parent company.

- Annual variable remuneration based on 100% of the total annual fixed monetary remuneration adjusted according to the rate of attainment of the objectives met. Payment in cash may be replaced every year in all or part by a contribution to a pension system, on mutual agreement.
- Multi-year Variable Remuneration or Long-Term Incentive Plan; linked to the return obtained by the Shareholders during the reference period that aligns to a great extent with the 2018-2022 Strategic Plan.
- Other benefits such as medical healthcare insurance, company car, housing assistance, disability and life insurance, capped gas and electricity usage discounts and Group savings-linked insurance policy.

In addition to the foregoing, the Board of Directors may establish other variable remuneration in the event of special transactions, for objectives linked to their attainment as well as for remuneration derived from the achievements obtained.

The amount(s) paid for executive and non-executive functions were approved by the Board on 4 February 2020. Likewise, the objectives of the annual variable remuneration of the Executive Chairman were set in the same meeting. The Long-Term Incentive was approved by the General Meeting of Shareholders held on 5 March 2019.

- **Relative importance of the variable remuneration items in relation to fixed remuneration items (remuneration mix) and what criteria and objectives are followed to determine the different components of the Directors' remuneration package and for guaranteeing an appropriate balance between the fixed and variable components of the remuneration. In particular, explain the actions adopted by the Company in relation to the remuneration system to reduce exposure to excessive risks and adapt it to the long-term objectives, values and interests of the Company, which will include, where appropriate, reference to measures designed to ensure that the Remuneration Policy considers the long-term results of the Company, measures adopted for those categories of personnel whose professional activities have a material effect on the Company's risk profile and measures adopted to avoid conflicts of interest, as the case may be.**

Likewise, indicate if the Company has established a payment or consolidation period for determined variable remuneration items, in monetary, shares or other financial instruments, any payment deferral periods or delivery of financial instruments whether paid or consolidated, or if a reduction clause has been agreed for the deferred remuneration or that forces the Director to return paid remuneration, when the same has subsequently proved to be clearly inaccurate.

The remuneration of the Executive Chairman, the only Director who receives a variable remuneration, is balanced on three (3) key components with similar weight:

- A fixed component that is paid in all events, in a way that there is no exposure to risk.
- A variable component with a time horizon of one year, linked to specific, measurable business objectives that are recurrent and therefore avoid excessive risk-taking. This is reinforced by the fact the assessment of the same is performed once the Annual Accounts have been audited and submitted.
- A variable component with a very long-term time horizon (ordinarily ending in July 2023 and therefore aligns to a great extent with the 2018-2022 Strategic Plan). Since this type of remuneration exceeds the norm (3years), it moderates excessive risk-taking and provides more long-term value creation than usual.

Between the variable components there is a reasonable balance not only in terms of time horizon but also amount and even objectives since the annual variable remuneration leans towards operational objectives that consider the immediate interests of the Company, whilst multi-variable remuneration leans specifically towards the long-term interest of the Shareholders, in line with that established in the Articles of Association.

The annual variable remuneration is only decided on and paid once the audited Annual Accounts of the Company are made available to the Board of Directors. In particular, it will be established once the audited annual accounts are available and any qualifications in the report of the Company's external auditor that reduce these results will be taken into account. The Board of Directors is entitled not to consider these qualifications if there is a reasoning disagreement .

Both the annual variable remuneration as well as the multi-year variable remuneration have a claw-back system for eighteen (18) months from payment of the same.

- **Amount and nature of the fixed components that are due to be paid in the financial year to Directors in their capacity as such.**

The remuneration of the Directors for the financial year for non-executive functions consists in a yearly fixed allocation.

The amount of the remuneration of the Directors for their capacity as such (non-executive functions) approved for 2020 is:

a) For Board membership

- Chairman of the Board of Directors: 1.100.000 €/year.
- Board Member: 175,000 €/year.
- Coordinating Director: 30.000 €/year

b) For Committees membership

- Committee Chairman: 18,000 €/year.
- Committee Member: 12,000 €/year.
- It is also established at 150,000 euros per year (or a proportional part in the case of a mandate for a period of less than one year), the maximum amount that a director may receive for belonging to Committees.

As indicated above, the above is subject to the approval of the corresponding modification of the Remuneration Policy by the General Shareholders' Meeting scheduled for 17 March 2020.

- Amount and nature of the fixed components that are to be paid in the financial year for exercising Senior Management functions by the Executive Directors.

In the meeting on 4 February 2020, the Board set the fixed component of the remuneration of the Executive Chairman at €2.060.000 (fixed total annual monetary remuneration), including the remuneration that he receives for being a member of the governing body of NATURGY ENERGY GROUP S.A. This amount is therefore the sum of €1.100.000 that he receives as Chairman of said Board of Directors for the exercising of non-executive functions and €960.000 that he receives as annual fixed base remuneration for exercising executive or delegated functions.

- Amount and nature of any remuneration component paid in cash in the financial year including, but not limited to insurance premiums paid in favour of the Director.

Explain cash remunerations

The Executive Chairman is beneficiary of an insurance policy for temporary disability (100% of the gross annual fixed remuneration being received, for up to eighteen (18) months). He is also beneficiary of an insurance policy that covers death or total permanent disability or severe disability, in which NATURGY ENERGY GROUP S.A. acts as the Policyholder, taking the age of the Executive Chairman as a base to calculate the yearly insurance premium and the sum insured, being the insurance company who establishes and communicates the said premium. The sum insured in the event that the contingencies covered occur (death, permanent or severe disability) is equivalent to three and a half (3.5) years' total gross annual fixed remuneration.

The Company takes out and pays a global premium for a joint civil liability insurance policy for all Board Members and Directors of NATURGY ENERGY GROUP, S.A. extending to both the Parent Company and the Group subsidiaries and affiliates and therefore also covers all the Directors of NATURGY ENERGY GROUP S.A. both executives and non-executives, in which the Directors are named as Insured Parties, to cover any liability they may incur when exercising their duties as Directors. In particular, the contract with the Executive Chairman stipulates the obligation that the Company has to take out a civil liability insurance.

Since the civil liability insurance is contracted globally the part attributable to the Directors as remuneration in cash can not be calculated, however, in any event, its individual amount is not material.

The remuneration package of the Executive Chairman also includes the following items, similar to the rest of the members of Senior Management: medical healthcare, life, temporary disability and Group savings-linked insurance policies, company car, housing assistance and capped gas and electricity usage discounts.

- **Amount and nature of the variable components, differentiating between those established at short and long term. Financial and non-financial parameters, including in the latter, social, environmental and climatic change parameters, selected to determine the variable remuneration in the current financial year, explication on the extent to which these parameters correlate with the performance of the Board Members as well as the entity itself and with its risk profile, and the methodology, time required and planned techniques for being able to determine, at the end of the financial year, the rate of attainment of the parameters used in the design of the variable remuneration.**

Indicate the range in monetary terms of the different variable components depending on the rate of attainment of the objectives and parameters established, and if any maximum monetary amount exists in absolute terms.

Explain the variable components of the remuneration systems
<p>Directors do not receive this type of remuneration for exercising non-executive functions.</p> <p>For the Executive Chairman who exercised executive and delegated functions, the variable components of the remuneration system are the following:</p> <ul style="list-style-type: none"> - Annual variable remuneration <p>Is based on 100% of the total annual fixed monetary remuneration multiplied by the rate of attainment of objectives actually achieved. The maximum rate of attainment is set at 145%. This remuneration is not received if the rate of attainment does not reach 75%.</p> <p>The Executive Chairman may decide to replace on a yearly basis the payment of all or part of the annual variable remuneration for a company contribution to a pension scheme that is agreed upon.</p>

The objectives and weightings are the following:

- CAPEX optimisation, in terms of volume and return: weighted at 20%
- Operational efficiency (reduction of OPEX not including capture costs): weighted at 25%
- EBITDA (not including maintenance CAPEX); weighted at 30%
- Comparable consolidated net return: weighted at 15%
- Qualitative assessment (health and safety, quality of service, development capacity of the team, commitment, amongst other criteria); weighted at 10%
- Multi-year variable remuneration:

Term of Long-Term Incentive (LTI) Plan: given that the LTI Plan runs from 2018 until June 2023 (ordinarily), its details for 2020 are the same as those described in section B7 for 2019 and previous reports.

- **Main features of long-term saving schemes. Amongst other information, explain the contingencies covered by the scheme, whether contribution or defined benefit, the contribution per year to be made to defined contribution scheme, the benefit to which the beneficiaries have the right in the case of defined benefit schemes, the terms and conditions of the vested economic rights in favour of the Directors and their compatibility with any type of compensation for resolution or early termination of the contractual relationship between the Company and the Director.**

State if the payment or consolidation of any of the long-term saving schemes are linked to the attainment of determined objectives or parameters related to the short or long-term performance of the Director.

Explain the long-term saving systems

Directors do not receive this type of remuneration for exercising non-executive functions.

In regard to the executive or delegated functions that the Executive Chairman exercises, the same benefits that are currently available to the members of Senior Management of the Company are afforded to him under the following terms:

Group savings-linked insurance policy: the Executive Chairman is afforded the right to receive a series of contributions that are set forth in an insurance contract and are governed by the rules laid down for this purpose. NATURGY ENERGY GROUP S.A. makes yearly contributions to the foregoing instrument of an amount equal to 20% of their fixed monetary remuneration. Contingencies covered include the survival on the date specified, death or total, permanent or severe disability. The Group savings-linked insurance policy is not compatible with possible compensation in the event of termination. There is no right to receive any amount for any of the contingencies in the event of:

- Voluntary resignation without respecting the notice period set in the contract and without reaching prior agreement with the Board of Directors of the Company.
- Material breach deemed wilful or negligent of professional obligations insofar as the breach causes serious harm to the interests of the Company.

- At any time during the year following the termination of the provision of the services as Executive Chairman, for a different reason to that of contingency events, perform activities directly related to those of the Company.

Social welfare system linked to annual variable remuneration: The Executive Chairman may decide to replace the payment of all or part of the annual variable remuneration on an annual basis with a company contribution to a social welfare system to be agreed. This is what he has decided for the variable annual remuneration corresponding to the financial years 2018 and 2019, received at the beginning of 2019 and 2020, respectively. The contingencies covered are the same as those established for the previous instrument, and the company may implement the coverage of the aforementioned contingencies by subscribing to one or more insurance contracts with a minimum interest rate guarantee and a share in profits. There is no right to receive any amount for any of the contingencies in the same cases as the previous instrument, except in the case of voluntary resignation without prior notice or without reaching an agreement with the Board of Directors.

- **Any type of payment or compensation by resolution or early termination or derived from the termination of the contractual relationship, under the terms of the same between the Company and the Director, whether wilful by the Company or the Director, as well as any type of terms agreed, such as exclusivity, post-contractual non-compete and loyalty covenants, that give the Director rights to any type of payment.**

Explain compensation system
Directors who do not exercise executive functions do not qualify for this type of compensation.

- **Indicate the conditions that must be respected in contracts for individuals carrying out Senior Management duties as Executive Directors. Amongst others, specify the duration, limits on compensation amounts, tenure clauses, notice periods, and payment in lieu of the aforementioned notice period, and any other clauses on hiring bonuses, as well as on severance payments or golden parachutes for the early termination of the contractual relationship between the Company and the Executive Director. Include, among others, the non-compete, exclusivity, tenure or loyalty and post-contractual non-compete covenants or agreements (not including those described in the previous section).**

Explain the terms and conditions of the Executive Director Contract
The contract of the Executive Chairman was approved in the meeting held by the Board of Directors on 6 February 2018, subject to prior favourable report by the Appointments and Remuneration Committee. Thereafter it was adapted on 31 October 2018 for the purpose of including the new Long-Term Incentive (LTI) Plan as well as other minor changes, albeit that everything relating to the LTI is subject to conditions precedent of the approval at the next General Meeting of Shareholders. Said approval was

given on 5 March 2019.

It contains a clause requiring advance notice of at least six (6) months from the Executive Chairman except for cases of force majeure, an exclusivity clause for as long as the same exercises his functions and a non-disclosure undertaking, which will remain binding even after the contract has ended.

The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall amount of two (2) years of: (i) fixed total annual monetary remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual monetary remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI Plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the Plan.

The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established.

The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and continues as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.

If in the case that the capacity of Chairman is rescinded, but the same still holds office as CEO, a reduction of planned remuneration is provisioned for in the Contract.

- **The estimated amount and nature of any supplementary remuneration paid to the Directors during the current financial year for services provided other than those inherent to their position.**

Explain supplementary payments
Not applicable

- **Other remuneration concepts such as for example those derived, as the case may be, from those granted by the Company to the Director in the form of advances, loans and guarantees or other remuneration(s).**

Explain the advances, loans, guarantees and other remuneration(s)
The Members of the Board are not granted advances, loans or guarantees.

- The estimated amount and nature of any other additional remuneration planned not included in the preceding paragraphs, whether settled by the Company or another entity of the Group that is paid out to the Directors in the current financial year.

Not applicable

A.2 Explain any relevant change to the Remuneration Policy applicable in the current financial year as a result of:

- A new policy or modification to a Policy approved by the General Meeting of Shareholders.
- Relevant changes to the specific determinations established by the Board for the current financial year of the Remuneration Policy in force with respect to those applied in the previous financial year.
- Proposals that the Board of Directors have agreed to submit to the General Meeting of Shareholders and that apply to this Annual Report and that are to be implemented during the current financial year.

Explain the process for determining the Remuneration Policy

The Long-Term Incentive (LTI) Plan, in shares or referencing them, was submitted to and approved in the General Meeting of Shareholders on 5 March 2019 implying a change to the Remuneration Policy in force, since it takes into account, in particular, the long-term profitability objective established in Art. 9 of the Company's Articles of Association and is related to the approval of the 2018-2022 Strategic Plan.

Likewise the maximum yearly remuneration amount for Directors together with other minor adjustments was approved.

A.3 Identify the direct link to the document in which the Company's remuneration policy in force is referenced and that must be available at the corporate website.

https://www.naturgy.com/files/Pol%C3%ADtica_de_remuneraciones_de_los_Co_nsejeros.pdf

A.4 Explain, taking into account the data given in section B.4, the result of the General Meeting of Shareholders advisory vote on the Annual Report on the previous year's remuneration.

During financial year 2019, it was the Shareholders themselves who directly in the General Meeting for Shareholders approved the 2019-2021 Remuneration Policy and a new Long-Term Incentive Plan for

the Executive Chairman and the Management Team.

B GENERAL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED FOR THE FINANCIAL YEAR ENDED

- B.1 Explain the process followed to apply the Remuneration Policy and used to determine the individual remuneration earned shown in section C of this report. This information is to include the role played by the Remuneration Committee, the decisions taken by the Board of Directors and, where appropriate, the identify and role of the External Consultants whose services were used in the process of implementing the Remuneration Policy in the financial year ended.**

The Board of Directors approved the individual remuneration of the Directors for the financial year of non-executive functions in their meeting on 29 January 2019, with no change to the remunerations paid in 2018. The fixed components of the remuneration of the Executive Chairman were set in the same meeting. The settlement of the short-term variable remuneration corresponding to 2019 took place in the meeting of the Board of Directors on 4 February 2020 once the Annual Accounts for 2019 were drafted and formalised by the Board that, moreover, did not give rise to any qualifications from the External Auditor.

- B.2 Explain the actions adopted by the Company in relation to the remuneration system to reduce exposure to excessive risks and adapt it to the long-term objectives, values and interests of the Company, which will include, where appropriate, reference to measures designed to ensure that the Remuneration Policy considers the long-term results of the Company and guaranteeing an appropriate balance between the fixed and variable components of the remuneration, what measures have been adopted for those categories of personnel whose professional activities have a material effect on the Company's risk profile and measures adopted to avoid conflicts of interest, as the case may be.**

Explain the actions adopted to reduce risks

With respect to the remuneration for the exercising of non-executive functions, the establishing of a fixed remuneration for all the Directors is considered to be an efficient instrument for reducing exposure to excessive risks and the incorporation of a long-term perspective.

In regard to the remuneration of the Executive Chairman, it should be noted that it is balanced on three (3) key similar weighted components:

- A fixed component that is paid in all events, in a way that there is no exposure to risk.
- A variable component with a time horizon of one year, linked to specific, measurable business objectives that are recurrent and therefore avoid excessive risk-taking. This is reinforced by the fact the assessment of the same is performed once the Annual Accounts have been audited and submitted.
- A variable component with a very long-term time horizon (ordinarily ending in July 2023 and therefore aligns to a great extent with the 2018-2022 Strategic Plan). Since this type of remuneration exceeds the norm (3 years), it moderates excessive risk-taking and provides more long-term value creation than usual.

Between the variable components there is a reasonable balance not only in time horizon terms but also amount and even objectives since the annual variable remuneration tends towards operational objectives that consider the immediate interest of the Company, whilst multi-year variable remuneration tends specifically towards the long-term interest of the Shareholders, an element that is frequently over looked or passed over to other remuneration schemes.

The variable annual remuneration of the Executive Chairman was determined once the Board of Directors had received the Company's audited accounts and taking into account the external audit report.

The annual variable remuneration and the multi-year variable remuneration have a claw-back system for eighteen (18) months from its payment.

- B.3 Explain how the remuneration accrued in the financial year complies with that set forth in the Remuneration Policy in force. Likewise report on the relationship between the remuneration obtained by the Directors and the Company's results or other performance-related measurements, explaining, where appropriate, how variations in the performance of the Company are able to impact variation in the remuneration of Directors, including those accrued whose payment has been deferred, and how the same contribute to the short and long-term results of the Company.**

The total amount of remuneration accrued during 2019 does not exceed the maximum amount established in the Remuneration Policy approved by the General Meeting of Shareholders on 5 March 2019.

The annual variable remuneration amount due to the Executive Chairman was determined once the audited Annual Accounts were available to the Board (the same being linked to the evolution of the key indicators of the Company as detailed in section B.7 and related to the results of the Company in 2019).

The multi-year incentive of the Executive Chairman, approved by the General Meeting of Shareholders in March 2019, aligns his

remuneration with long-term value creation for the way in which it is structured.

B.4 Report on the result of the General Meeting of Shareholders advisory vote on the Annual Report on the previous financial year’s remuneration, indicating where appropriate the number of votes against, if any:

	Number	% of Total
Votes Cast	834,319,657	83,43

	Number	% Votes Cast
Votes Against	15,644,927	1,88
Votes in Favour	817,516,132	97,99
Abstentions	1,158,598	0,13

Observations

B.5 Explain how the accrued fixed components were determined during the financial period for the Directors in their capacity as such, and how they have varied with respect to the previous year.

The remuneration of the Members of the Board for exercising non-executive functions was:

- Chairman of the Board of Directors: 1,100,000 €/year.
- Board Member: 175,000 €/year.
- Committee Chairman: 90,000 €/year.
- Committee Member: 60,000 €/year.
- Coordinating Director: 30,000 €/year.

The remuneration of the Directors for non-executive functions has not changed since 27 June 2018, date on which a change in the structure of the Board was made through the reduction of the number of Directors.

The amount of this remuneration was €3,955,000 compared to €4,412,178 in 2018.

B.6 Explain how the salaries earned were determined during the financial period ended for each Executive Director for exercising their management functions, and how they have varied with respect to the previous year.

The remuneration for the Executive Chairman exercising executive or delegated functions includes the following items:

- Annual fixed base remuneration, including remuneration received for being Member of any governing body of any company of the Naturgy group, except its parent company: €930.000
- The annual variable remuneration was based on an amount equivalent to the total fixed annual monetary remuneration to which

a percentage based on the attainment metric was applied, that amounted to €2.369.010. The said amount corresponding to the annual variable remuneration is paid as a contribution to the pension scheme of which the Executive Chairman is beneficiary in accordance with that set forth in his Contract.

- The Long-Term Incentive Plan was not paid, since it is due ordinarily in July 2023 and is linked to the return obtained by the Shareholders in said period and aligns to a great extent with the 2018-2022 Strategic Plan.

Other benefits and pension entitlements equivalent to those generally afforded to members of Senior Management of the Company (private medical healthcare insurance, housing assistance company car, life and disability insurance, limited discounts on capped gas and electricity usage discounts, savings system) as well as the obligation to take out, at the Company's expense, a civil liability insurance.

B.7 Explain the nature and main characteristics of the variable components of the remuneration systems paid in the financial year ended. In particular:

- Identify each of the remuneration plans of which the Directors are beneficiaries during the financial year ended, including information on their scope, date of approval, date of implementation, validity period, criteria used to assess performance and how it has impacted the fixing of the variable amount paid, as well as the measurement criteria used and the period necessary for being in a position to appropriately measure all the conditions and criteria stipulated.

For plans involving share options and other financial instruments, the general features of the plan should include information on the conditions for each plan regarding acquiring unconditional ownership (consolidation) as well as exercising said options or financial instruments, including price and exercising period.

- Each of the Directors, and their category (CEO, external proprietary directors, external independent directors or other external directors), who are beneficiaries of remuneration systems or plans included in the variable remuneration.
- Where appropriate, provide information on any payment deferral periods established and/or retention periods for shares or other financial instruments, if any.

Explain the short-term variable components of the remuneration system

When calculating the annual variable remuneration of the Executive Chairman corresponding to financial year 2019 due to be paid as a contribution to the pension scheme to which the Executive Chairman is beneficiary, according to that set forth in his contract, the indicators and weightings fixed by the Board of Directors were taken into account once

the Strategic Plan was approved and subject to prior favourable report from the Appointments and Remuneration Committee. To be precise, in 2019 the following parameters to determine the rate of attainment of the objectives have been considered:

CAPEX

Weighted at 20% as follows:

- Maximise maintenance CAPEX (weighted at 6.67% and with an attainment rate of 124,5%)
- Improve CAPEX IRR growth (weighted at 6.67% and with an attainment rate of 84.40%)
- Improve investment in growth (weighted at 6.67% and with an attainment rate of 135.0%)

Operational efficiency

- Reduction of the OPEX (not including capture costs)
- weighted at 25%
- attainment rate: 150%

Free cash flow ex CAPEX

- Comparable cash flow generation
- weighted at 30%
- attainment rate: 101.5%

Net Return

- Comparable Consolidated
- weighted at 15%
- attainment rate: 95.9%

Qualitative assessment, determined by the Board of Directors

- qualitative assessment
- weighted at 10%
- attainment rate: 114%

This was calculated using 100% of the total annual fixed monetary remuneration as the base multiplied by the rate of attainment of objectives actually achieved in the year. The maximum rate of attainment is set at 150%. This remuneration is not received if the rate of attainment does not reach 80%.

Therefore, the amount of the annual Variable Remuneration corresponding to financial year 2019 and that was paid as a contribution to the pension scheme to which the Executive Chairman is beneficiary, according to that set forth in his contract is €2.369.010 having achieved a total rate of attainment of 116,7%.

Explain the long-term variable components of the remuneration system

The multi-year variable remuneration of the Executive Chairman is configured on a Long-Term Incentive (LTI) Plan in which, as well as the

Executive Chairman, 25 other executives participate. The new Long-Term Incentive Plan was approved by the General Meeting of Shareholders held on 5 March 2019. Without prejudice to the detail contained in said approval, its characteristics are:

The incentive covers the period of the 2018-2022 Strategic Plan, ordinarily concluding on July 2023 and is directly linked to the total return obtained by a Shareholder of NATURGY ENERGY GROUP S.A.

The same shall be instrumented by means of the acquisition of a block of shares in NATURGY, through an Investee Company that can generate a surplus. Said surplus, if generated, is the incentive that shall be given to the Stakeholders.

Stakeholders shall only receive as multi-year variable incentive the remaining amount that is generated, in shares, and only if the minimum threshold has been exceeded, the pre-set return on the same implying a stock market price of €19.15 on maturity of the LTI Plan and assuming that all the dividends planned in the 2018-2022 Strategic Plan are distributed. This is in line with the return requirements associated to the financial discipline and content of the Strategic Plan and is higher than the stock market price on the day the Executive Chairman was appointed (6 February 2018, €17.69). Therefore, even though the company holding the shares has a positive result, if said threshold is not reached, the LTI amount would be zero.

The LTI Plan includes a claw-back clause for eighteen (18) months effective from the start of the incentive in case of a relevant modification to the Annual Accounts having a significant impact on the revaluation of the shares.

In the event that the Executive Chairman leaves the Company before the completion of the Plan, the same loses all rights in cases of voluntary resignation of his functions or in the event of any serious material breach and shall maintain them in the event of retirement, disability or death, not attributable to the same, whereas in the event of maintaining them the same shall only have the right to incentive that is, in the end, the proportional part of the tenure period with respect to the term of the Plan.

- B.8 Explain if there has been a need to reduce or to claim a refund of results-based variable components when, first, the payment has been consolidated and deferred or, second, have been consolidated and paid according to data which has subsequently proved to be clearly inaccurate. Describe the reduced or refunded amounts for applying the reduction and refund clauses (claw-back), when they were exercised and the financial years to which they correspond.**

Not applicable

- B.9 Explain the main features of the long-term savings systems whose amount or equivalent annual cost figure in the tables in Section C, including retirement and any other survivor benefits, partially or wholly funded by the Company, whether provided internally or externally, indicating the type of plan, whether defined benefit or contribution, the contingencies covered, the conditions of the vested economic rights of the Directors and their compatibility with any type of compensation for early termination of the contractual relationship between the Company and the Director.**

Directors do not receive this type of remuneration for exercising non-executive functions.

The Executive Chairman shall be afforded the benefits that are available to Directors of the Company. Such benefits are explained in Section A.1 (long-term savings systems)

- B.10 Explain, as the case may be, the compensation or any other type of payment as a result of early termination, whether voluntary by the Company or the Director, or due to the contract coming to an end, under the terms set forth in the same, accrued and/or received by the Directors during the financial year ended.**

Not applicable

- B.11 Explain if there have been any significant modifications to the Contracts of those who exercise Senior Management functions such as Executive Directors, and as the case may be, explain the same. Likewise, explain the main terms and conditions of the new contracts signed with Executive Directors during the financial year, except if already explained in Section A.1.**

The multi-year remuneration of the Executive Chairman was provided for in his contract on 6 February 2018, albeit that its determination was not possible until the Strategic Plan was approved. Once said plan was approved, the Board approved a Long-Term Incentive Plan in which the Executive Chairman and 25 Directors participate, subject to the conditions precedent of its approval by the General Meeting of Shareholders. The General Meeting of Shareholders approved said modification on 5 March 2019, which led to the lifting of the conditions precedent set forth in the contract according to that indicated in section A.1.

- B.12 Explain any supplementary remuneration paid to Directors as compensation for services provided other than those inherent to their position**

Not applicable

- B.13 Indicate any payment in the form of advances, loans and guarantees, indicating the interest rate, key features and any amounts repaid, as well as the obligations assumed on their behalf as security.**

Not applicable

B.14 Detail the remuneration in cash paid to Directors during the financial year, briefly explaining the nature of the different salary components.

The contributions to the benefit plan instruments of the Executive Chairman have increased to 406 thousand euros in financial year 2019. To the above-mentioned amount must be added the corresponding amount to the 2019, 2.369.010 variable remuneration to be settled as a contribution to the Pension Scheme to which the Chairman is beneficiary. The premiums paid for life insurances increased to 71 thousand euros during the said financial year. The amount of the capped gas and electricity discounts, company car, housing assistance and the medical healthcare insurance premium increased to 72 thousand euros during said financial year.

B.15 Explain the remuneration earned by the Director in virtue of the payments made by the listed company to a third party in which the Director provides services, when said payments are made to remunerate the Director's services in the Company.

Explain the remuneration earned by the Director in virtue of the payments made by the listed company to a third party in which the Director provides services, when said payments are made to remunerate the Director's services in the Company.

Not applicable

B.16 Explain any remuneration item different from those above, regardless of its nature or which the group company made said payment, especially if it is considered a related transaction or its issue distorts the fair view of the total remuneration earned by the Director.

Explain the other remuneration items

Not applicable

**BREAKDOWN OF INDIVIDUAL REMUNERATION EARNED BY EACH OF THE DIRECTORS**

Name	Category	Accrual Period Q
RAMÓN ADELL RAMÓN/	Independent	From 01/01/2019 to 31/12/2019
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	Proprietary	From 01/01/2019 to 31/12/2019
FRANCISCO BELIL CREIXELL	Independent	From 01/01/2019 to 31/12/2019
HELENA HERRERO STARKIE	Independent	From 01/01/2019 to 31/12/2019
MARCELINO ARMENTER VIDAL	Proprietary	From 01/01/2019 to 31/12/2019
WILLIAM ALAN WOODBURN	Proprietary	From 01/01/2019 to 29/01/2019
RAJARAM RAO	Proprietary	From 01/01/2019 to 31/12/2019
Rioja Bidco Shareholdings, S.L.U.	Proprietary	From 01/01/2019 to 01/08/2019
Theatre Directorship Services Beta, S.à.r.l.	Proprietary	From 01/01/2019 to 31/12/2019
CLAUDI SANTIAGO PONSÀ	Independent	From 01/01/2019 to 31/12/2019
PEDRO SAINZ DE BARANDA RIVA	Independent	From 01/01/2019 to 31/12/2019
FRANCISCO REYNES MASSANET	Executive Chairman	From 01/01/2019 to 31/12/2019
SCOTT ALAN STANLEY	Proprietary	From 29/01/2019 to 31/12/2019
Rioja S.à.r.l.	Proprietary	From 01/08/2019 to 31/12/2019

C.1 Complete the following tables on the individual remuneration of each of the Directors (including remuneration for carrying out Executive duties) paid during the financial year.

a) Remuneration earned in the Company covered in this report:

i) Payment in cash (in thousands of €)

Name/Category/ Accrual Period	Salary	Fixed Remunerati on	Allowa nce	Short-term Variable Remunerati on	Long-term Variable Remuneration	Remuneration for Membership on Committees of the Board	Compensation	Other Items	Financial Year Total Q	Financial Year Total Q-1
FRANCISCO REYNES MASSANET/ Executive	930	1,100						72	2.102	1.848 (*)
RAMÓN ADELL RAMÓN/Indepe ndent		205				150			355	354
ENRIQUE ALCÁNTARA- GARCÍA IRAZOQUI Proprietary		175				60			235	209
MARCELINO ARMENTER VIDAL/ Proprietary		175				60			235	256
FRANCISCO BELIL CREIXELL/ Independent		175				150			325	320
WILLIAM ALAN WOODBURN/ Proprietary		15				5			20	270
HELENA HERRERO STARKIE/ Independent		175				60			235	209
RAJARAM RAO/ Proprietary		175				60			235	278
Rioja Bidco Shareholdings, S.L.U./ Proprietary		102				35			137	153
Theatre Directorship Services Beta, S.à.r.l./ Proprietary		175				60			235	171
CLAUDI SANTIAGO PONSA/ Independent		175				60			235	118
PEDRO SAINZ DE BARANDA RIVA/ Independent		175				120			295	148
SCOTT ALAN STANLEY/ Proprietary		160				55			215	
RIOJA S.à.r.l Proprietary		73				25			98	

(*)It does not include the amount corresponding to the accrued annual variable remuneration that was settled in year Q-1 as a contribution to welfare systems, as contractually established.

ii) Table on share-based and gross return on shares or consolidated financial instrument remuneration systems

Name	Plan Name	Financial instruments at the beginning of financial year Q		Financial instruments allocated during financial year Q		Financial instruments consolidated during financial year Q				Financial instruments due but not exercised	Financial instruments at the end of financial year Q	
		Nº instrume nts	Nº equivalent shares	Nº instruments	Nº equivalen t shares	Nº instruments	Nº equivalent/consoli dated shares	Price of consolidated shares	Gross return on shares or consolidat ed financial instrumen ts (in thousands	Nº instruments	Nº instrume nts	Nº equivalen t shares

										€)				
Director 1:	Plan 1													
	Plan 2													

Observations

iii) Long-term Saving Systems

	Remuneration for vested rights to Savings System (*)
Mr. Francisco Reynés Massanet	2.775

(*) Pending inclusion of annual variable remuneration to pay in year Q as contribution to pension scheme, according to that established in the contact.

Name	Funds paid in by the Company in financial year (thousands of €)				Amount of the accumulated funds (thousands €) (*)			
	Savings system with vested economic rights		Savings system with no vested economic rights		Financial year Q		Financial year Q-1	
	Financial year Q	Financial year Q-1	Financial year Q	Financial year Q-1	Savings system with vested economic rights	Savings system with no vested economic rights	Savings system with vested economic rights	Savings system with no vested economic rights
	Mr. Francisco Reynés Massanet		--	2.775	2.457	--	5.232	--

(*) In Q-1 of financial year the amount corresponding to the 2018 variable remuneration is included that was paid as contribution to the Pension Scheme to which the Chairman is beneficiary.

Observations

iv) Detail of other items

Name	Item	Remuneration Amount
Mr. Francisco Reynés Massanet		

Observations

b) Remuneration to Directors of the Company for being Member of the Board of other companies in the Group:

i) Payment in cash (in thousands of €)

Name	Fixed Remuneration	Allowance	Remuneration for Members hip on Committees of the Board	Salary	Short-term Variable Remuneration	Long-term Variable Remuneration	Compensation	Other Items	Financial Year Total Q	Financial Year Total Q-1

Director 1:	0	0	0	0	0	0	0	0	0	0
Director 2:										

Observations

ii) Table on share-based and gross return on shares or consolidated financial instrument remuneration systems

Name	Plan Name	Financial instruments at the beginning of financial year Q		Financial instruments allocated during financial year Q		Financial instruments consolidated during financial year Q				Financial instruments due but not exercised	Financial instruments at the end of financial year Q	
		Nº instruments	Nº equivalent shares	Nº instruments	Nº equivalent shares	Nº instruments	Nº equivalent/consolidated shares	Price of consolidated shares	Gross return on shares or consolidated financial instruments (in thousands €)	Nº instruments	Nº instruments	Nº equivalent shares
Director 1:	Plan 1											
	Plan 2											

Observations

iii) Long-term Saving Systems

	Remuneration for vested rights to Savings System
Director 1:	

Name	Funds paid in by the Company in financial year (thousands of €)				Amount of the accumulated funds (thousands of €)			
	Savings system with vested economic rights		Savings system with no vested economic rights		Financial year Q		Financial year Q-1	
	Financial year Q	Financial year Q-1	Financial year Q	Financial year Q-1	Savings system with vested economic rights	Savings system with no vested economic rights	Savings system with vested economic rights	Savings system with no vested economic rights
	Director 1:							

Observations

iv) Detail of other items

Name	Item	Remuneration Amount
Director 1:		

Observations

c) Summary of remunerations (in thousands of €):

The amounts corresponding to all the remuneration items included in this report that have been earned by the Director must be included in the summary, in thousands of euros.

Name	Remuneration earned in the Company					Remuneration earned in companies of the Group				
	Total Remuneration in Cash	Gross return on shares or consolidated financial instruments	Remuneration from savings system	Remuneration from other items	Financial Year Total Q company	Total Remuneration in Cash	Gross return on shares or consolidated financial instruments	Remuneration from savings system	Remuneration from other items	Financial Year Total Q Group
RAMÓN ADELL RAMÓN/Independent	355				355					
ENRIQUE ALCÁNTAR A-GARCÍA IRAZOQUI Proprietary	235				235					
FRANCISCO BELIL CREIXELL/Independent	325				325					
HELENA HERRERO STARKIE/Independent	235				235					
MARCELINO ARMENTER VIDAL/Proprietary	235				235					
WILLIAM ALAN WOODBURN/Proprietary	20				20					
RAJARAM RAO/Proprietary	235				235					

Rioja Bidco Shareholdings, S.L.U./ Proprietary	137				137					
Theatre Directorship Services Beta, S.à.r.l./ Proprietary	235				235					
CLAUDI SANTIAGO PONSA/ Independent	235				235					
PEDRO SAINZ DE BARANDA RIVA/ Independent	295				295					
FRANCISCO REYNES MASSANET / Executive	2.102		2.775	71	4.948					
Rioja S.à.r.l./ Proprietary	98				98					
SCOTT ALAN STANLEY Proprietary	215				215					
TOTAL	4.957		2.775	71	7.803					

Observations

D OTHER INFORMATION OF INTEREST

If there is any other relevant information on Director remuneration that has not been included in the rest of the sections of this report, but which should be included in order to gather more complete and reasoned information on the structure and compensation practices of the Company with regard to its Directors, please briefly describe such information below.

It should be noted that since numbers with two decimal places are not allowed on the form of the Annual Report Circular on Directors' Remunerations, there are some minor variations in the figures indicated when compared with the actual figures.

This Annual Remuneration Report was approved by the Board of Directors of the Company at the meeting on 4 February 2020.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

Yes

No

Name and Company Name of the Members of the Board that have voted against approving this report.	Reasons (against, abstention, non-attendance)	Explain the reasons